

# ALBERTA SECURITIES COMMISSION

## APPROVAL ORDER

**Citation: Re MFDA Investor Protection Corporation, 2020 ABASC 167      Date: 20201019**

### **MFDA Investor Protection Corporation and Mutual Fund Dealers Association of Canada/ Association canadienne des courtiers de fonds mutuels**

#### **Background**

1. Pursuant to section 6(2) of the *Alberta Securities Commission Rules (General)* (the **Rules**), every mutual fund dealer must participate in and contribute to a compensation fund or contingency trust fund approved by the Executive Director of the Alberta Securities Commission (the **Commission**) and established by, among others, a recognized self-regulatory organization (**SRO**).
2. Pursuant to section 6(1)(b)(i) of the Rules, the Executive Director issued an order dated April 30, 2015 (the **Previous Order**, cited as *Re MFDA Investor Protection Corporation*, 2015 ABASC 654), that continued the approval of the Mutual Fund Dealers Association of Canada Investor Protection Corporation (the **MFDA IPC**) as a compensation fund for customers of mutual fund dealers that are members of the Mutual Fund Dealers Association of Canada/Association canadienne des courtiers de fonds mutuels (the **MFDA**).
3. The MFDA IPC is established by the MFDA.
4. The MFDA is the subject of a Commission order dated November 6, 2014, as amended on April 9, 2018, that continued the recognition of the MFDA as an SRO under section 64 of the *Securities Act* (Alberta) (the **Act**) (the **MFDA Recognition Order**, cited as *Re MFDA/ACFM*, 2018 ABASC 53).
5. The terms and conditions of the MFDA Recognition Order refer to the MFDA IPC.
6. Members of the MFDA must contribute to the MFDA IPC by way of assessments pursuant to the MFDA requirements.
7. The MFDA IPC provides protection to eligible customers (**Customers**) of the MFDA members (**MFDA Member Firms**) on a discretionary basis to prescribed limits if securities, cash and other property held by any such member are unavailable as a result of the member's insolvency (the **MFDA IPC Mandate**).
8. The MFDA IPC commenced coverage of customer accounts on July 1, 2005 (**Coverage Date**).

9. The MFDA IPC entered into an agreement with the MFDA pursuant to which the MFDA IPC will receive all information it deems necessary to ensure that the MFDA IPC can fulfil its mandate and manage risks to the public and MFDA IPC assets on a reasonable basis.

**Representations**

10. The MFDA IPC and the MFDA have agreed to the terms and conditions set out in Schedules A and B (collectively the **Revised Terms and Conditions**).
11. The Revised Terms and Conditions may be varied or waived by the Executive Director.
12. The members of the Canadian Securities Administrators (**CSA**) who approve the MFDA IPC as a compensation fund or contingency trust fund have concluded a Memorandum of Understanding (the **MOU**) concerning their oversight of the MFDA IPC.

**Order**

13. The Executive Director, considering that it would not be prejudicial to the public interest, orders:
  - (a) the approval of the MFDA IPC as a compensation fund pursuant to section 6(1)(b)(i) of the Rules (**Approval Order**), subject to the Revised Terms and Conditions; and
  - (b) that the Previous Order is revoked pursuant to section 214(1.1) of the Act.

This order takes effect on January 1, 2021.

“original signed by”

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David C. Linder, QC  
Executive Director  
Alberta Securities Commission

**SCHEDULE A**  
**Terms and Conditions**

**1. Authority and Purpose**

The MFDA IPC has, and must continue to have, the appropriate authority and capacity to carry out the MFDA IPC Mandate.

**2. Approval of Amendments**

- (a) Prior Commission approval is required for any amendment to the following:
  - (i) the MFDA IPC's Coverage Policies; or
  - (ii) the MFDA IPC's by-laws.
- (b) Prior Commission approval is required for any material change to the MFDA IPC's Services Agreement with the MFDA (**Services Agreement**). A material change is one that directly affects the MFDA IPC Mandate.
- (c) When seeking approval of amendments pursuant to (a) and (b) above, the MFDA IPC must comply with the processes for filing outlined in Schedule B of the MOU, as amended from time to time.

