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MFDA Bulletin

Policy

For Distribution to Relevant Parties within your Firm

Withdrawal of Proposed Amendments to MFDA Rules 2.3.1(b) (Discretionary Trading) and 2.2.5 (Relationship Disclosure)

The MFDA is withdrawing proposed amendments to Rule 2.3.1(b) (Discretionary Trading), and consequential amendments to Rule 2.2.5 (Relationship Disclosure), which were published for comment on April 4, 2019. The MFDA Board of Directors approved the withdrawal of the proposed amendments to MFDA Rules 2.3.1 (b), and 2.2.5 at its meeting on December 1, 2021.

Proposed Amendments to MFDA Rules 2.3.1(b) and 2.2.5

The proposed amendments to Rule 2.3.1(b) would have allowed Members to engage in limited discretionary trading. The intent of the proposed amendments was for the MFDA to be responsive to Member requests for regulatory flexibility. The amendments would have permitted very limited discretionary trading in respect of mutual fund model portfolios offered by Members.

Currently, under Rule 2.2.5(a), a Member's relationship disclosure to clients must include a brief description of the nature of the advisory relationship. This subsection of the Rule would have been revised to additionally require a description of the extent of the discretionary authority which is being exercised by the Member (e.g. that it is limited to making fund substitutions, and changes to asset allocations within the pre-established parameters of the mutual fund model portfolio in which the client is invested).

Comments received from mutual fund dealers all indicated support for the proposed amendments. Support was also expressed by industry associations representing: fund managers, mutual fund dealers, and related service organizations; investment analysts, advisors, portfolio managers, and other investment professionals; and financial advisors/planners. Some commenters indicated that the proposals should be clarified or further developed in certain areas.

Withdrawal of Proposed Amendments to MFDA Rules 2.3.1(b) and 2.2.5

On August 5, 2021, the Canadian Securities Administrators (CSA) released *CSA Position Paper 25-404 – New Self-Regulatory Organization Framework*, in which the CSA advises that it expects to consolidate the MFDA and the Investment Industry Regulatory Organization of Canada (IIROC) and establish a new single enhanced self-regulatory organization (SRO). In the paper, the CSA also advises that the new SRO will have harmonized rules and a consolidated rule book. As part of this initiative, consideration will be given to rules that would allow mutual fund dealers to engage in limited discretionary trading in a manner consistent with current requirements applicable to investment dealers. In light of these developments, the MFDA is withdrawing the proposed amendments to Rules 2.3.1(b) and 2.2.5, and considers such withdrawal to be consistent with the public interest.

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