



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels
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2006 Year in Review

MFDA 2006 Annual Regulatory Summary

Each year, the MFDA issues a wide range of communications to Members dealing with its core regulatory activities in the areas of compliance, enforcement and policy. The communications are generally distributed by e-mail and/or posted to the MFDA website.

This document sets out an annual summary of significant regulatory information circulated to Members during 2006, along with an overview of significant current initiatives.

The MFDA plans to issue a similar annual summary each year.

PART 1:

COMPLIANCE DEPARTMENT

The Sales Compliance Group commenced its second cycle of examinations of Member firms in January 2006. At year-end 2006, 56 Head Office examinations and 61 Branch Office examinations were performed, summarized as follows:

	<u>Head Office</u>	<u>Branch</u>
Ontario	37	33
British Columbia	8	12
Alberta	3	8
Manitoba	4	2
Saskatchewan	1	2
Nova Scotia	2	3
New Brunswick	<u>1</u>	<u>1</u>
	56	61

The most common deficiencies identified during the second round examinations conducted in calendar 2006 included:

- Incomplete Know-Your-Client information,
- Suitability of investments,
- Failure to maintain adequate evidence of supervision, including trade supervision and approval of new accounts,
- Failure to conduct adequate product due diligence, and
- Failure to maintain evidence of client trade instructions.

The Compliance Department referred 24 matters to the Enforcement Department during 2006.

The Financial Compliance Group conducts onsite compliance examinations of all Level 4 Dealers on an annual basis. The most common deficiencies identified during these examinations conducted in calendar 2006 included:

- Accounting and classification errors,
- No evidence of management review of bank reconciliations and other working papers,
- Certificate of Partners or Directors not adequately completed,
- Services Agreements not executed, and
- Interest on trust accounts improperly distributed or earned at an unacceptable rate.

During 2006, the Compliance Department revised its benchmark for issuing examination reports to more accurately reflect historical performance as well as anticipated future efficiencies. The revised benchmark provides for 70% of the examination reports being issued within 15 weeks of completion of fieldwork; with all reports being issued within 22 weeks of the completion of fieldwork.

PART 2: **ENFORCEMENT DEPARTMENT**

During calendar 2006, the Enforcement Department identified 8 cases involving violations that warranted the commencement of disciplinary hearings. An additional 129 cases were reviewed that involved violations of a less serious nature that did not warrant formal disciplinary proceedings and these resulted in the issuance of 119 warning letters and 10 agreements and undertakings.

(a) 2006 Statistics

A total of 340 cases were opened during 2006 with 320 cases closed during the same period.

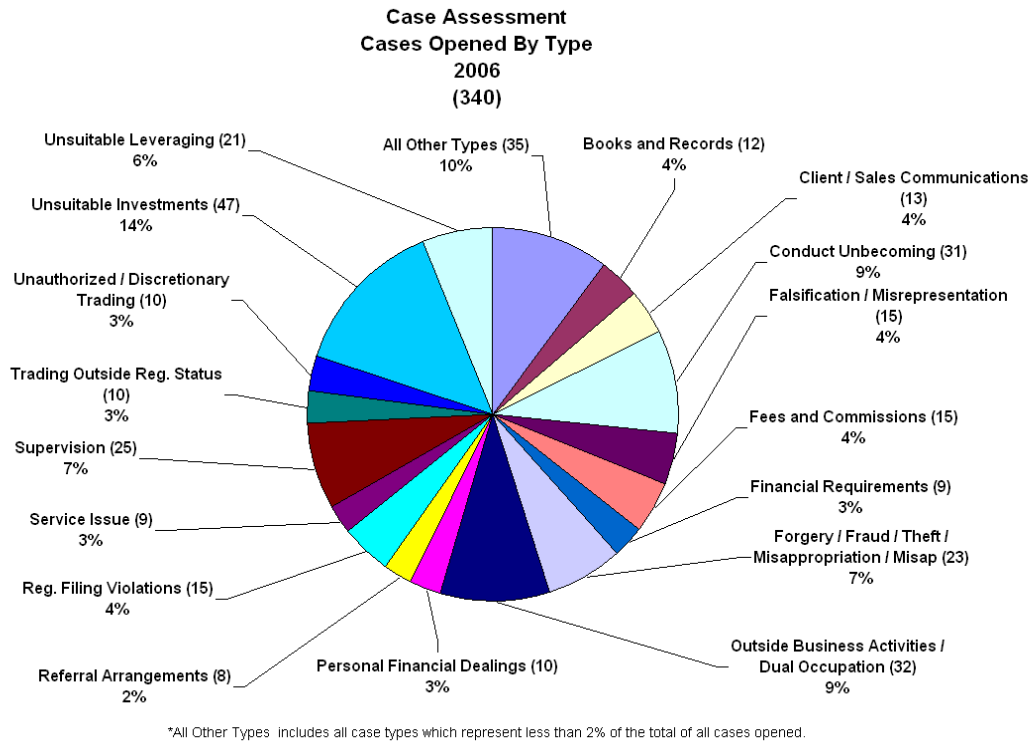
MFDA Enforcement Department Activity Year to date										
Dec-06	Enforcement Intake		Case Assessment		Investigation		Litigation		Hearings	
	New Intake	Closed Inquiries	New* Case	Closed Case	New* Investigation	Closed Investigation	New* Litigation	Closed Litigation	New* Hearings	Closed Hearings
National	893	551	340	240	124	66	22	2	16	12
*New matters at all stages (except initial intake) represent those matters escalated from the previous stage for further review/action										

