

**MUTUAL FUND DEALERS ASSOCIATION OF CANADA/  
ASSOCIATION CANADIENNE DES COURTIERIS DE FONDS MUTUELS**

**RULES**

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# MUTUAL FUND DEALERS ASSOCIATION OF CANADA

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## 1.2.3 Education, Training and Experience

An Approved Person must not perform an activity that requires registration under securities legislation unless the Approved Person has the education, training and experience that a reasonable person would consider necessary to perform the activity competently.

## 1.2.4 Training and Supervision

- (1) **General.** A Member must provide training to its Approved Persons on compliance with MFDA requirements, securities laws, and applicable laws including, without limitation, requirements under Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), 2.2.6 (Suitability), and 2.1.4 (Identifying, Addressing, and Disclosing Material Conflicts of Interest);
- (2) **New Registrant Training and Supervision.** Upon commencement of trading or dealing in securities for the purposes of any applicable legislation on behalf of a Member, all Approved Persons who are salespersons shall complete a training program within 90 days of such commencement and a concurrent six month supervision period in accordance with such terms and conditions as may be prescribed from time to time by the Corporation, unless he or she has completed a training program and supervision period in accordance with this Rule with another Member or was licensed or registered in the manner necessary, and is in good standing, under applicable securities legislation to trade in mutual fund securities prior to the date of this Rule becoming effective;
- (3) **Continuing Education.**
  - (a) **Compliance with CE Requirements.** Each Member and each Approved Person noted in subsections (b) and (c) below shall comply with requirements respecting continuing education, as set out under this Rule and Policy No. 9.
  - (b) **Dealing Representative.** For each cycle, every Approved Person who is registered as a dealing representative under Canadian securities legislation must complete 8 Business Conduct Credits, 20 Professional Development Credits and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.
  - (c) **Chief Compliance Officer, Ultimate Designated Person and Branch Manager.** Where an Approved Person is not registered as a dealing representative, but is registered as either a chief compliance officer or ultimate designated person under Canadian securities legislation, or is designated by the Member as a branch manager, alternate branch manager, or alternate chief compliance officer under MFDA Rules, that individual must, for each cycle, complete 8 Business Conduct Credits, and 2 MFDA Compliance Credits, in accordance with requirements under Policy No. 9.
  - (d) **CE Requirements for a Partial Cycle.** (i) **Non-Application:** An Approved Person is not required to meet the CE requirement for any component credit specified under

Rule 1.2.4(3)(b) or (c), where, in any given cycle, the Approved Person is subject to that component requirement for a period that is less than, or equal to, 2 months. (ii) **Pro-ration of Credits:** Where an Approved Person is subject to requirements for any CE component credit specified under Rule 1.2.4(3)(b) or (c) for less than a full cycle, and the period in question is greater than 2 months, the Approved Person may be able to satisfy such requirements on a pro-rata basis, in accordance with the applicable provisions of Policy No. 9.

- (e) **Leaves of Absence.** Where an Approved Person is subject to the requirements under Rule 1.2.4(3) (b) or (c), and was absent, for a period of at least 4 consecutive weeks, from their employment as an Approved Person, the CCO can reduce the CE credit requirements applicable to that Approved Person under Rule 1.2.4(3)(b) or (c), in accordance with the applicable provisions under Policy No. 9.
- (f) **Accreditation.** The Corporation shall only recognize continuing education activities that have met the minimum requirements set out under Policy No. 9.
- (g) **Evidence of Completion.** Each Member and each Approved Person noted in subsections (b) and (c) above must maintain evidence of completion of CE credits for a cycle, as required under this Rule and Policy No. 9, for a 24-month period following the end of that cycle.
- (h) **Reporting.** Each Member and each Approved Person noted in subsections (b) and (c) above must meet the minimum requirements set out under Policy No. 9 respecting notification to the Corporation of the completion of CE credits.
- (i) Non-compliance.
  - (i) Where, for any given cycle, an Approved Person does not meet the CE credit requirements of the MFDA continuing education program, that individual shall cease to act as an Approved Person of any Member, until such time as the Corporation has determined that the prescribed CE credit requirements have been met.
  - (ii) Each Member shall be liable for and pay to the Corporation fees, levies, or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or an Approved Person to comply with the requirements of this Rule or Policy No. 9.

