



British Columbia Securities Commission

# **BCSC Oversight Review of Mutual Fund Dealers Association of Canada**

## **Pacific Regional Office**

**January 23, 2006**

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## **Executive Summary**

The British Columbia Securities Commission (BCSC) recognized the Mutual Fund Dealers Association of Canada (MFDA) as a self-regulatory organization (SRO). It was mandated to regulate the Canadian mutual fund industry by establishing, monitoring, and enforcing rules and practices to ensure high standards of conduct by its members, and to enhance investor protection and strengthen public confidence in the industry. In July 2005, the BCSC conducted the first oversight review of the MFDA's Pacific Regional Office and its regulatory functions to ensure compliance with the terms and conditions of the recognition order.

BCSC staff are generally satisfied with the operations of the Pacific Regional Office. Investigation, compliance examination, and new membership application files were well documented, thorough, and organized. Regional staff were experienced and knowledgeable, as evidenced by the quality of their files. Overall, the regional processes examined appeared effective for an organization still undergoing developmental changes.

## **Introduction**

### **1. Background**

The MFDA was incorporated in June 1998 as a not-for-profit federal corporation. The BCSC recognized the MFDA as an SRO under section 24 of the *Securities Act* on February 15, 2001, and amended and restated its recognition order on June 3, 2004. Other securities commissions that have recognized the MFDA include the Alberta Securities Commission (ASC), the Saskatchewan Financial Services Commission (SFSC), the Ontario Securities Commission (OSC), and the Nova Scotia Securities Commission (NSSC).

The Pacific Regional Office began operations in May 2001. At the time of the review, the office had a regional director, a compliance manager, four compliance officers, an investigator, and one administrative assistant. However, during the review period, the office underwent a number of staffing changes. In March 2004, the MFDA filled two newly created positions. One of the new positions was the addition of a fourth compliance officer and the other was the addition of a compliance manager. One year later, in March 2005, the MFDA filled a six-month vacancy in the compliance officer position. As well, the Pacific Regional Director began a one-year maternity leave in September 2004.

### **2. The review and objectives**

The purpose of this report is to present the results of the BCSC's oversight review of the Pacific Regional Office and to provide recommendations relating specifically to its regional regulatory responsibilities.

The objectives of the oversight review are set out below:

- Ensure staffing, resources, and training are adequate to perform regulatory functions effectively and efficiently
- Ensure compliance with the aspects of the BCSC Recognition Order that are relevant to the Pacific Regional Office's operations
- Ensure regulatory processes are efficient, effective, consistent, and fair, when applicable

### **3. Scope of the review**

The BCSC's review mainly focused on the specific functions of the Pacific Regional Office related to:

- Enforcement investigations
- Membership terminations as a result of disciplinary action
- Compliance examinations

- New membership application reviews

Further, the BCSC reviewed the litigation process related to Pacific regional cases.

The review periods for the various areas examined were:

- Enforcement Investigations – November 1, 2002 to June 30, 2005
- Enforcement Litigation – December 1, 2004 to June 30, 2005
- Compliance – January 1, 2004 to June 30, 2005
- Membership – January 1, 2004 to June 30, 2005

#### **4. Prioritization of findings**

The report findings are prioritized into high, medium, and low priority using the following criteria:

High – issue considered significant and corrective action should be taken immediately.

Medium – issue should be resolved within a reasonable timeframe.

Low – issue was brought to management’s attention for review and consideration. There is no specific timeframe for corrective action.

### **Enforcement Functions**

#### **1. Introduction**

The MFDA’s Enforcement Department is organized into four groups: Case Assessment, Investigations, Litigation, and Enforcement Policy. The Pacific Regional Office has one investigator. The Case Assessment and Litigation groups as well as the management team for Investigations are located at the MFDA’s head office in Toronto. The regional office depends on the head office to handle complaints and litigate cases.

#### **2. Purpose and scope**

The purpose of this part of the oversight review was to assess:

- The adequacy of regional staffing, resources, and training
- The efficiency and effectiveness of the regional investigation process and compliance with Terms and Conditions (T&C) #7 (compliance by member firms with MFDA Rules) and #8 (discipline of member firms and approved persons) of the BCSC Recognition Order
- The adequacy of the performance measurement benchmarks and whether they were met
- The efficiency, effectiveness, and fairness of the membership termination process

BCSC staff interviewed the Director of Litigation, Vice President (VP) of Enforcement and the Pacific Compliance Manager; reviewed MFDA internal policies and procedures; and reviewed a sample of investigation and litigation files.