(b) Breakdown of Open Cases At Year End

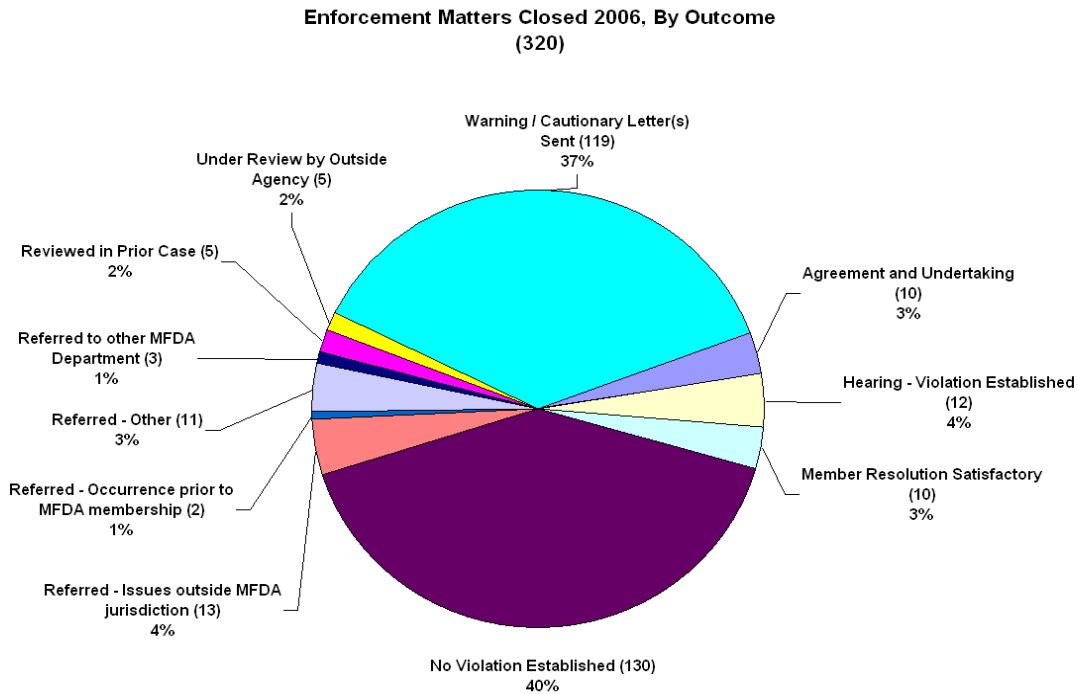
Region	Case Assessment		Investigation		Litigation		All groups
	Monitor**	Active	Monitor	Active	No Notice Issued	NOH Issued	
Canada	20	178	10	113	16	4	341
Pacific	1	19	0	21	2	0	43
Prairie	7	33	5	15	3	0	63
Central	8	109	5	69	11	4	206
Atlantic	4	17	0	8	0	0	29

** Cases are placed on "monitor" status where it is not appropriate to conduct a full review because another regulatory body or MFDA Department is active on the same matter, and where there is a need to obtain the results of such review or consider taking further action at a later date.

