

# 2008 BCSECCOM 390

COR# 08/150

## Consent Order

### Mutual Fund Dealers Association of Canada (MFDA)

#### Section 171 of the *Securities Act*, RSBC 1996, c. 418

- ¶ 1 The Commission recognized the MFDA as a self-regulatory organization for mutual fund dealers on February 15, 2001 under section 24 of the Act.
- ¶ 2 The Commission continued its recognition of the MFDA under amended terms and conditions on June 3, 2004 (Recognition Order).
- ¶ 3 The Commission issued an order to vary the Recognition Order on November 14, 2006.
- ¶ 4 Under the Recognition Order, the MFDA may, with the consent of the Commission, make arrangements with another body or person to perform the functions of monitoring and enforcing compliance with the MFDA's rules (the Rules), and investigating complaints against MFDA members and their Approved Persons (as defined in the Rules).
- ¶ 5 The MFDA entered into an agreement with l'Autorité des marchés financiers du Québec (the Autorité) (known as l'Agence Nationale d'encadrement du secteur financier prior to December 17, 2004) and the Chambre de la sécurité financière (the Chambre) to co-ordinate the regulation of MFDA members with operations in Québec (Co-operative Agreement), attached as Schedule A.
- ¶ 6 The Commission issued an order consenting to the Co-operative Agreement on May 20, 2005.
- ¶ 7 The MFDA has applied to the Commission for an order consenting to the Co-operative Agreement that does not include a definite expiry date.
- ¶ 8 The MFDA has represented to the Commission as follows:
  1. the Rules and the laws, regulations, orders or other regulatory directions or instruments which the Autorité and/or the Chambre administer or enforce from time to time including, without limitation, the *Securities Act* (Québec) and the regulations made under it (the Regulations), relating to business conduct and sales practices, are substantially similar or have the same regulatory objectives;

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2. MFDA members will, by complying with the Regulations relating to business conduct and sales practices in Québec, be considered by the MFDA to comply with its Rules relating to the same subject matter;
  3. the MFDA, the Autorité and the Chambre have similar public interest mandates;
  4. the MFDA and the Autorité together with the Chambre are performing similar regulatory activities;
  5. the MFDA has sufficient access to its members' books, records and operations to be able to conduct prudential compliance reviews of its members operating in Québec;
  6. the MFDA and the Autorité have struck a coordination committee to develop similar approaches to conducting inspections, a similar inspection program and schedule of inspections to ensure substantially consistent monitoring and enforcement of requirements;
  7. the MFDA is of the opinion that members in Québec will be subject to a similar or equivalent regulatory regime;
  8. the MFDA is not recognized as a self-regulatory organization in the Province of Quebec and assessments for MFDA Investor Protection Corporation (MFDA IPC) funding are not made in respect of assets under administration of members in Quebec. Accordingly, customers with accounts in Quebec at MFDA members, and whose assets held by MFDA members in Quebec are not subject to such assessment (Quebec Customers), are not entitled to protection by the MFDA IPC except as the Board of Directors of the MFDA IPC shall otherwise in its discretion determine;
  9. the MFDA will provide prior notification to the Commission if it becomes aware that the MFDA IPC intends to provide coverage to Quebec Customers.
- ¶ 9 Considering it is not prejudicial to the public interest, the Commission orders under section 171 of the Act that the Recognition Order is varied to provide the Commission's consent to the Co-operative Agreement, subject to the terms and conditions attached as Schedule B.
- ¶ 10 July 8, 2008

Douglas M. Hyndman  
Chair

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## Schedule A

### CO-OPERATIVE AGREEMENT

made as of December 15, 2004

BETWEEN:

**L'AGENCE NATIONALE D'ENCADREMENT DU SECTEUR  
FINANCIER**

(a) ("Autorité")

**CHAMBRE DE LA SÉCURITÉ FINANCIÈRE**

(b) ("Chambre")

and

**ASSOCIATION CANADIENNE DES COURTIERS DE FONDS MUTUELS**

(c) ("ACCFM")

