

Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 MFDA Proposed Policy 6 - Information Reporting Requirements, Notification of Change in Registration Information (Rule 1.2.5) and Consequential Amendments

MFDA PROPOSED POLICY 6 - INFORMATION REPORTING REQUIREMENTS, NOTIFICATION OF CHANGE IN REGISTRATION INFORMATION (RULE 1.2.5) AND CONSEQUENTIAL AMENDMENTS

I. OVERVIEW

A. Current Rules

MFDA Rules and Policies currently require reporting of certain enforcement and compliance related information to the MFDA. Under Policy 3, Approved Persons must report all written complaints to the Member, and the Member must report complaints involving allegations of theft, misappropriation of funds or securities, and forgery to the MFDA. Settlements of \$25,000 or greater by the Member or \$15,000 or greater by Approved Persons must also be reported to the MFDA.

Under Rule 1.2.5, Members must report changes in registration information to the MFDA, such as changes in a Member's address, a bankruptcy or insolvency of a member and changes to material information previously filed with the MFDA. Details regarding what changes to material information under Rule 1.2.5 must be filed with the MFDA are set out in Bulletin #0082.

Under Rule 1.2.6, Members are required to notify the MFDA of the termination of an employment or agency relationship with an Approved Person where the Notice of Termination filed with the applicable securities commission discloses that the Approved Person was dismissed for cause or discloses information regarding unresolved client complaints, internal discipline matters or restrictions for violation of regulatory requirements.

Currently all such reporting to the MFDA is paper-based.

B. The Issues

Currently MFDA reporting is required by several MFDA instruments and all reporting is paper based. The use of electronic reporting will benefit Members in terms of ease of use, as well as the MFDA and the public in terms of the increased regulatory oversight of industry trends through trend and data analysis which will be conducted on the electronic reports. The scope of matters to be reported must be expanded to allow the MFDA to perform a broader assessment of activities of Approved Persons and Members.

C. Objectives

The objective of the proposed Policy 6, amendments to Rule 1.2.5 and consequential amendments are to consolidate many MFDA reporting requirements into a single instrument, expand the scope of matters that must be reported and to require that enforcement and compliance related information be reported electronically.

D. Effect of Proposed Amendments

The proposed amendments will impose new requirements with respect to reporting of information to the MFDA.

The proposed Rule and Policy will lead to an increase in compliance costs for Members in that proposed Rule 1.2.5 and Policy 6 require that Approved Persons submit various reports to the Member which Members will be required to review. The Member will also be required to submit various reports to the MFDA relating to the Member and the Approved Person.

While certain reports under Policy 6 will be filed electronically by Members, there will not be any substantial technological systems changes required on the part of Members as the electronic reporting system will be web-based, and Members are presently mandated to file financial reports through the MFDA EFS System which is a web-based system for filing financial reports. The web-based reporting system will support Internet Explorer version 6.0 which is the most frequently used version of Internet Explorer. Members using previous versions will need to upgrade to version 6 in order to ensure proper functionality of the program. Costs to Members that must upgrade are expected to be low as there is no cost for the software and the upgrade is generally expected to cause few, if any, technical issues.

It is not expected that the proposed Policy and Rule will have other significant effects on Members, other market participants, market structure or competition. Although the proposed Policy and Rule imposes costs on Members relating to reporting, the MFDA is of the view that these costs are generally not significant and are justified by the anticipated benefits.

II. DETAILED ANALYSIS

A. Relevant History

MFDA Rules and Policies currently require members to report certain information relating to client complaints, terminations, client settlements and legal proceedings against approved persons. A strategic assessment of the MFDA's current reporting requirements identified a need for staff to develop the proposed Policy to increase the effectiveness of such reporting through an electronic process, and to increase the scope of such reporting to enhance the ability of the MFDA to assess member risk, identify cases for enforcement investigation, identify member issues for compliance examinations and identify general trends in industry to assist in policy development and other MFDA purposes.

B. Proposed new Policy and Rule

Proposed Rule 1.2.5

Rule 1.2.5 will be repealed and replaced with proposed Rule 1.2.5 that effectively provides that members must report the information that is prescribed in Policy 6. Proposed Rule 1.2.5 requires that Members report to the MFDA all matters relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events, investigations by Members relating to any of the enumerated matters, and information relating to the business and operation of the Member. The rule requires that Approved Persons submit reports to their Member regarding the same enumerated matters.

