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September 16, 2020

Brett Konyu
Director, Member Education and Membership Services
Mutual Fund Dealers Association of Canada
121 King Street West
Suite 1000
Toronto, Ontario
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Dear Brent:

RE: MFDA Consultation on Account Transfers (MFDA Bulletin #0823-P)

The Investment Industry Association of Canada ("IIAC") appreciates the opportunity to provide comments on the MFDA's consultation surrounding account transfers. The IIAC is the professional association representing 116 IIROC regulated investment dealers. Our Members handle significant volumes of account transfers with MFDA firms, as such they are important stakeholders to your consultation and are very pleased that the MFDA is devoting attention to improving the transfer process. We have formed a working group of IIAC Members to discuss the MFDA's initiative and to solicit views.

We outline in our response the areas where our Members have identified the need for improvements to existing processes. Adopting these enhancements will benefit both MFDA and IIROC dealers, but more importantly, they will also benefit their respective clients.

Our Members' general experience with account transfers involving MFDA firms has, unfortunately, not always been positive. Members have pointed to several factors that have led to this sentiment, but we identify the root cause as the over reliance on manual processes at MFDA firms, or their financial intermediary (e.g. mutual fund companies), which results in many inefficiencies with current practices.

Members have noted that the existing manual procedures and the amount of physical paper such as Letters of Direction ("LODs"), Powers of Attorney ("POAs"), and cheques, that are still exchanged to complete some transfers leads to significant delays and operational inefficiencies. This is especially evident in the current COVID-19 environment when the industry's transition to remote-based operations makes the handling of physical cheques and documents very problematic. This has resulted in a negative client experience and added costs and operational risks for our members. Members also commented that the processing times at the various mutual fund companies where the client's securities are typically held can vary considerably which also leads to an inconsistent client experience.

The reliance on manual processes and movement of physical paper by the MFDA dealer or their intermediary also requires our Members to deploy added resources to process the transfer request as well as any ensuing follow-ups. Without automation, the entire transfer process can also become quite cumbersome in situations where the impacted account holds many security positions at various fund companies.

Our Members' attitudes have been influenced by the vastly different experience in processing transfers involving IIROC dealers. Transfers between IIROC member firms, including cash movement, are largely automated via the Account Transfer Online Notification ("ATON") service of the Canadian Depository for Securities ("CDS"). Use of the service by our Members is prescribed in IIROC Rule 2300. Furthermore, IIROC Rule 2300, unlike MFDA Rule 2.12.2, provides prescriptive response times for its Members to adhere when processing transfers. This results in a more consistent service standard for clients of IIROC dealers. Furthermore, observance to Rule 2300 is included as part of IIROC's member audit procedures.

We acknowledge that the handling of 'client-name' positions in the MFDA environment introduces complexities not found in the 'nominee-name' surroundings of IIROC dealers. However, we believe that opportunities remain for the increased use of electronic processing by MFDA firms for administering account transfers.

A suitable starting point could center around the electronic movement of cash. Eliminating the high volumes of physical cheques circulated from MFDA dealers would go a long way in bringing efficiencies to the current process. We believe this can be achieved by leveraging existing industry utilities or service providers.

Longer -term it is our Members' hope that all MFDA firms adopt a digital solution like ATON or Fundserv's planned cash transfer service so that the benefits of an end-to-end digital solution for the movement of cash and securities among industry participants can be achieved.

We recognize that there is a cost[1] to joining and using services such as ATON which may deter smaller MFDA firms from the service but, in our Members' experience, the efficiency gains and other added benefits from digital solutions offset these costs.

A small number of MFDA dealers are currently already ATON Limited Participants[2]. The MFDA may want to engage these firms in discussion to hear their views on the benefits of ATON to MFDA dealers. The MFDA should also engage directly with CDS to explore what more can be done to promote adoption of ATON among MFDA firms.

[1] See page 6 of CDS Fee Schedule https://www.cds.ca/resource/en/275/
[2] See list of ATON Limited Participants https://www.cds.ca/participants/participant-services/participant-list

We provide additional comments below in response to some of the questions posed in your consultation document:

1. **What specific issues have you faced in relation to account transfers? Please specify if the issues experienced relate to transfers with Members or non-Member financial intermediaries (e.g. mutual fund companies, trust companies, etc.).**

a) Some fund companies that are not on FundServ, might take longer to process the transfer request and require additional time for our Members to follow-up. Additionally, certain companies that are able to submit via ATON send via Non-ATON which causes our Members to reject and force them to resubmit via ATON which delays processing.

b) Some mutual funds may be restricted/capped. However, our Members may only become aware of this after they attempt to process the transfer and it subsequently gets rejected.

c) In some cases, instructions to the delivering fund company are not followed correctly. For example, our Members submit instructions to process the re-registration at cost but it gets processed by the fund at market.

d) Fund companies sometime reject Letters of Directions from our Members for invalid reasons.

2. **Have you identified specific types of account transfers that cause more challenges and/or do not occur in a timely manner (e.g., dependent on where and how the assets are held, account registration, type of product, electronic vs non-electronic processes)? Please provide details.**

   a. Accounts with many mutual funds positions involving multiple fund companies pose added challenges, especially when the delivery instructions are to split the account in to multiple new accounts at the receiving institution.

   b. Transfers often get rejected because either the delivering or receiving account was not set up correctly, ex. Spousal plan, locked in plan, dealer and rep code, account holder's name, SIN, DOB, address, etc. may have been incorrect.

   c. Transfers involving segregated funds or funds that are priced on a non-daily basis (ie. weekly or monthly) often result in longer wait times for the transfer.

   d. Some mutual funds cannot be processed through wire order. An LOD, therefore, needs to be generated which takes time to prepare.

e. Some funds can only be re-registered after month end, but there is no notification from the fund companies' about this process until the receiving institution follows up with the fund.

f. Some funds have restrictions on where they can be held (for example, some funds can only be held in a corporate or registered account) or cannot be moved/purchased after certain dates. The receiving institution may not be unaware of this at the time of transfer.

g. In some cases, rejections from the fund company are not received successfully by our Members. When following up with fund company, our Members are informed the fund company will not re-send the rejection.

3. Are there any areas in the account transfer process that should be standardized or automated (e.g.,specific timeframes, electronic processing)? Please explain

a. ATON –Out – POAs – need to have standard operating procedures because the receiving institutions may have inconsistencies with receiving POA documents. Example: re-emailing month later, contact person changes and fax numbers changing without notice. These details sometimes seem to be changing frequently with certain firms.

b. If locked-in agreements and transfer docs are assumed to be in good order with ATON transfer, it is unclear why POAs still need to be exchanged? Example: MFDA dealer is set up on ATON however with POAs for rejected mutual funds they are requesting docs to be submitted.

c. Charitable Foundations sometimes pose added challenges due to mismatches of registration information. For Charitable Foundations electronic pass through should be permitted even if a registration mismatch by adding another selection box similar to locked in or spousal plans and not auto approve/return but rather auto process deliveries.

We would be happy to meet with you to discuss our views and comments with you further.

Sincerely,

Jack Rando
Managing Director