



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

STRATEGIC PLAN

2009-2011

TABLE OF CONTENTS

Vision Framework: 2009-2011	Page 3
Executive Summary.....	Page 4
Introduction	Page 6
10 Years in Review.....	Page 6
Current and Anticipated Challenges: 2009-2011.....	Page 7
Vision 2009-2011.....	Page 9
Strategic Goal #1: Industry Consultation.....	Page 10
Strategic Goal #2: Regulatory Collaboration.....	Page 15
Strategic Goal #3: Staff Excellence.....	Page 18
Strategic Goal #4: Regulatory Best Practices.....	Page 21

VISION FRAMEWORK: 2009-2011

VISION	Raising the standard of regulation in Canada for the protection of investors through commitment to collaboration, staff excellence and regulatory best practices.			
GOAL	INDUSTRY CONSULTATION	REGULATORY COLLABORATION	STAFF EXCELLENCE	REGULATORY BEST PRACTICES
OUTCOMES	<p>Improved Member awareness of policy development</p> <p>Increased Member participation and confidence in the MFDA</p> <p>Meaningful input and feedback from Members obtained</p>	<p>Clarity of the MFDA's role in Canadian regulatory landscape</p> <p>Enhanced harmonization of regulatory requirements in Canada</p>	<p>Attraction and retention of qualified staff</p> <p>Clarity of staff roles and accountabilities</p> <p>Increased communication, understanding and resolution of employee related issues</p>	<p>Proactive in avoiding public harm</p> <p>Increased compliance by Members</p> <p>Increased internal efficiency and external effectiveness</p>
KEY INITIATIVES	<p>Solicit preliminary comment on Rule proposals and extend public comment period</p> <p>Openly communicate activities of Policy Advisory Committee</p> <p>Increase dialogue with all stakeholders</p> <p>Enhance website strategy for communication flow with stakeholders</p> <p>Increase Member education and proficiency</p>	<p>Increase coordination of activity with other regulators</p> <p>Conduct issues analysis of possible mergers: (i) MFDA-IIROC (ii) IPC-CIPF</p> <p>Monitor implications of a National Securities Regulator</p>	<p>Enhance performance management process</p> <p>Improve training and orientation programs</p> <p>Conduct regular employee surveys and focus groups</p> <p>Formalize talent review process and succession plan</p>	<p>Deliver timely and proactive response to regulatory risks</p> <p>Streamline processes and explore opportunities to improve efficiency</p> <p>Ensure Rules are clear, relevant and balanced</p> <p>Implement measures to assess our effectiveness</p> <p>Develop standards for service providers</p>

EXECUTIVE SUMMARY

This Strategic Plan has substantial elements that are operational and designed to improve the MFDA's performance of its core regulatory functions and in turn fulfill its investor protection mandate. In addition, this plan recognizes that there continue to be strategic opportunities that should be explored further with a view to ensuring that the MFDA continues to play a significant role in the Canadian securities regulatory landscape.

Four key strategic and operational goals have been identified. If we achieve these goals, we will be successful in achieving our overall vision of raising the standard of regulation for the protection of investors. These goals are (i) enhancing consultation with the industry; (ii) exploring further ways to collaborate with other regulators; (iii) continuing to pursue Staff excellence; and (iv) ensuring that we continue to adopt regulatory best practices. In pursuit of these goals, we have identified the following supporting initiatives:

Goal 1: Industry Consultation

- Solicit preliminary comment on Rule proposals and extend public comment period
- Openly communicate activities of Policy Advisory Committee
- Increase dialogue with all stakeholders
- Enhance website strategy for communication flow with stakeholders
- Increase Member education and proficiency

Goal 2: Regulatory Collaboration

- Increase coordination of activity with other regulators
- Conduct issues analysis of possible mergers: (i) MFDA & IIROC¹; and (ii) IPC² & CIPF³
- Monitor implications of a National Securities Regulator

¹ Investment Industry Regulatory Organization of Canada

² MFDA Investor Protection Corporation

³ Canadian Investor Protection Fund

Goal 3: Staff Excellence

- Enhance performance management process
- Improve training and orientation programs
- Conduct regular employee surveys and focus groups
- Formalize talent review process and succession plan

Goal 4: Regulatory Best Practices

- Deliver timely and proactive response to regulatory risks
- Streamline processes and explore opportunities to improve efficiency
- Ensure that Rules are clear, relevant and balanced
- Implement measures to assess our effectiveness in regulating Member activity
- Develop standards for service providers