(c) Cases Opened in Case Assessment During 2006 by Case Type



(d) Cases Closed During 2006 by Outcome



(e) **MFDA Hearings Completed in 2006**

Region	Respondent	Date of Reasons	Fine	Costs
Prairie	Robin Andersen	January 30, 2006	\$200,000	NIL
Central	Stephan Headley	February 21, 2006	\$150,000	\$7,500
Central	Ernest Ming Chung Lo	April 3, 2006	\$ 35,000	\$2,000
Central	Donald Kent Coleman	April 10, 2006	\$ 10,000	\$2,500
Prairie	Glenn Murray Greyeyes	June 5, 2006	\$225,000	\$7,500
Central	Scott Andrew Stevens	June 14, 2006	\$ 61,000	\$2,000
Atlantic	Barry James Coleman	July 13, 2006	\$ 25,000	\$7,500
Central	Shawn Sandink	July 19, 2006	\$ 35,000	\$2,500
Central	Dale Graveline	December 20, 2006	\$100,000	\$7,500

The Hearing Panels also placed a permanent prohibition on each of the above Approved Persons from engaging in any securities-related business in any capacity.

Presently, the MFDA lacks effective powers to collect fines and costs ordered by Hearing Panels from individuals who are no longer Approved Persons. However, individuals with outstanding fines and costs may be denied re-registration by securities regulators.

In addition, during 2006, the MFDA conducted suspension/termination hearings respecting three Members: Tandem Wealth Management Inc., iForum Financial Services and Olympus United Group Inc. Membership in the MFDA for each of these Members was terminated in September 2006.

PART 3.
POLICY

The following is a summary of significant Policy matters published in calendar 2006.

(a) **Bulletins**

- **Bulletin #0182-P** – **FINTRAC Interpretation Notice No. 3: Opening an Account for a Person or Entity Engaged in the Business of Dealing in Securities Only Outside of Canada** – advises Members of the release of FINTRAC Interpretation Notice No. 3 which clarifies requirements of securities dealers (including mutual fund dealers) regarding money laundering legislation.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0182-P.pdf>
- **Bulletin #0228-M** – **Referral Arrangements with Lakeshore Asset Management Inc. and Meridian Global Investors Inc.** – outlines concerns of MFDA staff with respect to referral arrangements that some Members have in place and cautions Members with respect to referrals for specific securities.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0228-M.pdf>

- **Bulletin #0234-M** – **Rule 2.4.1 (Payment of Commissions to Non-Registered Entities) – Extension of Transition Period to December 31, 2008** – informs Members that applicable securities regulatory authorities have approved an extension of the suspension period for Rule 2.4.1 (Payment of Commissions to Non-Registered Entities) to December 31, 2008.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0234-M.pdf>

(b) Member Regulation Notices

- **MR-0054 – Conflicts of Interest – MFDA Rule 2.1.4** (Issue Date: June 22, 2006) clarifies the obligations of Members and Approved Persons with respect to the management of conflicts of interest in accordance with MFDA Rule 2.1.4.
<http://www.mfda.ca/regulation/notices/MR-0054.pdf>
- **MR-0055 – Undivided Interests in Land** (Issue Date: July 06, 2006) clarifies the obligations of Members and Approved Persons with respect to the marketing of investments in undivided interests in land to clients.
<http://www.mfda.ca/regulation/notices/MR-0055.pdf>
- **MR-0056 – Business Continuity Planning** (Issue Date: October 23, 2006) provides guidance to Members regarding the development and implementation of business continuity plans.
<http://www.mfda.ca/regulation/notices/MR-0056.pdf>
- **MR-0057 – Joint Regulatory Notice on the Role of Compliance and Supervision** (Issue Date: December 5, 2006) outlines SRO expectations regarding the implementation of an effective compliance function and the role, responsibility and accountability of the Member, the board of directors, management, compliance departments and compliance officers in supervising Member business.
<http://www.mfda.ca/regulation/notices/MR-0057.pdf>
- **MR-0058 – Acceptable Securities Locations** (Issue Date: December 14, 2006) provides guidance to Members regarding certain requirements under MFDA Rule 3.3.
<http://www.mfda.ca/regulation/notices/MR-0058.pdf>
- **MR-0059 – Complaint Handling Obligations** (Issue Date: December 20, 2006) clarifies Members' obligations with respect to the handling of client complaints.
<http://www.mfda.ca/regulation/notices/MR-0059.pdf>

