

Ian C.W. Russell FCSI  
President & Chief Executive Officer

Adrian Walrath  
Director

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**SUBMITTED VIA EMAIL**

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

**Attention:** The Secretary  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

M<sup>e</sup> 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  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Sirs and Mesdames:

**Re: CSA Consultation Paper 25-402 *Consultation on the Self-Regulatory Organization Framework (the “Consultation Paper”)***

On behalf of our 114 IIROC regulated investment dealer member firms—small regional firms as well as large national firms—the IIAC welcomes the opportunity to provide comments on the Canadian Securities

Administrators' (the "CSA") Consultation Paper, and appreciates the CSA considering our input through the informal stakeholder consultations. Our members are the key intermediaries in Canadian capital markets, accounting for the vast majority of financial advisory services, securities trading, and underwriting in public and private markets for governments and corporations. The IIAC provides leadership for the Canadian securities industry with a commitment to a vibrant, prosperous investment industry driven by strong and efficient capital markets.

We applaud the leadership of the CSA in their examination of the current regulatory framework of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Mutual Fund Dealers Association of Canada ("MFDA"), (IIROC and the MFDA, collectively the self-regulatory organizations ("SROs")). The IIAC believes that SROs can be vital to contributing to vibrant capital markets through their expertise, responsiveness and innovation in rulemaking. SROs are also positioned to ensure the protection of investors through their continual monitoring of firms with regulator audits, market surveillance and through their enforcement powers.

However, the current SRO regulatory framework does not reflect transformations to the capital markets in the past 25 years since the MFDA was established, driven by technological innovation and client preferences. It has been clear for some time now that there is a pressing need to align the evolving integration of financial advice and products with an integrated regulatory structure. Regulation should be reflective of a client's needs and their desire for "one-stop access" to financial services and should not be based on transactions or products. As we will outline in our responses to the general and targeted questions below, the IIAC believes that merging IIROC and the MFDA into a consolidated SRO will best enable the CSA to achieve its regulatory objectives, articulated in the Consultation Paper. While the IIAC is advocating for SRO consolidation, it should not be categorized as a "simple merger". The IIAC believes that SRO consolidation provides an opportunity for stakeholders to examine and strengthen the governance structure of the consolidated SRO, as well as to review rules during the harmonization process, to ensure they are achieving their objectives. The IIAC believes that these important initiatives can take place after the consolidation of IIROC and the MFDA. An amalgamation of these two existing SROs, into a single entity is a more efficient approach. Building a new SRO structure from the ground up will create uncertainties for the financial industry during the years of consultations as all aspects of the structure are debated.

Consideration of whether there would be similar benefits to having CSA registrants come under the consolidated SRO should be carried out after an IIROC-MFDA merger. We recognize the increased complexity in potentially migrating portfolio managers ("PMs"), exempt market dealers ("EMDs") and scholarship plan dealers ("SPDs") into an SRO model given the significant differences in their business models and current rule structures. Attention will need to be given to how the rules and regimes governing these registrants can be carried over into the consolidated SRO in order to minimize disruption and avoid any added regulatory burden.

Our responses to the General and Targeted Consultation Questions are set out below.

**General Consultation Questions:**

- 1. The CSA is seeking general comments from the public on the issues and targeted outcomes identified, as well as any other benefits and strengths not listed in section 4 that should be considered. In addition, please identify if there is any other supporting qualitative or quantitative information that could be used to evidence each issue and/or quantify the impact of the issues noted in the Consultation Paper.**

The IIAC believes it is beneficial to have a national consolidated SRO for Canada's capital markets. IIROC is recognized by all the provinces and territories and it is crucial for national firms to have this uniform regulation with consistently interpreted and applied rules. As we will discuss in our responses to the targeted questions below, we believe the current regulatory fragmentation results in inefficiencies and regulatory silos which may prevent regulators from identifying systemic risks.

We strongly agree with the statement that SROs have specialized industry expertise that enables them to develop appropriate rules and respond to industry changes in a timely manner.