Proposed Rule 1.2.5 will also provide that Members must pay levies or assessments on non-reporting or late reporting under the Rule and Policy. This will be similar to current obligations relating to late financial filings under Rule 3.5.5.

Policy 6

Proposed Rule 1.2.5 sets out the general reporting requirements for Members and Approved Persons, while Policy 6 prescribes events and the manner in which the events must be reported under proposed Rule 1.2.5. Policy 6 is divided into four main areas which are discussed below:

Introduction, Definitions and General Reporting Requirements

These three sections apply to the entire Policy. The Introduction and Definitions sections are self-explanatory. The purpose of the General Requirements section is to clarify the scope of activity that must be reported. Members are required to report events relating to both securities related business and other Member business. Approved Person reporting includes reportable events relating to securities related business, Member business and all other business conducted by the Approved Person.

Members are required to report events relating to Approved Persons to the MFDA which they become aware of, either through a report by the Approved Person or through carrying out their supervisory, monitoring and review obligations over the conduct of its business. The Policy will require Members to designate a person to receive reports that are submitted by Approved Persons. There is also a record-keeping requirement, which is consistent with the general record-keeping obligations of Members under MFDA Rules.

Part A - Approved Person Reporting Requirements

Policy 6 will require Approved Persons to report the occurrence of certain events to their sponsoring Member.

Approved Person reporting can generally be divided into eight categories of reports:

1. Breaches of Criminal Laws
2. Breaches of Regulatory Requirements
3. Civil Claims
4. Denial or withdrawal of registration or licenses

5. Written Complaints
6. Complaints not in writing relating to theft, fraud, misappropriation, forgery money laundering, market manipulation, insider trading, engaging in securities related business outside of the Member and unauthorized trading relating to themselves or another Approved Person.
7. Bankruptcies
8. Garnishments

Details regarding a reportable item must be reported to a designated person at the Member within two days. Policy 6 states that the reporting of an event must be done in such detail as required by the Member. Policy 6 allows flexibility as to how Members set procedures for receiving such reports from Approved Persons.

Part B - Member Electronic Reporting Requirements

Members are required to electronically report on matters relating to the Member, current Approved Persons, and former Approved Persons if the event concerns matters that occurred while an Approved Person of the Member. All matters under this section must be reported to the MFDA through a web-based reporting system provided by the MFDA.

Under section 6.1, Members must generally report the same eight categories of reports that Approved Persons must report to the Member.

Under section 7.1, Members must provide follow-up information on any resolution or conclusion of any of the above reported events, including any discipline, termination of Approved Persons, any judgments, settlements or payment of compensation to a client, as well as the results of any internal investigation.

In addition to the events that are to be reported in section 6.1, section 8.1 outlines additional situations in which members must report to the MFDA. These situations involve conduct which itself is not reportable on its own, but has been the subject of a significant level of disciplinary or compensatory response by the Member or Approved Person that would warrant consideration by the MFDA.

Policy 6 provides that all reports under Part B must be submitted to the MFDA within five business days of the occurrence of the event, except for customer complaints which must be submitted within 20 business days.

Part C – Other Member Reporting Requirements

Part C provides for Member reporting of certain information that is generally related to material changes to membership information previously filed with the MFDA, which is currently a requirement under Rule 1.2.5. The language of the reporting requirement in rule 1.2.5 has been amended to information relating to “business and operations of the Member and its Approved Persons” to provide for a degree of flexibility. Information reported under Part C is not reported electronically. Reportable information in Part C was previously communicated to Members in Member Bulletin #0082.

Policy 6 provides that all reports under Part C must be submitted to the MFDA within five business days of the occurrence of the event, except for Member bankruptcies and insolvencies which must be reported immediately.

Consequential Amendments

As Policy 6 sets out most reporting requirements for Members, there will be an overlap with some existing MFDA reporting requirements contained in various Rules and Policies which consequentially must be repealed in whole or in part.

