Dear Joe and Doug,

Thank you for meeting with us recently to discuss CSA Position Paper 25-404 and plans for the New SRO. We’re sending you these comments as a follow-up to that discussion. Please feel free to share this letter with the CSA and the Integrated Working Committee (IWC) once it’s constituted.

During our meeting, we expressed our appreciation for the thoughtful work evident throughout the Position Paper. We were especially impressed by the design elements intended to bring investor representation and input into the New SRO at multiple levels. Our comments in this letter aim to help you hone those aspects of the design, and therefore we focus mostly on governance and oversight matters. However, we’d also like to touch on other issues including a preliminary note about the IWC itself.

Currently, we have little information about the IWC’s composition. We believe it should include some individuals who can fully articulate the stakeholder interests of retail investors. Alternatively, at the very least, the IWC’s operational structure should incorporate a mechanism to ensure meaningful investor involvement and engagement in the final design of the New SRO’s governance structure.

Parenthetically, we note that representation and involvement of investor interests will be critical in the planning/integration process during Phase 2, when consideration begins on...
expansion of the New SRO’s remit to include EMDs, PMs and SPDs. It also will be vitally important in any future efforts to harmonize standards with insurance regulation.

Turning to matters outlined in the Position Paper, our comments below generally follow its sequence (page number references are from the text as published in the OSC Bulletin).

**IMPROVING GOVERNANCE (pages 6701 – 6704)**

**Board composition: Nuance is required to identify truly independent directors**

We strongly support the requirement that a majority of the New SRO’s board members must be independent directors and that the board chair must be independent, as well. By proposing these measures, the Position Paper clearly aims to create a bulwark against the New SRO becoming a mere echo chamber for industry viewpoints and a captured regulator that habitually adopts industry views as policy norms.

But an independent majority will not be achieved in any true sense if some or all of the independent director seats can be occupied by individuals whose thinking is closely aligned with the investment industry’s perspective – as may be the case for many former industry executives or people whose worldview has been shaped through close association with the industry.

Cooling off periods are essential in many instances but will not compensate for the lack of an authentic investor perspective. Nor will it be sufficient for “a reasonable proportion” of New SRO directors to have “relevant experience” dealing with investor protection issues. These words are too vague and easily could result in only a small, token minority of investor-focused individuals being appointed. A more judicious approach is needed.

Instead, the dominant criteria for selecting all independent directors should ensure they possess a **deep understanding of investor perspectives** and a **demonstrated affinity for protecting investors to promote and safeguard the public interest** – qualities consonant with exercising knowledgeable and truly autonomous critical judgment.

These qualities would be found among investor advocates, certainly, but not exclusively. We note that several experienced and respected industry figures are known to possess the very same traits. Some might make excellent independent directors. Therefore, we recommend that independence should be defined carefully to allow for an appropriate assessment of each candidate’s attributes in accordance with the key criteria we’ve suggested, while avoiding automatic exclusion simply because of industry connection or involvement.

**Board size: Maintain an independent majority**

A 15-member board seems large and potentially cumbersome, but we recognize it may be necessary for a pan-national organization with multiple stakeholder communities.
What concerns us, however, is a potential shift in the New SRO’s industry-investor balance when EMDs, PMs and others are added to the SRO’s member classes and board seats are increased or reallocated to give those new groups their own representatives at the table. This imbalance can be avoided by maintaining an independent majority requirement, but only if the independent directors are selected for their investor-focused attributes as suggested above.

**Term limits: Anticipate need for extensions**

Under the dominant criteria we suggest for independence, the number of qualified candidates may expand to include some industry-connected individuals, but still the pool will not be large. At times, therefore, it may be necessary and desirable to extend the terms of independent directors, and the New SRO’s governance structure should include a mechanism for dealing with that contingency.

**Investor advisory panel: Ensure it has appropriate resources**

Needless to say, we applaud the inclusion of an investor advisory panel as a stipulated element of the New SRO’s structure. We would note, however – and we urge you to emphasize – that an IAP should not be viewed as an alternative to installing an investor-focused presence on the board.

Furthermore, an IAP must be appropriately resourced to be effective. It should have an independent chair, an adequate budget (including funding for meaningful research projects), and administrative support. It should be self-directed and thus able to examine any matters within its mandate that its members collectively wish to study. Upon reasonable request the IAP should receive briefings about those matters from SRO staff.

