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Paige Ward, Director of Policy and Regulatory Affairs
Mutual Fund Dealers Association
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
(pward@mfd.ca)

Dear Ms. Ward,

Re: Consultation Paper on the Use of Third Party Back-Office Service Providers

We are writing in response to the Mutual Fund Dealers Association of Canada (MFDA) Consultation Paper on the Use of Third Party Back-Office Service Providers.

Advocis, The Financial Advisors Association of Canada, is the largest and oldest voluntary professional membership association of financial advisors and planners in Canada. Our members are provincially licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. They are professional financial advisors who provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

The Consultation Paper specifically asked for comment on three options (the Options) considered by the MFDA Policy Advisory Committee which are meant to address particular concerns relating to third party back-office service providers.

The Options:

The three Options outlined in the Consultation Paper are:

1. To amend MFDA Rule 1.1.3 to require members to only use MFDA-approved third party back-office service providers;
2. To develop a list of service providers that have been reviewed and approved by the MFDA, without making it a formal requirement to only use approved service providers; and
3. To maintain the *status quo*, by continuing to notify service providers and members when a system does not meet MFDA requirements. As well, MFDA Policy No. 6 Information Reporting Requirements could be amended to require Members to notify the MFDA about their use of service providers.

Our comments

Please find below our general comments, followed by more specific observations in response to the questions posed in the Consultation Paper,,.

General comments

The Consultation Paper points out that a preponderance of dealers rely on third party back-office services that provide “software (and) systems used for processing trades, generating and maintaining required books and records (such as trade blotters and client account statements), and supervising compliance with regulatory requirements (for example, trade exception reports or new account approvals).”

It can be challenging for a dealer who relies on a third party back-office service provider to ensure that it is, at all times, compliant with the MFDA’s requirements regarding the functions undertaken by the service provider.

The Consultation Paper is seeking input to help the MFDA and its members to address the challenge of ensuring that members who rely on service providers continue to comply with the MFDA’s requirements.

The first two Options outlined in the Consultation Paper contemplate that the MFDA should review and approve service providers.

We suggest that the MFDA consider the alternative of clearly articulating its expectations as to what a third party back-office service provider should and should not do.

We believe that the MFDA should as much as possible leave it to its members to comply with MFDA requirements according to their best business judgment. In the long run, the interests of the MFDA, its member dealers, and consumers, will be best served if member dealers and service providers are permitted the flexibility to devise their own systems and approaches to compliance, without being required to adopt particular solutions or systems.

Instead of mandating the use of approved service providers that operate in accordance with MFDA requirements, we believe the MFDA should experiment with a less prescriptive approach, by developing standards that clearly articulate its expectations regarding service providers. We believe this approach would be more open and flexible, and less costly to implement than a system that would in effect have the MFDA regulate and approve the service providers.

Responses to specific questions:

“1. What are your views on the options and issues discussed above?”

In our view, none of the options are entirely satisfactory: Options 1 and 2 go further than necessary by proposing MFDA review and approval of service providers, and Option 3, maintaining the status quo and requiring members to inform the MFDA about their use of service providers, does not go far enough.

For the MFDA to review and approve third party back-office service providers, whether on a mandatory or non-mandatory basis, would in our estimation be needlessly costly and

bureaucratic, and would deprive member dealers of autonomy and flexibility in deciding how to conduct their business.

We support the suggestion, outlined in Option 3, to amend MFDA Policy No. 6 – Information Reporting Requirements, “to require Members to notify the MFDA of the use of, or change in, back-office service providers.”

“2. Do you have any other recommendations or alternatives that may achieve the desired outcomes?”

We believe that what is needed is for the MFDA to articulate its expectations for what third party back-office service providers should and should not do, while leaving the operational details to member dealers and their service providers.

We recommend that, instead of approving service providers, the MFDA should develop proposed standards and publish them for comment. The proposed standards could include specifications for reports that the back-office system should be able to produce. The MFDA also could publish a list of what it considers to be specific deficiencies or areas where improvement is needed. This list could be revised and updated on an ongoing basis.

We urge the MFDA to consider testing a “principles-based” approach to helping dealers who use service providers to stay onside.

“3. Are there any other regulatory issues or concerns with the use of third party back-office service providers that are not identified in this consultation paper?”

We believe the MFDA should not require member dealers to use particular systems or technologies. One concern that we have is that smaller dealer members should continue to be able to use less expensive back-office solutions that are appropriate to the scale of their operations. These smaller dealers should not be required to adopt an elaborate and costly automated system designed for a larger dealer, as long as their processes and systems are sufficient for the purposes of compliance with MFDA rules.

Advocis appreciates this opportunity to provide comments on the MFDA’s Consultation Paper on the Use of Third Party Back-Office Service Providers.

Sincerely,



Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO



Robert McCullagh, CFP, CLU, CH.F.C., RHU
Chair, National Board of Directors