

**Prairie Regional Office**

**Oversight Review Report of the  
Mutual Fund Dealers Association of Canada**

**January 2006**

## TABLE OF CONTENTS

<b>I. SUMMARY OF RECOMMENDATIONS .....</b>	<b>2</b>
<b>II. DETAILS OF THE REVIEW .....</b>	<b>3</b>
<b>1. Background .....</b>	<b>3</b>
<b>2. The Review and Objectives.....</b>	<b>3</b>
<b>3. Scope of the Review .....</b>	<b>1</b>
<b>III. PRAIRIE REGIONAL OFFICE .....</b>	<b>2</b>
<b>A. Enforcement .....</b>	<b>2</b>
<b>1. Introduction .....</b>	<b>2</b>
<b>2. Purpose and Scope of Review .....</b>	<b>2</b>
<b>3. Staffing and Training .....</b>	<b>3</b>
<b>4. Communications .....</b>	<b>4</b>
<b>5. Benchmarks.....</b>	<b>4</b>
<b>6. Policies and Procedures .....</b>	<b>5</b>
<b>7. Case Assessment .....</b>	<b>5</b>
<b>8. Investigations .....</b>	<b>7</b>
<b>9. Litigation .....</b>	<b>9</b>
<b>B. Compliance.....</b>	<b>10</b>
<b>1. Introduction .....</b>	<b>10</b>
<b>2. Purpose and Scope of Review .....</b>	<b>10</b>
<b>3. Sales Compliance Examination Processes.....</b>	<b>11</b>
<b>3.1 Policies and Procedures .....</b>	<b>11</b>
<b>3.2 Member Selection Process for Sales Compliance Examinations .....</b>	<b>11</b>
<b>3.3 Sales Compliance Examination Programs .....</b>	<b>12</b>
<b>3.4 Reporting to the Commission .....</b>	<b>13</b>
<b>C. Membership .....</b>	<b>14</b>
<b>1. Introduction .....</b>	<b>14</b>
<b>2. Purpose and Scope of Review .....</b>	<b>14</b>

## I. SUMMARY OF RECOMMENDATIONS

Recommendations by Staff of the ASC and SFSC are summarized in the following tables.

### *High Priority*

#### *Enforcement:*

A7 *Case Assessment.* Staff recommend that the MFDA implement policies and procedures ensuring management review of the complete Case Assessment file. Case Assessment file organization and documentation need to be improved and management review would ensure files are adequately organized and documented.

A8 *Investigations.* Staff recommend that the MFDA implement policies and procedures ensuring management review of the complete Investigation file. Organization and documentation need to be improved and management review would ensure files are adequately organized and documented.

### *Medium Priority*

#### *Enforcement:*

A3 *Staffing and Training.* Staff recommend that the MFDA extend the period of time that Prairie Regional Investigators are provided face-to-face training by an experienced investigator.

A5 *Benchmarks.* . The MFDA should develop internal benchmarks for stages in the case handling process as noted in MFDA Staff Procedure 012.

#### *Compliance:*

C3.3 *Sales Compliance Examination Programs.* Staff recommend that the MFDA develop policies with regard to sample selection methodology. Description of population size, determination of sample size and method of sample selection in the MFDA's audit files is necessary to have an adequately documented examination.

### *Low Priority*

A4 *Communications.* Staff recommend that Enforcement files include a copy of all communications with securities commissions, including a record of what was sent, to whom it was sent and when it was sent.

## **II. DETAILS OF THE REVIEW**

### **1. Background**

The Mutual Fund Dealers Association of Canada (“MFDA”) is recognized as a self-regulatory organization (“SRO”) for mutual fund dealers by the Alberta Securities Commission (“ASC”), the Saskatchewan Financial Services Commission (“SFSC”), the British Columbia Securities Commission (“BCSC”), the Nova Scotia Securities Commission (“NSSC”), and the Ontario Securities Commission (“OSC”).

The ASC and the SFSC (the “Jurisdictions”) recognized the MFDA as an SRO on April 10, 2001, and February 13, 2001 respectively, pursuant to Recognition Orders. Each of the Jurisdictions subsequently amended and restated or revoked and replaced its Recognition Order<sup>1</sup>.

