CSA/ACVM Canadian Securities Administrators Autorités canadiennes en valeurs mobilières

CSA Position Paper 25-404 - *New Self-Regulatory Organization Framework*

August 3, 2021

1. Introduction

In December 2019, a Canadian Securities Administrators (**CSA**) working group (the **Working Group**[1]) was formed to conduct an in-depth review of the current framework for the two Self-Regulatory Organizations (**SRO**s) – the Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**).[2] Since then, as part of this SRO Framework Review Project (the **SRO Project**), the Working Group has completed extensive stakeholder consultations, collected data and conducted research relevant to the assessment of the current regulatory framework, and developed and executed a methodology to identify, evaluate and rank the options for addressing the issues identified within the current SRO framework. To date, all of the Working Group's activities have been completed in accordance with its project timeline, including the publication of this CSA Position Paper (the **Position Paper**).

Below, is a detailed breakdown of key steps in the SRO Project to date:

- On December 12, 2019, the CSA issued a news release announcing its comprehensive review of the regulatory framework for IIROC and the MFDA.

- In late 2019 and early 2020, the Working Group completed informal consultations with a wide variety of stakeholder groups to solicit views regarding the current SRO regulatory framework.

- On June 25, 2020, the CSA Consultation Paper 25-402 *Consultation on the Self-Regulatory Organization Framework* (the **Consultation Paper**) was published for a 120-day public comment period. The Consultation Paper sought public input on seven key issues identified.

[1] The Working Group consists of staff of the following CSA regulators: the Alberta Securities Commission, the Autorité des marchés financiers, the British Columbia Securities Commission, the Financial and Consumer Affairs Authority of Saskatchewan, the Financial and Consumer Services Commission of New Brunswick, the Manitoba Securities Commission, the Nova Scotia Securities Commission and the Ontario Securities Commission.

[2] The work also included the SRO's respective protection funds - the Canadian Investor Protection Fund (**CIPF**) and the MFDA Investor Protection Corporation (**MFDA IPC**).

- A total of 67 letters were submitted from a broad range of respondents which included diverse comments on the specific issues raised in the Consultation Paper. These comments were reviewed and are summarized in Appendix A of this Position Paper.

- In addition to the public consultations, the Working Group compiled substantial additional information and conducted research to inform its work, which is described further in section 2 of this Position Paper.

- On February 22, 2021, the CSA published a news release to update the public on the progress of the SRO Project and to confirm the intention to publish the Position Paper in the summer of 2021.

Guiding Principles were developed to inform the Working Group's research and analysis, and to ensure that the solutions to address the issues identified in the Consultation Paper were consistent with the CSA targeted outcomes from the Consultation Paper. Each Guiding Principle was adopted with the objective to support the development of a regulatory framework that has a clear public interest mandate and fosters capital markets that are fair and efficient. As a result, the regulatory framework will be structured to focus on investor protection to promote public confidence and to accommodate innovation and change.

Accordingly, the Working Group focused on identifying solutions that:

1. enhance governance and accountability to all stakeholders to (i) reflect a clear public interest mandate and (ii) foster public confidence in the regulatory framework, while preventing regulatory capture;

2. promote the development, interpretation and application of consistent regulatory requirements;

3. include formal investor advocacy mechanisms to ensure that investor perspectives are factored into the development and implementation of regulatory policies;

4. contain mechanisms to improve the robustness of enforcement and compliance processes and the provision of public information about meaningful, timely, coordinated and responsive enforcement and compliance actions;

5. ensure regulatory alignment with the CSA through appropriate oversight mechanisms;

6. increase regulatory efficiencies, accommodate innovation, and deliver effective and efficient regulation by minimizing redundancies and complexities, and ensuring flexibility and responsiveness to the future needs of the evolving capital markets;

7. do not impose barriers to registrants providing access to advice and products for investors of different demographics, including less affluent or rural investors;

8. develop, interpret and apply securities regulation in cooperation with the CSA;

9. provide risk-based regulation that is proportionate to different types and sizes of registrants and business models, as well as facilitating holistic and "one-stop-shop" business models for the benefit of investors;

10. are easily understood by public and industry stakeholders, and responsive to their concerns;

11. facilitate meaningful consultation and input from all types of registrants, including smaller and independent firms, without undue barriers to entry;

12. recognize and incorporate regional considerations and interests from across Canada;

13. foster efficient, effective cooperation and coordination with statutory regulators, for example, timely access to market data with processes in place to promote collaboration to ensure that the statutory regulators collectively obtain appropriate outcomes; and

14. are able to provide an effective market surveillance function.

As outlined below, the CSA's position is that the objective will be best addressed by establishing a new single enhanced SRO (**New SRO**)[3]**,** and separately, consolidating the two current investor protection funds (**IPFs**)[4] into a single protection fund which will be independent from the New SRO. This structure represents the best solution to address the issues that have been identified and to provide a framework for efficient and effective regulation in the public interest at this point in time and, as the capital markets continue to evolve, into the foreseeable future. This New SRO is described further in section 3 of this Position Paper.

