

INVESTOR ADVISORY PANEL

OSC Investor Advisory Panel
c/o Ursula Menke, Chair
Email: iap@osc.gov.on.ca

January 19, 2017

Susan Greenglass
Director, Market Regulation
Ontario Securities Commission
20 Queen Street West
Toronto, ON
M5H 3S8

Re: Investor Advisory Panel Response to MFDA Oversight Review Report

Dear Ms. Greenglass,

We would like to take this opportunity to provide our response to the key findings in the 2016 Oversight Review Report of the Mutual Fund Dealers Association (MFDA). Below we detail the Panel's main areas of concern, questions arising from the findings, and the regulatory gaps that leave retail investors at risk.

An initial comment: we have noted that in the description of follow up activities, there are specified dates for a next review and monitoring. This is helpful because it ensures the undertakings are completed and also gives stakeholders confidence that the accountability processes inherent in the audit are taken seriously. We commend the audit staff for its use of specific timelines.

Enforcement and Allocation of Resources

A reading of these audit findings raises concerns about whether the MFDA is allocating sufficient resources to carry out its work – resources that are a prerequisite to effective enforcement. At a strategic level, allocation of resources to enforcement activities should be high priority -- enforcement activities should always be fully funded. We understand that, from time to time, the volume of activity may increase and we would hope the MFDA could adopt a more flexible method of either budgeting or staffing to ensure no shortage of resources occurs. Because of the importance of enforcement to the regulatory system, we consider that this risk is high - not medium.

The use of warning letters vs. formal procedures

We would like to understand more about the use of a warning letter in lieu of formal processes. We are concerned that using a warning letter when stronger penalties are warranted undermines the enforcement regime. This finding raises questions about why a letter would be considered a suitable alternative to stronger measures. We would like to

understand how the MFDA determined which cases should receive a warning letter and what the criteria are for sending warning letters. Does a shortage of resources alter those criteria? Does this undermine perceived fairness by registrants? Are warning letters always used in an appropriate fashion?

As an overall conclusion, we found this audit to be clear, instructive and helpful and we are very pleased for the opportunity to provide our comments on this important initiative. The Panel believes that the CSA SRO oversight process is critical to good regulatory performance and accountability and are very pleased to be able to offer our support and input.

Yours truly,

Ursula Menke
Chair, Investor Advisory Panel