### **2. The Review and Objectives**

In July 2005, ASC and SFSC staff jointly conducted the second oversight review of the MFDA’s Prairie Regional Office (the “Office”). Staff of the Jurisdictions (“Staff”) coordinated their review and evaluation of the Office, by using one review program and conducting the review at the same time.

The purpose of this report is to describe the results of the review and provide recommendations relating to various regulatory functions of the Office.

The objectives of this oversight review are :

- (a) To assess whether the Office is in compliance with the relevant terms and conditions of the Recognition Orders regarding membership, member compliance and enforcement for each of the Jurisdictions;
- (b) To determine whether the Prairie Region regulatory processes of the MFDA are efficient, effective, consistent and fair, where applicable; and
- (c) To evaluate whether the MFDA has adequate staffing, resources and training processes to perform regulatory functions effectively and efficiently.

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<sup>1</sup> The ASC revoked and replaced its Recognition Order on May 18, 2004; and the SFSC amended and restated its Recognition Order on April 16, 2004.

### 3. Scope of the Review

The following chart outlines the areas that were reviewed at the Office and the period under review for each of the areas:

	<i>Area Reviewed</i>	<i>Review Period</i>
<i>Prairie Region Office</i>	Enforcement – Case Assessment	November 1, 2002 to June 30, 2005
	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

ASC and SFSC staff conducted a joint review of the Compliance area.

ASC staff conducted the review of the Membership and Enforcement areas. The Enforcement review encompassed the Case Assessment, Investigations and Litigation Departments.

### **III. PRAIRIE REGIONAL OFFICE**

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#### **A. Enforcement**

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##### **1. Introduction**

Pursuant to Term and Condition #7 of the ASC Recognition Order, the MFDA shall enforce compliance by its Members and their Approved Persons with the rules of the MFDA and the MFDA shall cooperate with the ASC in ensuring compliance with applicable securities legislation relating to the operations, standards of practice and business conduct of Members and Approved Persons. Additionally, pursuant to Term and Condition #8 of the ASC Recognition Order, the MFDA shall have the right to and shall appropriately discipline its Members and their Approved Persons for violations of the rules of the MFDA and shall cooperate with the ASC in the enforcement of applicable securities legislation relating to the operations, standards of practice and business conduct of Members and Approved Persons.

The Enforcement Department enforces compliance with the MFDA regulatory requirements with a view to enhance investor protection. The Enforcement Department is organized into three main groups, Case Assessment, Investigation and Litigation, as well as the Enforcement Policy Counsel.

The Case Assessment group has been operational since November 2002, and is responsible for handling public inquiries, including complaints, for performing assessments of cases referred by various sources and for the referral of cases to Investigations. The Office does not currently have a Case Assessment Officer "CAO". CAOs are located at the MFDA head office in Toronto.

The Investigations group conducts in-depth reviews of cases and coordinates investigations activity with other regulatory and law enforcement agencies. The group began referring appropriate cases to the Litigation group in 2004. The Office had one Investigator at the time of the review and hired a second investigator in the fall of 2005.

The Litigation group receives reports on cases escalated from Investigations, analyzes cases and prepares recommendations. Litigation Counsel in this group provides advice to Investigators on all investigations and act as MFDA Counsel in disciplinary hearings before Regional Councils. The group was fully operational as of December 2004. The Office does not currently have a Litigation Counsel. Litigation Counsel is located at the MFDA head office in Toronto.

The Enforcement Policy Counsel develops written procedures and standard form documents for precedents, maintains and revises operational manuals, records of research, etc. The Enforcement Policy Counsel is located at the head office in Toronto.

##### **2. Purpose and Scope of Review**

The purpose of this section is to determine if the Enforcement Department has the resources and processes in place to ensure it performs its regulatory functions effectively and efficiently.

ASC staff met with the Prairie Regional Director and with the Prairie Regional Investigator and communicated with the VP of Enforcement. ASC staff also reviewed MFDA internal policies and procedures and a sample of Case Assessment, Investigation and Litigation files.

### **3. Staffing and Training**

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

The Office had one Enforcement employee, an Investigator, at the time of the review and hired a second Investigator in the fall of 2005. The Investigators report to both the Prairie Regional Director and the Director of Investigations. Staffing levels are assessed by the MFDA during the annual planning and budgeting process.