This plan recognizes that the state of securities and financial regulation in Canada and the world is currently in a state of flux. In addition, there is a general call upon regulators for increased and more vigilant regulation of all financial market participants. While it is difficult to predict the ultimate outcome of the current Canadian and world-wide regulatory landscape, two things are certain. First, the MFDA must stay focused and continue its regulatory efforts in pursuing its investor protection mandate. Second, the Canadian regulatory landscape is evolving and almost certain to change and the MFDA will have an opportunity to play a vital role in the Canadian regulatory framework that develops in the coming years.

INTRODUCTION

This is the MFDA's third Strategic Plan. It builds upon the accomplishments of two previous plans and articulates our vision, core strategic and operational goals, desired outcomes and key initiatives for 2009-2011.

The process of formalizing a Strategic Plan for 2009-2011 required MFDA Staff to assess current strategic goals and operations and consider the best way forward in continuing to meet our regulatory mandate. The strategic planning process affirmed the breadth of our achievements to date, confirmed that our existing core strategic goals continue to be relevant, and helped to identify new courses of action through which those core strategic goals can be realized.

This Strategic Plan was developed over several months and drew from the contributions of MFDA Staff, managers, directors, senior management and the Board of Directors. We also looked at the strategic plans of other securities regulators, including the U.S. Securities and Exchange Commission, the British Columbia Securities Commission, the Ontario Securities Commission and IIROC.

10 Years in Review

This plan was developed with the benefit of 10 years of experience in regulating the distribution side of the Canadian mutual fund industry.

The early years of the MFDA were focused on developing Rules, Policies and an appropriate fee model; obtaining recognition as a self-regulatory organization ("SRO") for mutual fund dealers; developing a Membership application process and admitting Members; developing the MFDA Investor Protection Corporation ("IPC") and a national ombudservice; opening regional offices in British Columbia and Alberta; revising our corporate governance structure; developing a compliance examination program and commencing on-site compliance examinations of Members; and formalizing a Cooperative Agreement with Quebec regulatory authorities.

In 2003 we developed our first three-year Strategic Plan. At the time, we were still in the construction phase of our development as an SRO. This period saw the establishment of our four Regional Councils across Canada; the build-out of the Enforcement department; the commencement of disciplinary proceedings; the appointment of the MFDA's first public director to serve as Chair of the Board; implementation of a policy development process; electronic filing of Members' monthly and annual financial statements; formal recognition of the IPC; and the completion of the first round of compliance examinations of every Member.

In 2006 we completed our second three-year Strategic Plan. Over the course of the second Plan, we expanded the scope of Member Regulation Forums; obtained direct Member feedback through periodic Member surveys and meetings with stakeholders; launched a web-based electronic complaint reporting system for Members; completed the second round of compliance reviews of all Members; developed an MFDA-wide Staff training plan; maintained a competitive compensation and benefits package by benchmarking ourselves against other SROs and the securities commissions; and consulted with Staff periodically to obtain feedback on our work environment and implemented enhancements where warranted.

Current and Anticipated Challenges: 2009 – 2011

We believe that the ability to anticipate problems and prevent or mitigate them, rather than reacting to harm already occasioned, is one of the hallmarks of an effective regulator. Over the next three years, we intend to expand both our compliance and enforcement risk-based assessment practices to better anticipate emerging risks and market trends that require regulatory response in order to fulfill our mandate of protecting both the investing public and the integrity of the industry. We believe that the key risks facing mutual fund investors today and over the next three years include:

- the suitability of investments;
- the suitability of leverage recommendations;
- unauthorized outside business activities;
- the sale of exempt products and alternative products;
- abusive sales practices;
- adherence to MFDA financial requirements;
- standard of conduct and conflicts of interest; and
- Member supervision in relation to all of the above.

Our goal is to minimize these risks. We believe that the most effective and efficient way of achieving this goal is to foster a culture of compliance among Members. We will continue to promote compliance by Members by setting clear regulatory standards, with appropriate input from Members and other stakeholders, and monitoring compliance with and enforcing these standards in a firm and fair manner.