Policy 3 will be amended to remove the requirements for Approved Persons to report complaints to their head offices and for Members to report complaints involving allegations of theft, misappropriation of funds or securities, and forgery to the MFDA, as these requirements will be incorporated into Policy 6. The requirement to report settlement agreements and dispositions of security related claims will also be removed from Policy 3 as these reports will now be required by Policy 6.

Rule 1.2.5 will be repealed and replaced by proposed Rule 1.2.5. Rule 1.2.5 requires that Members report changes in registration information to the MFDA, such as changes in a Member’s address, a bankruptcy or insolvency of a member and changes to material information previously filed with the MFDA. These reports will now be required by Policy 6.

Rule 1.2.6 will be repealed and its substance incorporated into Policy 6. Rule 1.2.6 required Members to report terminations of Approved Persons to the MFDA.

C. Issues and Alternatives Considered

An internal analysis was conducted to identify what information the enforcement and compliance department would require to be reported in order to effectively track industry trends, and to increase investor protection. The MFDA considered the need for increased reporting along with the increased demands the new reporting would have on Members and Approved Persons. The MFDA considered several alternatives with respect to the scope of reporting that it would require. MFDA staff consulted with Members and outside counsel to determine the appropriate balance between the need for regulatory reporting and the increased cost in terms of resources to Members.

D. Comparison with Similar Provisions

A comparison of relevant rules and by-laws of the Investment Dealers Association was conducted.

E. Systems Impact of Amendments

While certain reports under Policy 6 will be filed electronically by Members, there will not be any major technological systems changes required on the part of Members as the electronic reporting system will be web-based, and Members are presently mandated to file financial reports through the MFDA EFS System which is a web-based system for filing financial reports.

The web-based reporting system will support Internet Explorer version 6.0 which is the most frequently used version of Internet Explorer. Members using previous versions will need to upgrade to version 6 in order to ensure proper functionality of the program. Costs to Members that must upgrade are expected to be low as there is no cost for the software and the upgrade is generally expected to cause few, if any, technical issues.

F. Best Interests of the Capital Markets

The Board has determined that the proposed amendments are in the best interests of the capital markets.

G. Public Interest Objective

The proposed amendments will establish reporting standards with respect to MFDA Members and Approved Persons that are consistent with practices followed by the Investment Dealers Association. The proposed amendments will assist in the protection of the investing public by increasing MFDA regulatory oversight over industry trends, assisting in detecting fraud and other similar malicious acts and assisting in promoting high standards of business conduct and ethics.

III. COMMENTARY

A. Filing in Other Jurisdictions

The proposed By-law amendments will be filed for approval with the Alberta, British Columbia, Nova Scotia, and Ontario Securities Commissions and the Saskatchewan Financial Services Commission.

B. Effectiveness

The proposed amendments are simple and effective.

C. Process

The proposed Policy, Rule and amendments have been prepared in consultation with relevant departments within the MFDA and have been reviewed by external counsel, the Policy Advisory Committee of the MFDA and the Regulatory Issues Committee of the Board. The MFDA Board of Directors has also approved the proposed amendments.

E. Effective Date

The proposed amendments will be effective on a date to be subsequently determined by the MFDA.

IV. SOURCES

MFDA Rule 1.2.5
MFDA Rule 1.2.6
MFDA Policy 3
MFDA Policy 6
IDA Policy 8

V. REQUIREMENT TO PUBLISH FOR COMMENT

The MFDA is required to publish for comment the proposed amendments so that the issues referred to above may be considered by the Recognizing Regulators.

The MFDA has determined that the entry into force of the proposed amendments would be in the public interest and is not detrimental to the capital markets. Comments are sought on the proposed amendments. Comments should be made in writing. One copy of each comment letter should be delivered within 30 days of the publication of this notice, addressed to the attention of the Corporate Secretary, Mutual Fund Dealers Association of Canada, 121 King St. West, Suite 1000, Toronto, Ontario, M5H 3T9 and one copy addressed to the attention of Leslie Rose, Senior Legal Counsel, British Columbia Securities Commission, 701 West Georgia Street, P.O. Box 10142, Pacific Centre, Vancouver, British Columbia, V7Y 1L2.

On request, the MFDA will make available all comments received during the comment period.

