



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels



INNOVATE



COLLABORATE & EDUCATE



UPDATE

STRATEGIC PLAN 2018-2022
ACHIEVING BETTER OUTCOMES FOR CANADIANS

MFDA VISION

We protect investors by:

- **Delivering responsible and effective regulation** – We use risk-based, balanced and transparent processes and employ our regulatory expertise in a proactive manner in addressing industry developments to be a responsible and effective regulator.
- **Strengthening collaboration, knowledge and expertise** – We engage our stakeholders to share our collective expertise to ensure a culture of compliance.
- **Promoting investor confidence** – We focus on providing access to information and improving the client relationship to better protect the investing public.

MFDA VALUES

We believe that all our actions must be executed professionally and honestly. **We have INTEGRITY.**

We believe that the best result is one that includes meaningful engagement of all stakeholders. **We COLLABORATE.**

We believe that all our actions should be fair, balanced, and practical while achieving appropriate outcomes. **We are REASONABLE.**

WHO WE ARE

The MFDA performs a vital role in the wealth management industry by overseeing the conduct of its Members and the advisors they employ. While the MFDA's regulatory mandate is to protect investors, we also support a regulatory compliant and diverse membership. Diversity benefits investors as it provides choices in advisory services and increases investor access to quality advice. We contribute to the financial well-being of Canadian investors and uphold public confidence in Canada's mutual fund distribution industry.

WHAT WE DO

Every day the MFDA works to ensure that:

- Investors receive **suitable** advice
- Investors receive **accurate and complete** information to make informed decisions
- Investors are treated **fairly**

To accomplish this, on an ongoing basis we:

- Establish effective and appropriate regulatory requirements
- Inspect Member operations to assess compliance with regulatory requirements
- Monitor Members' financial condition
- Investigate client complaints to ensure clients are treated fairly
- Enforce regulatory requirements by disciplining those who violate the Rules
- Educate Members and advisors by providing guidance and tools to facilitate compliance
- Inform investors by providing resources to assist them in making appropriate decisions

MFDA GOALS

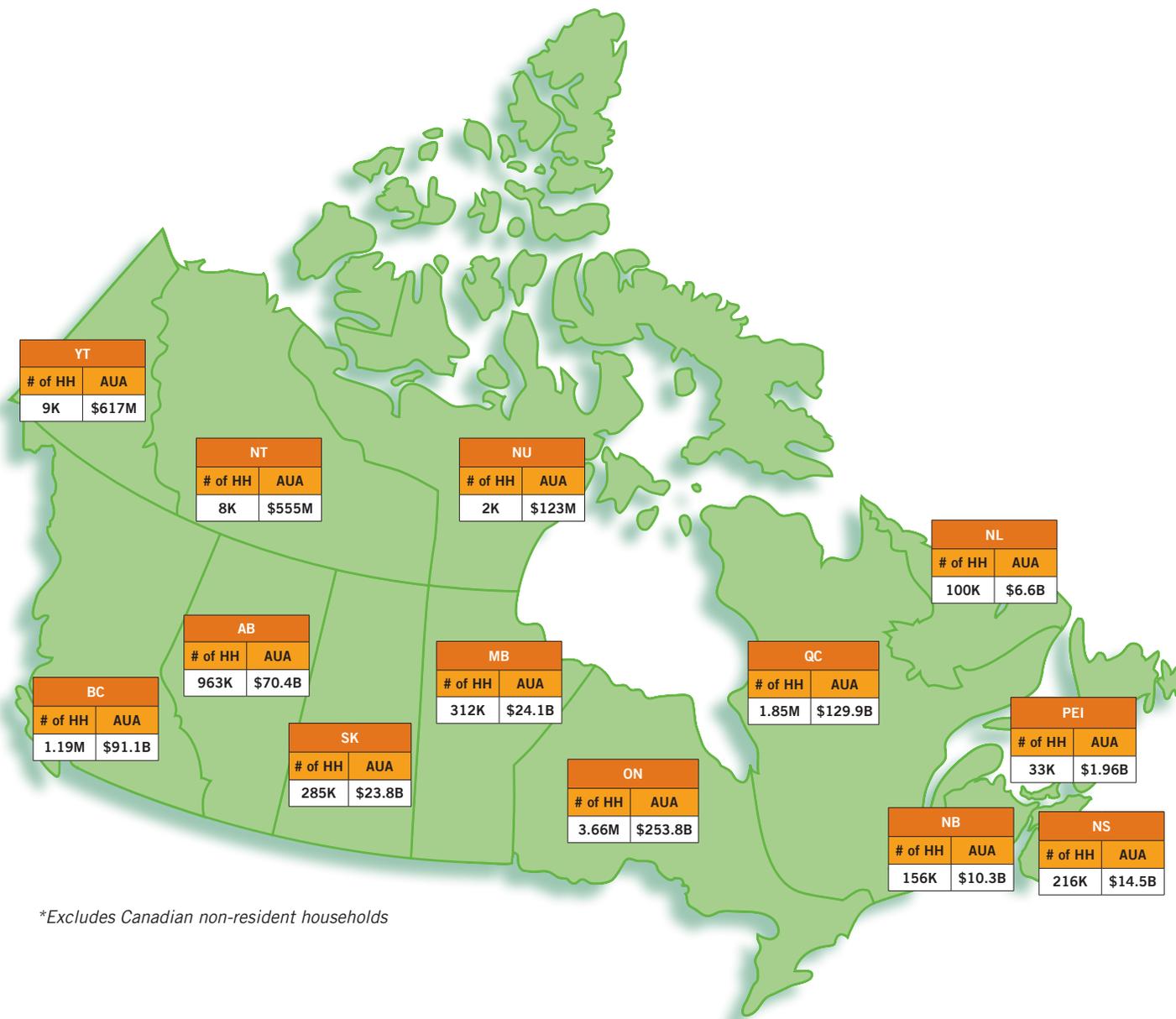
Over the next 5 years, to achieve our Vision the MFDA will:

 **INNOVATE**

 **COLLABORATE & EDUCATE**

 **UPDATE**

MFDA HOUSEHOLDS AND ASSETS UNDER ADMINISTRATION BY PROVINCE



A majority of Canadians rely on MFDA Members for financial advice. MFDA Members and their advisors manage approximately \$700 billion in client assets and provide financial advice to 9 million Canadian households. These 9 million households represent over half of the households in Canada, and 83% of these households have less than \$100,000 in financial assets.



EXECUTIVE SUMMARY

Drivers of Change

The MFDA operates in an environment that is continually changing. The drivers of change include new policy reforms within the securities industry, proposed changes to the regulatory framework in Canada, an aging Canadian demographic and, of course, the development of new technologies.

Regulation within the financial services industry continues to evolve. Within the securities industry, product regulation, registrant standards of conduct and the regulatory framework is continually subject to review and change. Regulators in other financial sectors are also experiencing similar changes which may also have an impact on MFDA Members and their clients. Financial advice spans multiple regulatory regimes and almost all of MFDA advisors are licensed in either the insurance or banking sectors. Collaborating and harmonizing with other regulators is key to ensuring the financial advice clients receive is subject to a consistent and appropriate standard of investor protection.

The aging demographic is also posing challenges for regulators worldwide. Seniors are more vulnerable to financial abuse and at greater risk of experiencing a cognitive decline. MFDA research indicates that at least one individual at or approaching retirement resides in 35% of the households serviced by MFDA Members and these households have less than \$100,000 in financial assets. The MFDA will continue to focus on senior initiatives, including performing research to better understand client outcomes and to enhance our risk-based regulatory functions.

Members are also adopting new technology at an increasing pace. New technology allows Members to increase efficiencies and also offer new products and services to clients. While the benefits of implementing new technology can be significant, it must be accomplished in a manner that continues to protect investors and addresses risks, particularly risks relating to the safety and security of client information. MFDA must take proactive measures to understand new technologies in use and collaborate with Members to achieve a successful outcome for clients and Members.

All these factors present risks, challenges and opportunities for the MFDA and its membership. By understanding these drivers of change, we are able to plan our actions and continue to contribute to the financial well-being of Canadians.

OUR 2018-2022 STRATEGIC PLAN

Stakeholder Input

To assist in identifying priorities and areas of regulatory focus for the 2018-2022 Strategic Plan, the MFDA engaged in extensive consultation with all of our internal and external stakeholders. Focus groups were held with all levels of MFDA staff and management; interviews were conducted with the MFDA Board of Directors, senior representatives of the Canadian Securities Administrators (“CSA”), industry and investor associations; and the direct input of MFDA Members was received through a Member Survey. We also reviewed the strategic plans of securities regulators within Canada and globally to identify trends and emerging issues.

