

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

PROPOSED AMENDMENTS TO MFDA RULE 5.3.2 (CONTENT OF ACCOUNT STATEMENT)

I. OVERVIEW

A. Current Framework

Rule 5.3.2 (Content of Account Statement) prescribes requirements in respect of the account statement required to be sent by MFDA Members under Rule 5.3.1 (Delivery of Account Statement). Currently, under the Rule, there is no requirement for Members to provide account statement disclosure in respect of the fact that they are Members of, or regulated by, the MFDA.

Under MFDA By-Law No. 1, section 36.1 (Use of Name), Members are not permitted to use the name or logo of the Corporation on letterheads or in any circulars or other advertising or publicity matter, except to the extent and in such form as may be authorized by the Board of Directors.

B. Reasons for Amendments

The proposed amendments would require Members to disclose to clients, on the account statement, that they are Members of, and regulated by, the MFDA. The intent of the proposed amendments is to promote client awareness of the regulatory oversight exercised by the MFDA in respect of MFDA Members and their Approved Persons. The proposed amendments would also complement required account statement disclosure respecting MFDA Investor Protection Plan (“IPC”) coverage.

C. Objectives

The objective of the proposed amendments is to promote client awareness of the regulatory oversight exercised by the MFDA in respect of MFDA Members and their Approved Persons.

D. Effect of Proposed Amendments

The effect of the proposed amendments will be to promote better client awareness of the regulatory oversight exercised by the MFDA in respect of MFDA Members and their Approved Persons.

II. DETAILED ANALYSIS

A. Proposed Amendments

Under the proposed amendments, two new subsections would be added to Rule 5.3.2. New subsection 5.3.2(f) would require each account statement to include disclosure that the Member

is a Member of, and regulated by, the MFDA. New subsection 5.3.2(g) would permit Members to include the MFDA logo on the account statement in addition to, but not in place of, the disclosure required under 5.3.2(f).

Attached as Schedule “A” to this Notice are proposed amendments to MFDA Rule 5.3.2. The current version of the Rule has been blacklined to show changes introduced by the proposed amendments.

B. Issues and Alternatives Considered

MFDA staff is aware that a number of Members are currently making changes to their account statements to accommodate requirements introduced under the Client Relationship Model Phase 2 (“CRM2”) amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”). Staff has also been advised that other Members have already made such CRM2 related changes and that, from a systems perspective, further changes to the account statement will not be possible this year.

This raises issues in respect of the appropriate transition period for the proposed Rule 5.3.2 changes. If the proposed amendments are adopted, MFDA staff is of the view that it would be appropriate for Members, who are in a position to do so, to adopt the proposed Rule 5.3.2 disclosure as part of their CRM2 account statement changes.

Appropriate transition periods for the proposed amendments are still under consideration. Members and other stakeholders are, accordingly, encouraged to provide input in respect of this matter.

C. Comparison with Similar Provisions

During the development of the proposed amendments, consideration was given to similar requirements of the Investment Industry Regulatory Organization of Canada (“IIROC”) respecting the use of the IIROC name and logo by IIROC members.

Changes to IIROC Requirements

Under IIROC dealer member rule 700, IIROC dealer members currently have the option to disclose their membership in IIROC, provided that such disclosure is in compliance with the requirements of the rule. In December 2011, IIROC proposed amendments to rule 700 that would require IIROC members to disclose to their clients that they are regulated by IIROC in accordance with the requirements set out in the IIROC Membership Disclosure Policy. The proposed Policy would require IIROC dealer members to:

- display the IIROC decal, as defined in the Policy, at each business location to which the public has access;
- include the IIROC logo on client trade confirmations, account statements and dealer member websites; and

- distribute the IIROC Official Brochure to new clients at the time of account opening and make it available to existing clients upon request.

In response to comments received from the public and staff of the Canadian Securities Administrators (“CSA”), IIROC made material changes to its proposals and, as a result, republished them for public comment in November, 2014. The changes included removal of the previously proposed requirement to include the IIROC logo on client account statements and trade confirmations. In the Publication Notice accompanying the proposed amendments, IIROC noted its view that clients would be adequately informed of IIROC’s regulatory oversight of its dealer members through the other means prescribed in the Disclosure Policy, as noted above.

Proposed Rule 5.3.2 Changes

The proposed amendments to Rule 5.3.2 would require disclosure of MFDA Membership on the account statement and offer Members the option to include the MFDA logo along with such disclosure. MFDA staff is satisfied that the proposed amendments are reasonable and appropriate for the purpose of promoting client awareness of the regulatory oversight exercised by the MFDA in respect of MFDA Members and their Approved Persons.