Questions may be referred to:

Shaun Devlin
Vice-President, Enforcement
Mutual Fund Dealers Association of Canada
(416) 943-4672

**MUTUAL FUND DEALERS ASSOCIATION OF CANADA
INFORMATION REPORTING REQUIREMENTS (POLICY NO. 6)**

1. Introduction

This Policy establishes minimum requirements concerning events that Approved Persons are required to report to Members and events that Members are required to report to the MFDA pursuant to Rule 1.2.5.

Part A of this Policy, entitled "*Approved Person Reporting Requirements*", sets out details regarding the reporting of information under Rule 1.2.5(b) by Approved Persons.

Part B of this Policy, entitled "*Electronic Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.2.5(a)(i) and Rule 1.2.5(a)(ii) by Members. All reporting under Part B must be submitted through the electronic reporting system provided by the MFDA. The reporting of events that are required to be submitted electronically by any other means is a failure to report the event and a failure to comply with this Policy.

Part C of this Policy, entitled "*Other Reporting Requirements for Members*", sets out details regarding reporting of information under Rule 1.2.5(a)(iii) by Members. All reporting under Part C must be submitted to the MFDA in writing.

In addition to these reporting requirements, MFDA Members are required to comply with other reporting requirements which may change from time to time, and which include but are not limited to:

- (a) MFDA reporting requirements, some of which may also require MFDA approval:
 - (i) By-law No.1 section 13.7 – Reorganizations, mergers and amalgamations;
 - (ii) By-law No. 1 section 13.9 – Changes in ownership and control;
 - (iii) Rule 1.1.6 – Introducing/Carrying dealer arrangements;
 - (iv) Rule 3.1.1 – Change in dealer level;
 - (v) Rule 3.1.2 – Risk adjusted capital less than zero;
 - (vi) Rule 3.2.5 – Accelerated payment of long term debt; and
 - (vii) Rule 3.5 – Financial filing requirements
- (b) reporting requirements under applicable provincial securities laws in connection with a Member's mutual fund dealer registration.

2. Definitions

"any jurisdiction" means any jurisdiction inside or outside of Canada.

"business day" means a day other than Saturday, Sunday or any officially recognized Federal or Provincial Statutory holiday.

"civil claim" includes civil claims pending before a court or tribunal and arbitration.

"client" means an individual who is a client of the Member.

"compensation" means the payment of a sum of money, securities, reversal or inclusion of a securities transaction (whether the transaction has a realized or unrealized loss) or any other equivalent type of entry which is intended to compensate a client or offset an act of a Member or Approved Person. A correction of a client account or position as a result of good faith trading errors and omissions is not considered to be "compensation" for the purposes of this Policy.

"event" means a matter that is reportable under this Policy by a Member or Approved Person.

"law" includes, but is not limited to, all legislation of any jurisdiction and includes any rules, policies, regulations, rulings or directives of any securities regulatory authority of any jurisdiction.

"member business" means all business activities conducted by and through the Member, whether securities related or otherwise.

“misrepresentation” means:

- (i) an untrue statement of fact, either in whole or in part; or
- (ii) an omission to state a fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

“regulatory body” means, but is not limited to, any regulatory or self-regulatory organization that grants persons or organizations the right to deal with the public in any capacity.

“regulatory requirements” means, but is not limited to, the by-laws, rules, policies, regulations, rulings, orders, terms and conditions of registration, or agreements of any regulatory body in any jurisdiction.

“securities” includes exchange contracts, commodity futures contracts and commodity futures options.

“service complaints” means:

- (i) any complaint by a client which is founded on customer service issues and is not the subject of any securities law or regulatory requirements; or
- (ii) any complaint by a client as a result of a good faith trading error or omission.

3. General Reporting Requirements

- 3.1. Events regarding Members that must be reported shall not be limited solely to securities related business, but shall include all member business.
- 3.2. Events regarding Approved Persons that are reported by Approved Persons to the Member shall not be limited solely to securities related business and member business, but shall include all business conducted by the Approved Person.
- 3.3. A Member's obligation to report an event relating to an Approved Person under this Policy is limited to events of which it has become aware regardless of the means by which it became aware of the event.
- 3.4. A Member is expected to be aware of events relating to Approved Persons by the receipt of reports from Approved Persons and by carrying out the Member's supervisory, monitoring and review obligations over the conduct of its business.
- 3.5. All requirements to report events regarding former Approved Persons are limited to events which occurred while the Approved Person was an Approved Person of the Member.
- 3.6. A Member shall designate a compliance officer at its head office (or another person at head office) to whom reports made by Approved Persons, as required by section 4, shall be submitted.
- 3.7. Documentation associated with each event required to be reported under this Policy shall be maintained for a minimum of 7 years from the resolution of the matter and made available to the MFDA upon request.