The most fundamental obligation of our Members to their clients is to ensure that all recommendations are suitable in light of the client's personal circumstances and investment objectives. In April 2008, the MFDA published *Member Regulation Notice MR-0069 – Suitability Guidelines* to provide guidance to Members on how to establish a suitability framework to comply with their obligation to ensure that each order accepted or recommendation made is in keeping with clients' know-your-client information. A key challenge we face as a standard-setting regulator is that the suitability obligation and what it entails is not clearly articulated under provincial securities laws. Consequently, our efforts to establish a clear understanding among Members and their Approved Persons of what is required have met with some resistance. We intend to continue our efforts and our dialogue with Members on this critical issue.

Another key challenge we face is the current economic downturn and its impact on securities markets. We recognize that Members face mounting pressures due to declining assets under administration and revenues, and we have taken steps to reduce our operating budget and will continue to explore ways to reduce the cost of regulation without negatively impacting our ability to fulfill our regulatory mandate. However, while we acknowledge the challenges Members are facing, past experience has shown that there is an inverse relationship between declining markets and the regulatory efforts that will be required of the MFDA.

VISION 2009-2011

**Raising the standard of regulation in Canada
for the protection of investors through commitment to
collaboration, staff excellence and regulatory best practices.**

The Vision articulates *where* we want to be as a regulator, the underlying principles of which are as relevant today as when they were first articulated in 2006. While our Vision's focus remains the same, the desired outcomes and key initiatives we will employ to achieve it have changed. Our core strategic goals are both strategic and operational in nature and are supported with focused initiatives that will ultimately improve our responsiveness, effectiveness and efficiency as a key regulator in the Canadian securities regulatory landscape.

Strategic Goal #1: Industry Consultation

The MFDA fulfills its investor protection mandate and strengthens public confidence by developing regulatory requirements that establish minimum standards of conduct for our Members. The MFDA identifies and monitors key areas of risk within its Membership and responds in appropriate cases with policy initiatives, either by way of Rule or Policy development or additional guidance through Notices or Bulletins, to address concerns in a timely fashion.

We recognize that policymaking is not a static process. New regulatory requirements or amendments to existing requirements may be necessary as a result of changes to securities legislation, changing economic conditions, advances in technology, new products or services or new types of abuses identified through compliance and enforcement activities. We actively review our regulatory requirements on an ongoing basis to ensure that they are responsive to market developments and industry trends and are achieving their intended objectives. As a national SRO, we also raise and address issues with provincial securities regulators to avoid duplication and support harmonization in order to further the goal of providing better, more effective and efficient regulation.

In developing regulatory requirements, we recognize the need for extensive consultation with stakeholders as a key component of efficient and effective regulation. We must ensure that regulatory requirements address risks and protect investors while avoiding undue regulatory burden on the industry. Effective consultation requires a broad and accessible forum in which stakeholders can offer input. Consultation, however, is not a one-way street. For it to be effective, Members must take advantage of the opportunities available to them by taking steps to be aware of policy developments, understanding the concerns prompting the initiative, and providing meaningful and informed feedback that may include suggestions of possible alternative solutions to meet the same regulatory objective.

Although the MFDA is not a trade association, we must still be sensitive to the issues facing our Members and the regulatory environment in which they operate. Members provide valuable information about industry trends and issues which contributes to sound policy development and regulation. We recognize that investor protection is better served when Members and their Approved Persons are aware of and understand their regulatory obligations. Lack of consultation can lead to regulation that is inappropriate or disproportionate to the circumstances, costly to comply with and poorly adhered to. Ensuring that Members are active participants in the policy development process is an important means of achieving Member acceptance of, and compliance with, regulatory requirements.

In order to achieve the desired result, consultation must be timely, open and accessible. Consultation with the industry should start when policy objectives and options are being identified. Members must be aware of and understand the issues prompting regulatory initiatives, the objective that a regulatory requirement is intended to achieve, and the means chosen to address that objective. We must also ensure that Members understand the policy development process followed in adopting regulatory requirements so that they are able to take full advantage of opportunities to participate. A clear explanation of the objectives of the consultation process, the regulatory framework within which consultations will take place, and feedback on how responses will be taken into consideration are key components of an effective process. Stakeholders must also be informed of proposed consultation, provided with information about policy proposals through a variety of means, and given sufficient time to comment.

Over the past several years, we have sought stakeholder views and comment through various means including the Policy Advisory Committee, Member Regulation Forums, surveys and meetings with individual Members and industry associations. Through these means, we have received valuable information and insight from the industry that has informed our regulatory activities. Effective consultation is an ongoing process and the industry has requested that we provide additional opportunities to ensure that stakeholder views are represented and factored into the policy development process. We plan to

review our current policy development process with a view to identifying areas for further consultation and industry involvement.