The Enforcement Department has developed *New Employee Training Procedures*, as outlined in *Enforcement Department Procedure 004*, which includes a detailed orientation checklist and a list of orientation materials to be distributed to new employees. The Prairie Regional Investigator employed at the time of the review (the “Investigator”) commenced employment with the MFDA in March 2005. The initial training of the Investigator was a challenge because the Investigator was not located in the same office as other MFDA Investigators.

However, the MFDA ensured that the Investigator was sent to Vancouver for three days to train with an experienced MFDA Investigator. The MFDA also has regular staff training for Investigators at their head office in Toronto. At the time of fieldwork, the Investigator had attended two additional training sessions at head office.

#### ***Staff’s Findings***

ASC staff noted that the staffing level of the Office appears adequate given the current caseload in the office and the hiring of a second investigator.

The Investigator was provided with policies and procedures manuals, background reference materials and orientation sessions. The investigator was also sent to the Pacific Regional Office in Vancouver to train with another Investigator for three days and attended two additional training sessions at head office. However, ASC staff have concerns that three days of training with a fellow Investigator is not an adequate period of time to allow a new investigator to assimilate required information and investigation skills to perform the requirements of the job function.

#### ***Staff’s Recommendations***

ASC staff recommends that the MFDA extend the period of time that Prairie Regional Investigators are provided face-to-face training by an experienced MFDA Investigator.

#### ***Priority - Medium***

#### **4. Communications**

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

The MFDA has developed policies governing internal communications with other MFDA departments. These policies include the *Compliance/Enforcement Referral and Information Sharing Procedure* and the *Financial Compliance Referrals to Enforcement Procedure*. The MFDA has also developed policies governing reporting to securities commissions. These policies are outlined in the *Enforcement Department Procedure 013 - Securities Commission Reporting*.

##### ***Staff's Findings***

ASC staff experienced difficulty confirming the MFDA's compliance with *Enforcement Department Procedure 013 - Securities Commission Reporting*. The MFDA indicated in three files that information had been or would be sent to the ASC; however, from review of the MFDA files, it was not apparent what information was sent to the ASC or to whom the information was sent.

##### ***Staff's Recommendations***

Enforcement files should include a copy of all communications with securities commissions, including a record of what was sent, to whom it was sent and when it was sent. *Enforcement Department Procedure 013 - Securities Commission Reporting* should be expanded to include documentation of communications with the Securities Commissions.

##### ***Priority - Low***

#### **5. Benchmarks**

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

The Enforcement Department developed performance benchmarks as documented in *Enforcement Department Procedure 012*. The benchmarks have been set in order to ensure efficient case-flow within the Enforcement Department, and to ensure that all files are resolved or closed within a reasonable amount of time.

##### ***Staff's Findings***

ASC staff reviewed the *Enforcement Department Procedure 012 - Enforcement Department Performance Benchmarks*, noting that the benchmarks are clearly documented and provide reasonable guidance to achieve timely completion of files. The procedure also provides that internal benchmarks for stages in the case handling process will be developed by MFDA staff.

### *Staff's Recommendations*

The MFDA should develop internal benchmarks for stages in the case handling process as noted in MFDA Staff Procedure 012.

### *Priority – Medium*

## **6. Policies and Procedures**

### *Information from the MFDA*

The MFDA provided ASC staff with the Enforcement Department's written procedures. These procedures included an *Enforcement Department Procedures Manual*, *Case Assessment Manual*, *Investigation Manual*, *Prosecution Manual*, *Case Screening Scorecard*, *Conflict Checklist*, *Violation Rules Reference Chart*, *Enforcement Database User Guide*, *Annual Training Plan* and *Enforcement Department New Employee Training Materials*.

### *Staff's Findings*

ASC staff reviewed materials provided by the MFDA and noted that the Enforcement Department's written procedures were very detailed and complete. The procedures manuals were a great aid to ASC staff in understanding the operations of the Enforcement Department. They also appear to be very helpful to the employees of the Enforcement Department both by aiding new employees in understanding their responsibilities and as an on-going resource to all employees.

### *Staff's Recommendation*

Staff noted a few areas where additional written procedures may be useful. These additions are included in the recommendation section of the applicable Enforcement Group.

