



**HORIZONS** ETFs  
by Mirae Asset

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**VIA SEDAR**

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Financial and Consumer Services Commission (New Brunswick)  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Nova Scotia Securities Commission  
Nunavut Securities Office  
Office of the Superintendent of Securities, Newfoundland and Labrador  
Office of the Superintendent of Securities, Northwest Territories  
Office of the Yukon Superintendent of Securities  
Ontario Securities Commission  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

The Secretary  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8

Me Philippe Lebel, Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
Place de la Cité, tour Cominar  
2640, boulevard Laurier, bureau 400  
Québec (Québec) G1V 5C1

Dear Sir/Madames:

**Re: CSA Consultation Paper 25-402 – Consultation on the Self-Regulatory Organization Framework**

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**A. Introduction**

Thank you for the opportunity to provide comments to the Canadian Securities Administrators (the “CSA”) on the Self-Regulatory Organization Framework.

Horizons ETFs Management (Canada) Inc. is an innovative financial services company and offers one of



the largest suites of exchange traded funds in Canada. Horizons ETFs Management (Canada) Inc. is the fourth largest ETF provider in Canada. Horizons manages approximately \$14.9 billion of assets under management and has 93 ETFs listed on major Canadian stock exchanges. The Horizons ETFs product family includes a broadly diversified range of solutions for investors of all experience levels to meet their investment objectives in a variety of market conditions.

## **B. Comments**

### **Introduction**

The current multi-regulatory model has failed to keep pace with the technology-driven transformation of the financial services industry. We believe that the regulatory regime has not evolved to serve the existing environment, nor has the nimbleness to address future developments.

Horizons believes in a single robust Self-Regulatory Organization (“SRO”) in Canada and as such we believe the current two-SRO framework should be replaced in the future by a single pan-Canadian SRO with a mandate to regulate at the very least both investment dealers and mutual fund dealers. In our opinion, this new SRO should be a consolidation and continuation of the existing IIROC and MFDA entities. We believe the “blank page” approach is not feasible and could result in greater uncertainty for investors and market participants that could, in turn, also lead to unnecessary delays in implementation. The pace of change has accelerated which can be evidenced by many financial developments such as the wide acceptance of ETFs, the rise of robo-advisors and how artificial intelligence is now used, to give just a few examples of how our financial markets have changed. We need governance and governance structures to catch up to this, not fall further behind. Canada’s capital markets depend on investor trust and that requires a nimble and efficient regulatory regime. A single SRO would better reflect the changing industry and would make the process more accessible and manageable for firms.

#### **Issue 1: Duplicative Operating Costs for Dual Platform Dealers**

We are in agreement with the stakeholder comments described in the consultation paper. There is inherent inefficiency caused by the overlapping oversight. This inefficiency results in redundant staff to administer oversight. More importantly, we agree that ultimately these costs are born directly by investors since operating expenses are an input of product pricing. Regulatory value in our opinion would be best served by streamlining the SRO model as indicated in our introduction and in line with the other jurisdiction examples which have evolved to a single SRO such as the U.S. and the U.K.

#### **Issue 2: Product-Based Regulation**

We agree with stakeholder comments in the consultation paper. In speaking with clients, we have found that there are inconsistent investor experiences. In addition, different interpretations of the rules have been cited and unfortunately, this has created regulatory arbitrage opportunities. Not only should the experience for investors be consistent but there should also be a level playing field for registrants. For example, investment funds, constructed as ETFs, require a greater understanding of capital markets that would not be necessarily be the case for traditional mutual funds. This fact should not however limit investor choice of the type of investment fund simply based on the dealer registrant category.



### Issue 3: Regulatory Inefficiencies

We agree with stakeholder comments in the consultation paper. The framework currently does not provide consistent access to products for registrants and investors. It not unusual to get feedback from prospective investors who do not understand why ETFs are not being offered or are available to them. Mutual fund dealer representatives, due to back office constraints, have generally not offered ETFs to their clients. There is disappointingly a very limited number of MFDA firms that are currently offering ETFs and little expectation of this changing under the current regulatory regime. Whereas we believe close to 100% of all IIROC firms offer ETFs on their platforms of products. The rise of ETF adoption and assets is a global trend and needs to be recognized as an important evolution to the capital markets. We posit that the lack of penetration amongst MFDA firms is a direct result of the lack of encouragement and incentive to solve these operational and regulatory issues, as there are costs involved and vested interests related to the existing models.

As a result, it is our view that, the MFDA does not have the same level of expert knowledge regarding ETFs as does IIROC. The disruptive nature of ETFs in the financial services industry has also led to tension between the mutual fund and ETF industries as well as the dealers that distribute them. In our opinion, this has created the potential for conflict of interests where industry concerns, among others, can outweigh investor concerns and protections.

### Issue 4: Structural Inflexibility

We agree with stakeholder comments and further state that the regulatory framework has led to the continuation of many existing business models for registrants with no adaptation for the significant changes we have seen to our capital markets and growing investor preferences. The end result is frustration and confusion for investors.

### Issue 5: Investor Confusion.

We agree with stakeholder comments. In addition, registrants who are not able to provide access to certain types of products or services have no incentive to direct investors to another category of registrant. Rather, there is a real risk they could be incentivized to retain the business by offering other products and/or services that are not necessarily in the best interests of their clients.

### Issue 6: Public Confidence in the Regulatory Framework

We agree with the **underlying principles** in the stakeholder responses. We feel there are many benefits to a single SRO approach, rather than government regulation, for a wide variety of reasons. For example, knowledge and expertise are necessary for governance which is effective, better understood and fully supported by industry participants. It has also been beneficial to have a consistent North American approach to SROs because of our close proximity and integration with American capital markets. Specifically, we have found IIROC to be quite proficient in relation to understanding the intricacies of ETFs and we believe this is a direct function of their inclusion of and cooperation with industry participants.

However, in our view, there may be room for improvement regarding the rules and procedures on the composition of the SRO's board of directors, committees and councils, cooling off periods and the definition of independent directors. Changes, such as these, could potentially increase investor confidence in an SRO regime and lead to a more efficient regulatory regime for registrants.



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**Issue 7: The Separation of Market Surveillance from Statutory Regulators (CSA)**

In our view, the continuation of national market surveillance activities under the new SRO, which are currently within IIROC's mandate would not hinder the targeted outcome of an integrated regulatory framework that fosters timely, efficient access to market data and effective market surveillance, to ensure appropriate policy development, enforcement, and management of systemic risk. This position is based on our many years of experience working with IIROC and its participants under the existing regulatory regime.

Yours very truly,

**HORIZONS ~~ETFs~~ MANAGEMENT (CANADA) INC.**



~~Steve Hawkins~~  
President & CEO