However, we disagree that the benefits identified under a two-SRO framework are sufficient justification for maintaining the status quo, and we believe the same benefits can be realized under a consolidated SRO. A consolidated SRO can regulate IIROC and MFDA members that have unique business models. Within a consolidated SRO, the rules will need to provide flexibility in their application, and should consider a number of factors, including risk levels, products and services offered, and the sophistication of the clients. Consideration should be given to the varied needs of individual investors by avoiding a one-size-fits-all model. This would allow multiple ways for a requirement to be satisfied while maintaining appropriate protections for clients.

Further, we agree it is important to investors that the SROs have investor protection funds, and we expect similar coverage would be available to clients under a consolidated SRO. We acknowledge that a small portion of high net worth clients may be unable to continue benefiting from having access to \$1 million per account type coverage under multiple registration categories with the consolidation of investor protection plans under a consolidated SRO.

- 2. Are there other issues with the current regulatory framework that are important for consideration that have not been identified? If so, please describe the nature and scope of those issues, including supporting information if possible.**

We believe the most pressing concerns related to the current regulatory framework are identified in the discussions related to the seven targeted issues.

- 3. Are any of the CSA targeted outcomes listed more important from your perspective than other outcomes? Please explain.**

As we will discuss below in our responses to the targeted questions, the IIAC supports each of the CSA's targeted regulatory outcomes. These outcomes are too interrelated to be prioritized between

each other. We believe each of the targeted outcomes can be achieved, and it should be the goal of the CSA to ensure any changes to the regulatory framework are able to address each area of concern.

- 4. With respect to Appendix F, are there other documents or quantitative information / data that the CSA should consider in evaluating the issues in light of the targeted outcomes noted in this Consultation Paper? If so, please refer to such documents.**

The IIAC references the study conducted by Deloitte LLP on behalf of IIROC with respect to [An Assessment of Benefits and Costs of Self-Regulatory Organization Consolidation](#) in our response to targeted Issue 1. This study has relevant quantitative data that the CSA should consider.

### **Targeted Consultation Questions:**

#### **Structural inefficiencies:**

##### **1. Duplicative operating costs for dual platform dealers**

**Question 1.1: What is your view on the issue of duplicative operating costs, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

The 25 dual platform dealers referenced in the Consultation Paper are IIAC member firms and contributed to our response to these questions. The IIAC agrees with the comments raised in the Consultation Paper that the current regulatory framework results in dual platform dealers incurring unnecessary costs that do not provide corresponding benefits to clients. By virtue of a firm having an IIROC and MFDA dealer, there are countless examples of how that firm must essentially run two separate operations within their firm in order to comply with the two SROs' differing requirements within the broad categories identified in the Consultation Paper (including separate supervisory regimes, compliance functions, IT/back-office systems, non-regulatory costs, and multiple fees). Despite recent coordinated efforts by regulators to harmonize certain rules between the CSA and SROs, dual platform dealers still cannot utilize firm-wide resources to satisfy requirements and, must silo the work. The harmonization of reporting obligations under CRM2 reports are an obvious example of potential cost savings and increased efficiencies.

Deloitte LLP, on behalf of IIROC, conducted an independent study of potential savings for dual platform dealers if there was an IIROC-MFDA merger<sup>1</sup>. The study assumes that dual-platform dealers will be able to consolidate their operations. Most IIAC members similarly believe that there will be opportunities for firms under a consolidated SRO model to adjust back-office operations. Deloitte LLP concluded that consolidation would result in aggregate industry savings of between \$380 and \$490 million over the next

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<sup>1</sup> [https://www.iiroc.ca/industry/sro-proposal/Documents/Deloitte\\_Assessment\\_of\\_Benefits\\_and\\_Costs\\_of\\_SRO\\_Consolidation\\_Final\\_EN.pdf](https://www.iiroc.ca/industry/sro-proposal/Documents/Deloitte_Assessment_of_Benefits_and_Costs_of_SRO_Consolidation_Final_EN.pdf)

10 years by eliminating costs associated with systems and technology, corporate expenditures, and other expenses related to running two platforms to comply with overlapping regulation. It would be a significant investment of costs and resources for small and mid-sized firms, (in difficult and uncertain markets and business conditions); to determine precise expenses they incur from the duplicative regulation currently in place, and to be able to comment on the potential cost savings of SRO consolidation, with quantitative analysis, on an aggregate basis, similar to the results presented by the Deloitte study. Firms certainly anticipate these savings with the consolidation, particularly with respect to activities that can be performed centrally.