## **7. Case Assessment**

### *Information from the MFDA*

ASC staff selected and were provided with a sample of eleven case assessment files. These files were related to members located in the Prairie Region but were completed by CAOs at head office. Case Assessment files generally contain a case-screening scorecard, opening letters and document requests, analysis of the case, and a case assessment report.

The MFDA requires a Case Assessment Report to be completed by the CAO. The Manager and the VP of Enforcement review this report. A complete file review is not undertaken.

### *Staff's Findings*

ASC staff reviewed the eleven Case Assessment files, noting that most files contained an adequate review of the initial complaint or referral. The Case Assessment Report was generally

well-documented, complete and contained evidence of management review. ASC staff found the Case Assessment Report to be a very useful summary of the review completed by CAOs and of the recommendations of the CAOs. It was noted by ASC Staff that two of the Case Assessment Reports were exceptionally well written and concise.

ASC staff's review of the Case Assessment files identified the following concerns.

1. ASC staff noted a minor deficiency in two Case Assessment files relating to adequate documentation of case screening. Both files had a scorecard that was not dated and appeared to have been completed after case assessment work had begun.
2. The same two Case Assessment files were very disorganized. Papers were not attached in the file and this raised concerns because loose documentation is easily lost. Information in these files was in no discernable order and created a challenge for ASC staff to read and understand the actions undertaken in the file. In addition, ASC staff reviewed two Case Assessment files that contained documents associated with unrelated matters and two files that did not contain documents that were requested by the CAO.
3. ASC staff reviewed the notes of the CAOs contained in the Case Assessment files. One file contained notes, which were disjointed and incomplete. One file contained notes that did not document a relevant conversation between the CAO and a complainant. Another file did not identify the author of the notes contained in the file. In contrast, the notes in one file were very well written and organized.
4. ASC staff were concerned with the resolution of another Case Assessment file based on the review of the information contained in the file. The file was resolved by the issuance of a warning letter to an Approved Person regarding a breach of MFDA Rule 2.2.4 - Updating KYC information. ASC staff's review of the file left unresolved concerns regarding the conduct of the member.

MFDA Rule 2.2.1 states that the Member shall use due diligence (c) to ensure that each order accepted or recommendation made for any account of a client is suitable for the client and in keeping with the client's investment objectives. Further, MFDA Rule 2.2.4 (b) states that all Members must at least annually, in writing, request each client to notify the Member if the know-your-client information previously provided to the Member or the client's circumstances have materially changed.

ASC staff's review of this case assessment file indicated that the Member may not have complied with MFDA Rule 2.2.1(c) as Know Your Client "KYC" information for the client in question was not updated for a period of at least 3 years and the Member approved leveraged trades in this period for the client without having updated KYC information. Staff note that the Member had been a Member of the MFDA for less than a year and may not have been subject to MFDA rule 2.2.4 but was subject to ASC Policy 3.1 which requires registrants to "maintain a continued awareness of the client's personal and financial circumstances."

The MFDA did consider Member supervision as an issue in their Case Assessment Report and it appeared that they may have had concerns with supervision based on a section entitled

“Supervision - MFDA Policy 2 - Staff finds the following deficiencies associated with the case file”. However, concerns regarding supervision were not addressed in this section of the report, nor any other section. The MFDA has advised that the report was in error and this title did not accurately reflect their findings.

5. Another file reviewed by ASC staff did not include adequate documentation on the reason for closing the file. The file closing memo indicated that the file was being closed for lack of evidence but also said that the facts identified were being referred to Investigations and the facts would be considered in the ongoing investigation of other matters. ASC staff did not fully understand how the file was being resolved and what the referral to Investigations entailed, therefore ASC staff made an inquiry to the MFDA. The MFDA was able to adequately explain the resolution of the file in response to the inquiry; however, the file should have been better documented initially.

### *Staff's Recommendations*

ASC Staff recommend that the MFDA implement policies and procedures ensuring management review of the complete Case Assessment file. Case Assessment file organization and documentation need to be improved and management review would ensure files are adequately organized and documented.