### 1.2.5 Misleading Communications

- (1) An Approved Person must not hold themselves out, and a Member must not hold itself or its Approved Persons out, including through the use of a business or trade name, in a manner that could reasonably be expected to deceive or mislead any person or company as to any of the following matters:
  - (a) the proficiency, experience, qualifications, or category of registration of the Approved Person, or Member;

- (b) the nature of the client's or any other person's relationship, or potential relationship, with the Member or the Approved Person; or
  - (c) the products or services provided, or to be provided, by the Member or the Approved Person.
- (2) For greater certainty, and without limiting Rule 1.2.5(1), an Approved Person who interacts with clients must not use any of the following:
- (a) if based partly or entirely on that Approved Person's sales activity or revenue generation, a title, designation, award, or recognition;
  - (b) a corporate officer title, unless the Member has appointed that Approved Person to that corporate office pursuant to applicable corporate law; or
  - (c) if the Approved Person's Member has not approved the use by that Approved Person of a title or designation, that title or designation.

#### **2.1.4(1) Identifying, addressing and disclosing material conflicts of interest – Member**

- (a) A Member must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable,
  - (i) between the Member and the client, and
  - (ii) between each individual acting on the Member's behalf and the client.
- (b) A Member must address all material conflicts of interests between a client and itself, including each individual acting on its behalf, in the best interests of the client.
- (c) A Member must avoid any material conflict of interest between a client and the Member, including each individual acting on its behalf, if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.
- (d) A Member must disclose in writing all material conflicts of interest identified under Rule 2.1.4(1)(a) to a client whose interests are affected by the conflicts of interest if a reasonable client would expect to be informed of those conflicts of interest.
- (e) Without limiting subsection (d), the information required to be delivered to a client under that subsection must include a description of each of the following:
  - (i) the nature and extent of the conflict of interest;
  - (ii) the potential impact on and risk that the conflict of interest could pose to the client;
  - (iii) how the conflict of interest has been, or will be, addressed.

- (f) The disclosure required under subsection (d) must be presented in a manner that, to a reasonable person, is prominent, specific and written in plain language.
- (g) A Member must disclose a conflict of interest to a client under subsection (d)
  - (i) before opening an account for the client if the conflict has been identified at that time, or
  - (ii) in a timely manner, upon identification of a conflict that must be disclosed under subsection (d) that has not previously been disclosed to the client.
- (h) For greater certainty, a Member or Approved Person does not satisfy Rule 2.1.4(1)(b) or requirements under Rule 2.1.4(2)(c) solely by providing disclosure to the client.

#### **2.1.4(2) Identifying, reporting and addressing material conflicts of interest – Approved Person**

- (a) An Approved Person must take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the Approved Person and the client.
- (b) If an Approved Person identifies a material conflict of interest under Rule 2.1.4(2)(a), the Approved Person must promptly report that conflict of interest to their Member.
- (c) An Approved Person must address all material conflicts of interest between the client and the Approved Person in the best interest of the client.
- (d) An Approved Person must avoid any material conflict of interest between a client and the Approved Person if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.
- (e) An Approved Person must not engage in any trading or advising activity in connection with a material conflict of interest identified by the Approved Person under Rule 2.1.4(2)(a) unless
  - (i) the conflict has been addressed in the best interest of the client, and
  - (ii) the Approved Person's Member has given the Approved Person its consent to proceed with the activity.

#### **2.1.5 Borrowing From Clients**

No Approved Person shall borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client unless:

- (i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and

- (ii) the Approved Person has obtained the written approval of their Member to borrow the money, securities or other assets or accept the guarantee.

### 2.2.7 Relationship Disclosure

**Definitions.** For the purpose of requirements under Rule 2.2.7, “proprietary product” means a security of an issuer if one or more of the following apply:

- (a) the issuer of the security is a connected issuer of the Member;
- (b) the issuer of the security is a related issuer of the Member;
- (c) the Member or an affiliate of the Member is the investment fund manager or portfolio manager of the issuer of the security.

