

Michelle Alexander  
Vice President and Corporate Secretary

May 27, 2014

Mr. Robert Day  
Senior Specialist, Business Planning  
Ontario Securities Commission  
20 Queen Street West  
Suite 2200, Box 55  
Toronto, Ontario M5H 3S8  
[rday@osc.gov.on.ca](mailto:rday@osc.gov.on.ca)

Dear Mr. Day:

**Re: Request for Comments Regarding the Statement of Priorities for Financial Year to End March 31, 2015 (the “Priorities”)**

We appreciate the opportunity to respond to the request for comments on the Priorities. The Investment Industry Association of Canada (the “IIAC”) advances the position of the Canadian investment industry on regulatory and public policy issues. As the professional association for the industry, 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.

The IIAC and our members remain supportive of the OSC’s efforts to execute its mandate: providing protection to investors, fostering fair and efficient markets and fostering confidence in the capital markets. The delineation of strategic goals and initiatives is important to better focus efforts on building a more efficient and cost-effective regulatory system.

We are supportive of the Priorities, in particular: access to capital raising for small and medium businesses, regulatory focus on the derivatives markets, regulatory changes to oversee electronic trading, harmonization of rules with the CSA and initiatives to improve investor protection.

However, we believe it is important that the Priorities are achieved via a process of careful review and consultation, an appropriate cost-benefit analysis and other means in order to ensure a cost-effective regulatory system.

A responsive and competitive regulatory system for Ontario's capital markets contributes directly to ensuring market efficiencies and investor participation, improving conditions for capital-raising for Ontario businesses, and building financial and economic infrastructure in the province.

The IIAC was pleased to see the OSC's support of efforts between British Columbia, Ontario and the federal government to establish the Cooperative Capital Markets Regulator (CCMR). The IIAC believes that the CCMR will deliver more effective regulation for Canadian markets and ensure the timely implementation of regulation in response to rapidly changing market developments.

In addition, we are encouraged that the OSC recognizes the challenges of the increasing regulatory burden for market participants. As the regulator is aware, the IIAC has raised this issue recently, particularly as it relates to our smaller members in this difficult economic environment. We appreciate that the OSC is committed to examining whether existing rules are still effective and determining whether they inhibit or promote high-quality capital markets while maintaining sound investor protection. The IIAC is also encouraged that the OSC is open to a rule review process. We have begun a consultative process with Commission staff by providing a list of rules that are no longer relevant or provide no clear benefit to the market or investors. We are confident this exercise will lead to improvements in the regulatory landscape.

As outlined in the Priorities, not only does the IIAC support efforts for improved investor education, we agree that those who offer financial planning services should be subject to SRO regulation. The IIAC supports the government's initiative to provide additional clarity and standardization for the provision and supervision of unregulated financial planners. We recognize that there are individuals who hold themselves out as financial planners but may not have the necessary proficiency requirements and appropriate oversight, thereby negatively impacting their clients and the financial planning industry in general.

The IIAC supports the OSC's decision to further examine the issues relating to the best interest duty and embedded fees in mutual funds to ensure there is a resolution that meets the needs and interests of the industry and investors. As stated in previous IIAC submissions on these issues, the IIAC supports the principles of advisors putting clients first and ensuring that fees and charges are fully transparent thereby enabling investors to make the most informed decision possible. It is our position that the full implementation of CRM2 will achieve these objectives.

In addition, the IIAC looks forward to providing industry input with respect to recent proposals relating to the order protection rule. Many of the proposed amendments have been required for some time in order to address the structural evolution of capital markets in Canada and be more aligned with current market needs.

We support the OSC's decision to prioritize the capital formation process and examine a broader range of capital raising options. It will be important to strike the proper balance between capital formation rules that protect investors and limiting capital raising costs for small businesses. We believe that the strategic objectives of corporate boards should not be overwhelmed by regulatory compliance. In this regard, the IAC believes that rules should be principles-based rather than prescriptive, relying on the fiduciary duty of boards.

Furthermore, we are also extremely concerned at the lack of harmonization of the exemptions proposed by the OSC with similar exemptions proposed, or already in existence, in other jurisdictions. Creating a patchwork of similar exemptions with regional variations adds unnecessary complexities and inefficiencies to the process, and is at odds with the objective of facilitating a cost-effective and efficient capital environment. It is also inconsistent with the creation of the CCMR. We take issue with the fact that the OSC's four proposed securities exemptions differ from existing and proposed exemptions in British Columbia, the other provincial participant in the CCMR.

The IAC supports the OSC's efforts to review transparency in the corporate bond market and its desire to increase post-trade information to the market. The IAC believes an optimal level of market transparency is one that promotes the efficient functioning of our debt markets and requires balancing investor needs for price discovery with the confidence of market makers to extend liquidity and capital in the market. While increased transparency can contribute to investor decision-making and instill confidence in the market, there is also a risk that, at a certain point, a trade-off exists between greater transparency and the liquidity of fixed income markets. The IAC feels strongly that transparency must be carefully defined to ensure that it does not interfere with the liquidity of markets. Therefore, it is important to consult carefully and proceed with caution. The IAC is committed to working with OSC staff to help strike the right balance for Canadian markets.

The IAC commends the OSC for the leadership role it has taken with respect to initiating an independent review of the Canadian proxy voting system and infrastructure. We urge the OSC to carefully consider the feedback received from the IAC and others on CSA Consultation Paper 54-101 and at various CSA roundtables held earlier this year, and to continue to consult with stakeholders to identify specific concerns and solutions that would materially improve the integrity of the proxy voting system in Canada.

We believe that reasonable, incremental improvements to the existing proxy system are required and will result in enhancing the reliability and transparency of the existing system at a minimal cost to shareholders, issuers, intermediaries and our capital markets as a whole. As stated in our previous submissions to the OSC, the IAC and our members are committed to actively participating in this review process as it moves forward.

The IAC also appreciates the leadership demonstrated by the OSC to develop an over-the-counter (OTC) derivatives regulatory framework in Canada that will meet the G20 commitments and align with international standards. However, as this process has

progressed over the past 18 months, we have grown increasingly concerned over the alignment of OTC derivatives rulemaking across Canadian jurisdictions, both with respect to timing and content of those rules. We understand that given the complexities of securities legislation, it is not possible to develop a national framework; however, regulators must work carefully to ensure provincial regulations are harmonized. We urge the OSC to increase its efforts to harmonize with the other CSA jurisdictions with the goal of reducing confusion and risk for participants, improving overall efficiency, and ensuring that Canada's marketplace remains competitive globally.

Again, we appreciate the opportunity to comment on the Priorities. Please do not hesitate to contact me to discuss the matters raised in this letter.

Yours sincerely,

*M. Alexander*