Feedback Themes and Priorities

MFDA senior management reviewed and considered the comments and suggestions of stakeholders and identified the following themes, key priorities and areas of focus for the new Strategic Plan:

- Support Member technological innovation and emerging business models
- Identify and respond to cybersecurity risks
- Collaborate with Members, other regulators and investors to ensure responsible and effective regulation
- Ensure MFDA standards are relevant, appropriate and avoid unnecessary regulatory burden
- Engage with other regulators to promote greater harmonization and consistent standards to protect investors
- Support a healthy and diverse distribution channel while responding to investor needs
- Enhance Member education and guidance
- Strengthen advisor proficiency and professionalism
- Ensure efficient and cost effective regulatory operations
- Provide tools and resources to promote informed decision making by investors





We support Member innovation that increases efficiencies and/or expands investor choice, while at the same time, meets regulatory requirements.

We will support innovation by:

- Encouraging Members who intend to implement new technology to proactively collaborate with us
- Understanding the risks and benefits related to new products, services and technology
- Assessing our regulatory requirements to ensure they are relevant and applicable to new business models and emerging technologies

Key initiatives include:

- Engaging in an “Innovation Outreach” plan to encourage discussion and collaboration on the use of new products, services and technology
- Developing a Cybersecurity Plan to identify risks within the membership and provide information and guidance about threats, breaches and best practices
- Modernizing Rules to reflect technological innovations and changes to Member operations



STRATEGIC GOAL #1 INNOVATE

The Canadian capital markets are constantly evolving and innovating through the introduction of new product offerings, services and business models. Technology is playing an increasingly important role in delivering financial products and services to investors. Members are assessing and adopting new and evolving technologies to meet their business needs and support their strategies at a greater pace. However, innovation and adoption of technologies must be accomplished in a manner that continues to protect the investor and addresses risks.

We have a role to play in ensuring that innovation and new technologies are adopted in a manner that meets regulatory requirements and protects investors.

We will provide guidance and assistance to Members so they can be better prepared to deal with the opportunities, challenges and risks that result from innovation and use of technology, so that investors are safeguarded and confidence in financial markets is maintained.

We believe our regulatory requirements and approach should not create unnecessary barriers to innovation. We will assess our regulatory requirements to determine whether there are any that unnecessarily impede innovation as well as to consider whether there are areas where new standards might be required. We will enhance our proactive approach of providing assistance and communicating learnings to allow Members to dialogue around new business initiatives.

We expect the Canadian capital markets to be dynamic with new product offerings, services and business models in the coming years and Members will continue to face operating and competitive pressures. The success of those initiatives may have significant implications for Canadian retail investors, particularly, for smaller investors whose financial advice options may become limited. Small dealers are an important component of the MFDA membership and provide investors with choice especially in smaller regional markets that may not attract larger firms. Accordingly, the MFDA's challenge will be to respond to investor needs while supporting a healthy and diverse membership. In addressing regulatory issues, we must continue to look for solutions that achieve the objective while avoiding undue regulatory costs.

We will contribute our expertise and unique understanding of the mutual fund distribution channel to help make informed decisions to ensure that the Canadian capital markets are regulated in an effective and efficient manner that protects the investing public.

Outcomes

The outcomes of understanding and supporting innovation will be:

- **Accommodate evolving business models and new technology.** Our regulatory practices, operations and requirements address our regulatory objectives and take into account new product offerings, services and business models that support Member business needs and strategies.
- **Improve protection and resilience of Members' technology and systems.** Members have robust systems and policies and procedures to address cybersecurity and outage risks.
- **Support broad access to financial advice for Canadian retail investors.** Canadian retail investors continue to have broad access to financial advice through traditional channels as well as evolving technology based platforms.

Strategies

Assess, monitor and communicate with Members concerning cybersecurity

We will continue to enhance our understanding of Member cybersecurity practices to identify areas for improvement and provide recommendations to address cybersecurity risks. We will monitor Member cybersecurity capabilities and provide meaningful feedback to Members on their preparedness to address those risks and provide them with recommendations for improvements where weaknesses are identified on an ongoing basis.

Create a proactive environment for Members to dialogue around new initiatives

We will dialogue with Members regarding any new products, services and technology. We will provide input and guidance to assist Members in implementing new initiatives in a regulatory compliant manner.

Assess MFDA's regulatory requirements and approach to ensure they are relevant and applicable to new innovations

We will review MFDA regulatory requirements to identify any that unnecessarily create barriers to innovation. We will also assess whether new standards or approaches are required to protect investors.