In addition to the duplicative costs noted above, IIROC and the MFDA have their own minimum capital requirements. While IIAC member firms are supportive of these requirements for investor protection concerns, IIROC's minimum capital requirements are generally significantly larger than the MFDA's. For some smaller IIROC firms that have considered expanding their business models, it could be unnecessarily prohibitive to require additional capital to satisfy MFDA requirements on top of the capital they have already set aside pursuant to IIROC rules.

Another expense which is difficult to quantify but should not be underestimated, is the cost associated with the redirection of firm focus and human resources from client services to satisfying two sets of regulatory requirements, such as multiple external audits and regulatory examinations. Responding to two sets of regulatory examinations is costly both in terms of labour and expenses for dual platform dealers. The regulatory examination process itself can be very lengthy and disruptive to a firm. Firms are required to divert resources from normal client-focused work, to overseeing examinations and responding to regulatory requests. It is very inefficient to have two regulators examining the same firm, potentially on different examination schedules, with varying priorities and with potentially different interpretations of how requirements are to be satisfied.

IIAC member firms do not believe that the duplicative costs identified are necessary or warranted as they result in no clear enhanced investor protections or other client benefits.

Client preferences further support reducing inefficiencies between dual platform dealers. Clients generally want flexibility in how they access advice, and access to a broader range of products. For clients of a dual platform firm's MFDA dealer who would like greater access to products like exchange-traded funds ("ETFs") and platform-traded funds ("PTFs"), there may be structural limitations to accessing those products, even where the same firm's IIROC dealer is able to offer them. Since that firm's IIROC dealer and MFDA dealer cannot share back-office functions, the clients of the MFDA dealer may have to transfer their account to the IIROC dealer to access those products. Transfers within a firm are functionally similar to transfers from outside of the firm, with associated regulatory hurdles. The client may then have to change advisors, and their performance history for CRM2 purposes would be lost. There can also be hard dollar costs associated with transferring because of how the current SRO framework is structured.

**Question 1.2: Is the CSA targeted outcome for issue 1 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC strongly supports the CSA's targeted outcome for Issue 1 of ensuring a "regulatory framework that minimizes redundancies that do not provide corresponding regulatory value" and we believe it has been appropriately described. We believe merging IIROC and the MFDA into a consolidated SRO will best achieve the targeted outcome. The Deloitte study has identified significant cost savings that can be achieved. More importantly, the IIAC believes that the removal of the silos between IIROC and MFDA dealers within a firm can result in greater oversight of compliance and supervision and provide the firm with the resources and ability to develop a unified vision on how to best service all of their clients.

As noted above, we would anticipate a transition period during which the MFDA and IIROC rules continue to apply to the applicable registrants, even within the consolidated SRO. It will take time to review the rulebooks, harmonize the requirements, and ensure the rules provide flexibility in how they are complied with, considering a number of factors, including risk levels, products and services offered, and the sophistication of the clients. It will also take firms time to determine how to best move forward to a single platform operationally, with minimal disruptions to clients. Consideration should be given to the varied needs of the investor by avoiding a one-size-fits-all model. This would allow multiple ways for a requirement to be satisfied, while maintaining protections for clients.

## 2. Product-based regulation

**Question 2.1: What is your view on the issue of product-based regulation, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

The IIAC believes similar products and services should be regulated in a consistent manner. Clients should feel confident that regardless of where they seek advice, they will have comparable levels of protection from the consistent application of the rules, and be assured of strong cultures of compliance across registrant categories. The MFDA conducted a poll of "What Canadian investors want in a modern SRO" and found that 91% of Canadian respondents believe that financial products and services that are alike should be regulated in the same way<sup>2</sup>. Furthermore, regulatory systems should not be built around specific products or business models. Canada's capital markets are continually evolving and responding to clients' needs and expectations, as well as to technological innovations. The regulatory infrastructures should be sufficiently adaptable to be able to respond to these changes, rather than tied directly to products that may become less relevant within Canadian capital markets.

