



## **REQUEST FOR COMMENTS**

**Notice and Request for Comment** – Concerning the granting of recognition to the Mutual Fund Dealers' Association of Canada (MFDA) as a Self-Regulatory Organization (SRO) in New Brunswick.

### **Introduction**

An application for recognition has been made by the MFDA pursuant to the Recognition of Self-Regulatory Organizations provision in section 35(1)(b) of the *Securities Act*. The MFDA is currently recognized as an SRO by the securities regulators in the provinces of British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia (together the Recognizing Jurisdictions). And in Quebec, whose regulatory environment and legal system is somewhat different than in the rest of Canada, the MFDA and the Autorité des marchés financiers have a cooperative agreement setting out the terms of their relationship.

### **Background**

The MFDA was incorporated as a non-share corporation under Part II of the *Canada Corporations Act* on June 19, 1998. In its letters patent, the corporation lists the following as its objects:

1. to encourage through self-regulation a high standard of conduct among members in the mutual fund distribution industry in Canada and to adopt, and enforce compliance with, such practices and requirements as may be necessary and desirable to maintain such standard in the interests of members, their clients and the public and generally to promote the business of fund distribution;
2. to regulate members and persons who are or were shareholders, partners, directors, officers, or employees of members or who may be approved by, or attorn to the jurisdiction of, the Corporation (such shareholders, partners, directors, officers and employees and other persons being referred to herein as "Approved Persons") in accordance with the by-laws and rules of the Corporation or as may be authorized or permitted pursuant to securities legislation;
3. to establish requirements for membership in the Corporation and approval of Approved Persons and to monitor and enforce compliance with such requirements, including, without limitation, the imposition of disciplinary measures and sanctions for non-compliance;
4. to make and enforce such by-laws and rules as may be required to regulate the business affairs of the Corporation, members and Approved Persons in accordance with these objects;
5. to investigate, mediate and arbitrate or otherwise resolve grievances between the public, members or Approved Persons;
6. to establish, sponsor or maintain a compensation or protection fund or plan for clients of members and to contribute to or assess members for contributions to such fund or plan;

7. to facilitate members conferring among themselves on matters of common concern and to undertake collective consultation and co-operation with governments, regulators, other organizations and the public;
8. for the attainment of the above objects and as incidental and ancillary thereto, to exercise any of the powers as prescribed by the Canada Corporations Act or any other statutes or laws applicable from time to time

The MFDA's creation was an outgrowth of a CSA initiative in 1997 which in turn was driven by Ontario Securities Commission Commissioner Glorianne Stromberg's January 1995 report entitled *Regulatory Strategies for the Mid-90s: Recommendations for Regulating Investment Funds in Canada* (Stromberg Report). Among other things, the Stromberg Report called for a national SRO, in the mold of the National Association of Securities Dealers Inc. (NASD) in the United States, which would be responsible for regulating those who sold investment funds to the public. The Canadian Securities Administrators (CSA) requested that the Investment Dealers Association of Canada (IDA) and the Investment Funds Institute of Canada (IFIC) work cooperatively to develop an SRO, the mandate of which would be the direct regulation of distributors of mutual funds. The result of these efforts was the establishment of the MFDA.

Despite the absence of formal recognition, New Brunswick has already recognized the MFDA implicitly. The most obvious example of implicit recognition is found in section 5.2 of Local Rule 31-501 *Registration Requirements*, where New Brunswick requires a mutual fund dealer to be a member of the MFDA. The New Brunswick Securities Commission has also allowed the MFDA to freely conduct its business, with respect to the MFDA member firms that have operations in New Brunswick. And staff members of the Commission have developed informal working relationships with MFDA personnel especially regarding the 3 MFDA member firms with head offices situate in New Brunswick.

### **Request for Comment**

Considering the above we seek comment pertaining to the issues below and comments on any other relevant issues.