PART A

APPROVED PERSON REPORTING REQUIREMENTS

4. Approved Person Reporting Requirements

- 4.1. An Approved Person shall report the following events to his or her current Member in such detail as required by the Member, within 2 business days:
 - (a) the Approved Person is the subject of a client complaint in writing;
 - (b) the Approved Person is aware of a complaint from any person, whether in writing or any other form, and with respect to him or herself, or any other Approved Person, involving allegations of:
 - (i) theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading; or
 - (ii) engaging in securities related business outside of the Member.

- (c) whenever the Approved Person has reason to believe that he or she has or may have contravened, or is named as a defendant or respondent in any proceeding, in any jurisdiction, alleging the contravention of:
 - (i) any securities law; or
 - (ii) any regulatory requirements.
- (d) the Approved Person is charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;
- (e) the Approved Person is named as a defendant in a civil claim, in any jurisdiction, relating to the handling of client accounts or trading or advising in securities;
- (f) the Approved Person is denied registration or a license that allows the Approved Person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions;
- (g) the Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is declared insolvent; and
- (h) there are garnishments outstanding or rendered against the Approved Person in any civil court in Canada.

**PART B
ELECTRONIC REPORTING REQUIREMENTS FOR MEMBERS**

5. General Member Electronic Reporting Requirements

- 5.1. Members shall report the following events to the MFDA, through an electronic reporting system provided by the MFDA, within 5 business days of the occurrence of the event, except for events reported under section 6.1(a) of this Policy, which must be reported to the MFDA within 20 business days.

6. General Events to be Reported

- 6.1. Members shall report to the MFDA:
- (a) all client complaints in writing, against the Member or a current or former Approved Person, relating to member business, except service complaints;
 - (b) whenever a Member is aware, through a written or verbal complaint or otherwise, that the Member or any current or former Approved Person has or may have contravened any provision of any law or has contravened any regulatory requirement, relating to:
 - (i) theft, fraud, misappropriation of funds or securities, forgery, money laundering, market manipulation, insider trading, misrepresentation, or unauthorized trading; or
 - (ii) engaging in securities related business outside of the Member.
 - (c) whenever the Member, or a current or former Approved Person, is:
 - (i) charged with, convicted of, pleads guilty or no contest to, any criminal offence, in any jurisdiction;
 - (ii) named as a defendant or respondent in, or is subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of any securities law;
 - (iii) named as a defendant or respondent in, or is the subject of, any proceeding or disciplinary action, in any jurisdiction, alleging contravention of regulatory requirements;
 - (iv) denied registration or a license that allows a person to deal with the public in any capacity by any regulatory body, or has such registration or license cancelled, suspended or terminated, or made subject to terms and conditions; or

- (v) named as a defendant in a civil claim, in any jurisdiction, relating to handling of client accounts or trading or advising in securities.
- (d) whenever an Approved Person becomes bankrupt or suspends payment of debts generally or makes an arrangement with creditors or makes an assignment or is declared insolvent; and
- (e) there are garnishments outstanding or rendered against the Member or an Approved Person in any civil court in Canada.

7. Reporting of Resolution of Events

7.1. Members shall update event reports previously reported to reflect the resolution of any event that has been reported pursuant to section 6.1 of this Policy and such resolutions shall include but not be limited to:

- (a) any judgments, awards, arbitration awards or orders and settlements in any jurisdiction;
- (b) compensation paid to clients directly or indirectly, or any benefit received by clients from a Member or Approved Person directly or indirectly;
- (c) any internal disciplinary action or sanction against an Approved Person by a Member;
- (d) the termination of an Approved Person; and
- (e) the results of any internal investigation conducted.

