

October 23, 2020

**National Advisory Committee Comments**

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

Addressed 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

c/o:

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The National Advisory Committee ("NAC") of the Investment Industry Regulatory Organization of Canada ("IIROC") wishes to thank you for the opportunity to submit its comments regarding CSA Consultation Paper 25-402 – *Consultation on the Self-Regulatory Organization Framework* ("the Consultation").

NAC is comprised of one representative of each District Council (DC) in Canada. We meet 5 to 6 times per year and report directly to the IIROC Board of Directors. NAC's mandate is as follows:

1. NAC seeks to solicit, review, coordinate and build consensus from IIROC District Councils' responses to regulatory proposals;
2. NAC assumes an advocacy role consistent with investor protection to promote self-regulation by acting as ambassadors to the financial industry at large;
3. NAC identifies and advises IIROC staff about industry trends that assist IIROC in being proactive in dealing with emerging issues and meeting regulatory obligations;
4. NAC aims to develop and harmonize a national approach to dealing with regulatory issues with respect to which the District Councils have a decision-making role.

We proceed with a public-interest mandate, therefore, we provide information to IIROC that is in the best interest of the clients. It is also within our mandate that we provide our response to the Consultation as an independent advisory committee of IIROC, following a fulsome collaboration with each committee member in their respective regions.

The Consultation was reviewed with great interest and the committee agreed unanimously that all stakeholders would benefit from: i) an explanation of the benefits of the self-regulation regime; ii) our views on investor confusion evident within the field; and iii) the financial impact of the regulatory framework.

We would like to begin by stating that, ideally our industry would be governed by a single national self-regulator, including all securities registrants. We believe that the distinction of regulatory platforms, as introduced by *National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations* were certainly accurately designed in 2009 considering the distribution channels at the time, however 11 years later, the industry has evolved overall, as have client needs.

We understand that the Consultation currently focuses specifically on IIROC and the MFDA, which we agree is an appropriate first step.

### **Self-regulation**

Our specific role in the self-regulation regime starts with our election of District Councils throughout Canada. District Council members are elected and represented by IIROC members in their respective regions.

Each District Council acts as a local committee, whose mandate includes both:

- A regulatory role, in relation to regional approval and membership matters; and
- An advisory role, with respect to regional issues and the provision of regional perspectives on national issues.

As District Council members, we have the following regulatory responsibilities:

1. *Registration*: Approval of individual applications, imposing terms and conditions, revoking or suspending approvals, providing exemption from proficiency and continuing education requirements, and hearing/deciding on appeals for proficiency related items from the District Council's Registration Sub-Committee (PLR9209).
2. *Membership*: Recommendation of new membership applications for submission to the IIROC Board of Directors, and approval of ownership-related transactions for IIROC members.
3. *Enforcement*: Nomination of residents from respective districts to the Hearing Committee, for appointment by the Corporate Governance Committee.

We also play an important role by advising IIROC staff on membership and policy matters.

Items to be discussed on a national level are brought forward to NAC by the representative of each District Council. NAC meets regularly with IIROC management to discuss these items which are subsequently brought forward to the IIROC Board of Directors by the Chair of NAC.

NAC members support the regulatory framework of SRO as the benefits and advantages are evident, particularly IIROC's ability to consider our concerns and exercise flexibility in resolving them. To that end, we are supportive not only of the SRO regime but, also of a single SRO regulating all retail-facing securities dealers and mutual fund dealers. We see significant potential benefits for clients.

We believe the benefits include:

1. *Prevention*: Preventing potential loss of performance and client account history by re-papering accounts during client transitions. We see an SRO that allows for one cohesive rulebook, allowing the client to receive a continuum of products and services and to add new products and services without the need to re-paper their accounts during their transition.
2. *Consistency*: Each distribution channel utilizing consistent client forms, statements and account opening procedures. A consistent application of the rules will benefit all stakeholders and will result in improved Investor Confidence.
3. *Centralization*: Client complaints have a consistent resolution process and a centralized investor protection fund.

### **Investor confusion**

Investor confusion was also thoroughly discussed in our meetings over the past few years. We were pleased that the Consultation addressed specific questions regarding this issue.

The complexity comes from the fact that the securities industry has different channels of distribution, and over time, product offerings converge tremendously between these channels. This creates confusion for clients as they may not understand and may not be able to distinguish

product offerings and their origin, nor how their advisor is regulated. Clients may also be under the assumption that all advisors are regulated through the same channels, have the same educational qualifications and follow the same set of compliance and compensation rules and regulations. Consequently, it is difficult for clients to identify the appropriate regulator to contact should they have questions or concerns.

In recent years, it has been established that a wide range of “professional” titles are used by dealing representatives in our industry which has resulted in additional client confusion. The CSA has attempted to address the topic of misleading titles in their Client-Focused Reforms. We believe that further progress is needed in this regard. We believe that having a single SRO as opposed to two would provide the opportunity to create a level playing field with respect to the titles used by dealing representatives in their interaction with retail clients, thereby reducing overall investor confusion.

### **Operating costs**

Operating cost savings which stem from a single SRO are significant (Deloitte estimated \$1-2 million per dual platform provider per annum for 10 years). In addition, we feel that having a single SRO in place would save significant time and efforts for the regulators and industry staff members. Removing duplicative costs from the system will ultimately lead to a more competitive landscape, which will ultimately translate into lower costs for investors which is in line with the industry’s over-arching goal of improving investor outcomes.

A consistent approach to regulation is likely achievable only through a single SRO. Consistency is important in operating business models and serving clients. Consistency will become even more important over time with new, more complex rules becoming effective.

### **Next Steps**

We believe that a logical next step is the two current SRO’s coming together to work on a new and improved SRO. This should be initiated by the respective Boards of each organization with a view to evolving the new SRO framework to address the changing landscape of the Canadian financial services industry. The result must be a new entity with a reconstituted Board. As such, the new SRO would have the perspective of a new, forward-looking organization, seeking to optimize regulation to benefit clients with expanding needs within the context of an evolving industry.

Yours truly,

Christopher J. Enright  
Chair, National Advisory Committee