- 1) Is it in the public interest to recognize the MFDA as an SRO in the province of New Brunswick?
- 2) Other jurisdictions have in the course of their recognition of the MFDA, suspended MFDA Rule 2.4.1 pertaining to incorporated salespersons. Are there any concerns that would lead New Brunswick to act in a similar fashion?
- 3) There are business models that may support the distribution of mutual funds despite a lack of MFDA membership. What circumstances would warrant an exemption from the requirement to be a member in the MFDA in order to sell mutual funds?
- 4) How should the Commission notify the public of its approval / rejection of an MFDA Rule, By-law, Practice or Policy?

## **How To Provide Your Comment**

Comments are to be provided, in writing, by no later than 8 January 2007 to:

Secretary  
New Brunswick Securities Commission  
85 Charlotte Street, Suite 300  
Saint John, N.B. E2L 2J2  
Telephone: (506) 658-3060  
Fax: (506) 658-3059  
Toll Free (866) 933-2222 (within NB only)  
E-mail: [information@nbsc-cvmnb.ca](mailto:information@nbsc-cvmnb.ca)

If you are not sending your comments by e-mail, please send a diskette containing your comments in PDF or Word.

We cannot keep submissions confidential because securities legislation in certain provinces requires that a summary of the written comments received during the comment period be published.

## **Questions**

If you have any questions, please refer them to:  
Andrew Nicholson  
Director, Market Regulation  
New Brunswick Securities Commission  
Telephone: 506-658-3021  
Toll Free (Within NB only) 1-866-933-2222  
Email: [andrew.nicholson@nbsc-cvmnb.ca](mailto:andrew.nicholson@nbsc-cvmnb.ca)

**IN THE MATTER OF  
THE SECURITIES ACT, S.N.B. 2004, c. S-5.5 (the "Act")  
AND  
IN THE MATTER OF  
MUTUAL FUND DEALERS ASSOCIATION OF CANADA/  
ASSOCIATION CANADIENNES DES COURTIERS DE FONDS MUTUELS  
  
RECOGNITION OF SELF-REGULATORY ORGANIZATION  
(Section 35(1)(b))**

**WHEREAS:**

- (1) In August 2005 the Mutual Fund Dealers Association of Canada/Association canadienne des courtiers de fonds mutuels (the "MFDA") applied to the New Brunswick Securities Commission (the "Commission") for recognition as a self-regulatory organization for mutual fund dealers ("Recognition") under section 35(1)(b) of the Act;
- (2) On \* 2006, the Commission published a Notice and Request for comments in connection with the MFDA's application;
- (3) The Commission has considered the comments it has received on the Notice;
- (4) The Commission has considered the application of the MFDA for recognition as a self-regulatory organization for mutual fund dealers;
- (5) The Commission is satisfied that the MFDA will regulate the operations and the standards of practice and business conduct of its members and their representatives in accordance with its by-laws, rules, regulations, policies, procedures, interpretations and practices; and
- (6) The Commission is satisfied that the recognition of the MFDA as a self-regulatory organization for mutual fund dealers on the terms and conditions set out in this Recognition is in the public interest.

**THE COMMISSION HEREBY RECOGNIZES** the MFDA as a self-regulatory organization for mutual fund dealers pursuant to section 35(1)(b) of the Act on the terms and conditions attached to this Recognition as Schedule "A", which recognition shall continue until revoked by the Commission. In the event that a term or condition is, in the view of the Commission, breached by the MFDA, the Commission shall give notice to the MFDA of its intention to revoke this Recognition and shall give the MFDA a reasonable opportunity to be heard prior to revoking this Recognition.

**DATED** at Saint John, New Brunswick this \* day of \* 2006.

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Donne W. Smith

## SCHEDULE A

### TERMS AND CONDITIONS OF RECOGNITION OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA AS A SELF-REGULATORY ORGANIZATION FOR MUTUAL FUND DEALERS

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#### 1. DEFINITIONS

For the purposes of this Schedule:

"Approved Person" has the same meaning as that under the MFDA rules, as amended by the MFDA and approved by the Commission from time to time;

"member" means a member of the MFDA;

"rules" means the by-laws, rules, regulations, policies, forms, and other similar instruments of the MFDA; and

"securities legislation" has the same meaning as that defined in National Instrument 14-101.

