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Jason Bennett  
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Sent via email: [jbennett@mfd.ca](mailto:jbennett@mfd.ca)

Dear Sir:

**Subject: Report of MFDA Task Force on Governance Issues**

Independent Financial Brokers of Canada (IFB) welcomes the opportunity to respond to the Task Force Report and recommendations contained therein. We believe that the establishment of this Task Force to consider solutions to address the objections raised by members to the governance changes proposed for approval at the 2008 Annual General Meeting is a very important initiative.

IFB is a professional Association comprised of approximately 4,000 licensed financial advisors. Many members are Approved Persons of mutual fund dealers. IFB supports a professional standard amongst members through adherence to our Code of Ethics, providing comprehensive educational events, an errors and omissions insurance program and compliance/regulatory information. IFB advocates on behalf of its members to ensure that government, regulators and industry stakeholders, like the MFDA, consider their collective viewpoint when drafting public policy or amending the regulatory/legislative framework. Governance of the MFDA has been an issue of interest to IFB and its members since it was first established

General Remarks

The governance structure of the MFDA goes to the heart of its relationship with its members and the investing public it seeks to protect. We believe this relationship has been eroded over the years and that members lack confidence in the way the MFDA as a self regulator communicates and responds to them. Furthermore, without mandated representation on the Board from either retail consumers or approved persons, it lacks

input and understanding from the two groups closest to mutual fund transactions. It has been a significant short-coming of the current governance structure that there is no specific representation from mutual fund advisors or investors on the Board.

The Task Force has recognized the importance of these concerns, but was unable to deal with them as they are “beyond the stated mandate of the Task Force”. However, it has recommended that “they be brought to the attention of the Board of Directors of the MFDA for further consideration and action, as appropriate”. We would go further and suggest that it is essential that these gaps be addressed. The MFDA as a SRO must be accountable to all of its constituent groups – dealers (large and small), licensed representatives and retail investors – because it’s regulatory and enforcement activities affect each of them, whether directly or indirectly.

IFB supports the work of the Task Force and the commitment of its members to have considered the weighty issues it has in such a short time. However, we are concerned that the time constraints imposed on it may force short-term solutions on Members rather than allowing them to deal with these complex issues with the benefit of sufficient time to assess a full range of options and alternatives.

We recognize that the Task Force felt pressure to produce its recommendations in time to provide for a comment period before a special meeting of members in September in advance of the 2009 AGM. However, we feel a 30 day comment period to consider these recommendations is too short for stakeholders to provide a thorough response. Such actions do not further the sense that the MFDA is committed to open and transparent discourse with industry stakeholders.

Therefore, it is our recommendation that the MFDA Board pursue further study of these important governance issues. In our view, this would best be attained by retaining an outside, third party specialist in such issues which can offer impartial advice and recommendations for consideration by industry stakeholders.

Our more specific comments on the Task Force recommendations follow.

**Recommendation No. 3: The Task Force recommends that the number of directors of the Board be increased to 15.**

The Task Force is recommending that one of these new positions will be an additional Industry Director and one will be an additional Public Director. While we understand the Task Force’s limitation in scope, it would be our hope that these positions will in the future be reserved for a representative of consumers of mutual fund products and an Approved Person.

In the meantime, we are concerned that the method of electing the Industry Director will not necessarily mean it will be filled by a small or medium sized dealer. Since MFDA membership statistics clearly indicate that the majority of members are small and medium dealers we would like to see a proportionate number of Directors representing their

interests. This is also important because such dealers may well bring a different perspective than, for example, large, bank-owned dealers.

**Recommendation No. 4: The Task Force recommends the adoption for all directors of four two year terms with an eight year maximum term of office as proposed in By-law 15.**

As per our previous submission, we think 8 years is too long a term and support a maximum of 6 years to promote reasonable turnover and the value that a fresh perspective can bring from newer Board members. With staggered terms of expiration, the Board would have an appropriate mix of experience. The rationale for increasing the length of maximum term is attributed in part to the difficulties the MFDA has had in recruiting new members. We believe this can be alleviated if the recommendations the Task Force makes in Recommendations 5 through 10 are adopted. Greater transparency in the nomination, selection and recruitment processes will no doubt be helpful; however, it may be that the lack of nominees or volunteers to act as Industry Directors in some years is more reflective of the often strained relationship between the MFDA and its members than of the nomination process itself.

**Recommendation No.11: The Task Force recommends that the conflict of interest policy with respect to the MFDA director nominees be reviewed and explicitly address the potential conflicts of interest for both Public Directors and Industry Directors. A one-year cooling off period for Public Directors who may previously have been involved in the industry would be imposed.**

We support the recommendation that the conflict of interest policy should be reviewed and that its terms provide detailed explanation of what constitutes potential conflicts of interest for Directors. This information should be readily accessible for reference. We look forward to commenting further on these guidelines as they are developed.

We would prefer to see a two year cooling off period for Public Directors who have been previously involved in the industry. We believe that this would reduce the potential for conflicts of interest, particularly in cases where a Public Director nominee recently held an influential position in the industry. We note the Task Force's view that one year should be the minimum, with nominees to be considered on a case by case basis; however, we remain concerned that the intent of having Public Directors serve on the Board could be compromised.

**Recommendation No. 12 through 16**

As these deal with the implementation process and schedule for approval, we have no comments other than as described in our opening remarks. Briefly, we feel it is unfortunate that the Task Force, MFDA members and other stakeholders have been forced to respond to these important issues in such a short time.

**Recommendation No. 17: The Task Force recommends that the recommendations in this Report, their implementation and the experience of the MFDA, its Board and its members as a result of their implementation be reviewed after the third MFDA AGM at which the recommendations have been in effect.**

We do not agree that a review of these recommendations should be conducted in three years. There are a number of important issues which have not been resolved through this *Report* and that need to be addressed before 3 more years have passed, such as advisor and consumer representation on the Board. As mentioned above, we believe the MFDA Board should commission an impartial expert on governance issues to study more fully the existing governance structure, its mandate and provide recommendations to improve public participation and stakeholder commitment.

In conclusion, IFB appreciates the work the Task Force has done to try to resolve some of the difficult issues arising out of the 2008 AGM. We trust our comments will be helpful and look forward to our further participation in this process as it progresses.

Yours truly,

A handwritten signature in black ink, appearing to read 'John Whaley', written over a horizontal line.

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