### **3. Investigations**

#### **(a) Staffing and training**

##### ***Information from the MFDA***

The Investigations group in the Pacific Regional Office is comprised of one investigator who reports to the Director of Investigations at the MFDA's Toronto head office. At the time of the review, the Investigator temporarily reported to the VP of Enforcement due to the vacancy of the Director of Investigations position.

In the fall of 2005, the MFDA intends to hire a second investigator for the Pacific Regional Office to ensure investigative staff are trained and ready for future requirements. Until caseloads increase, head office will assign files from other regions to supplement the workload.

##### ***Findings***

BCSC staff considered the staffing level at the Pacific Regional Office to be reasonable. Further, the MFDA training guides and orientation materials were comprehensive. All regional personnel attended formal training sessions two to three times a year at head office and informal training on an ad hoc basis. Sessions such as lunch and learns address a variety of topics. In addition, the MFDA encouraged external professional development courses.

##### ***Staff's recommendations***

No further action necessary.

#### **(b) Investigation process**

##### ***Information from the MFDA***

All cases go through the Case Assessment group at head office. That said, some cases are immediately escalated to Investigations. The Director of Investigations assigns files based on the priority of the file and the investigator's workload and experience. The Investigator and VP of Enforcement also discuss file prioritization and caseload at their bi-weekly conference calls.

Case Assessment and Investigations utilize case screening scorecards for file prioritization and assignment. The scorecard is a risk assessment that assigns scores based on a variety of factors such as the nature of allegations, urgency, and impact on investors. The combined score identifies the level of priority for a file. At the conclusion of an investigation, the Investigator prepares an investigation report detailing their findings and recommendation. The Director of Investigations and the VP of Enforcement review the report at head office.

The Investigator and the Director of Investigations jointly decide on the files to escalate to litigation. The Escalation Review Committee (ERC) reviews the file and, if appropriate, approves it for escalation to Litigation.

***Findings***

The regional investigation process appears effective. Communication and cooperation between the regional office and head office is good.

***Staff's recommendations***

No further action necessary.

**(c) Benchmarks**

***Information from the MFDA***

The MFDA recently introduced the Investigations benchmark for formal implementation on January 1, 2006. Benchmarks are standardized nationally with the goal to complete 80% of the investigations within 365 days of the investigation open date. The MFDA reviews these benchmarks annually for appropriateness. The last benchmark review was conducted in January 2005.

***Findings***

Generally, the Pacific Regional Office met its benchmark. However, there were no established timelines for investigation reports, investigation plans, and notification letters to the Commission of an investigation. These guidelines may help to identify systemic inefficiencies.

As a new organization, the one-year benchmark appears reasonable. However, with experience and improved efficiencies, BCSC staff expects the benchmark will shorten. (Head Office Consideration)

***Staff's recommendations*** (Head Office Issue)

The MFDA may want to consider establishing guidelines for investigation reports and investigation plans as well as some types of correspondence such as, notification to the BCSC of the commencement of an investigation.

***Priority: Medium***

**(d) Investigation files**

***Information from the MFDA***

BCSC staff chose a judgmental sample of 10 files from a population of 16 files that were opened during the review period. Of these investigation files, eight were closed files and two were open at the time of the review.

### ***Findings***

The date the regional office received the case assessment file to start an investigation was later than the recorded date of escalating a file to Investigations. This was due to head office's administrative preparation of the file for transit to the regional office. The MFDA did not always document the date the file arrived in the region. However, in April 2005, when the MFDA implemented the Enforcement Tracking System (ETS) in the region, the Investigator began to record receipt dates in the comment field of the system. Although this date is not captured in any of the internal or external regional performance reports, the Investigator can retrieve this information if further scrutiny is required. In the four instances where this information was determinable, BCSC staff noted that the assignment took between 4.5 and 15 days, which appeared reasonable.