**2.2.7(1)** For each new account opened, the Member shall provide written disclosure to the client:

(a) describing the nature of the advisory relationship;

~~(b) describing the products and services offered by the Member;~~

~~(b)~~ that provides a general description of the products and services the Member will offer to the client, including:

- (i) a description of the restrictions on the client’s ability to liquidate or resell a security; and
- (ii) a statement of the investment fund management expense fees or other ongoing fees the client may incur in connection with a security or service the Member provides;

~~(c)~~ that provides a general description of any limits on the products and services the Member will offer to the client, including whether the Member will primarily or exclusively offer proprietary products to the client, and whether there will be other limits on the availability of products or services;

~~(d)~~ describing the Member’s procedures regarding the receipt and handling of client cash and cheques. In the case of a Level 2 dealer, the disclosure must include an explanation that all client cheques shall be payable to the issuer or carrying dealer, as applicable;

~~(e)~~ stating that the Member must determine that any investment action it takes, recommends or decides on, for the client is suitable for the client and puts the client’s interests first;

~~(f)~~ defining the various terms with respect to the know-your-client information collected by the Member and describing how this information will be used in assessing investments in the account;

~~(g)~~ describing the content and frequency of reporting for the account;

~~(h)~~ that provides a general description of any benefits received, or expected to be received, by the Member or Approved Person from a person or company other than the client in connection with the client’s purchase or ownership of an investment through the Member or Approved Person;

(j) disclosure of the operating charges the client might be required to pay related to the client's account;

(k) describing the type of transaction charges, as defined under Rule 5.3(1), that the client might be required to pay;

(l) generally describing the potential impact on a client's investment returns from investment fund management expense fees, other ongoing fees, operating charges, or transaction charges, including their compounding effect over time; and

(m) including a general explanation of how investment performance benchmarks might be used to assess the performance of a client's investments and any options for benchmark information that might be available to clients by the Member.

### 2.2.7(2)

If there is a significant change in respect of the information delivered to the client under this Rule, the Member must take reasonable steps to notify the client of the change in a timely manner, and, if possible, before the Member next

- (a) purchases or sells an investment for the client; or
- (b) advises the client to purchase, sell, or hold an investment.

## 2.4.2 Referral Arrangements

(a) Definitions. For the purpose of this Rule 2.4.2:

(i) "client" includes a prospective client;

(ii) "referral arrangement" means any arrangement in which a Member or Approved Person agrees to provide or receive a referral fee to or from another person or company; and

(iii) "referral fee" means any benefit provided for the referral of a client to or from a Member or Approved Person.

(b) **Permitted Referral Arrangements.** A Member or Approved Person must not participate in a referral arrangement with another person or company unless:

(i) before a client is referred by or to the Member or Approved Person, the terms of the referral arrangement are set out in a written agreement between the Member and the person or company;

(ii) the Member records all referral fees; and

(iii) the Member ensures that the information prescribed under Rule 2.4.2(d)(i) is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.

#### **2.4.4 Transaction Fees or Charges**

Prior to the acceptance of any order in respect of a transaction in a client account, the Member shall disclose to the client any transaction charges and:

- (a) charges in respect of the purchase or sale of a security or a reasonable estimate if the actual amount of the charges is not known to the Member at the time of disclosure;
- (b) in the case of a purchase of a security to which deferred charges apply, that the client might be required to pay a deferred sales charge on the subsequent sale of the security and the fee schedule that will apply;
- (c) whether the Member will receive trailing commissions in respect of the security;
- (d) whether there are any investment fund management expense fees or other ongoing fees that the client may incur in connection with the security; and
- (e) provide a description of the restrictions on the client's ability to liquidate or resell a security.