There are numerous ways in which clients may experience different treatment between registrant categories when accessing similar products, despite recent attempts to implement harmonized rules (i.e. CRM2, Client-Focused Reforms) between registrant categories. For example, there may be differences between how a security is registered (nominee vs. client name), the availability of fee-based or commission-based accounts, and the investor protection fund services available. Additionally, the

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<sup>2</sup> [https://mfda.ca/wp-content/uploads/InvSRO\\_Report.pdf](https://mfda.ca/wp-content/uploads/InvSRO_Report.pdf)

compliance culture in a firm may be influenced by the individual regulators' priorities; guidance from individual regulators on how rules are applied can impact fundamental aspects of investor protection initiatives like Know-Your-Product ("KYP"), and suitability. Further, in the event of a complaint about a product, the client has different recourses available depending on the registrant; for example, the MFDA does not have an arbitration process available; whereas IIROC does. These differences do not provide corresponding benefits to clients and may add to client confusion and decreased confidence in the regulation of Canadian capital markets.

Within a consolidated SRO, there could be advantages to representatives having access to a broader range of products and services that may not currently be accessible to certain registrant categories (subject to the representative having the sufficient proficiency). For example, while the MFDA has released Policy 8 permitting MFDA representatives who meet minimum proficiency requirements to recommend ETFs and PTFs, many MFDA firms do not have the back-office infrastructure necessary to offer these products. While there may be client and advisor demand for these products, it can be prohibitively expensive for an MFDA firm to implement the new systems required in order to offer them. If the MFDA and IIROC were merged under a consolidated SRO, those representatives may have better access to additional products which would result in improved client access to a broader range of products.

With respect to the CSA's question on proficiency and registration categories, in order to protect investors, we believe it is appropriate to require additional proficiencies for registrants related to variations in the complexities of products. However, the differing registration categories based on proficiency should still be within a single registrant category, to ensure consistent treatment of clients. For example, currently an IIROC dealer can have advisors who have additional proficiencies, enabling them to provide advice related to complex products like derivatives or futures. Clients who wish to obtain advice related to derivatives or futures would receive consistent treatment across all dealers as there is only one regulator overseeing these products and services. There is no need to have a separate SRO to govern these products and services merely because there are additional rules related to them or different proficiency requirements for advisors who can offer them.

The current regulatory framework can contribute to regulatory arbitrage when considering individual representatives: it may be more beneficial for these representatives to operate under one SRO or regulator rather than the other. Currently, there are differences in registration between IIROC and the MFDA, with the applicable provincial regulatory body overseeing MFDA registration. This can lead to regulator "shopping". We believe the consolidated SRO should be responsible for registration of individual representatives. IIROC and the MFDA each view the firm's supervision requirements of its representatives who engage in financial planning and/or insurance activities differently. For example, a representative for whom financial planning and/or offering insurance is an important component of its business, may consider the differences in how IIROC and the MFDA view those activities.

**Question 2.2: Is the CSA targeted outcome for issue 2 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC has supported regulatory initiatives aimed at elevating and harmonizing standards across registrant categories to reduce potential regulatory arbitrage. We agree with the CSA's targeted outcome for Issue 2 to provide "A regulatory framework that minimizes opportunities for regulatory arbitrage, including the consistent development and application of rules". As outlined above, we do not believe the current regulatory framework is designed to align with investor expectations to receive the same levels of protections and access to products and services across registrant categories.

The IIAC believes that the consolidation of IIROC and the MFDA will address some of the regulatory arbitrage concerns. There will still be potential variances between registrants under a consolidated SRO and those under the CSA when distributing similar products and services, however, the IIAC recognizes the increased complexity in potentially migrating PMs, EMDs and SPDs into an SRO model, given the significant differences in their business models, and their current rule structures.