Investigation files sampled were thorough, completed in a timely manner, and very well documented. The files appropriately included management input and direction. The files showed the communication between the investigator and head office for management direction and regular file updates. Further, all eight closed files contained evidence of appropriate managerial approval of the investigation reports. The file review also revealed examples of good cooperation between the BCSC and the MFDA resulting in an efficient use of investigative resources. Based on the documentation supporting the conclusions, the investigative work was sufficient and the findings reasonable.

### ***Staff's recommendations***

No further action necessary.

## **4. Litigation**

### **(a) Litigation process**

#### ***Information from the MFDA***

There are three main types of disciplinary hearings that may be conducted under MFDA By-law No.1: contested hearings, settlement hearings, and interim suspension hearings. Disciplinary hearings are conducted before an administrative tribunal. MFDA staff have the burden of proof on the balance of probabilities, which is the traditional common law standard applied in administrative disciplinary hearings. The MFDA's litigation process is documented in the *Enforcement Department Litigation Manual*. The process is the same in all regions, and each region staffs its own hearing panel with members from their respective regional councils.

### ***Findings***

The MFDA's litigation process appears to be reasonable. Based on the review of the *Enforcement Department Litigation Manual*, the policies and procedures were comprehensive and provided adequate guidance to Litigation staff regarding the litigation process and their role and responsibilities.



*Staff's recommendations*  
No further action necessary.

**(b) Benchmarks or timelines**

*Information from the MFDA*

The Litigation benchmark is 80% of all cases must be closed, settled, or the subject of a Notice of Hearing (NOH) within one year of escalation to Litigation. This benchmark is reviewed annually and revised as appropriate. The next review will occur in January 2006. In addition to the benchmark, Litigation established timelines for internal management purposes.

*Findings*

BCSC staff considered the benchmark's 365-day target for issuing the NOH inconsistent with the internal litigation timelines of 60 days for the same process.

*Staff's recommendations* (Head Office Issue)

BCSC staff recommend that the MFDA consider revising the NOH part of the benchmark to be more consistent with the litigation timeline for NOH issuance.

*Priority: Low*

**(c) Litigation files**

*Information from the MFDA*

During the review period, there was one open litigation file for the Pacific region.

*Findings*

BCSC staff selected the one open litigation file for review. At the time of the review, the case was awaiting the hearing panel's decision.

BCSC staff noted that the file followed the established procedures. Further, the file met the 365-day benchmark as the MFDA issued the NOH 234 days after the June 1, 2004 escalation date. When the litigation timelines were implemented in the fall of 2004, the MFDA decided to put some of the previously authorized escalations before the ERC and, as a result, the file was formally escalated by the ERC on November 2, 2004. The litigation timelines were developed without the benefit of any actual case experience or statistics to draw on and should in future be reviewed against actual experience to determine whether they are reasonable.

BCSC staff were unable to conclude on the timeliness or effectiveness of the litigation process since there was only one litigation file and the litigation timelines were not in place when this file was originally escalated to Litigation.

*Staff's recommendations*

No further action is necessary at this time. BCSC staff will assess the Litigation group's effectiveness and efficiency on Pacific regional cases in the next oversight review.

**5. Membership terminations**

During the review period, there were no membership terminations through the discipline process under MFDA By-law 24. Therefore, BCSC staff were unable to determine the effectiveness, efficiency, and fairness of the process. BCSC staff will assess the process in the next oversight review.

**(a) Reporting to the Commission**

*Information from the MFDA*

The VP of Enforcement informed BCSC staff that the MFDA would notify the Commission on a monthly basis of members whose membership would be suspended or terminated. Once the MFDA decides to terminate or suspend a member, it would issue an NOH and conduct a hearing. The Commission would receive a courtesy copy of the NOH in advance of and at the time of public issuance. The MFDA processes include monthly reporting to the Commission on any ongoing investigations that may lead up to membership suspensions or terminations. However, there have not been any reportable cases during the review period.

*Findings*

The MFDA has established procedures to report membership terminations to the Commission. As there were no memberships terminated in the Pacific region during the review period, BCSC staff were unable to determine compliance with the reporting requirements of T&C #6(G) of the BCSC Recognition Order.

*Staff's recommendations*

No further action is necessary at present. BCSC will assess compliance with reporting requirements for membership terminations through the discipline process in the next oversight review.