We will collaborate with all stakeholders, share valuable information and engage in educational initiatives to enhance professionalism, improve investor outcomes and contribute to regulatory developments.

We will collaborate and educate by:

- Strengthening advisor proficiencies and professionalism
- Working with Members to promote a culture of compliance
- Engaging with stakeholders and other regulators to promote greater harmonization and consistent standards to protect investors
- Providing tools and resources to promote informed decision making by investors

Key initiatives include:

- Establishing a Continuing Education requirement for all MFDA advisors
- Identifying opportunities to share information and coordinate activities with other regulatory bodies
- Developing new approaches to gather information on current issues impacting seniors and producing guidance, tools and materials for Members and investors



STRATEGIC GOAL #2 COLLABORATE & EDUCATE

The best regulatory outcomes require the meaningful engagement of all stakeholders. We will continue to collaborate with industry, other regulators and investors to ensure responsible and reasonable requirements that provide an appropriate level of investor protection. We will also continue to provide education, guidance and assistance to Members and their Approved Persons to promote high standards of conduct and a culture of compliance.

A consistent and harmonized approach across financial service sectors is necessary given the fragmented regulatory environment, financial product and service convergence, multiple licensing of financial service providers and the focus on advice that goes beyond product sales. We will continue to work with other regulators to further the goal of ensuring that all retail investors are afforded a consistent level of protection regardless of the registrant with whom they are dealing. Outcomes and objectives of regulation should be consistent across all financial service sectors.

Ensuring open, two-way communication and dialogue with industry is a key component of effective and responsible regulation. We will continue to consult with Members and industry groups on industry trends and issues, new technology and operational methods, products and business models to ensure that our regulatory requirements and approach reflect the nature and reality of the changing financial services industry. We will also continue to work with Members to gather valuable industry data to allow us to better identify risks that pose potential harm to investors and to help us better understand the potential impact of regulatory initiatives. Member education is also a key component of our strategy to improve client outcomes.

The MFDA's regulatory approach has always recognized that changing behavior and improving client outcomes requires clear and objective standards supplemented by practical and detailed guidance. As a first step, this approach requires us to clearly identify and understand what issues need to be addressed, desired outcomes to be achieved and specific behaviours that need to change. In addition, it is necessary to fully understand the potential cost/benefit of regulatory proposals including the impact on both industry and investors. Since our inception, we have applied this approach in areas such as suitability, KYC, product due diligence and conflicts of interest and we believe we have been successful in changing behavior to achieve compliant outcomes that benefit investors and industry. We will continue to apply this approach going forward as we work with other regulators on regulatory reform initiatives.

Going forward, we will continue to play a leading role in advancing initiatives aimed at improving the quality of advice provided to investors and professionalism among advisors. We will focus on providing Members and Approved Persons with practical training, guidance and education on key regulatory topics and issues they face in their day-to-day operations. We will also consider new methods to deliver training to advisors and encourage best practices to improve the client experience.

Providing meaningful tools and resources to investors promotes informed decision making. Over the past few years we have partnered with other regulators and industry associations to develop information to assist investors in navigating key regulatory changes impacting the investment process such as point of sale and enhancements to client reporting under the Client Relationship Model project. Going forward, we will continue to build on these partnerships as a means to share information on investor issues and effectively employ our collective resources to reach as many investors as possible.

Outcomes

The outcomes of strengthened collaboration and education will be:

- **Enhance Conduct.** Our processes continue to promote high standards of conduct demonstrated by Members and advisors.
- **Operate Proactively.** We will be proactive in identifying and addressing industry trends and regulatory issues.
- **Respond to Change.** Our regulatory requirements and approach reflect the nature and realities of the changing demographics and financial services industry.
- **Investor Access.** Improved access to meaningful information for the Canadian investing public.

Strategies

Work with Members to promote a culture of compliance

We engage and consult with Members as part of the policy development process and in the development of new education and training initiatives. We will look for new opportunities to collaborate with Members as a means to enhance the efficiency and effectiveness of our regulatory processes.

Proactively engage with stakeholders and regulators in regulatory initiatives

We will also look for new opportunities to collaborate with other regulators to promote greater harmonization and regulatory efficiency. We will share our regulatory approach to policy making and our knowledge, insight and expertise to inform the discussion.

Strengthen advisor proficiencies and professionalism

We will explore new methods to deliver education and training to address areas relevant to the challenges and issues faced by advisors in the changing environment. We will continue our approach of supplementing clear regulatory standards with detailed guidance and practical training to enhance advisor professionalism and the quality of advice provided to investors.