### 3.2.1 Client Lending and Margin

No Member or Approved Person shall ~~lend money or extend credit to a client~~, permit the purchase of securities by a client on margin; In addition, no Member or Approved Person shall lend money or extend credit to a client, or provide a guarantee in relation to a loan of money, securities or any other assets to a client, unless any of the following apply:

(a) in the case of a Member, the client is

- (i) an Approved Person of the Member, or
- (ii) a director, officer, or employee of the Member;

(b) in the case of an Approved Person:

- (i) the client and the Approved Person are related to each other for the purposes of the *Income Tax Act* (Canada); and
- (ii) the Approved Person has obtained the written approval of their Member to lend the money, ~~or extend the credit~~, or provide the guarantee;
- (c) the Member is advancing funds to a client in connection with the redemption of mutual fund securities where:
  - (i) the Member has received prior confirmation of the redemption order from the issuer of the securities;
  - (ii) the redemption proceeds to be received (excluding any fees or commissions) are equal to or greater than the amount of funds or credit to be provided;
  - (iii) the client has authorized payment to and retention by the Member of redemption proceeds;
  - (iv) the Member maintains a copy of the confirmation of the redemption order and the client's authorization; and
  - (v) the Member is designated as being in Level 2, 3 or 4 for the purposes of Rule 3.1.1.

### 5.1 REQUIREMENT FOR RECORDS

Every Member shall keep such books, records and other documents as are necessary for the proper recording of its business transactions and financial affairs and the transactions that it executes on behalf of others and shall keep such other books, records and documents as may be otherwise required by the Corporation. Such books and records shall contain as a minimum the following:

- (a) blotters, or other records, containing an itemized daily record of:
  - (i) all purchases and sales of securities;

- (ii) all receipts and deliveries of securities, including certificate numbers;
  - (iii) all receipts and disbursements of cash;
  - (iv) all other debits and credits, the account for which each transaction was effected;
  - (v) the name of the securities;
  - (vi) the class or designation of the securities;
  - (vii) the number or value of the securities;
  - (viii) the unit and aggregate purchase or sale price; and
  - (ix) the trade date and the name or other designation of the person from whom the securities were purchased or received or to whom they were sold or delivered;
- (b) an adequate record of each order, and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. Such record shall show:
- (i) the terms and conditions of the order or instructions and of any modification or cancellation thereof;
  - (ii) the account for which entered or received;
  - (iii) the time of entry or receipt, the price at which executed and, to the extent feasible, the time of execution or cancellation; and
  - (iv) evidence that the client was informed of all fees and charges in accordance with Rule 2.4.4
- (c) where the order or instruction is placed by an individual other than the person in whose name the account is operated, or an individual duly authorized to place orders or instructions on behalf of a client that is a company, the name, sales number or designation of the individual placing the order or instruction shall be recorded;
- (d) copies of confirmations of all purchases and sales of securities and copies of all other debits and credits for securities, cash and other items for the account of clients;
- (e) a record of the proof of cash balances of all ledger accounts in the form of trial balances and a record of calculation of minimum capital, adjusted liabilities and risk adjusted capital required;
- (f) all cheque books, bank statements, cancelled cheques and cash reconciliations;

- (g) all bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the Member;
- (h) all limited trading authorizations in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation;
- (i) all written agreements (or copies thereof) entered into by such Member relating to their business as such, including leveraging documentation, disclosure materials and agreements relating to any account; and
- (j) all documentation relating to an advance of funds or extension of credit to or on behalf of a client, directly or indirectly, in connection with the receipt of funds on the redemption of mutual fund securities, including the prior written confirmation referred to in Rule 3.2.3;
- (k) records which demonstrate compliance with Rules 2.2.1 (Know-Your-Client), 2.2.5 (Know-Your-Product), and 2.2.6 (suitability determination) requirements;
- (l) records which demonstrate compliance with Rule 2.1.4 (Conflicts of Interest);
- (m) records which demonstrate compliance with Rule 1.2.5 (Misleading Communications);
- (n) records which demonstrate compliance with complaint handling requirements, prescribed under Rule 2.11, and Policy No. 3;
- (o) records which document correspondence with clients;
- (p) records which document compliance and supervision actions taken by the firm;
- (q) records which document training prescribed under Rule 1.2.4, Policy No. 1, and Policy No. 9; and
- (r) records which document:
  - (i) the Member's sales practices, compensation arrangements, and incentive practices; and
  - (ii) other compensation arrangements and incentive practices from which the Member or its Approved Persons or any affiliate or associate of the Member benefit .

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