

Investment Industry SRO Forum

Member Webinar - April 13, 2021



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Agenda

- About the Investment Industry SRO Forum
- Forum Objectives and Principles
- Governance Recommendations
- Policy Recommendations
- Operating Efficiency Recommendations
- Questions

About the Investment Industry SRO Forum

- Created in January 2021
- Comprised of IFIC, IIAC, FMFD Board Members
- Input from PMAC, PCMA, RESPDAC, IIROC, investor advocates
- Each group made separate submission to the CSA on SRO framework
- Important to continue the discussion to provide broad industry view
- Met weekly; divided into three working groups: governance, policy, operational efficiencies
- Submission sent to the CSA on March 31, 2021

Objectives

- To improve the investor experience
- To strengthen investor protection
- To provide helpful recommendations that are high-level, strategic and practical
- To provide a platform for SRO cooperation and collaboration

Principles

- Self-regulation is critical to the Canadian capital markets
- Investors will benefit from a single national SRO
- The SRO should have an operating model flexible enough to accommodate all categories of dealer and advisor registrants
- SRO consolidation should be done in two phases:
 - Phase 1 would consolidate the operations of IIROC and MFDA
 - Phase 2 could consider other categories of dealer and advisor registrants not currently within the SRO framework after consultation
- Important for consolidation to proceed as quickly as possible

Governance Recommendations

- The SRO Board should:
 - be representative of all regions of Canada and member business models
 - represent both industry and non-industry perspectives
 - have a majority of independent directors and an independent Chair
 - have experience with consumer and retail investor issues
- The SRO should create an Investor Advisory Panel that would report annually to the Board.

Governance Recommendations

- A framework of public accountability and regular dialogue with the CSA and the SRO Board and management should be implemented to maintain transparency and foster public confidence:
 - SRO should report to the CSA quarterly and annually, and publish its annual strategic plan for comment
 - Have an annual meeting of the independent directors and the CSA
 - Develop a formal escalation process to the CSA for any urgent issues
 - Develop a new rule approval process that ensures continued oversight, but also allows a swift response to emerging risks

Governance Recommendations

- SRO enforcement must be, and be seen to be, timely, effective and fair
- The SRO disciplinary panels in all regions should be composed of five members: the chair would be a retired judge or experienced lawyer with two public members and two industry members
- All panel members would be vetted by CSA annually

Policy Recommendations

- A disciplined approach to rule making will help control the future cost of regulation. The SRO should:
 - Publish for comment a clear statement of the problem that requires regulatory intervention
 - Use pre- and post-implementation cost/benefit and impact analysis for significant rule proposals
 - Publish plain language rules that articulate a clear regulatory outcome

Policy Recommendations

- A consistent approach to rule interpretation and implementation within the SRO will improve compliance and investor protection. The SRO should:
 - Use proportionate regulatory tools according to the scale, extent and complexity of the problem
 - Take a consistent risk-based approach to investment activities and products
- Rulemaking by guidance notice should not be permitted
- SRO rules should be harmonized where appropriate

Policy Recommendations

- Registration is an important investor protection tool
- Investor protection would be strengthened by legislative delegation of all registration review and approval of their members and representatives to the SRO
- The CSA should delegate the use of statutory tools to manage registration risk, such as the power to impose terms and conditions

Operating Efficiency Recommendations

- CRM2 and CFRs provide investors with arguably the best disclosure and business conduct standards in the world
- The benefits of these reforms should not be impeded by the regulatory barriers created by more than one SRO:
 - SRO rules should enable easier transition of clients to different registrants, or operating entities within the firm
 - SRO rules should enable easier transition of advisors between affiliated legal entities
 - SRO should provide a single consolidated proficiency pathway for all categories of registrants and harmonized CE processes

Operating Efficiency Recommendations

- Clients have many account types; each has different compliance oversight requirements. SRO should:
 - Invest in technology that will support multiple views of client account ranges – regulatory and client
 - Support the development of a single client “master” account to consolidate client account information

Operating Efficiency Recommendations

- SRO should support continued innovation and integration of dealer systems for order management, custody of financial assets and portfolio management
- SRO should reduce regulatory barriers to the adoption of technologies that reduce costs for small client accounts and support end-to-end digital processing activities
- SRO should improve its capability to request and use industry data in whatever format is maintained by the member

Operating Efficiency Recommendations

- Consolidate the SRO firm and advisor discipline databases and provide investors with user-friendly access to the data
- Integrate the investor protection funds in order to permit investment dealers to carry mutual fund dealers
- Develop a regulatory platform for both “nominee name” and “client name” business models
- Permit member firms to direct commissions to personal corporations

In conclusion...

- The consolidated SRO would enable its members to deliver a consistent and seamless experience to investors without inefficiencies and unnecessary costs.
- The Forum strongly urges the CSA to capitalize on the considerable assets of the two SROs to achieve the smooth and effective implementation of the consolidated SRO.
- The Forum encourages the boards of the MFDA and IIROC to begin discussions.

Questions?

Thank You



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