



**Brief on the CSA's Consultation 25-402  
on the Self-Regulatory Organization  
Framework**

**October 2020**

## Presented to:

*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:

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PEAK Financial Group (“PEAK”) welcomes the opportunity to provide comments on **CSA’s Consultation Paper 25-402: Consultation on the Self-Regulatory Organization Framework**, which examines how the roles fulfilled by the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers of Canada (MFDA) can be better aligned with the innovation and evolution that has occurred in the marketplace since the current structure was put in place twenty years ago.

## Who We Are

To establish a constructive position for the industry and to give independent financial advisors a strong voice, PEAK Financial Group carefully considered this matter. To that end, it consulted a number of its financial advisors. Several members of PEAK’s management team, members of its compliance team and external consultants were also involved in developing this brief.

PEAK Financial Group is the largest network of independent advisors in Quebec and one of the top fully independent multidisciplinary dealers in Canada. It was founded more than 28 years ago and operates across Canada, with more than \$11 billion in assets under administration. It has 1,500 independent advisors, professionals and employees who serve more than 150,000 investors across the country with impartial and independent financial advice.

PEAK Financial Group includes PEAK Investment Services, PEAK Financial Services, PEAK Securities and PEAK Insurance Services.

## General Comments

As the CSA is aware, the current self-regulatory structure has been in place for over 20 years. The industry has since evolved significantly, making it time to revisit the structure.

Regarding the reasons for reform of the SRO system, the Consultation Paper provides a helpful summary of the comments provided by a broad range of stakeholders in the informal consultations the CSA conducted in 2019. Those comments clearly set out the benefits, challenges and issues presented by the current SRO system.

We commend the CSA for taking this two-step approach of first, gathering comments from the market, and then, reflecting and using those comments to ask more specific questions. Those comments lay out all of the reasons why reform is no longer avoidable. They clearly illustrate why it simply makes sense to get on with it.

Another clear reason to get on with it is that CSA's own regulatory initiatives have been creating the conditions where consolidating the SRO function is inevitable and necessary to achieve CSA's objectives. The clear example is the Client Focused reforms. These reforms make changes to the registrant conduct requirements. The objective was to better align the interests of securities advisors, dealers and representatives with the interests of their clients, improve outcomes for clients, and make clearer for them the nature and the terms of their relationship with registrants.

But, while the objective was to harmonize registration-related rules regardless of which SRO the advisor falls under, the result has been otherwise. In fact, there are differences in the way know-your-client and suitability requirements are applied by the different SROs. As a multi-disciplinary dealer, it is frustrating and time-consuming to work through and apply the subtle and not-so-subtle differences of the SRO requirements.

As a final general comment, we are pleased that this is a CSA initiative. We are optimistically assuming that the reform that goes forward will lead to a single SRO which is recognized and applicable by all provinces. As a dealer operating across Canada, we look forward to a more efficient framework, so we can provide better service to Canadian investors.

## Overall Framework of New Structure

Considering the questions in the paper, we strongly recommend that the CSA retains the self-regulatory framework for the future structure that will be put in place. The advantages of such a structure is that by sharing the governance role with market participants, the regulator is much better attuned to the needs of its participants, thereby ensuring that the regulatory oversight structure serves the needs of dealers and investors.

Because market participants are around the table, they are able to communicate and demonstrate their needs practically in 'real time'. As we are all aware, the industry has been evolving at a rapid pace and is expected to keep doing so in the foreseeable future. It is important that the regulatory framework be able to respond promptly to those changes rather than in retrospect.

A self-regulatory structure, in fact, creates a beneficial working partnership and commits all participants to work in harmony together.

## Specific Comments

Below are our views on the three key issues set out by the CSA:

### **1. Structural Inefficiencies**

#### **2. Investor Confidence**

#### **3. Market Surveillance**

### **1. Structural Inefficiencies**

We begin with our comments on structural inefficiencies of the current framework and the sub-issues the paper lists under that heading.

- a) Duplicative operating costs for dual platform dealers**
- b) Product-based regulations**
- c) Regulatory inefficiencies**
- d) Structural inflexibility**

The current regulatory structure is designed to oversee dealers according to the type of financial product or service they provide. Full-service investment dealers are required to be members of IIROC, and mutual fund dealers must be members of the MFDA, except in Quebec, where mutual fund dealers are regulated directly by the Autorité des marchés financiers (AMF).

For PEAK, which operates across the country, including Quebec, this means that we are being visited and audited by three regulators throughout the year, all with their particular approaches. It means separate meetings, three separate rule books, and different compliance structures, staff, and back-office support systems.

A single regulatory structure involves a single audit, a more harmonized set of rules which allows us to better integrate our compliance and back office systems and reduce costs. We foresee not only savings in operating costs, but the opportunity to reinvest those savings into innovations and better services to our advisors so that they are better able to serve their investor clients.

We also believe that an integrated SRO will be in a better position to respond to facilitating innovations that are being requested by investors. Examples include the use of electronic signatures, email and online financial checks. Some professions and organizations have already made this shift successfully, such as the legal profession and the Canada Revenue Agency. There is no reason why these cannot be implemented in the investment advisory sector. In fact, the new entity could create a dedicated work stream with its members to explore harnessing technology to improve and enhance investor services.

The new structure, should, however, ensure it preserves certain elements that are important for the viability of certain business models. Specifically, we refer to the ability of advisors currently under the MFDA regime to be able to direct their commissions to personal corporations. Any new harmonized structure should give advisors the flexibility to obtain administrative services through a corporation.

The new structure should also revisit some rules with a view to ensuring they meet the 'reality' test. One such rule is the strict regulation of outside business activities of advisors. These rules do not reflect the fact that many advisors are also members of a community and are expected to be involved in that community as sports coaches, community organization members etc. Severely restricting these activities and labelling them all as creating conflicts of interest in the advisor's ability to provide their professional services is an overreach by the regulator. These rules should be reviewed.

## **2. Investor confidence**

- a) Investor confusion**
- b) Public confidence in the regulatory framework**

Regarding investor confidence, we consider this question in regard to the level of satisfaction from the clients of our advisors. We are happy to report it is quite high. However, we have not specifically asked clients whether the existence of multiple SROs creates a confidence or confusion issue for them. We suspect not many have given it any thought. But, intuitively, we feel that greater harmonization would enable investors to benefit from a more efficient financial advisory community, help raise public confidence and remove any investor confusion which may exist.

The current regulatory model requiring clients to deal with different advisors to obtain financial services and products is sub-optimal. A single point of service is less confusing than having to go through several structures.

In addition, a consolidated SRO would mean a single exclusive regulatory body focusing on helping to build investor confidence. Furthermore, the investor could turn to a single regulator.

## **3. Market surveillance**

- a) Separation of market surveillance from statutory regulators**

We are not aware of any specific problems with IROC's current double role of market regulation and market surveillance, but we would support further study of this issue. Its resolution should not, however, delay the reform of the SRO structure.

Creating a harmonized, more efficient SRO structure should proceed without delay.

## Conclusion

To reiterate our position, we strongly support consolidation of SROs as this will not only benefit the financial advisory industry, but ultimately the Canadian investor, who will experience a simplified regulatory framework. Our collective efforts would be reallocated rather than maneuvering through an overly structured and complex regulatory framework.

We would like to thank the CSA for this opportunity to submit our comments.

Respectfully,



**Robert Frances**

Chief Executive Officer  
**PEAK Financial Group**