### 3. Regulatory inefficiencies

**Question 3.1: What is your view on the issue of regulatory inefficiencies and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

With respect to policies that impact business operations, and that are interpreted differently by the SROs, IIAC members noted that the MFDA's has prescriptive requirements under Policies 2 and 5, compared to IIROC's principles-based approach to trade supervision and branch review under Rules 38 and 2500. These rule differences have impacted member firms' decisions on whether or not to make branch expansions. Although there may be other economic factors as to why IIROC branches are not in certain locations, for dual platform dealers considering expansion of their MFDA dealers, the MFDA requires physical visits to branches, and for larger firms, this can be a significant expense, also in terms of resources. In contrast, IIROC's approach is more risk-based. It can be prohibitively expensive to operate branches in more rural locations, which may reduce access or limit competition in some rural communities. Our member firms do not believe investor protection is enhanced as a result of the MFDA's rules, because other supervisory and compliance oversight requirements are already in place. The MFDA also has prescriptive trade review rules compared to IIROC's risk-based approach, and this impacts how firms set up their operations, including dual platform firms, who must establish different supervisory operating models to accommodate each.

The IIAC agrees with the issues identified in the Consultation Paper with respect to product and service access. We have outlined some of the concerns related to the impact of regulatory inefficiencies on product and service access in our previous responses (i.e. back-office system limitations for dual platform dealers). Below, we expand on additional rule variances between the SROs that have further exacerbated this issue.

IIROC firms are prohibited from acting as carrying brokers to MFDA dealers. This means that an MFDA firm cannot enter into an arrangement with an IIROC dealer in order to obtain access to the exchanges and systems needed to purchase and track ETFs and PTFs for clients. MFDA dealers cannot leverage the

existing infrastructure and institutional knowledge of IIROC dealers that currently trade in these products. Instead, they must seek out a third-party firm (non-IIROC dealer) to build the systems and infrastructure required to provide these services. This may be prohibitively expensive, and limit product access for advisors and clients. There are similar administrative regulatory hurdles for MFDA representatives accessing liquid alternative investments. If a representative has the required proficiency to recommend these products, the MFDA firm may not have affordable access to them because of operational considerations. There are also compliance-related supervisory proficiency requirements, and it may not be economical for firms to have multiple individuals supervising the sale of these products through both their MFDA and IIROC dealers, which may ultimately limit access to products on the MFDA side.

The inefficiencies resulting from our duplicative and fragmented regulatory system pose several concerns related to the identification of regulatory and systemic risks. Members note that if a complaint is made to an SRO about a firm or registrant, this information is not immediately shared with the other SRO, or with the CSA. The complaint may have to be filed on the National Registration Database. However, that is different from directly notifying other regulators. This may be appropriate, as the SRO has not conducted an investigation to determine if the complaint is valid, and if the complaint is elevated to an enforcement action, it will become public. An outstanding concern is that seemingly smaller issues that are not elevated to enforcement actions, could be indicative of a broader issue that can be potentially overlooked under the current framework. If there is one consolidated SRO, it may be able to detect problematic patterns of behaviour in firms or registrants, use this information to predict potential areas of concern in future, and intervene where necessary; in this way, it would serve to protect our community of investors.

The fragmentation of the regulatory examination process can similarly limit the regulators' ability to detect broader or systemic compliance issues. The CSA and the SROs may each have different priorities that they are focused on during a firm audit. This can lead to varied findings and missed opportunities to canvass the entire dealer community, in order to determine trends.

Further, the amount of time and resources required by the regulators to coordinate rules, and oversee the implementation of significant regulatory initiatives, reduces their capacity to focus on forward-looking initiatives.

**Question 3.2: Is the CSA targeted outcome for issue 3 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC agrees with the CSA targeted outcome for Issue 3 and believes it has been described appropriately. We continue to believe that the consolidation of IIROC and the MFDA can address some of the regulatory inefficiency concerns. However, there will still be some fragmentation of the regulatory system which can impact the assessment of systemic risk, and some inefficiencies will remain, as rules and enforcement matters will still need to be coordinated between the consolidated SRO and the provincial regulators.

#### 4. Structural inflexibility

**Question 4.1: What is your view on the issue of structural inflexibility, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

In our response to Issue 1, we highlighted how the current regulatory framework has limited dual platform dealers from evolving to meet clients' expectations of obtaining flexible "one-stop access" to a variety of products and services. Our members also noted that the significant unnecessary costs for dual platform dealers has been a barrier for those firms considering expanding their reach by incorporating mutual fund representatives into their businesses in order to better serve clients. Further, in our responses, we addressed how it can be challenging for firms to respond to changes in client preferences for increased flexibility in how they access services, due to restrictions imposed under the current regulatory framework. With respect to technological advancements, it can be very challenging for firms to work with each of the provincial regulators and the SROs to obtain necessary approvals. For example, IIAC member firms have been discouraged by such inefficiencies, including cases where an additional 12-month period has been needed to obtain approval from other jurisdictions, following an approval by the OSC.