OUTCOMES

If we are successful in achieving an environment of enhanced Industry Consultation, the resulting outcomes will be:

- **Improved Member Awareness and Understanding of Policy Development:** Members are more aware and have a better understanding of the issues prompting regulatory initiatives, the alternative approaches considered and the ultimate regulatory response.
- **Increased Member Participation and Confidence in the MFDA:** Members have increased means to participate at various stages in the policy development process. Greater participation by Members in the policy development process has increased their confidence that the Rules are fair and appropriate.
- **Meaningful Input and Feedback from Members Obtained:** Through increased Member awareness of the policy development process and opportunities to participate, the MFDA has obtained valuable information and comments from Members on regulatory initiatives.

In order to achieve these desired outcomes, we have identified a number of key initiatives for the 2009-2011 period:

KEY INITIATIVES:

Solicit Preliminary Comment on Rule Proposals & Extend Public Comment Period

We will seek preliminary comment on material policy initiatives in order to ensure that Member views and comments are considered at an early stage in the policy development process. Comment on material policy proposals will be sought through various means, including discussion papers, surveys and meetings with industry representatives.

We will request that the comment period for material Rule proposals be extended from 30 days to a minimum of 60-90 days where appropriate. This will assist in ensuring that industry stakeholders have a reasonable period of time to understand, consider and comment on Rule proposals. Greater industry stakeholder participation in the policy

development process will foster more responsive regulation and increase Member acceptance of, and compliance with, new regulatory requirements.

Openly Communicate Activities of Policy Advisory Committee

We will increase Member awareness and understanding of the role and activities of the Policy Advisory Committee by providing access to meeting materials on the ‘Members-only’ portion of the MFDA website. This will assist in ensuring that Members are made aware of upcoming and current policy initiatives and understand the issues, background and alternatives considered in determining a regulatory response.

Increase Dialogue with all Stakeholders

We will continue to meet with industry associations on a periodic basis to obtain real-time information from stakeholders on market practices, issues and problems in the industry. This type of information will assist us in identifying new or amended regulatory requirements and best practices. We will also have an in-person forum for informing the industry about current regulatory information at the MFDA. In addition, we will continue to hold regular meetings with Staff of the recognizing securities commissions to share information regarding our regulatory activities and action plans. This will ensure that Staff of the Canadian Securities Administrators (“CSA”) are aware of the MFDA’s regulatory priorities and focus. We will also use these meetings to communicate to CSA Staff the challenges and issues facing the mutual fund industry.

Enhance Website Strategy for Communication Flow with Stakeholders

We will redesign the MFDA website to improve access to information for stakeholders, clarify the roles and responsibilities of MFDA Staff and our various departments, and expand the use of technology to provide Members with the means to communicate their views on relevant issues and provide us with information in a timely manner. We will also deploy a ‘Members-only’ site which will provide Members with access to their information as well as information related to the MFDA. Members will be able to access and update their Membership data online as well as view their current risk scores. This will provide Members with our assessment of their risk in comparison to the rest of the Membership and will allow Members to determine how significant regulatory events,

such as a compliance examination or enforcement case, impact their risk score. The site will also advise Members of upcoming events, policy initiatives, the role of different MFDA departments and contact information at the MFDA.

Increase Member Education and Proficiency

We will explore means to enhance Member education and proficiency to assist in ensuring a better understanding of regulatory requirements. This may include providing Members with more specific and detailed information on compliance with MFDA requirements at sessions to be hosted by MFDA Staff and using technology to increase accessibility to compliance-related educational materials. It also involves considering additional proficiency requirements for key members of senior management at Member firms.

Strategic Goal #2: Regulatory Collaboration

We are part of a system of securities regulation which includes IIROC and the CSA, as well as similar regulators in other jurisdictions. All of these regulators have developed processes and procedures that are suited to their activities and which change over time. On an ongoing basis, we can benefit from reviewing the efficiency and effectiveness of those processes and procedures and identifying any areas where we can adopt similar approaches that will further our regulatory goals.