**Compliance Examinations**

**1. Introduction**

The primary responsibility of the Compliance Department is to monitor MFDA member firms for compliance with MFDA Rules, Policies and Forms, and other applicable securities or statutory legislation. This is achieved by onsite compliance examinations and by offsite review of regular financial filings.

The Pacific Regional Office is responsible for conducting examinations of compliance systems of member firms' head offices, branches, and sub-branches located in the Pacific region. The Financial Compliance group at MFDA's Toronto head office reviews regular financial filings from all member firms. During the review period, the regional office conducted compliance examinations that included both financial and sales compliance components.

## **2. Purpose and scope**

The purpose of this part of the oversight review was to assess:

- The adequacy of regional staffing, resources, and training
- The efficiency and effectiveness of the regional compliance examination process and compliance with T&C #7 of the BCSC Recognition Order
- The adequacy of the performance measurement benchmarks and whether they were met
- The sufficiency of the regional process for reporting early warning status and compliance examination results to the Commission

The BCSC interviewed management and staff to gain an understanding of the hiring and staff retention process, the staff-training program, and the compliance examination process. The individuals interviewed were: the Pacific Regional Director, Pacific Compliance Manager, Prairie Regional Director (who was the Acting Pacific Regional Director during the incumbent's one-year absence), and Pacific compliance staff.

Further, BCSC staff reviewed regional staff training and orientation materials, written procedures, the compliance examination program, and a sample of compliance examination files. BCSC staff assessed the files for quality of the reviews as well as the efficiency and effectiveness of the compliance examination process. Also, BCSC staff evaluated the adequacy of the process for reporting to the Commission. Specifically, BCSC staff examined the reporting of the early warning status and compliance examination results of member firms headquartered in the Pacific region (Pacific regional members).

## **3. Staffing and training**

### **(a) Staffing**

#### ***Information from the MFDA***

The MFDA informed BCSC staff that the Pacific Compliance Department was fully operational during the entire period of review. The department has been fully staffed since March 2005. In March 2004, the department increased its staffing level by adding a compliance manager and a fourth compliance officer. However, the office was short one compliance officer for six months due to staff turnover. The regional office did not believe that the workload required the immediate recruitment of the fourth compliance officer. They did not initiate the

recruitment process until 2005 when they filled the position with a qualified candidate in March. As well, during the last ten months of the review period, the Pacific Regional Director was on a one-year leave of absence. She delegated her responsibilities to the Prairie Regional Director and the Pacific Compliance Manager.

### ***Findings***

The Pacific Regional Office was not operating with a full staff complement during the entire review period. However, BCSC staff were satisfied that the Pacific Regional Office undertook adequate steps to ensure its Compliance Department continued to operate at near normal levels, even during lengthy absences of key personnel.

### ***Staff's recommendations***

No further action necessary at present.

## **(b) Training**

### ***Information from the MFDA***

For new compliance staff, the Pacific Regional Office follows a checklist of administrative procedures and provides a number of reference materials. Reference materials are distributed to a new compliance officer during the first week of employment. The key materials include: the *Compliance Officer Reference Manual*, the MFDA rule book, MFDA bulletins, the latest *MFDA Operations Report and Self-Assessment, Recommendations Resulting from Internal Review of Examination Files*, and *Recommended Standard Wording for Common Deficiencies*.

New compliance officers receive one-on-one training in the field from experienced compliance officers and from other MFDA offices, including the Financial Examination group at head office. Typically, new compliance officers are sent to head office within the first calendar quarter of their employment start date. This visit to head office includes an orientation with senior management, the Policy Department, and the Human Resources Department.

All compliance staff attend annual training sessions at head office and participate in periodic cross-training with compliance officers from other MFDA offices. They have access to head office lunch and learn sessions as selected by the Pacific Compliance Manager and are encouraged to take external professional development courses.

In addition, the Pacific and Prairie regional offices are examining distant learning possibilities such as video conferencing and joint regional training. The first joint session is expected to occur in Calgary in January 2006, and may include training on second round compliance examinations, the enforcement process, and special topics such as hot industry issues.

***Findings***

The BCSC reviewed the reference and training materials for Pacific compliance staff to consider their adequacy and consistency with those available to head office compliance staff. No concerns were noted.