#### 2. STATUS

The MFDA is and shall remain a not-for-profit corporation.

#### 3. CORPORATE GOVERNANCE

(A) The MFDA's arrangements with respect to the appointment, removal from office and functions of the persons ultimately responsible for making or enforcing the rules of the MFDA, being the Board of Directors (the "Board"), shall secure a proper balance between the interests of the different members of the MFDA in order to ensure diversity of representation on the Board. In recognition that the protection of the public interest is a primary goal of the MFDA, a reasonable number and proportion of directors on the Board and on the committees of the Board shall be and remain during their term of office Public Directors and a Public Director is a director:

(i) who is not a current director (other than a Public Director), officer or employee of, or of an associate or affiliate of:

(a) the MFDA,

- (b) any protection or contingency fund in which Members (at the time the director holds the relevant office) are required to participate, or
  - (c) the Investment Funds Institute of Canada or the Investment Dealers Association of Canada;
- (ii) who is not a current director, partner, significant shareholder, officer, employee or agent of a Member, or of an associate or affiliate of a Member, of:
  - (a) the MFDA,
  - (b) any protection or contingency fund in which Members (at the time the director holds the relevant office) are required to participate, or
  - (c) the Investment Funds Institute of Canada or the Investment Dealers Association of Canada;
- (iii) who is not a current employee of a federal, provincial or territorial government or a current employee of an agency of the Crown in respect of such government;
- (iv) who is not a current member of the federal House of Commons or member of a provincial or territorial legislative assembly;
- (v) who has not, in the two years prior to election as a Public Director, held a position described in (i)-(iv) above;
- (vi) who is not:
  - (a) an individual who provides goods or services to and receives direct significant compensation from, or
  - (b) an individual who is a director, partner, significant shareholder, officer or employee of an entity that receives significant revenue from services the entity provides to, if such individual's compensation from that entity is significantly affected by the services such individual provides to,  
  
the MFDA or any protection or contingency fund in which Members are required to participate, or a Member of the MFDA; and
- (vii) who is not a member of the immediate family of the persons listed in (i)-(vi) above.

For the purposes of this definition:

- (a) "significant compensation" and "significant revenue" means compensation or revenue the loss of which would have, or appear to have, a material impact on the individual or entity, and
  - (b) "significant shareholder" means an individual who has an ownership interest in the voting securities of an entity, or who is a director, partner, officer, employee or agent of an entity that has an ownership interest in the voting securities of another entity, which voting securities in either case carry more than 10% of the voting rights attached to all voting securities for the time being outstanding.
- (B) The MFDA's governance structure shall provide for:
- (i) at least 50% of its directors, other than its President and Chief Executive Officer, shall be Public Directors;
  - (ii) the President and Chief Executive Officer of the MFDA is deemed to be neither a Public Director nor a non-Public Director;
  - (iii) appropriate representation of Public Directors on committees and bodies of the Board, in particular:
    - (a) at least 50% of directors the governance committee of the Board shall be Public Directors,
    - (b) a majority of directors on the audit committee of the Board shall be Public Directors,
    - (c) at least 50% of directors on the executive committee of the Board, if any, shall be Public Directors,
    - (d) meetings of the Board shall have a quorum requirement of a reasonable number and proportion of Public Directors and non-Public Directors, with at least two Public Directors, and
    - (e) meetings of any committee or body of the Board shall have a quorum requirement of a reasonable number and proportion of Public Directors and non-Public Directors, provided that if the committee or body has Public Directors then the quorum must require at least one Public Director be present;
  - (iv) the remaining number of directors serving on the Board and on the above referred to committees and bodies of the Board, shall consist of directors representing the different members of the MFDA

to ensure diversity of representation on the Board in accordance with paragraph (A);

- (v) appropriate qualification, remuneration, and conflict of interest provisions and provisions with respect to the limitation of liability of and indemnification protection for directors, officers and employees of the MFDA; and
- (vi) a chief executive officer and other officers, all of whom, except for the chair of the Board, are independent of any member.