Working with other regulators helps us to leverage our resources in situations that cross jurisdictional boundaries. We can identify additional opportunities to coordinate our activity with the CSA and IIROC with regard to policy issues to assist in achieving standards that are as harmonized as possible. We can also work with IIROC on common compliance and enforcement issues relating to organizations that have affiliated dealers that are members of each SRO. We can continue to work with the CSA in relation to products distributed by our Members and with regard to our joint jurisdiction over Members and Approved Persons. We can work with insurance and other financial regulators on policy issues and enforcement issues involving persons operating under multiple regimes.

Ultimately, in coordinating and working together with other regulators, we can assess the current role of the MFDA in the Canadian securities regulatory landscape. We can identify any opportunities where effectiveness and efficiency may be increased through other structures. We can also consider the effect of any new developments in that landscape such as the current initiative to establish a national securities commission. We will explore such opportunities with all Members, regulators and all other relevant parties through our collaborative approach with a view to best fulfilling our regulatory mandate.

OUTCOMES

If we are successful in achieving effective Regulatory Collaboration, the resulting outcomes will be:

- **Clarity of the MFDA’s role in the Canadian regulatory landscape:** The MFDA is the ‘youngest’ securities regulator in Canada and as such we actively remind other regulators of the role we play to ensure that we are involved in relevant matters. To the extent that the MFDA has been able to increase its interaction with other relevant regulators, our partnerships with them have been solidified and in turn investors have benefitted from more coordinated regulation.
- **Enhanced harmonization of regulatory requirements in Canada:** A continuing criticism of the Canadian securities regulatory system has been the lack of harmonization of regulatory requirements among the various regulators. Greater collaboration by the MFDA with the CSA and IIROC has helped to achieve more harmonization.

To achieve these outcomes, we will focus on the following key initiatives:

KEY INITIATIVES

Increase Coordination of Activity with Other Regulators

We will continue to coordinate with IIROC on issues common to our memberships with a view to harmonizing and streamlining regulation that is relevant, effective and efficient. We will also coordinate our activity with other regulators, such as insurance regulators who oversee other aspects of the activity of our Members and Approved Persons, and securities commissions who directly regulate the products that our Members sell.

Conduct Issues Analysis of Possible MFDA-IIROC and IPC-CIPF Mergers

For the past several years the industry has opined on the merits, or lack thereof, of a potential consolidation of SROs and their protection funds. When first approached by IIROC (then the Investment Dealers Association of Canada (“IDA”)) to consider a possible merger, the MFDA was of the view that it was not the right time to consider such a combination for several reasons, including the fact that the MFDA was not yet fully functional and still in its construction phase; IDA should first conclude a merger with Market Regulation Services Inc.; and IDA still had a trade association function, whereas the MFDA was a pure regulator. Some of these issues have been addressed and others have evolved to a state where it is now an appropriate time to conduct an analysis of the issues that would need to be addressed in considering any such merger. An analysis of the ‘pros and cons’ of such a combination is also appropriate at this time. In addition,

recognizing the linkages between the MFDA and IPC, and between IIROC and CIPF, it is also appropriate to conduct a similar issues analysis of a merger of IPC and CIPF.

Monitor Implications of a National Securities Regulator

The regulatory landscape in Canada and the world is rapidly evolving. Regulatory change is imminent and may well be substantial. We believe that the MFDA has an important and ongoing role to play in the regulation of the capital markets in Canada. We will continue to assess our role in the current regulatory landscape to ensure that our regulatory functions remain relevant and we will assess whether the MFDA, in its current form, is the most effective and efficient vehicle to fulfill its regulatory mandate.

Strategic Goal #3: Staff Excellence

We are committed to sustaining and improving our organizational excellence by attracting and retaining talented and experienced Staff who know their role in the organization, are accountable for their work product, and bring a degree of professional enthusiasm to their position. Without excellent Staff, we would not be able to deliver on our regulatory mandate.

Over the past 10 years, the MFDA has grown its Staff complement from 3 to 168 positions. Our Toronto office has been joined by regional offices located in Vancouver and Calgary. Such rapid growth has required us to ensure that our Staff have the appropriate skills and training. This has resulted in the development of our training and orientation program, which is continually reviewed and updated.

In addition to operating the MFDA, Staff are required to monitor compliance with MFDA Rules, enforce the Rules where appropriate, and develop new Policies and Rules to reflect the ever-changing marketplace. Often, policy development arises out of changes that are seen through other departments or changes in the marketplace. Staff need to be able to work effectively with all stakeholders, both internal and external, in order to fulfill our mandate and adapt to changes on a timely basis.