8. Other Events to be Reported

8.1. For matters that are not the subject of an event report in section 6.1 of this Policy, the Member shall report to the MFDA:

- (a) whenever the Member has initiated disciplinary action that involves suspension, demotion or the imposition of increased supervision on an Approved Person;
- (b) whenever the Member has initiated disciplinary action that involves the withholding of commissions or the imposition of a financial penalty in excess of \$1000;
- (c) whenever an employment or agency relationship with an Approved Person is terminated and the Notice of Termination filed with the applicable securities commission discloses that the Approved Person was terminated for cause, or discloses information regarding internal discipline matters or restrictions for violations of regulatory requirements; and
- (d) whenever the Member or Approved Person has paid compensation to a client either directly or indirectly in an amount exceeding \$15,000.

**PART C
OTHER REPORTING REQUIREMENTS FOR MEMBERS**

9. Other Information Reporting Requirements for Member

9.1. Members shall report the events under Part C of this Policy to the MFDA, in writing, within 5 business days of the occurrence of the event, except for events reported under section 10 of this Policy, which must be reported to the MFDA immediately.

10. Bankruptcy, Insolvency and Related Events

10.1. Members must report to the MFDA whenever:

- (a) the Member is declared bankrupt;
- (b) the Member makes a voluntary assignment in bankruptcy;
- (c) the Member makes a proposal under any legislation relating to bankruptcy or insolvency;

- (d) the Member is subject to, or instituting any proceedings, arrangement or compromise with creditors; and
- (e) a receiver and/or manager assumes control of the Member's assets.

11. Change of Name

11.1. Members must report to the MFDA any change with respect to:

- (a) the legal name of the Member;
- (b) the names under which the Member carries on business (trade or style names); and
- (c) trade, business or style names, other than that of the Member, used by Approved Persons. The name of the Approved Person, the trade or business name the Approved Person is using, and the Approved Person's branch location must be provided.

12. Change of Contact Information

12.1. Members must notify the MFDA of any change in address for service or main telephone or fax number.

13. Change in Member Registration or Licensing

13.1. Members must report to the MFDA any changes in the following:

- (a) type of registration or licensing with the relevant securities commission;
- (b) jurisdictions in which any dealer business of the Member is conducted; and
- (c) investment products traded or dealt in.

14. Changes in Organizational Structure

14.1. Members must report to the MFDA any changes in a Member's directors, partners (in the case of a partnership), officers and compliance officers.

15. Other Business Activities

15.1. Members must report to the MFDA any business, other than the sale of investment products, which the Member engages in or proposes to engage in.

16. Change of Auditor

16.1. Members must report to the MFDA any change in a Member's auditor and/or audit engagement partner. A new Letter of Acknowledgement (Schedule H.1 of the MFDA Membership Application Package) must be submitted to the MFDA.

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

HANDLING CLIENT COMPLAINTS (POLICY NO. 3)

Introduction

This Policy establishes minimum industry standards for handling client complaints. A "complaint" shall be deemed to mean any written statement of a client or any person acting on behalf of a client alleging a grievance involving the conduct, business or affairs of the Member or any registered salesperson, partner, director or officer of the Member.

Although the definition of "complaint" refers to only written complaints, there may be instances where a Member receives a verbal complaint from a client which will warrant the same treatment as a written complaint. Such situations depend upon the nature and severity of the client's allegations and require the professional judgement of the Member's supervisory staff handling the complaint.

Complaint Procedure

Each Member must establish procedures to deal effectively with client complaints, which should include the following:

1. Each Member must acknowledge all client complaints.
2. Each Member must convey the results of its investigation of a client complaint in writing to the client in due course.
3. Client complaints involving the sales practices of a Member, its partners, directors, officers, salespersons or employees or agents must be handled by qualified sales supervisors/compliance staff.
4. ~~Each Member and Approved Person must ensure that all complaints and pending legal actions are made known to the compliance officer at head office (or another person at head office designated to receive such information) within two business days.~~
5. Each Member must ensure that registered salespersons and their supervisors are made aware of all complaints filed by their clients.
6. Each Member must put procedures in place so that senior management is made aware of complaints of serious misconduct and of all legal actions.
7. Each Member must maintain in a central place an orderly, up-to-date record of complaints together with follow-up documentation regarding such complaints, for regular internal/external compliance reviews. For each complaint, the record should include the following information:
 - the date of the complaint;
 - the complainant's name;
 - the name of the person who is the subject of the complaint;
 - the security or services which are the subject of the complaint; and
 - the date and conclusions of the decision rendered in connection with the complaint.