### *Priority – High*

## **8. Investigations**

### *Information from the MFDA*

ASC staff selected and were provided with a sample of nine Investigation files. These files related to members located in the Prairie Region but were completed by Investigators located in the Prairie Regional Office, the Pacific Regional Office and Head Office. Investigation files generally contain Investigator notes, opening letters, case background review, investigative screening, Investigation Plan, and an Investigation Report.

The MFDA requires an Investigation Report to be completed by the Investigator. The Manager and the VP of Enforcement review this report. A complete file review is not undertaken.

### *Staff's Findings*

ASC staff reviewed the nine Investigation files. The Investigation Report contained in each file summarized the investigation activities undertaken, the evidence obtained in the course of the investigation and recommended an appropriate course of action. There was evidence of management review of the Investigation Report.

The Investigation files were generally adequately completed and there were significant improvements in the more recent Investigation files. However, there were a few concerns raised by the review of Investigations files.

1. ASC staff noted that the documentation in one file was extremely disorganized. The file contained loose documents and was in no determinable order. The file contained materials from both Case Assessment and Investigations; however, it was not possible for ASC staff to determine what information had been gathered at the case assessment stage and what information had been gathered during the Investigation. Further, ASC staff noted a second file that was also poorly organized and difficult to follow. A third file did not contain a copy of the warning letter issued to the Approved Person.
2. An Investigation file appeared to be closed based on a request made to the Member to conduct a file review of 25 higher risk clients of an Approved Person and to report the findings to the MFDA. The Member reported to the MFDA that the investments in all 25 accounts were suitable but that 9 of the 25 files contained KYC information that had not been updated. The Member advised that the Approved Person was currently updating the KYC information in these files. The documentation in the file resulted in concerns by ASC staff that the MFDA had not followed up on the out of date KYC information and indicated that the file was closed due to the results of the file review completed by the Member. ASC staff communicated our concerns to the MFDA, who responded stating “In the current working version of this procedure, we also require the Member to provide us with hard copies of relevant documents so that we can effectively review the member’s assessment and, where necessary, perform our own review.” They also advised that the file was referred to the ASC because the MFDA identified concerns that may have warranted enforcement action. The referral to the ASC should have been clearly documented in the MFDA file as the reason for closing the file.
3. ASC staff reviewed an Investigation file that appeared to be closed in November 2004; however, the Member was not issued a closing letter until June 2005 and the file closing documents were not submitted until July 2005. The delay in the completion of the closing letter and the file closing documents appear to have been caused by the departure of the Investigator assigned to the file. The closing letter and the file closing documents were completed by the MFDA subsequent to ASC staff’s request to review this file. ASC staff communicated with the MFDA regarding the delay in completing the closing letter and the file closing documents. The MFDA advised that they have subsequently developed appropriate procedures to ensure that files are transferred to another Investigator when the assigned Investigator leaves the MFDA. The MFDA identified this case as an isolated occurrence.

### ***Staff’s Recommendations***

ASC Staff recommend that the MFDA implement policies and procedures ensuring management review of the complete Investigation file. Investigation file organization and documentation need to be improved and management review will ensure files are adequately organized and documented.

***Priority – High***

## **9. Litigation**

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

The MFDA provided one Litigation file. At the date of fieldwork, this was the only Litigation file completed in the Prairie Region. Litigation Counsel located at Head Office completed this litigation file.

The MFDA provided ASC staff with the complete litigation file including correspondence, Investigation report, Enforcement Counsel notes, the Notice of Hearing, the Decision and the MFDA Order.

### ***Staff's Findings***

ASC Staff reviewed the Litigation file and noted no concerns. The Litigation file was well documented and complete.

### ***Staff's Recommendations***

No action necessary.

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## **B. Compliance**

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### **1. Introduction**

The MFDA Compliance Department's primary responsibility is to monitor MFDA member firms' adherence to MFDA Rules and Policies and other applicable securities or statutory legislation. In carrying out this responsibility, the MFDA is required by the Recognition Order to conduct periodic onsite examinations of its Members and Approved Persons and offsite review of regular financial filings. The Recognition Order contains a "Compliance by Members" Terms and Conditions that establishes certain reporting obligations by the MFDA to the Commissions.