Provide tools and resources to promote informed decision making by investors

We will develop tools and resources for investors through our own initiatives and in partnership with others. We will broaden our consultations and collaboration with investor groups to ensure that investors are being provided with materials and information that meet their needs and assist them in their decision making.



We will evaluate our regulatory standards and internal processes and ensure a professional and qualified staff to be recognized as an effective, progressive and responsible regulator.

We will be a responsible regulator by:

- Assessing our regulatory requirements to ensure they continue to be relevant and appropriate
- Reviewing MFDA operations and processes to ensure cost effectiveness and improved efficiencies
- Maintaining and attracting expert staff and providing training on emerging risks and industry trends

Key initiatives include:

- Engaging in research to deliver data-driven regulation focusing on key risk areas
- Exploring alternatives to improve transparency of costs for mutual fund investors
- Reviewing the MFDA Rulebook to improve clarity, ease of use and relevance
- Enhancing core staff competencies
- Maintaining currency of MFDA internal technology, systems and processes to effectively and securely achieve our regulatory mandate

STRATEGIC GOAL #3 UPDATE

We are an effective, progressive and responsible regulator by employing highly professional and qualified staff and routinely evaluating our operational processes and regulatory functions.

Our staff is key to our continued success as an effective regulator. We must ensure that we continue to have the right people in the right positions and that their knowledge and expertise keeps pace with the change and evolution occurring in the industry. Attracting and retaining highly professional and qualified staff and ensuring that we have the appropriate talent and capability in-house is critical to fulfilling our mandate and accomplishing our goals. We will continue to invest in our staff to ensure that they have the skills, knowledge, tools and processes to effectively perform their duties. We will ensure that staff has appropriate training to understand Member operations, effectively utilize professional judgement and understand the different business models through which our Members operate. As the industry continues to develop, with new products, technologies, regulations and demographics, it is vital that our staff remain current. Staff will need to maintain their skills, learn new ones and be aware of future skills that may be required.

We will continue to challenge our operational processes and regulatory functions for efficiencies, including the use of technology to maximize our performance and fulfill our mandate of protecting the investing public. We will expand our use of a risk-based approach to allocate resources on a proactive basis and where harm has occurred to investors. We will also use various information sources to target high-risk areas and focus our attention where required. We will focus on our key known risks as well as focus on new developments that might require a regulatory response.

Stakeholder engagement in the policy development process is vital as it helps to ensure regulatory requirements are practical and appropriate. Seeking input early in the policy development process leads to a greater understanding and acceptance of the regulatory requirements and ultimately better compliance. We review our regulatory requirements on an ongoing basis to ensure that the objectives are being achieved in a reasonable manner. When changes to our regulations are required, we will drive responsible Rules that are well defined and supported by clear and helpful tools. Our culture will demonstrate a responsible regulatory approach.

Outcomes

The outcomes of updating processes will be:

- **Achieve investor protection objectives while avoiding undue regulatory burden.** MFDA requirements and regulatory activities achieve the appropriate balance between investor protection and cost and impact on Members.
- **Attract and retain professional and expert staff.** MFDA staff deal with all stakeholders in a highly professional and competent manner, exhibiting extensive knowledge and expertise regarding regulatory requirements and approaches, Member operations and practices, and investor protection needs.
- **Efficient, current and cost effective regulatory operations.** The MFDA demonstrates that in carrying out our core regulatory operations, we use our resources in an efficient, current and cost effective manner.

Strategies

Assess regulatory requirements to ensure relevance and appropriateness

Given ongoing industry evolution, we will continually monitor and engage our stakeholders to understand potential changes that may be required to our regulatory requirements. When change is required, we will determine the most effective regulatory approach and implement it in a clear and transparent fashion.

Assess MFDA systems and processes to ensure cost effectiveness and improved efficiencies

Our stakeholders expect MFDA processes and systems to be effective, efficient and secure. We will review our key systems and processes on an ongoing basis to ensure that they are appropriate. We will explore opportunities to use technology to increase efficiencies.

Focus on staff expertise and engagement

Expert and engaged staff are a crucial element in enabling us to achieve our regulatory mandate. Staff must have the required knowledge and expertise to work effectively in an evolving regulatory environment. We will regularly review the skills and knowledge required by our staff and provide relevant training in core areas as well as in emerging technologies and regulatory and industry trends.

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