**3. Corporate Governance**

- (a) The board of directors for the MFDA IPC (**Board**) must be selected in a fair and reasonable manner and must fairly represent the interests of all MFDA Member Firms and their Customers and properly balance the interests of MFDA Member Firms and their Customers.
- (b) The Board must be composed of an odd number of directors, the majority of which must be Public Directors, as defined in the MFDA IPC's By-law Number 1.
- (c) The MFDA IPC's governance structure must provide for:
  - (i) fair and meaningful representation on the Board and any committees of the Board, having regard to the differing interests between MFDA Member Firms and their Customers;
  - (ii) appropriate representation of Public Directors on the MFDA IPC committees and on any executive committee or similar body;
  - (iii) appropriate qualification, remuneration and conflict of interest provisions, and limitation of liability and indemnification protections for directors, officers and employees of the MFDA IPC generally; and
  - (iv) an audit committee, the majority of which must be made of Public Directors.

#### 4. **Funding and Maintenance of the MFDA IPC**

- (a) The MFDA IPC must institute a fair, transparent, and reasonable method of establishing assessments for each MFDA Member Firm's contribution (**Assessment Policies**). The assessments must:
  - (i) be allocated on an equitable basis among MFDA Member Firms and may be based on the amount of risk an MFDA Member Firm exposes the MFDA IPC's fund (**Fund**) to; and
  - (ii) balance the need for the MFDA IPC to have sufficient revenues to satisfy claims in the event of an insolvency of an MFDA Member Firm and to have sufficient financial resources to satisfy its operations costs against the goal that there be no unreasonable financial barriers to becoming a member of the MFDA.
- (b) The MFDA IPC must make all necessary arrangements for the notification to MFDA Member Firms of the MFDA IPC's assessments and the collection of such assessments, either directly or indirectly through the MFDA.
- (c) The Board must determine the appropriate level of assets for the Fund. The Board will conduct an annual review of the adequacy of the level of assets, assessment amounts, and assessment methodology and will ensure that the level of assets of the Fund remains, in its opinion, adequate to cover potential claims.
- (d) Any increases in the Fund size or changes to assessments or assessment methodology must be determined by the Board after consultation with the MFDA. If the MFDA does not agree with the MFDA IPC's proposed changes, the MFDA IPC must immediately report such disagreement to the Commission. However, this will not prevent the MFDA IPC from imposing assessments in order to permit the MFDA IPC to meet its obligations to its lenders or to satisfy claims incurred from Customers of MFDA members that exceed the assets available to the MFDA IPC.
- (e) Moneys in the Fund must be invested in accordance with policies, guidelines or other instruments (**Investment Policies**) approved by the Board, who will be responsible for regular monitoring of the investments. The Investment Policies must require safety of principal and a reasonable income while at the same time ensuring that sufficient liquid funds are available at any time to pay potential claims. All moneys and securities must be held by a qualified custodian, which are those entities considered suitable to hold securities on behalf of an MFDA Member Firm, for both inventory and client positions, without capital penalty, pursuant to the bylaws, rules or regulations of the MFDA.
- (f) The MFDA IPC must implement an appropriate accounting system, including a system of internal controls for maintaining MFDA IPC assets.

## 5. **Customer Protection**

- (a) The MFDA IPC must establish and maintain policies and procedures (**Coverage Policies**) which:
- (i) provide for fair and adequate coverage, on a discretionary basis, for all Customers of MFDA Member Firms, for losses of property comprising securities, cash, and other property held by MFDA Member Firms resulting from the insolvency of an MFDA Member Firm, including criteria for who is an eligible Customer;
  - (ii) include fair and reasonable procedures for assessing claims made to the MFDA IPC. The MFDA IPC will respond as quickly as practicable in assessing and paying claims made pursuant to those procedures; and
  - (iii) allow the MFDA IPC to adequately disclose to Customers of MFDA Member Firms, either directly or indirectly through the MFDA, the principles and policies on which coverage will be available, including, but not limited to, the process for making a claim and the maximum coverage available per Customer account.
- (b) The Coverage Policies must include a fair and reasonable internal appeals or review process whereby Customer claims that are not accepted for payment by the initial reviewer(s) must be reconsidered by members of the Board, either individually or in a sub-committee, who were not involved in the initial decision under review.
- (c) The Coverage Policies must not prevent a Customer from taking legal action against the MFDA IPC in a court of competent jurisdiction in Canada. The MFDA IPC must not contest the jurisdiction of such a court to consider a claim where the claimant has exhausted the MFDA IPC's internal appeals or review process.
- (d) The MFDA IPC must offer coverage in a jurisdiction only if the requirements for risk management, prudent business conduct and practices, and firm solvency that apply in that jurisdiction are not materially different from the requirements established by the MFDA IPC and/or the MFDA and the MFDA and the MFDA IPC are able to monitor and enforce their requirements in this regard.