We recognize that our employees need to be well trained, encouraged to seek additional development, and engaged in their assigned roles and responsibilities in order for the MFDA to be successful. We offer competitive compensation and benefits, a meaningful and challenging mandate, a culture of accountability and reward, and opportunities for job enrichment through internal and external training.

We understand the competition for talent, as we must compete with professional firms, the securities industry and other regulators. We continually strive for Staff Excellence in order to attract and retain the resources required to operate effectively. Staff Excellence continues to be a strategic goal in this Strategic Plan as we recognize that if we do not

deliver an attractive employee value proposition, we risk not attracting and retaining qualified and competent Staff, not having sufficient resources to perform our duties in an effective and timely manner, and wasting valuable resources continually training new Staff.

OUTCOMES

If we are successful in achieving an environment of enhanced Staff Excellence, the resulting outcomes will be:

- **Attraction and Retention of Qualified Staff:** The MFDA has attracted and retained talented and experienced employees who are accountable for their work product and bring a degree of professional enthusiasm to their role.
- **Clarity of Staff Roles and Accountabilities:** Staff have a clear understanding of their respective duties and accountabilities, and are thereby fully aware of the role they play in the organization.
- **Increased Communication, Understanding and Resolution of Employee Related Issues:** Increased communication, understanding and resolution of employee related issues have been paramount to our continued success. Emerging issues have been identified and discussed and new opportunities for improvement have been discovered.

In order to achieve our desired Staff Excellence outcomes, we will need to focus on the following key initiatives:

KEY INITIATIVES

Enhance Performance Management Process

To enable Staff to continue to grow in their positions, an effective performance management process needs to be in place. Our current system functions well, however, there is an opportunity to enhance it so that employees and managers better understand the process and there is greater transparency. We will also emphasize that the performance management process is an opportune time to address employee development plans that will facilitate the achievement of organizational goals and foster employee growth and development opportunities.

Improve Training and Orientation Programs

Through an enhanced training and orientation program, employees will continue to grow their skills and knowledge as well as be able to adapt to the continual changes that we face as a regulator. By enhancing the orientation program, new Staff will be able to engage in their roles sooner and more effectively. Enhanced training will allow Staff to grow and increase their knowledge, thereby enabling them to perform at a higher level. This may include cross-training of Staff, where appropriate, in order to grow the breadth of Staff's knowledge and provide for additional opportunities within the MFDA.

Conduct Regular Employee Surveys and Focus Groups

By conducting regular employee surveys and focus groups, we can ensure that important issues are identified and addressed on a timely basis. Regular input from Staff will enable us to identify areas of Staff concern and work to resolve them with appropriate Staff input. Focus groups will continue to allow us to gather Staff's perspective on any pressing matters and suggested changes or improvements to our processes.

Formalize Talent Review Process and Succession Plan

We will formalize our talent review process and put in place a succession plan for certain key positions. By reviewing what talents currently exist in-house, we will be able to determine what skills we have on hand and what skills we will need to either train Staff to acquire or look for in new hires to the organization. The MFDA will also identify potential candidates for key positions in an effort to ensure that the requisite knowledge base remains in the organization and the continuity of our operations is assured.

Strategic Goal #4: Regulatory Best Practices

Securities regulators establish standards of conduct to protect the investing public while also promoting the efficient functioning of the capital markets. The challenge for regulators such as the MFDA is to strike the appropriate balance between investor protection and regulatory burden on market participants. Regulation is effective if it addresses identified issues in a timely and risk-based manner and efficient if it maximizes the benefits to the investing public while taking into account the costs of regulation to those being regulated.

An ongoing regulatory goal of the MFDA is to achieve a measureable increase in the quality of our Members' policies and procedures and supervisory activity, as well as the general culture of compliance exhibited by Members. It is hoped that this will in turn result in a decrease in specific instances of non-compliant activity by Members and Approved Persons, particularly in relation to high-risk issues. The MFDA will emphasize acting proactively to avoid potential and ongoing harm to the public. It is important to continue to identify issues and trends at an early stage and to develop standards and guidance addressing such activity. Focusing enforcement activity on situations involving ongoing non-compliance will help us leverage resources to maximize opportunities for protecting investors.