***Staff's recommendations***

No further action necessary at present.

**4. Compliance examination process**

**(a) Member selection for compliance examinations**

***Information from the MFDA***

By March 2005, the Pacific Regional Office had issued all of the reports of its first round compliance examinations of Pacific regional members. The Pacific Compliance Manager informed the BCSC that the member selection process was based on an informal risk assessment, and staff's workload and availability. The informal risk assessment considered the size of the dealer, the extent of its operations, and the enforcement history of its members.

The new, web-based, risk model was populated in January 2004 and rolled out to staff in October 2004. The Prairie Regional Director informed the BCSC that the model would be used for scheduling second round compliance examinations starting in 2006. For second round examinations, high-risk member firms will generally be scheduled ahead of lower risk ones. The specific order of the examinations will be based on the firm's risk ranking and other considerations such as enforcement history, geographic extent of operations (i.e., national versus regional dealer), and staff availability.

The MFDA also provided the BCSC with the document *Completing and Updating the Compliance Risk Model* (May 2005).

***Findings***

The BCSC reviewed *Completing and Updating the Compliance Risk Model*. The document discussed the model's use for scheduling compliance examinations as well as for identifying high-risk areas for additional consideration during a field review. The new approach seems reasonable and appears to be an improvement on the present system of examination scheduling.

***Staff's recommendations***

No further action necessary at present.

## **(b) Compliance examination file review process**

### ***Information from the MFDA***

The MFDA provided the BCSC with the *Compliance Officer Reference Manual*, *Recommendations Resulting from Internal Review of Examination Files*, *Compliance and Enforcement Referrals and Information Sharing*, *Member Compliance Examination Program* (and attachments), and *Branch Review Program* (and attachments).

### ***Findings***

The BCSC staff reviewed the above documents and interviewed the Pacific Regional Director, Prairie Regional Director, Pacific Compliance Manager, and various Pacific compliance officers to gain an understanding of the compliance examination process.

The process at the Pacific Regional Office follows the MFDA's established procedures. However, the Pacific region's compliance examination files and reports go through a three-level review process as opposed to two for head office files and reports. At the first level of review, the Pacific Compliance Manager reviews the examination file and draft report. At the second and third levels of review, the Pacific Regional Director and the VP of Compliance each independently review and comment on the report.

BCSC staff reviewed all six of the Pacific regional members' compliance examination files that went through the three-level process during the review period. BCSC staff were unable to determine, from the file documentation available, the elapsed times or assess the actual benefit of each level of review. The review process, from the date the file was submitted for first level review to the date the report was issued, averaged 15 weeks. This process does not appear to be completed in a timely manner. However, all six compliance examinations were conducted during the period when the Pacific Compliance Manager was relatively new to the position. BCSC staff consider it reasonable to implement this three-level review process to ensure consistent issue identification and proper training at the regional level.

The Prairie Regional Director informed the BCSC that the turnaround times for second and third level reviews have improved. However, as the Pacific Regional Office did not lead any 2005 compliance examinations, BCSC staff were unable to confirm this improving trend.

As the MFDA matures, its staff should become more experienced and efficient. BCSC staff expect the review process to be timelier as this occurs. The third level review may be eliminated or changed to a selective or post-examination review. The BCSC will reassess the regional file review process in the next oversight review.

*Staff's recommendations*

No further action necessary at present.

**5. Compliance examination files**

**(a) Quality of the field reviews**

*Information from the MFDA*

The MFDA provided the BCSC with the member compliance examination statistics spreadsheets from January 1, 2004 to June 16, 2005.

*Findings*

From a population of seven examination files of Pacific regional members, BCSC staff selected and reviewed a judgmental sample of five files, including branch and sub-branch files, when appropriate. In addition, BCSC staff selected a judgmental sample of three Pacific branch examination files where the examination was led by another MFDA office. These branch files were reviewed for consistent quality of work by Pacific regional staff.

BCSC staff generally found the sampled files prepared by Pacific compliance staff detailed, well organized, and adequately evidenced. The planning properly identified the key issues. The sample sizes determined during planning were based on established standards. The reported deficiencies were appropriate based on the documentation on file. The quality of the branch reviews conducted by Pacific regional staff was consistent regardless of the lead office on the examination. Finally, both cases that were referred to Enforcement followed the established referral guidelines. For the remaining three cases, it was appropriate not to refer them to Enforcement.