#### INTRODUCTION:

1. The Autorité is a regulatory organization in respect of mutual fund brokerage firms and their representatives pursuant to *An Act respecting the distribution of financial products and services* (R.S.Q., c. D-9.2) (the "Act"), and its Regulations and carries out other activities in respect thereof pursuant to that Act and other applicable legislation including, without limitation, the *Securities Act* of Quebec (R.S.Q., c. V-1.1) (the "QSA").
2. Pursuant to the Act, the Chambre is a self-regulatory organization responsible for protecting the public in maintaining discipline and ethics among its members who carry on activities in the sectors of insurance of persons, group

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insurance of persons, financial planning, group savings plan brokerage, investment contracts brokerage and scholarship plan brokerage, all through a syndic and a discipline committee. It regulates the compulsory continuing education, supervises its application and professional development of representatives within its jurisdiction.

3. The ACCFM is a self-regulatory organization which is recognized as such in certain provincial jurisdictions other than Quebec in respect of mutual fund dealers and their approved persons, and which is empowered under the legislation of such jurisdictions to supervise or regulate matters similar to those within the jurisdiction of the Autorité or the Chambre as contemplated by section 189 of the Act.
4. The Fonds d'indemnisation des services financiers provides compensation to victims of fraud, fraudulent tactics or embezzlement that takes place within the context of the distribution of financial products and services covered by the Act in Quebec by, among others, mutual fund brokerage firms and their representatives including Members of the ACCFM and their representatives.
5. The Corporation de protection des investisseurs de l'ACCFM has been established to provide protection to eligible clients.
6. In order to protect the public, avoid regulatory inefficiencies and preserve and enhance the respective separate mandates of the Autorité, Chambre and ACCFM, the parties wish to enter into this co-operative agreement in accordance with section 189 of the Act relating to the specific subjects set out below.
7. These recitals are an integral part of this Agreement.

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## 1. INTERPRETATION

### 1.1 GENERAL PRINCIPLES

This Agreement is intended to set out the general principles on which the parties will co-operate with respect to the regulation of Member Firms of the ACCFM with operations and activities as mutual fund firms in Quebec and elsewhere. It is acknowledged that many aspects of the implementation of this Agreement will be by practices and protocols between the parties as experience develops, and this Agreement, and policy and administrative matters under it, may be the subject of amendments or supplementary protocols and understandings. In all respects, this Agreement is to be implemented in a manner that preserves the respective jurisdiction of the parties (as set out in Section 1.3).

### 1.2 DEFINITIONS

The following terms as used in this Agreement or any document of the parties contemplated hereby shall have the meanings indicated, except as defined otherwise or the context requires:

“ACCFM IPC” means the Corporation de protection des investisseurs de l’ACCFM, a corporation created under Part II of the *Canada Corporations Act* by ACCFM;

"Approved Person" means an individual who is an Approved Person of a Member of the ACCFM under the Rules;

"Firm" means a legal person registered with the Autorité to pursue mutual fund brokerage activities in Quebec;

“FISF” means the Fonds d’indemnisation des services financiers established pursuant to the Act;

“Head Office” means:

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- (i) the principal or registered office of the Member Firm according to the legislation under which the Member Firm is incorporated; and
- (ii) any office listed in Appendix A as may be amended from time to time by the Coordination Committee referred to in Section 3.5.

"Information" means all information, including personal information, recorded in writing on any storage medium whatsoever, in particular of the kinds referred to in Sections 2.1 and 2.2;

"Inspection" means, if carried out by the Autorité, an inspection in the sense of the Act or *An Act respecting the Agence nationale d'encadrement du secteur financier* (the "Agency Act"), and if carried out by the ACCFM, means an examination or investigation in the sense of the Rules;

"Investigation" done by the Autorité or the Chambre means an investigation within the meaning of the Agency Act;

"Members" means mutual fund dealers which are Members of the ACCFM but, for greater certainty, shall not include individuals or representatives who are Approved Persons;

"Member Firm" means a Firm which is a Member;

"Prudential Matters" means in respect of a Member those aspects of its structure and operations that affect its financial integrity including, without limitation,