#### **4. FEES**

- (A) Any and all fees imposed by the MFDA on its members shall be equitably allocated and bear a reasonable relation to the costs of regulating members, carrying out the MFDA's objects and protecting the public interest. Fees shall not have the effect of creating unreasonable barriers to membership and shall be designed to ensure that the MFDA has sufficient revenues to discharge its responsibilities.
- (B) The MFDA's process for setting fees shall be fair, transparent, and appropriate.

#### **5. COMPENSATION OR CONTINGENCY TRUST FUNDS**

The MFDA shall co-operate with compensation funds or contingency trust funds that are from time to time considered by the Commission under securities legislation to be compensation funds or contingency trust funds for mutual fund dealers and with any such fund that has applied to the Commission to be considered such funds (the "IPPs"). The MFDA shall ensure that its rules give it the power to assess members, and require members to pay such assessments, on account of assessments or levies made by or in respect of an IPP.

#### **6. MEMBERSHIP REQUIREMENTS**

- (A) The MFDA's rules shall permit all properly registered mutual fund dealers who satisfy the membership criteria to become members thereof and shall provide for the non-transferability of membership.
- (B) Without limiting the generality of the foregoing, the MFDA's rules shall provide for:
  - (i) reasonable financial and operational requirements, including minimum capital and capital adequacy, debt subordination, bonding, insurance, record-keeping, new account, knowledge of

clients, suitability of trades, supervisory practices, segregation, protection of clients' funds and securities, operation of accounts, risk management, internal control and compliance (including a written compliance program), client statement, settlement, order taking, order processing, account inquiries, confirmation and back office requirements;

- (ii) reasonable proficiency requirements (including training, education and experience) with respect to Approved Persons of members;
  - (iii) consideration of disciplinary history, including breaches of applicable securities legislation, the rules of other self regulatory organizations or MFDA rules, prior involvement in criminal, relevant quasi-criminal, administrative or insolvency proceedings or civil proceedings involving business conduct or alleging fraudulent conduct or deceit, and prior business and other conduct generally, of applicants for membership and any partners, directors and officers, in order that membership may, where appropriate, be refused where any of the foregoing have previously engaged in improper conduct, and shall be refused where the past conduct of any of the foregoing affords reasonable grounds for belief that the applicant's business would not be conducted with integrity;
  - (iv) reasonable consideration of relationships with other members and other business activities to ensure the appropriateness thereof; and
  - (v) consideration of the ownership of applicants for membership under the criteria established in paragraph 6(E).
- (C) The MFDA shall require members to confirm to the MFDA that persons that it wishes to sponsor, employ or associate with as Approved Persons comply with applicable securities legislation and are properly registered.
- (D) The MFDA rules shall require a member to give prior notice to the MFDA before any person or company acquires a material registered or beneficial interest in securities or indebtedness of or any other ownership interest in the member, directly or indirectly, or becomes a transferee of any such interests, or before the member engages in any business combination, merger, amalgamation, redemption or repurchase of securities, dissolution or acquisition of assets. In each case there may be appropriate exceptions in the case of publicly traded securities, de minimis transactions that do not involve changes in de facto or legal control or the acquisitions of material interests or assets, and non-participating indebtedness.
- (E) The MFDA rules shall require approval by the MFDA in respect of all persons or companies proposing to acquire an ownership interest in a member in the circumstances outlined in paragraph 6(D) and, except as

provided in paragraph 6(F), for approval of all persons or companies that satisfy criteria providing for:

- (i) consideration of disciplinary history, including breaches of applicable securities legislation, the rules of other self-regulatory organizations or MFDA rules, involvement in criminal, relevant quasi-criminal, administrative or insolvency proceedings or civil proceedings involving business conduct or alleging fraudulent conduct or deceit, and prior business and other conduct generally; and
  - (ii) reasonable consideration of relationships with other members and involvement in other business activities to ensure the appropriateness thereof.
- (F) The MFDA rules shall give the MFDA the right to refuse approval of all persons or companies that are proposing to acquire an ownership interest in a member in the circumstances outlined in paragraph 6(D) who do not agree to:
- (i) submit to the jurisdiction of the MFDA and comply with its rules;
  - (ii) notify the MFDA of any changes in his, her or its relationship with the member or of any involvement in criminal, relevant quasi-criminal, administrative or insolvency proceedings or in civil proceedings involving business conduct or alleging fraudulent conduct or deceit;
  - (iii) accept service by mail in addition to any other permitted methods of service;
  - (iv) authorize the MFDA to co-operate with other regulatory and self-regulatory organizations, including sharing information with these organizations; and
  - (v) provide the MFDA with such information as it may from time to time request and full access to and copies of any records.
- (G) The MFDA shall notify the Commission forthwith of members whose rights and privileges will be suspended or terminated or whose membership will be terminated, and in each case the MFDA shall identify the member, the reasons for the proposed suspension or termination and provide a description of the steps being taken to ensure that the member's clients are being dealt with appropriately.

**7. COMPLIANCE BY MEMBERS WITH MFDA RULES**

- (A) The MFDA shall enforce, as a matter of contract between itself and its members, compliance by its members and their Approved Persons with the rules of the MFDA and the MFDA shall cooperate with the Commission in ensuring compliance with applicable securities legislation relating to the operations, standards of practice and business conduct of members and Approved Persons, without prejudice to any action that may be taken by the Commission under securities legislation.
- (B) The MFDA shall conduct periodic reviews of its members and the members' Approved Persons to ensure compliance by its members and the members' Approved Persons with the rules of the MFDA and shall conduct such reviews at a frequency requested by the Commission or its staff. The MFDA shall provide notice to staff of the Commission of any material violations of securities legislation of which it becomes aware in the ordinary course operation of its business. The MFDA shall also cooperate with the Commission in the conduct of reviews of its members and the members' Approved Persons as requested by the Commission or its staff, to ensure compliance by its members and their Approved Persons with applicable securities legislation.
- (C) The MFDA shall promptly report to the Commission when:
  - (i) any member has failed to file on a timely basis any required financial, operational or other report;
  - (ii) early warning thresholds established by the MFDA that would reasonably be expected to raise concerns about a member's liquidity, risk-adjusted capital or profitability have been triggered by any member; and
  - (iii) any condition exists with respect to a member which, in the opinion of the MFDA, could give rise to payments being made out of an IPP, including any condition which, alone or together with other conditions, could, if appropriate corrective action is not taken, reasonably be expected to:
    - (a) inhibit the member from promptly completing securities transactions, promptly segregating clients' securities as required or promptly discharging its responsibilities to clients, other members or creditors,
    - (b) result in material financial loss, or
    - (c) result in material misstatement of the member's financial statements.

The MFDA shall, in each case, identify the member, describe the circumstances that gave rise to the reportable event and describe the MFDA's proposed response to ensure the identified circumstances are resolved.

- (D) The MFDA shall promptly report to the Commission actual or apparent misconduct by members and their Approved Persons and others where investors, creditors, members, an IPP or the MFDA may reasonably be expected to suffer serious damage as a consequence thereof, including where the solvency of a member is at risk, fraud is present or there exist serious deficiencies in supervision or internal controls or non-compliance with MFDA rules or securities legislation. The MFDA shall, in each case, identify the member, the Approved Persons, or others, and the misconduct or deficiency as well as the MFDA's proposed response to ensure that the identified problem is resolved.
- (E) The MFDA shall advise the Commission promptly following the taking of any action by it with respect to any member in financial difficulty.
- (F) The MFDA shall promptly advise each other self-regulatory organization and IPP of which a member is a participant or which provides compensatory coverage in respect of the member, of any actual or apparent material breach of the rules thereof of which the MFDA becomes aware.