The MFDA's Compliance Department is comprised of two groups: Sales Compliance and Financial Compliance. The Sales Compliance group's key responsibility is performing onsite sales and conduct examinations of members. Sales compliance examinations of MFDA members in the Prairie region are conducted by MFDA staff located at the Prairie Region office in Calgary. The Financial Compliance group's key responsibility is to monitor MFDA member financial filings and conduct onsite financial examinations. Onsite Financial Compliance examinations of the MFDA's Level 1, Level 2 and Level 3 members are conducted by MFDA staff located at the Prairie region office.

The monitoring of MFDA's Level 4 members is conducted by financial compliance staff based at the MFDA's head office in Toronto.

### **2. Purpose and Scope of Review**

Staff's primary objectives were to assess the adequacy, timeliness and quality of Sales compliance examinations performed by the staff of the MFDA Prairie Region Compliance Department ("Compliance Department"); the adequacy of the Compliance Department's policies and procedures, levels of staffing and resources, the review of compliance examination files, and adequacy of follow-up procedures and performance benchmarks.

In order to accomplish the objectives, Staff interviewed the Regional Director, Prairie Region to gain an understanding of the Compliance Department's hiring and staff retention process, staff training program and the compliance examination process.

In addition, Staff reviewed the policies and procedures of the MFDA's Compliance Department, the MFDA's Compliance Examination Program, the MFDA's Performance Measurement Benchmarks, and samples of examination files to determine the quality, adequacy, timeliness, efficiency and effectiveness of the compliance reviews performed by the Compliance Department.

### **3. Sales Compliance Examination Processes**

#### **3.1 Policies and Procedures**

##### *Information from the MFDA*

Staff met with the Regional Director, Prairie Region to discuss sales compliance policies and procedures. Staff were provided with the *Compliance Officer Reference Manual*, which includes the following:

- Procedures for conducting sales field examinations;
- Procedures for reviews of new membership applications; and
- Reporting requirements to the Canadian Securities Administrators and Investment Protection Corporation.

Staff are advised that the manuals are continuously reviewed and updated as necessary.

##### *Staff's Findings*

Staff are satisfied that the MFDA has adequate sales compliance policies and procedures in place and that they cover the process for conducting member sales compliance field examinations. Staff noted that there is a process in place to update these policies and procedures periodically, and that they provide adequate guidance to MFDA compliance staff.

##### *Staff's Recommendations*

No action necessary.

#### **3.2 Member Selection Process for Sales Compliance Examinations**

##### *Information from the MFDA*

Staff discussed the member selection process for sales compliance examinations with the Regional Director, Prairie Region. Generally, members are selected for sales compliance examinations based on factors such as: the nature of a member's business operations and the number of complaints related to the member.

The MFDA also noted that it has developed a risk-based model to assist in selecting members for examination. The MFDA is currently populating the model with information obtained during compliance examinations and information from a mandatory member survey. The risk-based model is expected to be in use in 2006. The MFDA provided ASC staff with a reference document, the *Mutual Fund Dealers' Association Compliance Risk Model Definitions & Criteria*, and gave a demonstration of the model.

The Prairie Region Compliance Department completed all sales compliance examinations of all members by December 31, 2005.

### *Staff's Findings*

Staff's review of the member selection process for sales compliance examinations raised no concerns. Staff are satisfied that the MFDA has made adequate efforts to ensure coordination of such reviews.

Staff noted that the number of sales examinations conducted in Alberta and Saskatchewan during the review period was adequate relative to the number of members headquartered in each jurisdiction.

### *Staff's Recommendations*

No action necessary.

## **3.3 Sales Compliance Examination Programs**

### *Information from the MFDA*

Staff reviewed the sales compliance examination program provided by the MFDA. Staff noted that, during the review period, the sales compliance examination program had been updated to reflect new regulatory concerns and initiatives.

The MFDA supplied Staff with a list of 23 examinations opened and performed during the period under review. Of the 23 examinations opened, 18 were closed during the period under review. Staff reviewed the quality of all 23 examinations performed by the MFDA. ASC staff reviewed 6 Alberta head office file examinations and 13 branch file reviews. SFSC staff selected 4 Saskatchewan based head office examinations.

### *Staff's Findings*

In general, Staff noted that the sales compliance examination programs are comprehensive and provide reasonable guidance to the Compliance Department. However, staff noted that the sales compliance examination program should include formal policies for sample selection methodology.