In addition to creating barriers for firms, the current regulatory framework can significantly restrict an advisor's career trajectory. Many advisors are initially licenced under the MFDA. The MFDA does not require representatives to work as advisors full-time, which can be very important for a new advisor, who has not yet accumulated a sufficient book of business to support themselves financially. Further, the MFDA proficiency requirements are a lower barrier-to-entry than IIROC's. Over time, if the advisor wishes to expand their offerings, they may have to leave their firm and move to a firm that falls under a different registrant category. Changing firms can be very difficult for advisors, because in addition to concerns with respect to client retention, there is also a proficiency barrier between the MFDA and IIROC (the Upgrade Requirement). If there was a consolidated SRO, that advisor could remain a limited-licence mutual fund representative with access to ETFs and PTFs, and have the option to advance within their firm. The advisor could also decide to obtain any required proficiencies in order to further recommend additional products and expand their offerings within their firm. The IIAC urges the CSA to allow IIROC to grant exemptive relief from the Upgrade Requirement to its members who seek such relief, during the course of the industry consultations on regulatory reform.

The IIAC believes that, under a consolidated SRO, clients would have improved access to a broader range of products in rural or underserved communities. We noted how differences between requirements of the SROs with respect to branch review may be a contributing factor to firms limiting the number of branches they operate, and may impact decisions on the locations of the branches. In general, it may be MFDA dealers that are in more rural or underserved communities, and we have highlighted the back-office challenges for MFDA firms that seek to distribute low-cost products like ETFs, which limits access to such products for those investors who may have few other available options nearby.

**Question 4.2: Is the CSA targeted outcome for issue 4 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC believes SRO consolidation would achieve the outcomes described by the CSA for Issue 4. Our response above notes how a consolidated SRO is positioned to respond to evolving preferences and technological innovations within our capital markets. Further, its public interest mandate will ensure that these changes are considered with investor protection as a core element.

## **Investor Confidence**

### **5. Investor confusion**

**Question 5.1: What is your view on the issue of investor confusion, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

The regulatory overlap within the current framework certainly contributes to client confusion. As noted in our responses above, clients expect to receive consistent treatment and seamless access to a broad range of products and services, irrespective of their firm's registrant category. Member firms note client dissatisfaction with administrative barriers that prevent the client from receiving such an experience. It is confusing for the client to be informed that they are unable to purchase products they are interested in as a result of which regulator their advisor is subject to, or for a client to understand why moving accounts within a dual platform dealer requires them to essentially open a brand new account (having to redo KYC and suitability assessment forms, and lose performance history, etc.).

With respect to the concerns related to complaint resolutions, the IIAC does agree it can be difficult for clients to understand how to correctly file a complaint, particularly if the client has multiple accounts across registrant categories. IIAC members inform clients of the complaint-handling process during account opening. Member firms also provide clients with brochures developed by IIROC, which outline the complaint process to further assist clients. The IIAC's recommendation to consolidate the SROs would reduce some of the confusion for clients as to what regulator the advisor is subject to. IIROC is also examining how to expand its powers to provide clients with support to recover losses and this may be a power that should be developed under the consolidated SRO as well. However, beyond these measures, the various complaint options may still be needed for clients, depending on the type of recourse they wish to pursue, and so some confusion may remain.

The IIAC agrees with the issues identified by the Consultation Paper on how the multiple levels of investor protection funds result in investor confusion and can delay their ability to recover losses. The IIAC has stated that we believe a consolidated SRO should provide coverage to all its member firms comparable in amount to the coverage provided individually under each SRO.

The Client Focused Reforms include rules related to the use of titles for advisors and we believe these changes will address any remaining confusion investors have. Firms do have obligations to manage client

expectations with respect to the firms' product and service offerings. We believe the enhancements to these responsibilities under the Client Focused Reforms will further inform clients and reduce confusion.