- (i) capital, margin, segregation, filing, reporting and audit matters which are the subject of ACCFM Rule 3;

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- (ii) insurance requirements which are the subject of ACCFM Rule 4;
- (iii) systems and operations matters including internal controls and procedures and trading processing which are the subject of ACCFM Policy 4; and
- (iv) systems and procedures relating to compliance and supervision requirements of Members with respect to operations outside Quebec;

"Regulations" means in respect of either the Autorité or the Chambre, the laws, regulations, orders or other regulatory directions or instruments which they (or either of them) administer or enforce from time to time including, without limitation, the Act, the QSA, the Agency Act and the Regulations made thereunder.

"Representatives" means individuals authorized pursuant to the Act to carry on mutual-related fund activities in Quebec;

"Rules" means the By-laws, Rules, Policies, Forms, orders, or other regulatory directions or instruments which the ACCFM administers or enforces from time to time.

### **1.3 JURISDICTION**

#### **1.3.1 Autorité and Chambre.**

The authority, capacity and jurisdiction of both the Autorité and Chambre are subject to the provisions of the Act, the QSA and other legislation and principles of law applicable in Quebec and the rights and obligations of each of the Autorité and Chambre pursuant to this Agreement are subject to such legislation and laws.

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## 1.3.2 ACCFM

ACCFM is a self-regulatory organization, recognized as such in certain provincial jurisdictions other than Quebec, to which its Members belong and submit to self-regulation, subject to the laws in the applicable provinces of Canada.

## 1.3.3 Agreement

This Agreement is entered into pursuant to Section 189 of the Act and the entering into of this Agreement shall not constitute the recognition of the ACCFM as a self-regulatory organization in Quebec.

## 1.4 PREMISE

It is a premise of this Agreement that:

- (a) the Rules of the ACCFM and Regulations of the Autorité and Chambre relating to business conduct and sales practices of Members and their Approved Persons are substantially similar and/or have the same regulatory objectives. Thus, Member Firms will, by complying with the Regulations of the Autorité relating to business conduct and sales practices in Quebec, comply with ACCFM Rules relating to the same subject matter;
- (b) Prudential Matters of Member Firms related to Head Offices located in Quebec affect clients of Member Firms and the public both inside and outside Quebec;
- (c) the Autorité, Chambre and the ACCFM have similar public interest mandates;
- (d) the Autorité, Chambre and the ACCFM are performing similar regulatory activities; and



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- (e) it is in the respective interests of the parties to this Agreement and the public interest including Quebec clients of Member Firms that (i) the protection to clients and (ii) the administration of insolvent Member Firms be co-ordinated by separate agreement between the Autorité, the ACCFM, the ACCFM IPC and FISF as may be relevant, such agreement to be settled prior to the date the ACCFM IPC commences offering coverage.

Given the foregoing, the ACCFM considers that its mandate with respect to its Member Firms and Approved Persons registered under the Act can be satisfied by the performance of the Autorité and Chambre of their existing mandates under the Act and in accordance with the provisions of this Agreement.

### **1.5 LAWS OF QUEBEC**

This Agreement is to be construed and governed by the laws of Quebec.

### **1.6 FRENCH TEXT**

An English translation of this Agreement has been prepared for the convenience of the parties. In case of any divergence between the English translation and the French text of this Agreement, the French text shall prevail.

## **2. INFORMATION SHARING**

### **2.1 SHARING**

Each of the Autorité, Chambre and ACCFM receives and maintains Information pertaining to the business, operations and activities of Firms and Members, as the case may be, and their representatives, Approved Persons and employees, as the case may be. Subject to the restrictions set out in this Agreement including, without limitation, the provisions of Sections 2.3 and 2.4, the Autorité, Chambre and ACCFM shall make available to each other Information on the basis provided

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herein. A party may make such Information available to another party (a) on request by such party, (b) voluntarily without request or (c) pursuant to protocols or understandings developed and approved by the parties to be followed as a matter of course. Any Information so provided shall be in a format as agreed by the parties and may be specific as to any Member Firm, all Member Firms or class of Member Firms and as to any subject matter or activity relating to a Member Firm, all Member Firms or class of Member Firms. It is expected that each party shall bear its own expenses in connection with the provision of Information hereunder, except that in any case where the costs of providing Information would be unfairly high or excessive the parties may agree to an appropriate basis of sharing such costs and, if such agreement is not reached, there shall be no obligation to provide Information under this Section 2.1.