Based on Staff's review of the Compliance Officer Manual, there was insufficient guidance provided for the methodology of sample selection. MFDA Staff do not document supporting evidence for the selection of sample size or the sample selection methodology used in the examination files. In some files Staff reviewed, there was sampling done on sections of the members compliance program where the reasons for the sample size were not documented and there was no documentation to determine if the sample was representative of the risk weighting. The actual testing of the selected sample was thorough.

If the dealer is large the sample size should be increased. The MFDA has no guidelines as to what constitutes a large dealer. There are also no guidelines for situations that warrant an increase or decrease in the sample size.

### *Staff's Recommendations*

The MFDA should develop policies with regard to sample selection methodology. Description of population size, determination of sample size and method of sample selection in the MFDA's audit files is necessary to have an adequately documented examination.

### *Priority - Medium*

## **3.4 Reporting to the Commission**

### *Information from the MFDA*

The MFDA's Regional Director, Prairie Region, notifies ASC and SFSC staff when MFDA members headquartered in Alberta or Saskatchewan are placed on, and removed from, early warning. An e-mail including the member's name, the early warning test triggered by the member and the date the member was designated in early warning is sent to the ASC and the SFSC. A further e-mail is sent to the ASC and SFSC when the member is removed from early warning.

In addition, the Regional Director, Prairie Region meets periodically with the staff at the ASC to discuss areas of common concern at the Regional level.

### *Staff's Findings*

ASC staff noted that the MFDA's process to report members in early warning to the ASC is appropriate. Staff's review of a sample of members that triggered early warning during the review period showed that the ASC was properly notified in a timely manner. ASC staff is of the view that the MFDA is in compliance with the ASC's Recognition Order's Term and Condition, requiring the MFDA to promptly report to the ASC when a member triggers early warning thresholds.

ASC staff note that periodic meetings with the Regional Director, Prairie Region are productive and assist in the ongoing interaction of the ASC and MFDA with respect to regulatory issues.

### *Staff's Recommendations*

No action necessary.

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## **C. Membership**

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### **1. Introduction**

As a Self Regulatory Organization that regulates mutual fund dealers, the MFDA is required by the terms and conditions of the Recognition Order to accept all properly registered mutual fund dealers into membership, provided that the membership criteria are met. The criteria and processes used to approve members must be fair and reasonable. In carrying out its member regulation functions, the MFDA head office reviews members' requests for approval for corporate reorganizations and resignations.

The Compliance Department reviews new membership applications for applicants headquartered in the Prairie region. MFDA Prairie region staff are primarily responsible for reviewing membership applications in detail, and for making recommendations to the MFDA Board regarding applicants' admission into membership and, if applicable, the terms and conditions of membership.

### **2. Purpose and Scope of Review**

ASC staff's purpose in conducting this section of the examination was to assess the fairness, consistency, effectiveness and efficiency of the MFDA membership review process in the Compliance Department.

In order to accomplish this objective, Staff reviewed the relevant provisions of the MFDA's By-law No. 1, as well as the related rules, and assessed the MFDA's compliance with them. Staff also reviewed various internal policies and procedures, documents and interviewed the Regional Director, Prairie Region regarding the involvement of Prairie Region staff in the membership application process.

ASC staff were provided with a CD containing the following MFDA documents and processes for membership applications:

- *Compliance Officer Reference Manual;*
- *Internal Process – New Member Applications;*
- *Coordination with the Provincial Securities Commissions;*
- *MFDA Internal Process – Terms and Conditions of Membership;*
- *New Membership Application Package (Membership Package);*
- *New Membership Application Review Program (Membership Review Program); and*
- *Rules of Procedure.*

### ***Staff's Findings***

ASC staff reviewed the single membership application made during the review period in the detail required by the MFDA's *New Membership Application Review Program*. Staff found that

the new member's review was thorough and completed in a timely manner in order to determine the suitability of the applicant as a new MFDA member.

However, the Prairie Region did not have a large enough sample of membership applications during the review period to assess the fairness, consistency, effectiveness and efficiency of the MFDA membership review process.

***Staff's Recommendations***

No action necessary.

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