## **8. DISCIPLINE OF MEMBERS AND APPROVED PERSONS**

- (A) The MFDA shall, as a matter of contract, have the right to and shall appropriately discipline its members and their Approved Persons for violations of the rules of the MFDA and shall cooperate with the Commission in the enforcement of applicable securities legislation relating to the operations, standards of practice and business conduct of the members and Approved Persons, without prejudice to any action that may be taken by the Commission under securities legislation.
- (B) The MFDA rules shall enable it to prevent the resignation of a member from the MFDA if the MFDA considers that any matter affecting the member or any registered or beneficial holder of a direct or indirect ownership interest in securities, indebtedness or other interests in the member, or in a person or company associated or affiliated with the member or affecting the member's Approved Persons or any of them, should be investigated or that the member or any such person, company or Approved Person should be disciplined.
- (C) The MFDA shall require its members and their Approved Persons to be subject to the MFDA's review, enforcement and disciplinary procedures.

- (D) The MFDA shall notify
  - (i) the Commission in writing, and
  - (ii) the public and the media
    - (a) of any disciplinary or settlement hearing, as soon as practicable and in any event not less than 14 days prior to the date of the hearing, and
    - (b) of the disposition of any disciplinary action or settlement, including any discipline imposed, and shall promptly make available any written decision and reasons.
- (E) Any notification required under paragraph 8 (D) shall include, in addition to any other information specified in paragraph 8 (D), the names of the member and the relevant Approved Persons together with a summary of circumstances that gave rise to the proceedings.
- (F) The MFDA shall maintain a register to be made available to the public, summarizing the information which is required to be disclosed to the Commission under paragraphs 8 (D) and (E).
- (G) The information given to the Commission under paragraphs 8 (D) and (E) will be published by the Commission unless the Commission determines otherwise.
- (H) The MFDA shall at least annually review all material settlements involving its members or their Approved Persons and their clients with a view to determining whether any action is warranted, and the MFDA shall prohibit members and their Approved Persons from imposing confidentiality restrictions on clients vis-a-vis the MFDA or the Commission, whether as part of a resolution of a dispute or otherwise.
- (I) Disciplinary and settlement hearings shall be open to the public and media except where confidentiality is required for the protection of confidential matters. The criteria and any changes thereto for determining these exceptions shall be specified and submitted to the Commission for approval.

## 9. DUE PROCESS

The MFDA shall ensure that the requirements of the MFDA relating to admission to membership, the imposition of limitations or conditions on membership, denial of membership and termination of membership are fair and reasonable, including in respect of notice, an opportunity to be heard or make representations, the keeping of a record, the giving of reasons and provision for appeals.

## 10. PURPOSE OF RULES

- (A) The MFDA shall, subject to the terms and conditions of its recognition and the jurisdiction and oversight of the Commission in accordance with securities legislation, establish such rules as are necessary or appropriate to govern and regulate all aspects of its business and affairs and shall in so doing:
- (i) seek to ensure compliance by members and their Approved Persons with applicable securities legislation relating to the operations, standards of practice and business conduct of the members;
  - (ii) seek to prevent fraudulent and manipulative acts and practices and to promote the protection of investors, just and equitable principles of trade and high standards of operations, business conduct and ethics;
  - (iii) seek to promote public confidence in and public understanding of the goals and activities of the MFDA and to improve the competence of members and their Approved Persons;
  - (iv) seek to standardize industry practices where appropriate for investor protection;
  - (v) seek to provide for appropriate discipline;
- and shall not:
- (vi) permit unfair discrimination among investors, mutual funds, members or others; or
  - (vii) impose any barrier to competition that is not appropriate.
- (B) Unless otherwise approved by the Commission, the rules of the MFDA governing the conduct of member business regulated by the MFDA shall afford investors protection at least equivalent to that afforded by securities legislation, provided that higher standards in the public interest shall be permitted and are encouraged.