This record must be retained for a period of seven years from the date of receipt of the complaint.

8. Each Member must establish procedures to ensure that breaches of MFDA By-laws, Rules and Policies are subjected to appropriate internal disciplinary procedures.
9. When a Member finds complaints to be a significant factor, internal procedures and practices should be reviewed, with recommendations for changes to be submitted to the appropriate management level.

Complaint Reporting

~~Each Member shall promptly report to the MFDA whenever such Member or partner, director, officer, salesperson, employee or agent of the Member, is the subject of any client complaint involving allegations of theft or misappropriation of funds or securities or of forgery.~~

Settlement Agreements and Disposition of Claims

Each Member shall report to the MFDA whenever:

- (i) ~~such Member has entered into a private settlement or has disposed of any claim in securities-related litigation or arbitration by judgement, award or settlement where the amount of the judgement, award or settlement exceeds \$25,000; or~~
- (ii) ~~a partner, director, officer, salesperson, employee or agent of the Member has entered into a private settlement or has disposed of any claim in securities-related litigation or arbitration by judgement, award or settlement where the amount of the judgement, award or settlement exceeds \$15,000.~~

No Approved Person shall, without the prior written consent of the Member, enter into any settlement agreement with a client.

No Member or Approved Person of such Member may impose confidentiality restrictions on clients with respect to the MFDA or a securities commission, regulatory authority, law enforcement agency, self-regulatory organization, stock exchange or other trading market as part of a resolution of a dispute or otherwise.

**MUTUAL FUND DEALERS ASSOCIATION OF CANADA
NOTIFICATION OF CHANGES IN REGISTRATION INFORMATION (Rule 1.2.5)**

1.2.5 **Notification of Changes in Registration Information.** Every Member must notify the Corporation within five business days, and immediately in the case of the events in (c), of:

- (a) any change in address for service in a province or territory in which it carries on business;
- (b) material changes in any other information previously filed by or on behalf of the Member with the Corporation, including a charge or an indictment against such Member pursuant to any criminal laws or securities legislation; and
- (c) the Member being declared bankrupt or making a voluntary assignment in bankruptcy or a proposal under any legislation relating to bankruptcy or insolvency, being subject to or instituting any proceedings, arrangement or compromise with creditors or having a receiver and/or manager appointed to hold its assets.

1.2.5 Reporting Requirements.

- (a) **Member Reporting.** Every Member must report to the Corporation such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to:
 - (i) complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies or by Members against Approved Persons, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events;
 - (ii) investigations by the Member relating to any of the matters in sub-section (i); and
 - (iii) information relating to the business and operation of the Member and its Approved Persons.
- (b) **Approved Person Reporting.** Every Approved Person must report to the Member such information, in a manner and within such period of time, as may be prescribed by the Corporation from time to time relating to complaints, criminal, civil and other legal proceedings, regulatory proceedings, arbitrations, contraventions and potential contraventions of legal and regulatory requirements, disciplinary action by regulatory bodies, settlements with and compensation paid to clients, registration or licensing by any regulatory body, bankruptcies, insolvencies, garnishments and related events.
- (c) **Failure to Report.** A Member shall be liable for and pay to the Corporation levies or assessments in the amounts prescribed from time to time by the Corporation for the failure of the Member or Approved Person to report any information required to be reported in the manner and within the period of time prescribed by the Corporation.

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

NOTIFICATION OF TERMINATION OF APPROVED PERSONS (Rule 1.2.6)

~~1.2.6 — **Notification of Termination of Approved Persons.** Every Member must notify the Corporation within five business days of the termination of an employment or agency relationship with an Approved Person where the Notice of Termination filed with the applicable securities commission discloses that the Approved Person was dismissed for cause or discloses information regarding unresolved client complaints, internal discipline matters or restrictions for violation of regulatory requirements. The Member must comply with this requirement by filing a copy of the Notice of Termination prescribed by the applicable securities commission with the MFDA.~~