(c) New and Amended Regulatory Instruments

(i) Rule Amendments approved/finalized in 2006:

- MFDA Rule 2.1.4 Conflict of Interest was amended effective February 27, 2006.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0186-P.pdf>
- MFDA Rules 3.2.2 Member Capital and 3.2.5 Notice Regarding Accelerated Payment of Long Term Debt were amended effective December 8, 2006.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0240-P.pdf>

(ii) Policy Amendments approved/finalized in 2006:

- MFDA Policy 5 Branch Review Requirements was approved effective July 24, 2006.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0210-P.pdf>

(iii) Amendments to Forms approved/finalized in 2006:

- Amendment to MFDA Financial Questionnaire and Report was approved effective December 8, 2006.
<http://www.mfda.ca/regulation/bulletins06/Bulletin0240-P.pdf>

(d) **MFDA Policy Committees Activities in 2006**

- **Policy Advisory Committee**

The Policy Advisory Committee is an industry committee comprised of 12 senior representatives of Member firms, reflecting the diversity of MFDA membership - large and small dealers, central and regional firms - appointed by the MFDA to serve in an advisory capacity providing input on policy initiatives.

Meetings of the Policy Advisory Committee were held on February 22, March 15, August 28 and November 27, 2006.

- **Member Regulation Forum**

Member Regulation Forum Sessions were held on the following dates in 2006:

May 4 (Toronto)	October 5 (Regina)
May 10 (Vancouver)	October 10 (Toronto -2 sessions)
October 3 (Vancouver)	October 12 (Montreal)
October 4 (Calgary)	October 13 (Halifax)

PART 4.

SIGNIFICANT CURRENT INITIATIVES

(a) **CSA Registration Reform Project**

The mandate of the CSA Registration Reform Project (the “Project”) is to harmonize, streamline and modernize the registration regime in Canada. This Project consists of two main components: the development of a new registration regime and National Registration Rule to harmonize and modernize the registration requirements among the CSA jurisdictions and the consideration of certain core principles from the Client Relationship Model (“CRM”). At the invitation of the CSA, MFDA and IDA staff participated in both aspects of the Project.

(i) Registration Reform

Proposed National Instrument 31-103 *Registration Requirements* was published by the various members of the CSA on February 20, 2007. The proposed National Instrument addresses a number of issues, including among other things, a business trigger for registration, harmonized categories of registration, proficiency requirement, supervisory structures and the registration of fund managers. There is a public comment period that ends on June 20, 2007. We look forward to continuing to work with the CSA on developing this initiative.

(ii) *Client Relationship Model*

A Joint SRO Working Group was established last June to review and consider rules to implement the core principles of the Client Relationship Model as described in the direction documents with respect to clarity of account opening documentation, transparency of cost and compensation disclosure and performance reporting.

MFDA staff has developed proposed rule and policy amendments to address these issues and continues to consult with Members and other stakeholders on the proposals. The MFDA, IDA and CSA have engaged a consultant to assist in completing a cost benefit analysis of the initiatives.

(b) **Proposed MFDA Policy 6 – Information Reporting Requirements**

Proposed MFDA Policy 6 has been developed to consolidate many of the current MFDA reporting requirements in a single instrument, to expand the scope of matters that must be reported and to require that enforcement and compliance related information be reported electronically. The proposed new Policy is designed to provide clarity to Members on the information that must be reported and the means by which such reports must be filed. It will also assist in the protection of the investing public by increasing MFDA regulatory oversight over industry trends, assisting in detecting fraud and assisting in promoting high standards of business conduct and ethics.

(c) **Policy 3 – Handling Client Complaints**

MFDA staff is considering revisions to MFDA Policy 3 *Handling Client Complaints* to address issues relating to client access to the Member's complaint handling process and communication regarding the complaint. These revisions may include further guidance on basic standards that MFDA staff expects Members to meet regarding substantive procedures and timelines for responding to complaints received.