

# ALBERTA SECURITIES COMMISSION

## APPROVAL ORDER

Citation: Re MFDA/ACFM, 2022 ABASC 98

Date: 20220719

### Mutual Fund Dealers Association of Canada/Association canadienne des courtiers de fonds mutuels

#### Background

1. Section 64(1) of the *Securities Act* (Alberta) (the **Act**) provides the Alberta Securities Commission (**Commission**) with the power to recognize, on application, a self-regulatory organization if the Commission is satisfied that to do so would be in the public interest.
2. The Commission recognized the Mutual Fund Dealers Association of Canada/Association canadienne des courtiers de fonds mutuels (the **MFDA**) as a self-regulatory organization for mutual fund dealers by an order dated May 18, 2004, as amended on November 14, 2008, November 6, 2014, April 9, 2018 and April 1, 2021 (cited as *Re MFDA/ACFM*, 2021 ABASC 32 (the **MFDA Recognition Order**)).
3. On August 3, 2021, the Canadian Securities Administrators (the **CSA**) published the [\*CSA Position Paper 25-404 New Self-Regulatory Organization Framework\*](#) (the **CSA Position Paper**) recommending amalgamation of the MFDA with the Investment Industry Regulatory Organization of Canada (**IIROC**) and the MFDA and IIROC commenced the process of amalgamation to create a new single self-regulatory organization (**New SRO**).
4. On October 18, 2021, the Commission received an application from the MFDA (**Application**) seeking approval to use unallocated monies from the MFDA Discretionary Fund<sup>1</sup> to pay for external advisor costs incurred by the MFDA related to the creation of the New SRO (the **New SRO Integration Costs** described in Appendix A of Schedule 1 of this **Order**) in accordance with subparagraph 10(a)(v) of Schedule A of the MFDA Recognition Order<sup>2</sup>.

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<sup>1</sup> The MFDA Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors, which collects enforcement fines, imposed by order of an MFDA hearing panel, and related investment income.

<sup>2</sup> Section 10 of the Terms and Conditions states that all fines collected by the MFDA and all payments made under settlement agreements entered into with the MFDA may be used only as follows:

- (a) *as approved by the MFDA's Board,*
  - (i) *for funding the MFDA IPC,*
  - (ii) *for the development of systems or other expenditures that are necessary to address emerging regulatory issues and are directly related to protecting investors or the integrity of the capital markets, provided that any such use does not constitute normal course operating expenses,*
  - (iii) *for education or research projects that are directly relevant to the investment industry, are in the public interest, and which benefit the public or the capital markets,*
  - (iv) *to contribute to a non-profit, tax exempt organization, the purposes of which include the protection of investors, or those described in paragraph (a)(iii),*
  - (v) *for such other purposes as may be subsequently approved by the Recognizing Regulators, or*
- (b) *for reasonable costs associated with the administration of the MFDA's hearing panels.*

5. The MFDA has submitted that:
  - (a) It has incurred, and continues to incur, the New SRO Integration Costs for the following services:
    - (i) legal and regulatory advisors to advise on all aspects of the integration of the MFDA into the New SRO;
    - (ii) consultants to advise on the integration of the MFDA into the New SRO, including advice related to corporate structure, organizational design and change management;
    - (iii) consultants to conduct an executive search for the CEO and members of the board of directors for the New SRO;
    - (iv) accounting support to produce pro forma financial statements for the New SRO; and
    - (v) compensation and benefits structure alignment advisors;
  - (b) The New SRO Integration Costs directly arise from the creation of the New SRO, mandated by the CSA;
  - (c) As the CSA Position Paper describes the creation of the New SRO as an initiative with a clear public interest mandate which will enhance investor protection, the MFDA is of the view that disbursements from the MFDA Discretionary Fund to cover such costs would be appropriate and consistent with the underlying intent in section 10 of Schedule A of the MFDA Recognition Order that fine and settlement monies be used for public interest and investor protection purposes; and
  - (d) the use of the funds from the MFDA Discretionary Fund towards the New SRO Integration Costs will not impact the availability of the funds for other expenses contemplated by subparagraphs 10(a)(i) to (iv) and paragraph 10(b) of Schedule A of the MFDA Recognition Order.
6. The CSA staff created a dedicated working group (the **CSA Working Group**) that conducted a thorough review of the Application and the above submissions.
7. The CSA Working Group recommends that the MFDA be permitted to access, on a limited basis, funds for costs up to \$4.29 million, as described in Appendix A of Schedule 1, for the following reasons:
  - (a) The MFDA Discretionary Fund is restricted to expenses that are not considered operating in nature. Any costs directly associated with the MFDA integrating into the New SRO are not ordinary operating costs;
  - (b) According to the CSA Position Paper, creation of the New SRO will contribute to the regulatory framework that has a clear public interest mandate which will enhance investor protection. The underlying intent of section 10 of Schedule A of the MFDA Recognition Order is that fine and settlement monies be used for public