However, BCSC staff noted that the lead Pacific compliance officer did not always document the rationale for the selection of branches or sub-branches determined at the planning stage. From a review of six files, three lacked proper documentation in this regard.

Nevertheless, the compliance examination process appears effective.

*Staff's recommendations*

The Pacific Regional Office should ensure the selection rationale for branches and sub-branches chosen for each compliance examination is adequately documented in the file.

*Priority: Medium*

**(b) Efficiency of the compliance examination process**

**(i) Benchmarks**

***Information from the MFDA***

The Compliance Department has a national benchmark of completing all first round compliance examinations within three years, ending December 2005. As well, it has a national reporting benchmark of issuing the examination report within 15 weeks from the end of fieldwork in 60% of the cases and within 26 weeks in all cases.

***Findings***

By the end of 2004, the Pacific Regional Office had completed the first round compliance examinations of all of its Pacific regional members, with the last examination report issued in March 2005. At the time of the review, only two files remained opened at the deficiency resolution stage. The regional office appears to be on track to meeting the three-year benchmark.

Further, for the review period, the MFDA met its reporting benchmark nationally. Although a national benchmark, BCSC staff also used it to assess the performance of the Pacific Regional Office. It met the 26-week benchmark but failed to meet the 15-week benchmark as only 43% of the reports were issued within 15 weeks. However, because the population size was so small, one report missing the benchmark skewed the statistic to an unfavorable result. Temporary staffing issues may explain part of the delay.

The national reporting benchmark was appropriate for the MFDA's early stage of operations.

***Staff's recommendations***

No further action necessary at present.

**(ii) Deficiency resolution process**

***Information from the MFDA***

The MFDA provided the BCSC with the member compliance examination statistics spreadsheets from January 1, 2004 to June 16, 2005.

***Findings***

BCSC staff reviewed all seven compliance examination files. At the time of review, one file was still open after 59 weeks from the start of fieldwork. For the five closed files, the time from report issuance to file closure was lengthy, ranging from 21 to 45 weeks, and averaging 28 weeks. Generally, at least three member responses were required before all issues were satisfactorily addressed. Further, the Pacific Regional Office did not always reply to the member firm's response in a timely manner. The first MFDA reply was the



slowest, averaging 7.5 weeks and ranging from 2.4 to 13.5 weeks. The final reply or closing letter was the quickest, averaging 4.1 weeks.

However, BCSC staff noted the regional office's efforts to hasten the resolution process with direct discussions of outstanding issues with two member firms after receipt of their third responses. With the MFDA's coordinated examination approach for national firms, the BCSC understands the difficulty for compliance staff to promptly address a member firm's response during fieldwork. Further, the BCSC acknowledges that at the time of these examinations, there were temporary staffing issues, and lack of member awareness of MFDA's regulatory requirements.

Regardless, the BCSC considers the MFDA response time to be lengthy and expects the number of member responses to decrease in the second round of compliance examinations. The long delay between the issuance of the report and the satisfactory resolution of deficiencies may downplay the importance of the outstanding issues and undermine the effectiveness of the compliance examination process.

***Staff's recommendations***

The BCSC recommends that the Pacific Regional Office address its member firms' responses to compliance examination deficiencies in a timelier manner.

***Priority: Medium***

**6. Reporting to the Commission**

**(a) Members in early warning**

***Information from the MFDA***

The Pacific Compliance Manager notifies the BCSC by e-mail when Pacific regional members are placed on early warning and when the early warning is removed. The MFDA provided the BCSC with a list of Pacific regional members that triggered early warning during the review period.

***Findings***

According to the list, there were only two members that triggered early warning during the period. In both cases, the BCSC promptly received the notification when early warning was triggered and when early warning was removed.

***Staff's recommendations***

No further action necessary.

## **(b) Compliance examination reports**

### ***Information from the MFDA***

The Pacific Compliance Manager informed the BCSC that the Pacific Regional Office copies the BCSC on all compliance examination reports of Pacific regional members and subsequent MFDA replies. Further, copies of all initial and subsequent member responses to the report are faxed or couriered to the BCSC.