## 6. **Financial and Operational Viability**

The MFDA IPC must maintain adequate financial and operational resources, including adequate staff resources or external professional advisers, to permit the MFDA IPC to:

- (a) exercise its rights and perform its duties under this Approval Order; and
- (b) review, in accordance with the Services Agreement, the business and operations of any MFDA Member Firm, or designated groups of MFDA Member Firms.

**7. Risk Management**

- (a) The MFDA IPC must ensure that it has policies and procedures, including a process to identify and request all necessary information from the MFDA, in order for the MFDA IPC to:
- (i) fulfill the MFDA IPC Mandate and manage risks to the public and to MFDA IPC assets;
  - (ii) assess whether the prudential standards and operations of the MFDA IPC are appropriate for the coverage provided and the risk incurred by the MFDA IPC; and
  - (iii) identify and deal with MFDA Member Firms that may be in financial difficulty.
- (b) While the MFDA IPC may rely on the MFDA to conduct reviews of MFDA Member Firms for MFDA IPC purposes, the MFDA IPC must reserve the right to conduct reviews of MFDA Member Firms in particular situations where the MFDA IPC has concerns about the integrity of the Fund or possible claims.

**8. Agreement between the MFDA IPC and the MFDA**

The MFDA IPC must comply with the Services Agreement signed with the MFDA.

**9. Assistance to the MFDA**

The MFDA IPC must assist the MFDA when an MFDA Member Firm is in or is approaching financial difficulty. Such assistance will be provided in any way the MFDA IPC determines to be appropriate.

**10. Collection of Information**

The MFDA IPC must, subject to applicable legislation, collect, use and disclose personal information only to the extent reasonably necessary to carry out the MFDA IPC Mandate.

**11. Information Sharing and Regulatory Cooperation**

- (a) The MFDA IPC must provide the Commission with reports, documents and information as the Commission or its staff may from time to time request.
- (b) The MFDA IPC shall have mechanisms in place to enable it to share information and otherwise co-operate with the Commission.

**12. Ongoing Reporting Requirements**

The MFDA IPC must comply with the reporting requirements set out in Schedule B of this Approval Order, as amended from time to time by the Commission or its staff.

**SCHEDULE B**  
**Reporting Requirements**

**1. Prior Notification**

- (a) The MFDA IPC will provide the Commission with at least 12 months' written notice prior to completing any transaction that would result in the MFDA IPC:
  - (i) ceasing to perform its services;
  - (ii) discontinuing, suspending or winding-up all or a significant portion of its operations; or
  - (iii) disposing of all or substantially all of its assets.
- (b) In situations where, in the opinion of the MFDA IPC, the notice period in subsection (a) is considered unreasonable, the MFDA IPC will inform the Commission with as much advance notice as possible in the circumstances. Such notice will include an explanation of why the notice period in subsection (a) is considered unreasonable.
- (c) The MFDA IPC will provide the Commission with at least 60 days' prior written notice before implementing any change to the following:
  - (i) the MFDA IPC's Investment Policies; or
  - (ii) the MFDA IPC's Assessment Policies.
- (d) The MFDA IPC will provide the Commission with at least 60 days' prior written notice before implementing any material change to the MFDA IPC Board's mandate and the Board committees' mandates.