We note also that an IAP can be more than just an independent source of information about investor concerns. If desired, it can serve as a confidential sounding board to help senior management develop new initiatives, assess policy options, and ensure that nothing is overlooked.

**Policy advisory committees: Make them fully independent**

We support your proposed requirement that the New SRO’s other policy advisory committees each must include a reasonable proportion of investor / independent / public representatives.

To be clear, though, we assume and strongly urge that these committees will be fully independent of staff.
Clear communication of public interest mandate: What metrics?

While the aims of this part of your initiative are understandable, its cogency and practicality really can’t be weighed without knowing what metrics will be used to measure the public interest impacts of new rules, or the metrics that will be applied to link executive compensation with the delivery of the SRO’s public interest mandate.

CSA OVERSIGHT (page 6704)

Approval / Non-objection mechanism: Avoid creating a bottleneck

The degree of oversight outlined in the Position Paper seems appropriately robust. However, given the CSA’s inherently complex and often slow processes, we would like to gain better understanding of how the oversight mechanism will operate without unduly constraining the New SRO’s ability to act, and react, in a timely manner.

OTHER SOLUTIONS (pages 6704 – 6705)

Mandatory annual training for directors: Its effectiveness must be visible

We welcome the proposal for mandatory director training on industry, governance, and investor protection issues as well as the role directors are expected to play in advancing the public interest. Transparency regarding content and choice of service providers will be needed, however, to engender public confidence in the calibre and sufficiency of this training.

Annual meetings with the investor advisory panel: Frequent enough?

We meet with the full panel of OSC Commissioners twice each year, and ad hoc sessions with the OSC Chair, Vice-Chairs and senior executive team members take place whenever required in between. In our experience, this frequency of contact is a critical success factor – especially as it helps develop rapport essential to optimizing the IAP as a confidential sounding board. We would recommend, therefore, that the New SRO adopt a similar practice and meet with its IAP at least twice annually.

ENHANCING INVESTOR EDUCATION (pages 6705 – 6706)

Align with other member regulators: Aim for a coordinated, single voice

Investor education is critically important and the New SRO must promote it. However, this should be done in conjunction with the CSA and its member regulators, not as a separate initiative by the SRO. Doing the latter will just add to the “noise” from multiple information sources instead of providing consumers with a single coherent, comprehensive and authoritative one.
Outreach: Prioritize establishment of Investor Office

In a similar vein, we regard as vitally important the consumer outreach initiatives listed in the Position Paper. They should be launched as quickly as possible; but they need to be co-ordinated by the New SRO’s Investor Office and integrated into the policy development work carried out by that department, so establishment of the Investor Office must be an operational priority.

INCREASING ACCESS TO ADVICE (pages 6706 – 6707)

Effective access requires more proficient advisors, teams

We agree that the New SRO should find ways to give current customers of MFDA dealers (especially those in rural areas) access to a broader range of investment products such as ETFs and bonds. But this effort must be backstopped by a plan for mandatory upgrading of MFDA advisor proficiency within a reasonably short time span, or by a plan for establishing workable advisory teams to ensure all clients are served by groups of individuals sufficiently proficient to provide seamless and holistic advice on this broadened range of products.

FOSTERING HARMONIZATION / EFFICIENCIES (pages 6708 – 6709)

Centralized intake portal for complaints

This proposal is one we very strongly support along with its related initiative for developing consistent complaint handling processes and service standards. Our only comment is that these initiatives need not and should not await the New SRO’s launch. They can be operationalized beforehand, then plugged into the New SRO’s structure when it’s up and running. There is no reason to delay implementing these useful measures in the meantime.

Avoiding regulatory arbitrage

The New SRO’s structure also should allow for future plug-in of standards designed to harmonize regulation of securities and insurance products.

LEVERAGING ONGOING RELATED PROJECTS (page 6712)

OBSI issues cannot wait

As you likely know, we feel the CSA has taken far too long mulling over matters related to OBSI (binding decisions, systemic issue identification, dealers’ use of internal ombudsmen, etc.). We are concerned that the New SRO rollout may become a further excuse for delaying progress on these matters, and we urge the CSA not to let that happen.

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Once again, Joe and Doug, please accept our thanks for the time you recently spent briefing us on the New SRO project, listening to our comments, and answering our questions. We hope these supplementary observations will prove useful to you in moving the project forward.

Sincerely,

Neil Gross, chair
Investor Advisory Panel