## 11. RULES AND RULE-MAKING

- (A) No new rules, changes to rules (which shall include any revocation in whole or in part of a rule) or suspension of rules shall be made effective by the MFDA without prior approval of the Commission. Any such rules,

changes or suspensions shall be justified by reference to the permitted purposes thereof (having regard to paragraph 10). The approval process shall be subject to a memorandum of understanding between the Commission and the MFDA to be established regarding the review and approval of rules and amendments and suspensions thereto.

- (B) Prior to proposing a new rule, changes to a rule (which shall include any revocation in whole or in part of a rule) or a suspension of a rule, the Board shall have determined that the entry into force of such rule or change or the suspension of the rule would be in the public interest and every proposed new rule, change or suspension must be accompanied by a statement to that effect.
- (C) All rules, changes to rules and suspensions of rules adopted by the Board must be filed with the Commission.
- (D) A copy of all written notices relevant to the rules or to the business and activities of members, their Approved Persons or other employees or agents to assist in the interpretation, application of and compliance with the rules and legislation relevant to such business and activities shall be provided to the Commission.
- (E) The MFDA shall, wherever practicable, document its interpretations of its rules and distribute copies of that documentation to its members and the Commission.

## **12. OPERATIONAL ARRANGEMENTS AND RESOURCES**

- (A) The MFDA shall have adequate arrangements and resources for the effective monitoring and enforcement of compliance with its rules. With the consent of the Commission, the arrangements for monitoring and enforcement may make provision for the following:
  - (i) one or more parts of those functions to be performed (and without affecting its responsibility) by another body or person that is able and willing to perform it; and
  - (ii) its members and their Approved Persons to be deemed to be in compliance with its rules by complying with the substantially similar rules of such other body or person.

The Commission's consent may be varied or revoked from time to time and may be subject to terms and conditions.

- (B) The MFDA shall respond promptly and effectively to public inquiries and generally shall have effective arrangements for the investigation of complaints (including anonymous complaints) against its members or their

's consent may be varied or revoked from time to time and may be subject to terms and conditions. The MFDA and any other body or person performing such function on behalf of the MFDA shall not refrain from investigating complaints due to the anonymity of the complainant where the complaint is otherwise worthy of investigation and sufficiently detailed to permit investigation.

- (C) The MFDA shall ensure that it is accessible to the public and shall designate and make available to the public the names and telephone numbers of persons to be contacted for various purposes, including making complaints and enquiries.
- (D) The arrangements and resources referred to in paragraphs (A) and (B) above shall consist at a minimum of:
  - (i) a sufficient complement of qualified staff, including professional and other appropriately trained staff;
  - (ii) an adequate supervisory structure;
  - (iii) adequate management information systems;
  - (iv) a compliance department and an enforcement department with appropriate reporting structures directly to senior management, and with written procedures wherever practicable;
  - (v) procedures and structures that minimize or eliminate conflicts of interest within the MFDA;
  - (vi) inquiry and complaint procedures and a public information facility, including with respect to the discipline history of members and their Approved Persons;
  - (vii) guidelines regarding appropriate disciplinary sanctions; and
  - (viii) the capacity and expertise to hold disciplinary hearings (including regarding proposed settlements) utilizing public members within the meaning of the current section 19.6 of the MFDA's By-law No. 1 together with member representatives.
- (E) The MFDA shall cooperate and assist with any surprise, regular or other reviews of its self-regulatory functions by an IPP or the Commission. In addition, in the event that the Commission is of the view that there has been a serious actual or apparent failure in the MFDA's fulfilment of its self-

regulatory functions, the MFDA shall, where requested by the Commission, undergo an independent third party review on terms and by a person or persons satisfactory to or determined by the Commission, which review shall be at the expense of the MFDA.