Overall, as we pursue these goals, our aim is to ensure that we employ regulatory best practices. MFDA Rules and Policies should be clear and easy to understand; able to be reasonably implemented by Members; and minimize costs and disruptions to Member operations while accomplishing their underlying objective of investor protection. As we develop new Rules and Policies, we will continue to do so with a view to these principles to ensure that we achieve a proper balance between investor protection and regulatory cost\burden.

OUTCOMES

If we are successful in adopting and implementing Regulatory Best Practices, the resulting outcomes will be:

- **Proactive in Avoiding Public Harm:** Issues and situations involving a high degree of ongoing risk to the public have been addressed in a timely way.
- **Increased Compliance by Members:** Our Members have exhibited an increased level of general compliance based on an internal culture of compliance.
- **Increased Internal Efficiency and External Effectiveness:** Our regulatory practices have proven to be the most effective available to address client harm, while at the same time ensuring market efficiency and improving the effective delivery of compliant dealer services to the public.

To achieve these outcomes in Regulatory Best Practices we will focus on the following key initiatives:

KEY INITIATIVES

Deliver Timely and Proactive Response to Regulatory Risks

We will continue to identify important emerging issues and trends, set appropriate priorities and follow through with timely Rule and Policy making activity. In addition, we will increase the focus of our compliance and enforcement activity in situations involving ongoing public harm and other high-risk activity and situations where our proactive involvement may potentially avoid significant non-compliant activity from occurring.

Streamline Processes and Explore Opportunities to Improve Efficiency

There are a number of opportunities we can pursue to obtain efficiencies in our operational activity. Often, with the benefit of time and experience, we can identify areas in our own internal practices and procedures where we can do our work more efficiently. Opportunities to perform tasks more quickly, with fewer resources or in a more focused way, can help us to achieve additional results in our operations.

We will adopt procedures to review our past activity in complex and novel situations with a view to enhancing the efficiency of our procedures going forward. In addition, we will explore methods to simplify and fast-track some of our activity where appropriate to accomplish our objectives with fewer resources, which will in turn allow us to accomplish additional results with existing resources.

We will continue to identify best practices of securities regulators in Canada and other jurisdictions and use those best practices as benchmarks to identify areas where we can enhance the efficiency and effectiveness of our procedures.

Technology is a useful tool in improving the timeliness and efficiency of regulatory functions. Many of our regulatory functions are supported by technology. We will continue to use technology to support responsive regulation through fast and secure access to MFDA and third-party information, with the analytical ability to help us assess high-risk issues and situations for priority resolution. We will continue to use and expand technology to improve both the agility and productivity of MFDA operations, and interactions with our Members, the CSA and other regulatory bodies and the public. A key element of this initiative is to develop better information sharing capabilities with the CSA and other regulatory bodies balanced with information security, content management and efficiency.

Ensure Rules are Clear, Relevant and Balanced

While we believe that our existing Rules and Policies are necessary and beneficial to the public interest, there may be cases in future where this may not be so or where those requirements could be re-designed in light of new developments. As regulatory practices within Canada and other jurisdictions continue to adapt and modernize to deal with new products or services and new types of abuse in the marketplace, we need to routinely assess them and consider whether our existing Rules or Policies may need to be changed. In addition, we will assess on an ongoing basis whether our existing requirements achieve the particular policy goal(s) they are intended to achieve in an effective and efficient way and will propose changes where appropriate.

Implement Measures to Assess our Effectiveness in Regulating Member Activity

Where possible, the MFDA will strive to determine the effectiveness of our regulatory efforts. Historically, regulators have measured their performance with reference to their levels of activity which is often not sufficient to clearly determine whether their regulatory efforts have been effective or their regulatory goals have been achieved. As a regulatory best practice, we will explore the feasibility of developing standards to help measure the outcomes of our regulatory activity.

Develop Standards for Service Providers

Service providers play an important role in assisting Members to comply with MFDA requirements. Properly designed back office systems perform basic functions in a reliable manner that ensure competent transaction processing and record-keeping. Such systems often also provide compliance tools which greatly assist Members in conducting supervisory functions such as trade reviews.

We will work directly with service providers where the services provided impact our Members' abilities to meet their supervisory and other regulatory obligations. We will develop standards for service providers that clarify the minimum requirements of our Rules and Policies, assess whether they are being met, and provide guidance, as necessary, where minimum standards are not being met or where the design or functionality of the service provided increases the likelihood of non-compliance by our Members or their Approved Persons and employees.