### **2.2 COMPLAINTS**

The Autorité or the Chambre, as the case may be, will advise the ACCFM on a periodic basis of the status or conclusion of any complaint described in Section 5.1.1. The ACCFM will advise the Autorité or the Chambre, as the case may be, on a periodic basis of the status or conclusion of any complaint described in Section 5.1.2.

### **2.3 USE AND CONFIDENTIALITY**

All Information provided to a party hereunder shall be used solely in respect of the regulatory and enforcement activities of such party and shall be kept confidential and not disclosed to any other person except as (a) consented to by the party providing the Information, (b) to the extent the Information is in the public domain, or (c) specifically authorized by applicable law or a court or competent regulatory authority.

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## **2.4 PRIVACY LEGISLATION**

The obligations of the parties to provide Information hereunder are subject to the restrictions of any privacy or similar legislation including, without limitation, *An Act respecting access to documents held by public bodies and the protection of personal information*, (R.S.Q., c.A-2.1.) and the Agency Act where applicable.

The parties shall endeavour to administer their affairs and to the extent authorized make and enforce Regulations and Rules which permit the provision of Information hereunder including satisfying the requirement for the consent by Member Firms of the release and use of Information pursuant to this Agreement.

## **2.5 NOTICE OF AGREEMENT**

It is acknowledged that the parties intend to give notice to Member Firms, representatives, governments and other regulators and to the public of the fact that this Agreement has been entered into, and the parties shall co-operate in settling the terms and format of such notices.

## **3. INSPECTIONS**

### **3.1 PRUDENTIAL MATTERS INSPECTIONS IN HEAD OFFICE**

The Autorité, as lead jurisdiction, shall conduct Inspections in Quebec concerning the Prudential Matters of all Member Firms having Head Offices in Quebec. The ACCFM may cooperate with the Autorité in conducting such Inspections pursuant to the provisions of Section 3.5. For the purpose of permitting ACCFM to cooperate with the Inspections contemplated herein and ensuring that any Information relating thereto can be used by the Autorité, the Autorité shall recognize or designate representatives of ACCFM as inspectors of the Autorité. The ACCFM, as lead jurisdiction, shall conduct Inspections of all Member Firms

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having Head Offices outside Quebec. The Autorité may cooperate with the ACCFM in conducting such Inspections pursuant to the provisions of Section 3.5.

### **3.2 BUSINESS CONDUCT AND SALES PRACTICES COMPLIANCE**

Subject to the provisions of Section 3.3, ACCFM acknowledges that it will not conduct Inspections in Quebec relating to the business conduct and sales practices compliance by its Member Firms and their representatives and their operations in Quebec and as they affect clients in Quebec and the Quebec public. In this regard ACCFM understands that the Autorité will conduct such Inspections and that the Chambre will act in a consulting role in audits of the quality and compliance of professional practices, in accordance with the Regulations.

### **3.3 SPECIAL CIRCUMSTANCES**

**3.3.1** In this Section, “Special Circumstances” means:

- a) for the ACCFM and the Autorité, in respect of Prudential Matters, an apparent financial problem that can cause insolvency of a Member Firm;
- b) for the ACCFM, in respect of business conduct and sales practices compliance, a situation that occurred outside Quebec that may demonstrate an apparent major compliance failure in respect of such practices;
- c) for the Autorité, in respect of business conduct and sales practices compliance, a situation that occurred in Quebec that may demonstrate an apparent major compliance failure in respect of such practices.