The MFDA provided the BCSC with the member compliance examination statistics spreadsheets from January 1, 2004 to June 16, 2005.

### ***Findings***

According to the spreadsheets, there were seven compliance examination reports issued by the Pacific Regional Office. BCSC staff looked for evidence that the BCSC was copied on or had received the reports or response letters. BCSC staff did not find evidence in 4 out of 49 cases. The four cases were subsequent member response letters addressing the report findings. However, all compliance examination reports for BC members were sent to the BCSC. As this process is a manual process, the BCSC considers the error rate of 8% to be acceptable.

### ***Staff's recommendations***

No further action necessary.

## **Membership Functions**

### **1. Introduction**

Membership Services at head office conducts and coordinates reviews for new membership applications, and member reorganizations and resignations. Parts of these reviews involve compliance and financial compliance staff from head office, as well as regional offices.

The Pacific Regional Office reviews new membership applications for applicants headquartered in the Pacific region. Membership Services completes the preliminary review and ensures receipt of all the required information from the applicant. The MFDA assigns applications for Pacific regional applicants to a Pacific compliance officer to complete the detailed review and prepare the Membership Recommendation Report (MRR) for submission for head office review, and Board assessment and approval.

At head office, financial compliance staff review all member reorganization and resignation requests. Staff submit recommendations for approval by the Director of Financial Compliance and the VP of Compliance. Member resignations also require Board approval.

## **2. Purpose and scope**

The purpose of this part of the oversight review was to assess:

- The adequacy of regional staffing and training
- The effectiveness and efficiency of the new membership application process
- The timeliness and sufficiency of notification to the Commission of Pacific regional member resignations
- The adequacy of the benchmarks and whether they were met
- The compliance with applicable provisions of MFDA By-law No. 1

## **3. Staffing and training**

### ***Information from the MFDA***

Compliance officers were responsible for completing a detailed review of a new membership application, including a financial examination. While none of the staff are accountants, both the Pacific Compliance Manager and the Pacific Regional Director are chartered accountants and closely monitor their staff's work.

There was no specific training for new membership application reviews as it is part of the overall compliance officer's training.

### ***Findings***

Staffing levels in the Pacific Regional Office were adequate to address the low volume of new membership applications. Staff training also appeared sufficient.

### ***Staff's recommendations***

No further action necessary at present.

## **4. New membership application reviews**

### **(a) Benchmarks**

#### ***Information from the MFDA***

The benchmark for new membership applications is to obtain the Board's acceptance within three months of receipt of all outstanding information.

#### ***Findings***

This benchmark appears reasonable.

#### ***Staff's recommendations***

No further action necessary at present.

**(b) New membership application review files**

***Information from the MFDA***

The MFDA provided a list of new membership applications received from April 1, 2004 to June 30, 2005.

***Findings***

There were only two new membership applications for the Pacific region. Both files were thorough but neither was completed in a timely manner by Pacific regional staff. The impediments were attributed to applicant delays, staff training, and duplication of the preliminary review (at head office's request), all beyond the control of the regional office.

The review files were well documented and evidenced managerial review of the work. The regional review process appeared effective except for the duplication of the preliminary review in one instance.

***Staff's recommendations*** (Head Office Issue)

BCSC staff saw no benefit to duplicating the preliminary review at the regional level when the review had already been completed at head office. To ensure timely completion of reviews, MFDA offices should coordinate their efforts to keep duplication to a minimum.

***Priority: Medium***

**5. Member reorganizations and resignations**

**(a) Reporting to the Commission**

***Information from the MFDA***

The Pacific Regional Director informed BCSC staff that Membership Services and Financial Compliance in Toronto handle resignations and reorganizations. Further, MFDA Internal Procedure #0002 requires the MFDA to notify the Commission upon receipt of a letter of resignation and the required documents from the member. The procedure also requires that the MFDA inform the Commission when the resignation became effective.

***Findings***

During the review period, there were two membership resignations of Pacific regional members. Staff reviewed both membership resignations for timeliness of the notification process. The BCSC received all four notices relating to the two resignations on the day the notices were issued and posted on the MFDA website.

***Staff's recommendations***

No further action necessary at present.