- (F) The MFDA shall cooperate and assist with any reviews, scheduled or unscheduled, of its corporate governance structure by the Commission. In addition, in the event that the Commission is of the view that there has been a serious weakness in the MFDA's corporate governance structure, the MFDA shall upon the request of the Commission undergo an independent third party review on terms and by a person or persons satisfactory to or determined by the Commission, which review shall be at the expense of the MFDA.
- (G) The MFDA shall not make material changes to its organizational structure, which would affect its self-regulatory functions, without prior approval of the Commission.
- (H) The MFDA shall comply with reporting requirements set out in Appendix A, as amended from time to time by the Commission or its staff. The MFDA shall also provide the Commission with other reports, documents and information as the Commission or its staff may reasonably request.

### **13. INFORMATION SHARING**

The MFDA shall cooperate, by sharing information and otherwise, with IPPs, the Commission and its staff, and other Canadian federal, provincial and territorial recognized self-regulatory organizations and regulatory authorities, including without limitation, those responsible for the supervision or regulation of securities firms, financial institutions, insurance matters and competition matters. The Commission and its staff shall have unrestricted access to the books and records, management, staff and systems of the MFDA.

### **14. SUSPENSION OF MFDA RULE 2.4.1**

MFDA Rule 2.4.1 is suspended and will continue to be suspended until December 31, 2006 in the Provinces of British Columbia, Saskatchewan, Ontario and Nova Scotia, and during such period the MFDA shall comply with the following conditions:

- (A) the MFDA shall co-operate with the Commission and its staff, including participating on any joint industry and regulatory committee struck by the Commission and its staff, in their efforts to develop amendments to applicable securities legislation that would, among other things, allow an Approved Person to carry on securities related business (within the

meaning of the MFDA rules) through a corporation, while preserving that Approved Person's and the member's liability to clients for the Approved Person's actions;

- (B) the MFDA shall, as a condition of a member or Approved Person being entitled to rely on the suspension of Rule 2.4.1, require that the member and its Approved Persons agree, and cause any recipient of commissions on behalf of Approved Persons that is itself not registered as a dealer or a salesperson to agree, to provide to the MFDA, the Commission and the applicable member access to its books and records for the purpose of determining compliance with the rules of the MFDA and applicable securities legislation;
- (C) the MFDA shall ensure in connection with the suspension of Rule 2.4.1 that members and Approved Persons comply with the remaining Rules, with specific reference to Rule 1 Business Structures and Qualifications, Rule 1.2.1(d) Dual Occupations and the rule noted above in paragraph (B);
- (D) the MFDA shall ensure that members applying for membership are made aware of the requirements of Rule 1 by delivering to each applicant a copy of its Notice MR-0002; and
- (E) the MFDA shall not accept a member whose relationship with its Approved Persons does not comply with the rules of the MFDA and in particular, Rule 1, unless the MFDA has granted exemptive relief to that applicant under the authority granted to the Board of Directors under section 38 of By-law No. 1.

## APPENDIX A

### Reporting Requirements

#### 1. Prior Notification

1.1 The MFDA shall advise the Commission in advance of any proposed material changes or reductions in its financial review program or operational and sales compliance review programs, including as to procedures or scope, or any proposed changes in its external audit instructions and of any proposed material changes or reductions in the operation of its investigation or enforcement programs.

#### 2. Immediate Notification

2.1 The MFDA shall give the Commission notice of new directors, officers and committee chairpersons, including a 5 year employment history and information as to the involvement in criminal, relevant quasi-criminal, administrative or insolvency proceedings and civil proceedings involving business conduct or alleging fraudulent conduct or deceit in respect of each such person.

#### 3. Annual Reporting

The MFDA shall within 120 days of its fiscal year end file the following information and reports to the Commission:

3.1 The MFDA's self-regulatory staff complement, by function, and of any material changes or reductions in self-regulatory staff, by function;

3.2 Copy or summary of self-assessment by management of the MFDA's performance of its self-regulatory responsibilities and any proposed actions arising therefrom. The self-assessment shall, for each of the MFDA's member regulatory functions, set performance measurements against which performance can be compared, and identify major successes, significant problem areas, plans to resolve these problems, recruitment and training plans, and other information as reasonably requested by the Commission or its staff; and

3.3 The MFDA's budget and audited financial statements.