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**3.3.2** The ACCFM, when it becomes aware of Special Circumstances, may request that the Autorité or Chambre, as the case may be, conduct an Investigation or Inspection of a Member Firm situated in Quebec or of one of its representatives, in accordance with the Regulations. When it becomes aware of Special Circumstances, the Autorité or the Chambre, as the case may be, may ask the ACCFM to conduct an Investigation or Inspection of a Member Firm situated elsewhere in Canada. The party that has requested the Inspection may cooperate with the other party which becomes the lead jurisdiction. For the purpose of permitting the ACCFM to cooperate with such an Inspection in Quebec and ensuring that any Information relating thereto can be used by the Autorité, the Autorité shall recognize or designate representatives of ACCFM as inspectors of the Autorité.

### **3.4 INFORMATION**

The results of any Inspections provided for in this Section 3 are to be considered Information for the purposes of Section 2.

### **3.5 COORDINATION COMMITTEE**

The ACCFM and the Autorité will use its best efforts to develop a similar Inspection program and similar views and approaches related thereto. A coordination committee composed of Inspections staff of both parties shall be responsible for ensuring the follow-up of the application of the Inspection program. Such coordination committee shall determine the number of Member Firms that must be Inspected in a year and the scheduling of such Inspections.

### **3.6 INSPECTIONS RELATING TO ENFORCEMENT AND COMPLAINTS**

Notwithstanding the provisions of this Section 3, Inspections relating to enforcement and complaints shall be subject to the provisions of Section 5.

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## **4. REGULATIONS AND RULES**

### **4.1 HARMONIZATION**

The parties acknowledge that, subject to applicable laws, public policy and their respective mandates, substantially similar Regulations and Rules applicable to Member Firms, and their consistent application, is in the interests of the public, Member Firms and their clients. The manner in which the parties pursue the foregoing objective will be determined according to the particular Regulations and Rules identified and may include, without limitation, the procedures referred to in Sections 4.2 and 4.3. It is acknowledged that the Autorité or the Chambre may not have the power to make or amend such Regulations, or be responsible for initiating such actions by other authorities. It is acknowledged that under the terms of the legislation in certain provinces of Canada, or the terms on which ACCFM is recognized or authorized to operate, ACCFM may require the approval of other authorities to make or amend its Rules.

### **4.2 DEVELOPMENT**

The parties shall keep each other advised as to the development or proposed development of new or amended Regulations and Rules. Where the subject matter permits and it would otherwise be helpful, the parties will consult with each other, provide information to each other and/or engage in forums or committees to assist in the objective of substantially similar Regulations and Rules.

### **4.3 NOTICES OF REGULATIONS AND RULES**

The parties will use their best efforts to provide to each other in advance of publication any proposed notices, directions or other regulatory communications relating to the application or interpretation of their respective Regulations and Rules. The purpose of this process is to permit the party having received such information to comment on the proposed publication and/or to amend or co-

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ordinate the publication of its own such notices, directions or communications to assist the public, clients and Member Firms in understanding and complying with the Regulations and Rules.

## **5. ENFORCEMENT AND COMPLAINTS**

### **5.1 COMPLAINTS**

#### **5.1.1 ACCFM**

ACCFM shall refer any complaint it receives relating to the conduct of its Member Firms and Approved Persons in Quebec to the Autorité or Chambre, as appropriate. The Inspection related to any such complaint shall be carried out by the Autorité and the Chambre will act in a consulting role in audits of the quality and compliance of professional practices, in accordance with the Regulations in accordance with their respective practices and mandates.

#### **5.1.2 Autorité and Chambre**

The Autorité or Chambre shall refer any complaint it receives relating to the conduct of Member Firms and Approved Persons outside Quebec to ACCFM. The Inspection related to any such complaint shall be carried out by the ACCFM according to its practices and mandates.

## **5.2 ENFORCEMENT REGARDING MEMBER FIRMS**

### **5.2.1 Business Conduct and Sales Practices Compliance**

Enforcement actions in respect of Member Firms and Approved Persons in respect of or arising out of matters referred to in Section 3.2, shall be undertaken by the Autorité or Chambre, as the case may be, and not by the ACCFM.