**Question 5.2: Is the CSA targeted outcome for issue 5 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC strongly supports the CSA's targeted outcome for Issue 5; providing investor protection is a foundational goal for any regulatory framework. We believe our responses to the other Issues identified in the Consultation Paper demonstrate how the IIAC believes investor protections can be enhanced within a consolidated SRO. With respect to the CSA's objective to reduce confusion, the IIAC's support of the consolidated SRO would reduce that confusion by removing the barriers related to regulatory overlap, while retaining high standards of investor protection. While the consolidation would not address all concerns related to investor confusion with respect to the complaint process and investor protection funds, it would simplify both of these processes for many retail clients.

## **6. Public confidence in the regulatory framework**

**Question 6.1: What is your view on the issue of public confidence in the regulatory framework, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

The IIAC disagrees with stakeholder comments in the Consultation Paper that suggest IIROC may not currently be fulfilling its public interest mandate. IIROC does have a strong governance and oversight foundation to support its investor protection mandate; however, we do support further enhancements to SRO governance and oversight, to improve public confidence and trust in the SRO regulatory framework. The IIAC believes it is critical that the SROs (and any future consolidated SRO) undertake a campaign to inform investors of their mandate and how its governance structures, rulemaking process and enforcement actions, and their commitment to serve the interests of the public.

It is concerning that there may be public misconceptions on the role of SROs and their relationship to the financial industry. The IIAC is of the view that an SRO's expertise, responsiveness, and innovation in rulemaking and enforcement, is a result of the direct relationship between the SRO, the securities industry, and dealer registrants. This relationship enables IIROC to be a more responsive regulator, to protect investors, and ensure market integrity. To safeguard against "undue" influence or regulatory capture, IIROC is subject to a number of oversight requirements pursuant to its various provincial recognition orders. These recognition orders outline requirements related to all aspects of IIROC's operations. Pursuant to IIROC's memorandum of understanding with each province, all non-housekeeping rules must be approved by the provincial regulators, essentially providing them with veto power. The IIAC has supported the Ontario Capital Markets Modernization Task Force's (the "Ontario Task Force") recommendation to expand the OSC's (or CSA's) oversight to include a veto on SRO rule interpretations

and guidance, as long as it is being exercised within a pre-determined period of time, to avoid unnecessary delays and confusion.

In addition to each provincial regulator's authority to approve IIROC's non-housekeeping rules, IIROC rules are required to be consistent with, or impose higher standards than the CSA's rules. SRO rules are often more detailed, which can provide higher levels of protections for investors (e.g. capital formula, supervision, and books and records requirements).

With respect to governance structure concerns, the IIAC believes it is crucial to recognize that a strong industry voice is needed on the Board in order for the SRO to respond effectively to the evolving financial landscape, and best serve the public interest. It is also critical to balance industry input with broad representation from independent directors. IIROC's Nominating Committee is only comprised of independent Board members. Currently, there is an even distribution between independent and non-independent directors on the IIROC Board. However, two of the non-independent representatives are required to be from marketplaces (i.e. stock exchanges), resulting in only five out of 15 Board members coming directly from IIROC firms. Many IIAC member firms with different business models are already concerned that their concerns are not always understood at the IIROC Board of Directors level, given how diversified the industry is, with many different types of business operations, regional locations, and business models.

In order to reduce potential bias with respect to independent directors, the IIAC has supported the Ontario Task Force's recommendations to introduce a suitable cooling-off period for individuals to qualify as an independent director if they have left the industry. We also support IIROC's recently announced expanded criteria for independent director positions, which opens these positions up to individuals with direct experience with consumer and retail investor issues. We believe the proposed recommendations related to the cooling-off period, IIROC's expanded independent director position criteria, and the equal representation of independent and non-independent Board members, will ensure proper representation, and enable a variety of voices to participate on the consolidated SROs Board of Directors.

The IIAC agrees with the investor concerns with respect to the lack of a formal communication channel within the SROs, to enable investor feedback to be incorporated into the decision-making process. In March of 2020, IIROC announced intentions to establish an Expert Investor Issues Panel to advise them on investor issues, and we believe this will be a positive change<sup>3</sup>. A consolidated SRO should incorporate an investor panel in its structure.