interest and investor protection purposes. As such, the specified use of the MFDA Discretionary Fund for the payment of external advisory costs associated with the formation of the New SRO is consistent with the intent of the MFDA Recognition Order; and

- (c) Use of the MFDA Discretionary Fund will be limited to the New SRO Integration Costs, which can only be accessed in accordance with the specific terms and conditions set out in Schedule 1 of this Order.

**Order**

8. Pursuant to section 64(6) of the Act, the Commission has determined that it is in the public interest to approve, under subparagraph 10(a)(v) of Schedule A of the MFDA Recognition Order, the MFDA's limited access to the MFDA Discretionary Fund to pay for the New SRO Integration Costs set out in Appendix A, provided that the MFDA complies with the terms and conditions contained in Schedule 1 of this Order.

This Order takes effect on July 19, 2022.

**For the Commission:**

*“original signed by”*

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Tom Cotter  
Vice-Chair

*“original signed by”*

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Kari Horn  
Vice-Chair

**SCHEDULE 1**  
**MFDA Discretionary Fund Order: Terms and Conditions**

This Schedule forms a part of, and adopts terms defined in, the Order.

**Quarterly Reporting**

1. The MFDA must file with the Commission, by delivering to the members of the CSA Oversight Committee, within 30 days after the end of each quarter, starting with the quarter ending June 30, 2022, a report that includes the following information and documents:
  - (a) a summary of New SRO Integration Costs incurred during the previous calendar quarter or, in case of the initial filing, a summary of all New SRO Integration Costs incurred prior to June 30, 2022;
  - (b) a summary of the New SRO Integration Costs that the MFDA reasonably expects to incur during the next calendar quarter (the **Quarterly Reports**).

**Certification**

2. The Quarterly Reports shall include a certification by the MFDA Vice President, Finance & Administration, President and audit committee chair that,
  - (a) the expenses incurred during the relevant period are not operational in nature and only relate to the New SRO Integration Costs as set out in Appendix A, and
  - (b) after paying the New SRO Integration Costs, sufficient funds remain in the MFDA's discretionary fund for other expenses contemplated by subparagraphs 10(a)(i) to (iv) and paragraph 10(b) of Schedule A to the MFDA Recognition Order.

**Other Conditions**

3. The MFDA must make an additional application pursuant to section 64(6) of the Act for approval under subparagraph 10(a)(v) of Schedule A to the MFDA Recognition Order and obtain approval by the Commission to use the Discretionary Fund,
  - (a) to pay for any New SRO Integration Cost that exceeds the amounts set out in Appendix A, or
  - (b) to pay any cost that is not an SRO Integration Cost described in Appendix A.
4. The MFDA shall not use the Discretionary Fund for any New SRO Integration Costs incurred after December 31, 2022.

**Appendix A**  
**New SRO Integration Costs<sup>3</sup>**

<b>Nature of Costs</b>	<b>Advisory Mandate</b>	<b>Projected Project Costs<sup>4</sup></b>	<b>Costs to MFDA<sup>5</sup></b>
Legal Fees	Integration Advisory	N/A	\$1.20M
Other External Consultants – Advisory Contract	Integration Management	\$4.70M	\$2.35M
Executive Search Fees and Support	CEO and Board Member Search	\$800K - \$840K	\$400K - \$420K
Finance – Accounting Support	Pro forma Financial Statements	\$60K - \$68K	\$30K - \$34K
Human Resources – Compensation and Benefits Structure Alignment	Compensation and Benefits Structure Alignment Advisory	\$434K - \$566K	\$217K - \$283K
	<b>Total</b>		<b>\$4.20M - 4.29M</b>

<sup>3</sup> Range of projected third party advisor and consultant costs.

<sup>4</sup> K= 1,000; M= 1,000,000

<sup>5</sup> Where applicable, MFDA's portion of fees represents 50% of the total Projected Project Costs