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Submitted by email

Dear Ms Ward and Ms Hamilton:

Subject: MFDA proposed amendments to By-Law No.1, Section 1 (Definitions) and Section 3 (Directors)

Independent Financial Brokers of Canada (IFB) has prepared the following comments on the above proposed amendments to MFDA By-Law No. 1.

IFB is a professional association comprised of some 4,000 licensed financial advisors. Many of our members are mutual fund registrants, conducting business as Approved Persons. They have an interest in, and are affected by, changes to the governance of the MFDA. IFB is submitting our comments in support of the concerns expressed to us by a number of our members – some of whom also operate an MFDA dealership.

IFB has, in past consultations, submitted comments to the BCSC and the MFDA regarding proposed changes to the eligibility of certain individuals to stand for election as Public Directors on the MFDA

Board. We reiterate our position that those individuals who were previously ineligible to serve as Public Directors should not be permitted to qualify. We do not support removing the two year cooling off period for previously unqualified applicants. There were sound reasons, in our view, for setting these restrictions and we are not convinced that removing these restrictions is necessary in order for the MFDA to attract suitable candidates to these positions.

In particular, we believe there is considerable merit in continuing the current restrictions which do not allow representatives from the Investment Funds Institute of Canada (IFIC) or the Investment Industry Regulatory Organization of Canada (IIROC), to qualify as Public Directors on the Board. While these organizations certainly have clear expertise related to these markets, we do not see how their representation on the Board increases representation from the public.

There were sound reasons for implementing this arms-length policy when the MFDA moved to a fully operational self-regulatory organization. Adding a staff or Board member from IFIC, for example, would duplicate the representation of major financial institutions, such as the banks, as both potential Industry Directors and Public Directors. We do not see how this would further the goal of leading to more representation from the public – in fact we would argue it would achieve quite the opposite.

Alternatively, IFB has long been a proponent of direct representation on the MFDA Board of Directors for all those under its authority – including our members, many of whom are independent mutual fund advisors, or Approved Persons. We find it a short-coming of the current structure that Approved Persons have no voice other than through their dealer member, which may not always share the same perspective. By extension, their clients, investors of mutual funds, are similarly excluded. Advisors deal directly with their clients in the investment process and are aware of current customer concerns and, perhaps more importantly, how MFDA Board and management decisions will directly affect these mutual fund shareholders. The MFDA cannot properly fulfill its public interest mandate when it lacks representation from all those under its jurisdiction and from the public at large.

In 2002, the Ontario Securities Commission issued a Public Notice in which it stated that the governance structure of the MFDA should better represent the public and those who are its members, specifically: *"The commission is of the view that the better governance structure for a self-regulatory organization, particularly after it has been operating for a few years, is one where there is appropriate representation on a board of directors from the public and from the full membership of the SRO"*.

We submit that this view remains relevant today because the MFDA has not achieved the goal of full representation from the membership. The majority of its Board members represent large, bank owned dealers and fund manufacturers – not the smaller financial services firms which represent the bulk of its members. Furthermore, it lacks representation from the advisor community and investors who can advocate for the consumer's interests. Adding Board directors from the mutual fund's trade association or a sister regulator does not address these needs and, in fact, further removes the Board from receiving valuable direct, front-line input.

The MFDA has cited that its justification for removing the restrictions on eligibility is that it needs to permit a broader range of individuals to qualify as Public Directors. It says, *"Moreover, as a practical matter, the Governance Committee of the MFDA Board of Directors, which is mandated with identifying and recommending Public Directors for election to the Board, has experienced difficulty in identifying qualified Public Directors as a result of what has been perceived as unduly restrictive qualifications for*

Public Directors". We believe that these restrictions are not unduly restrictive. There is a growing body of sophisticated investor advocates and some 75,000 licensed mutual fund representatives (according to the MFDA statistics) to draw upon.

In another recent development, the MFDA published on January 26, 2012, Policy Bulletin #0518-P, in which the MFDA seeks applications to fill vacancies on its Policy Advisory Committee (PAC). However, it goes on to restrict such application by saying that "*Members of the PAC are senior compliance staff of MFDA Members selected with a view to ensuring that the PAC is reasonably representative of the diversity of MFDA membership*". This is an important advisory Committee yet purposely lacks any investor, public or advisor representation from which the staff could receive advice. In our view, this undermines the MFDA public interest mandate and contributes to the perception that it is unresponsive to the many other constituent groups who are impacted by its decisions.

Yours truly,

A handwritten signature in black ink, appearing to read 'John Whaley', written in a cursive style.

John Whaley
Executive Director
Email: jaw@ifbc.ca