With respect to providing the CSA with additional oversight authority, the IIAC has supported the Ontario Task Force's recommendation to introduce an OSC (CSA) veto power over key appointments, including the Chair, President, and CEO, as well as term limits for those appointments. If the OSC (CSA) exercises a veto, the reasons for rejecting a candidate, and intervening in the candidate search process, should be made transparent publicly, to ensure that the decision to reject candidates is made carefully and without bias, avoiding unneeded disruptions to candidate searches.

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<sup>3</sup> [https://www.iiroc.ca/documents/2020/a75ad083-294d-49b8-95c3-16f8942ef95f\\_en.pdf](https://www.iiroc.ca/documents/2020/a75ad083-294d-49b8-95c3-16f8942ef95f_en.pdf)

The IIAC believes that IIROC has a very robust enforcement process. However, we support additional initiatives to further strengthen enforcement, given its important role in investor protection. The IIAC has supported IIROC's efforts to expand its enforcement powers within the various provinces and territories, through changes to legislation. The IIAC also support IIROC's examination of new initiatives to better support investors who suffer losses. In addition, we would also like to participate in any review of IIROC's enforcement practices, especially related to concerns of transparency, for the benefit of both the investing public and member firms.

**Question 6.2: Is the CSA targeted outcome for issue 6 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

We support the CSA's targeted outcome for a regulatory framework that promotes a clear, transparent public interest mandate with an effective governance structure and robust enforcement and compliance processes. The IIAC believes that the outcome is achievable within a consolidated SRO. IIROC is currently seeking to strengthen its governance, enforcement practices and investor advocacy feedback structures. These changes should be incorporated into the consolidated SRO. The IIAC has made a number of suggestions above that we believe will contribute to the desired regulatory outcome. In conjunction with the structural changes, a public outreach and education campaign will be necessary to prevent the perpetration of any investor misconceptions about the role of SROs.

## **Market surveillance**

### **7. Separation of market surveillance from statutory regulators**

**Question 7.1: What is your view on the separation of market surveillance from statutory regulators, and the stakeholder comments described above? Are there other concerns in respect of this issue that have not been identified? If possible, please provide specific reasons for your position and provide supporting information, including the identification of data sources to quantify the impact or evidence your position.**

The IIAC supports IIROC (or the consolidated SRO in the future) retaining market surveillance responsibilities. The IIAC is not aware of any concerns expressed by the CSA with respect to the timeliness of market surveillance information sharing between IIROC and the CSA, relating to potential enforcement matters or systemic risk issues. Further, permitting IIROC (or the consolidated SRO in the future) to continue to perform market surveillance does not compromise the ability of statutory regulators to manage systemic risk, but instead results in a single national hub for information gathering. IIROC is recognized by each province, creating cohesion, and has been able to act as one voice internationally with organizations such as the Intermarket Surveillance Group. This enables them to focus on continual improvements to their surveillance systems and innovative compliance programs to monitor for future risks. IIROC has recently boosted their capacity and is testing AI systems to detect patterns of behavior for machine-learning in order to identify possible market abuse, such as insider trading and market manipulation. Further, surveillance responsibilities have been discharged by IIROC responsibly and effectively, as evidenced by IIROC's performance during the recent and unprecedented market volatility.

Importantly, the surveillance function has transformed IIROC into a more robust regulator, providing it with insights into investor behaviour, and an understanding of capital markets trends. We believe that this market surveillance function will have similar benefits for the consolidated SRO in the future.

**Question 7.2: Is the CSA targeted outcome for issue 7 described appropriately? If yes, how can the targeted outcome be best achieved? If no, what outcome(s) do you suggest and how can they be best achieved?**

The IIAC supports the targeted outcome for Issue 7 of ensuring “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.” As discussed above, we believe this outcome can be achieved by the consolidated SRO retaining market surveillance responsibilities.

Given the efficient and effective manner in which market surveillance is being conducted nationally, there are not clear benefits to upending the structures and functions currently in place, and reconfiguring them under each provincial securities regulator.

The disadvantages of the existing SRO framework require action to be taken. The IIAC is encouraged by the CSA’s consideration of this issue and we would be pleased to respond to any questions that you may have in respect of our comments. Thank you for considering our submission.

Yours sincerely,

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