**2. Immediate Notification**

- (a) If not otherwise reported to the Commission by the MFDA, the MFDA IPC will immediately report to the Commission where it has knowledge of:
  - (i) any conditions which, in the opinion of the MFDA IPC, could give rise to payments being made out of the MFDA IPC, including any conditions which have contributed substantially to or, if appropriate corrective action is not taken, could reasonably be expected to:
    - (A) inhibit an MFDA Member Firm from promptly completing securities transactions, promptly segregating Customers' securities as required or promptly discharging its responsibilities to Customers, other MFDA Member Firms or other creditors,
    - (B) result in material financial loss,

- (C) result in material misstatements of an MFDA Member Firm's financial statements, or
  - (D) result in violations of the minimum record requirements to an extent that could reasonably be expected to result in the conditions described in paragraphs (A), (B) or (C) above;
- (ii) misconduct or apparent misconduct by an MFDA Member Firm or its registered or approved employees and others where investors, Customers, creditors, MFDA Member Firms, or the MFDA IPC may reasonably be expected to suffer serious damage as a consequence thereof, including where the solvency of an MFDA Member Firm is at risk, fraud is alleged or there is a concern of deficiencies in supervision or internal controls; and
  - (iii) the withdrawal or expulsion of any MFDA Member Firm from the MFDA.
- (b) The MFDA IPC will immediately report to the Commission any actual or potential material adverse change in the level of MFDA IPC assets, together with the MFDA IPC's plan to deal with the situation.

### 3. **Prompt Notification**

- (a) The MFDA IPC will provide the Commission with prompt notice of the following occurrences, and in each case describe the circumstances that gave rise to the occurrence, and the MFDA IPC's proposed response to ensure resolution, and, if appropriate, provide timely updates:
  - (i) situations that would reasonably be expected to raise concerns about the MFDA IPC's financial viability, including but not limited to, an inability to meet its expected expenses for the next quarter or the next year;
  - (ii) any determination by the MFDA IPC or notification from any Regulator that the MFDA IPC is not, or will not be, in compliance with one or more of the terms and conditions of its approval in any jurisdiction or with these reporting requirements; and
  - (iii) any breach of security safeguards involving information under the MFDA IPC's control if it is reasonable in the circumstances to believe that the breach creates a real risk of material harm to investors, issuers, registrants, other market participants, the MFDA IPC, the MFDA, or the capital markets generally.
- (b) The MFDA IPC will prepare and provide to the Commission a report detailing any action taken by the MFDA IPC with respect to an MFDA Member Firm. For MFDA Member Firm insolvencies, the report will describe the circumstances of the insolvency, including a summary of the actions taken by the MFDA Member



Firm, the MFDA, the MFDA IPC and any committee or person acting on behalf of such parties.

**4. Semi-Annual Reporting**

The MFDA IPC will provide the Commission with the following information on a semi-annual basis:

- (a) Ongoing initiatives and emerging risks.
- (b) Changes in the composition of the Board.
- (c) Suggestions or comments made to the MFDA regarding making new rules or amending existing rules.
- (d) Requests made to the MFDA to take certain actions in regard to MFDA Member Firms pursuant to the Services Agreement.
- (e) The adequacy of (i) the level of assets in the Fund, (ii) assessment amounts, and (iii) assessment methodology.
- (f) Updates on MFDA Member Firm insolvencies and any Customer claims.

**5. Annual Reporting**

The MFDA IPC will file on an annual basis with the Commission a written report pertaining to the MFDA IPC's operations promptly after the report is reviewed or approved by the Board, Board committees, or senior management, as the case may be, containing at a minimum the following information and documents:

- (a) The Board's annual review of the adequacy of (i) the level of assets in the Fund, (ii) assessment amounts, and (iii) assessment methodology.
- (b) The Board's assessment of the need for additional risk management tools.
- (c) A certification by the MFDA IPC's President, or other officer, that the MFDA IPC is in compliance with the terms and conditions applicable to it in this Approval Order.

**6. Financial Reporting**

- (a) The MFDA IPC will file with the Commission unaudited financial statements within 60 days after the end of each financial semi-annual period.
- (b) The MFDA IPC will file with the Commission audited annual financial statements accompanied by the report of an independent auditor within 90 days after the end of each fiscal year.

**7. Other Reporting**

- (a) The MFDA IPC will provide the Commission on a timely basis with the following information and documents upon completion of review or approval by the Board, Board committees, or senior management, as the case may be:
  - (i) the financial budget for the current year, together with the underlying assumptions, that have been approved by the Board;
  - (ii) enterprise risk management reports, and any material changes to enterprise risk management methodology; and
  - (iii) the MFDA IPC's annual report.
- (b) The MFDA IPC will provide the Commission with reasonable prior notice of any document that it intends to publish or issue to the public which, in the opinion of the MFDA IPC, could have a significant impact on the MFDA IPC's ability to carry out the MFDA IPC Mandate.