



Notice of BCSC approval of use of IIROC Restricted Fund

As of October 27, 2022, the BCSC and IIROC's other recognizing regulators¹ approved the Investment Industry Regulatory Organization of Canada's (IIROC) request seeking approval to use money collected by IIROC from fines and under settlement agreements (the IIROC Restricted Fund) to pay for external advisor costs regarding the creation of the new single self-regulatory organization (the New SRO Integration Costs defined in Appendix A of the attached Schedule A to this Notice).

On August 3, 2021, the Canadian Securities Administrators (the CSA) published the CSA Position Paper 25-404 *New Self-Regulatory Organization Framework* (the CSA Position Paper) recommending amalgamation of the Mutual Fund Dealers Association (MFDA) with IIROC. IIROC and the MFDA commenced the process of amalgamation to create a new single self-regulatory organization (New SRO).

The BCSC and IIROC's other recognizing regulators received a request (the request) from IIROC seeking approval to use unallocated monies from the IIROC Restricted Fund to pay for external advisor costs incurred by IIROC related to the creation of the New SRO in accordance with subparagraph 8(a)(iv) of Appendix A of the IIROC Recognition Order.

IIROC has incurred, and continues to incur, the New SRO Integration Costs for the following services:

- legal and other consultants to advise on specific aspects of the integration of IIROC into the New SRO, including advice related to corporate structure, organizational design and change management;
- consultants to conduct an executive search for the new CEO and members of the board of directors for the New SRO;
- accounting support to produce proforma financial statements for the New SRO; and
- advisors to align the compensation and benefits structures.

¹ Alberta Securities Commission, Financial and Consumer Affairs Authority of Saskatchewan, Manitoba Securities Commission, Ontario Securities Commission, the Autorité des marchés financiers (Québec), Financial and Consumer Services Commission of New Brunswick, Nova Scotia Securities Commission, Prince Edward Island Office of Superintendent of Securities, Department of Government Services, Consumer & Commercial Affairs Branch (Newfoundland and Labrador), Office of the Superintendent of Securities, Northwest Territories, Office of the Superintendent of Securities, Nunavut and Office of the Yukon Superintendent of Securities.



British Columbia Securities Commission

As part of the request, IIROC submitted that the New SRO Integration Costs arise from the implementation of the New SRO. In addition, IIROC stated that the disbursements from the IIROC Restricted Fund to cover the New SRO Integration Costs is appropriate and consistent with the underlying intent in subparagraph 8(a)(iv) of Appendix A of the IIROC Recognition Order that fine and settlement monies serve the public interest and investor protection purposes.

CSA staff created a dedicated working group that conducted a thorough review of the request. Following the review, the BCSC and IIROC's other recognizing regulators approved IIROC to use up to \$4.29 million in money held in the IIROC Restricted Fund, as described in Appendix A of the attached Schedule A, for the following reasons:

- the IIROC Restricted Fund is restricted to the expenses that are not considered operating in nature. Any costs directly associated with IIROC's integration into the New SRO are not ordinary operating costs;
- according to the CSA Position Paper, creation of the New SRO will contribute to a regulatory framework that has a clear public interest mandate and is structured to focus on investor protection. The underlying intent of subparagraph 8(a)(iv) of Appendix A of the IIROC Recognition Order is that fine and settlement monies be used for public interest and investor protection purposes. As such, the specified use of the IIROC Restricted Fund for the payment of external advisory costs associated with the formation of the New SRO that are in the public interest would be consistent with the intent of the IIROC Recognition Order; and
- the use of the IIROC Restricted Fund will be limited to the New SRO Integration Costs, which can only be accessed in accordance with the specific terms and conditions set out in Schedule A of this Notice.

The Commission approved a similar request from the MFDA.

Based on the request, the BCSC and IIROC's other recognizing regulators have determined that it is in the public interest to allow IIROC limited access to the IIROC Restricted Fund. The approvals by IIROC's other recognizing regulators can be found on their respective websites.

The approval is subject to the condition that IIROC complies with the terms and conditions contained in Schedule A of this Notice.

October 27, 2022



SCHEDULE A

The Investment Industry Regulatory Organization of Canada Restricted Fund Request: Terms and Conditions

Definition

1. In this Schedule:

“**New SRO Integration Costs**” means external advisory costs related to the implementation of a new self-regulatory organization described in Appendix A.

“**Restricted Fund**” means the funds resulting from all fines collected by IIROC and all payments made under settlement agreements entered into with IIROC.

Quarterly Reporting

2. IIROC must file with the Commission, by delivering to the members of the CSA Oversight Committee, within 30 days after the end of each quarter, starting with the quarter ending September 30, 2022, a report that includes the following information and documents:

- a. a summary of New SRO Integration Costs incurred during the previous calendar quarter or, in case of the initial filing, a summary of all New SRO Integration Costs incurred prior to September 30, 2022; and
- b. a summary of the New SRO Integration Costs that IIROC reasonably expects to incur during the next calendar quarter (the “**Quarterly Reports**”).

Certification

3. The Quarterly Reports shall include a certification by the IIROC Chief Financial Officer, President and the Chair of the Finance, Audit and Risk Committee that:
 - a. the expenses incurred during the relevant period are not operational in nature and only relate to the New SRO Integration Costs as set out in Appendix A; and
 - b. after paying the New SRO Integration Costs, sufficient funds remain in IIROC’s restricted fund for other expenses contemplated by subparagraphs 8(a)(i) to (iii) and paragraph 8(b) of Appendix A to IIROC’s Recognition Order.



Other Conditions

4. IIROC must make an additional request under subparagraph 8(a)(iv) of Appendix A to the IIROC Recognition Order and obtain additional prior approval by the Commission if it will use the Restricted Fund:
 - a. to pay for any New SRO Integration Cost that exceeds the amounts set out in Appendix A under the Approved IIROC Expenditures; and
 - b. to pay any cost that is not a New SRO Integration Cost described in Appendix A.
5. IIROC shall not use the Restricted Fund for any New SRO Integration Costs incurred after December 31, 2022.



Appendix A
New SRO Integration Costs¹

Nature of Costs	Advisory Mandate	Projected Total Costs²	Approved IIROC Expenditures
Legal Fees	Integration Advisory	N/A	\$1.182M
Other External Consultants - Advisory Contract	Integration Management	\$5.525M - \$5.650M	\$2.593M
Executive Search - Fees & Support	New CEO and Board Search	\$966K - \$1.081M	\$483K
Finance - Accounting Support	Proforma Financial Statements	\$60K - \$68K	\$18K
Human Resources – Compensation and Benefits Structure Alignment	Compensation and Benefits Structure Alignment	\$434K - \$566K	\$14K
Total			\$4.290M

1 K=1,000; M=1,000,000.

2 Range of projected third-party advisors and consultant costs.