MFDA staff will be considering the adoption of requirements similar to those set out in the IIROC Membership Disclosure Policy (e.g. disclosure of MFDA Membership on Member websites, at account opening, etc.). The proposed amendments, respecting account statement disclosure of MFDA Membership, are being brought forward at this time with an awareness of the fact that a number of Members are currently making CRM2 changes to their account statements. As noted, it is anticipated that these Members will be able to adopt the proposed changes to Rule 5.3.2, upon approval, as part of their CRM2 account statement amendments.

D. Systems Impact of Amendments

It is not anticipated that the proposed amendments will have any additional material impact upon Members’ systems, impose any material burden or constraint on competition or innovation, impose any material costs or restrictions on the activities of market participants, or result in any material increased costs of compliance.

E. Best Interests of the Capital Markets

The proposed amendments to Rule 5.3.2 were approved by the MFDA Board of Directors at their June 4, 2015 meeting. The Board has determined that the proposed amendments are consistent with the best interests of the capital markets.

F. Public Interest Objective

The proposed amendments will promote better client awareness of the regulatory oversight exercised by the MFDA in respect of MFDA Members and their Approved Persons. The proposed amendments are consistent with the public interest.

G. Classification

The proposed amendments have been classified as Public Comment Rule proposals.

III. COMMENTARY

A. Filing in Other Jurisdictions

The proposed amendments will be filed for approval with the Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Ontario Securities Commissions, the Superintendent of Securities of Prince Edward Island, and the Saskatchewan Financial and Consumer Affairs Authority.

B. Effectiveness

The proposed amendments are simple and effective.

C. Process

The proposed amendments have been developed in consultation with the relevant departments within the MFDA and have been reviewed by the MFDA Policy Advisory Committee, the Regulatory Issues Committee of the MFDA Board of Directors and, subsequently, approved by the full MFDA Board of Directors. The MFDA Board of Directors approved the proposed amendments on June 4, 2015. In approving the proposed amendments, the MFDA has followed its established internal governance practices and has considered the need for consequential amendments.

D. Effective Date

The proposed amendments will be effective on a date to be subsequently determined by the MFDA.

E. Exemption from Requirements under Securities Legislation

The proposed amendments do not involve a Rule that the MFDA, its Members or Approved Persons must comply with in order to be exempted from a securities legislation requirement.

F. Conflict with Applicable Laws or Terms and Conditions of Recognition Order

The proposed amendments do not conflict with applicable laws or the Terms and Conditions of a Recognizing Regulator's Recognition Order.

IV. SOURCES

- MFDA Rule 5.3.2 (Content of Account Statement);
- MFDA By-Law No. 1;

- Proposed amendments to IIROC Rule 700 (Membership Disclosure Requirements in the Corporation for Dealer Members); and
- Proposed IIROC Membership Disclosure Policy.

V. REQUIREMENT TO PUBLISH FOR COMMENT

The MFDA is required to publish for comment the proposed amendments so that the issues referred to above may be considered by the Recognizing Regulators.

The MFDA has determined that the entry into force of the proposed amendments would be in the public interest and is not detrimental to the capital markets. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 90 days of the publication of this notice, addressed to the attention of:

Paige Ward
General Counsel, Corporate Secretary and Vice-President, Policy
Mutual Fund Dealers Association of Canada
121 King St. West, Suite 1000
Toronto, Ontario M5H 3T9
pward@mfd.ca

and one copy addressed to the attention of:

Vida Mehin
Senior Legal Counsel, Capital Markets Regulation Division
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre Vancouver, British Columbia, V7Y 1L2
vmehin@bcsc.bc.ca

Those submitting comment letters should be aware that a copy of their comment letter will be made publicly available on the MFDA website at www.mfda.ca.

Questions may be referred to:

Paige Ward
General Counsel, Corporate Secretary and Vice-
President, Policy Mutual Fund Dealers Association
of Canada
(416) 943-5838

DM#428921

SCHEDULE A

Proposed Amendments to Rule 5.3.2

MFDA Rule 5.3.2 is amended by adding the following paragraphs:

5.3.2 **Content of Account Statement.** Each account statement must contain the following information:

(f) Disclosure of MFDA Membership. Each account statement must include disclosure that the Member is a Member of, and regulated by, the MFDA.

(g) Members may also include the MFDA logo on the account statement in addition to the disclosure required by paragraph (f).