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## **5.2.2 Prudential Matters and Special Circumstances**

Enforcement actions in respect of Member Firms in respect of or arising out of Prudential Matters referred to in Section 3.1 or the subject of an Inspection under Section 3.3 may be undertaken by the ACCFM.

## **5.2.3 General**

The parties acknowledge that in order that enforcement actions apply everywhere in Canada, both the ACCFM and the Autorité must exercise their respective jurisdictions. Nothing in Section 5.2. shall preclude the Autorité or Chambre, as the case may be, from taking enforcement action pertaining to the same circumstances referred to in the preceding sentence.

## **5.3 CO-OPERATION**

The parties shall co-operate to the extent reasonable and practicable in co-ordinating and providing mutual assistance to each other in enforcement actions involving Member Firms and Approved Persons. Such co-operation shall include the provision of Information pursuant to Section 2, advance notice of proposed proceedings, joint settlement discussions where appropriate and the avoidance of double jeopardy in respect of Member Firms and Approved Persons.

## **6. GENERAL**

### **6.1 TERMINATION**

This Agreement may be terminated on the delivery of not less than 180 days' prior written notice to the other parties.

### **6.2 NOTICES**

Any notice or communication required under this Agreement shall be delivered in writing by courier or electronic means as set out below and, if given accordingly,



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shall be effective on receipt or, if by electronic means, on transmission and receipt by the sender of electronic confirmation of such successful transmission:

- (a) if sent to the Autorité:  
Place de la Cité, Tour Cominar  
2640, Laurier Boulevard  
4<sup>th</sup> Étage, Sainte-Foy (Québec)  
G1V 5C1  
  
Attention: Jean St-Gelais, President and Chief Executive Officer  
Facsimile: (418) 528-2791  
e-mail: jean.stgelais@lautorite.qc.ca
  
- (b) if sent to the Chambre:  
  
500, Rue Sherbrooke O.  
7e Étage  
Montréal, Québec  
H3A 3C6  
  
Attention: Yves Gagné, Executive Vice-President  
Facsimile: (514) 282-2225  
e-mail: ygagne@chambresf.com
  
- (c) if sent to ACCFM:  
  
121 King Street West  
Suite 1600  
Toronto, Ontario  
M5H 3T9  
  
Attention: Larry Waite, President and Chief Executive Officer  
Facsimile: (416) 943-1218  
e-mail: lwaite@mfa.ca

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(1) AGREED by the parties under the hands of their authorized representatives as of the date set out above.

**AUTORITÉ DES MARCHÉS  
FINANCIERS**

Per: \_\_\_\_\_

Per: \_\_\_\_\_

**CHAMBRE DE LA SÉCURITÉ  
FINANCIÈRE**

Per: \_\_\_\_\_

Per: \_\_\_\_\_

**ASSOCIATION CANADIENNE DES  
COURTIERS DE FONDS MUTUELS**

Per: \_\_\_\_\_

Per: \_\_\_\_\_

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## Schedule B

### Terms and Conditions of Consent

1. The MFDA must regulate its members on the basis that its members will, by complying with the Regulations relating to business conduct and sales practices in Québec, be deemed to be complying with Rules relating to the same subject matter.
2. Management of the MFDA must assess the effectiveness of the Co-operative Agreement every two years, including (a) the performance of the Autorité and the Chambre in monitoring and enforcing compliance by MFDA members in Québec with Regulations relating to business conduct and sales practices, and in investigating complaints against its members and their Approved Persons, and (b) whether the Rules and the Regulations continue to be harmonized. Management of the MFDA must report to the MFDA Board of Directors their assessment together with any recommendations for improvements. The MFDA must provide the Commission with a copy of these reports by June 15 following each biennial assessment (starting on June 15, 2010), and advise the Commission of any proposed actions arising from the reports.
3. The MFDA IPC does not provide coverage to Quebec Customers.
4. This consent expires on the earliest of (a) the termination date of the Co-operative Agreement, (b) the date on which the MFDA IPC amends its coverage with respect to Quebec Customers, and (c) a date determined by the Commission.