At the same time, the CSA recognizes the critical importance of existing SRO and IPF staff expertise and the continuation of their work during the transition to a new framework. The CSA will oversee that the existing SROs and IPFs remain committed to maintaining the functional resources and personnel necessary to achieve a successful transition.

The remainder of this Position Paper follows the below structure:

- Section 2 – Methodology
- Section 3 – New SRO Framework
- Section 4 – Specific Solutions to Support the New SRO
- Section 5 – Consideration of Written Representations and Next Steps
- Addendum – Recognition of the New SRO in Québec
- Appendix A – Summary of Public Comments
- Appendix B – Other Options Considered

[3] Specific considerations regarding the framework currently applicable in Québec are further addressed in the Addendum.

[4] Currently, CIPF is providing protection on a discretionary basis within prescribed limits to eligible customers suffering losses as a result of an insolvency of an IIROC dealer member. The MFDA IPC provides analogous protection to eligible customers of MFDA members.

- Appendix C – Enabling Changes
- Appendix D – Table of References

2. Methodology

The Working Group adopted a systematic approach in order to determine the most appropriate option for enhancing the current SRO framework in Canada. As such, a comprehensive methodology was developed in order to:

1. assess, validate and rank the seven issues (and sub-issues) identified in the Consultation Paper;

2. identify and consider numerous potential solutions to address those issues and related sub-issues; and

3. select the most appropriate solutions to best address the identified issues and sub-issues. As noted above, guiding principles were developed to ensure that the selected solutions were consistent with the targeted outcomes as described in the Consultation Paper.

The following is a detailed description of the Working Group's methodology:

Review and analysis of public comments and additional work undertaken

In response to the Consultation Paper, 67 public comment letters were submitted, reviewed, and summarized. In addition, the Working Group carried out supplementary independent research and analysis to evaluate the issues and sub-issues, as well as to identify additional areas that needed to be accounted for to inform the Working Group's assessment regarding potential solutions. The additional work included a review of:

- relevant additional information and data from IIROC and the MFDA;
- enrolment data from the Canadian Securities Institute;
- survey data from CIPF regarding investor awareness of the protection fund;
- more than 25 relevant publications, including academic research;
- various public and internal reports;
- research on corporate governance matters;
- consultations with relevant internal CSA stakeholders;
- relevant comment letters from the Ontario Capital Markets Modernization Taskforce consultation; and
- existing legislation and other research by a sub-group established to determine if a harmonized regulatory approach related to directed commissions could be achieved across Canada.

Issue validation

The Working Group used the aforementioned research and analysis to validate the vast majority of the issues and the respective sub-issues identified in the Consultation Paper. In cases where there was no substantial evidence to validate certain issues and sub-issues, the Working Group made recommendations to strengthen existing control mechanisms and identify opportunities for enhanced information sharing and other procedural changes.

Consideration of multiple options for the enhanced SRO framework

Concurrent with the issue and sub-issue validation process, the Working Group identified and defined six possible options (the **Options**) to restructure the SRO framework in the context of the SRO Project for further consideration and detailed analysis.

The Working Group developed and applied a comprehensive decision-making methodology to evaluate all the Options. In particular, the Working Group identified, for each Option, specific solutions pertaining to each issue and sub-issue and evaluated how well each Option would address or resolve the identified issues and sub-issues to achieve the CSA targeted outcomes of the SRO Project.

The Working Group then constructed and applied quantitative analysis to derive comparative numerical total scores and rankings for each of the Options. These rankings were based on how identified solutions for particular issues and sub-issues were scored within each Option. Various additional factors were also assessed, scored and factored into the overall evaluation to determine the best Option for the enhanced regulatory framework in Canada. These factors included timing, resourcing, investor concerns and regulatory burden considerations.

3. New SRO Framework

As described in section 2, the Working Group applied a fact and data-based approach to the assessment of the Options, and after careful consideration and analysis, the CSA has decided to move forward to implement the New SRO, which includes consolidation of the IPFs into a single legal entity that is independent from the New SRO (**New IPF**). Other Options evaluated are described in Appendix B.

The New SRO will have an enhanced governance structure, relative to the current governance structure of IIROC and the MFDA, and will initially include investment dealer and mutual fund dealer registration categories as well as marketplace members. The potential to incorporate other registration categories currently overseen directly by members of the CSA will be considered as part of a separate phase. The proposed framework includes specific solutions to best achieve the CSA targeted outcomes identified in the Consultation Paper by:

- eliminating duplicative costs and minimizing regulatory inefficiencies;
- promoting access to advice for all investors;
- reducing investor confusion;
- enhancing structural flexibility;

- acknowledging proportionate regulation;
- establishing a graduated proficiency model;
- streamlining the complaint process;
- increasing controls and improving transparency of enforcement mechanisms; and
- enhancing market surveillance.

The CSA has determined that the New SRO and the specific solutions (including the New IPF), as detailed in section 4 below, is the best option to address the issues identified by stakeholders in an equitable and balanced way, and to achieve the CSA targeted outcomes. The new framework will allow the CSA to make timely, meaningful and impactful change that is in the public interest. Additionally, it will continue to provide the industry with the inherent benefits of self-regulation by maintaining a self-regulatory model. Furthermore, the New SRO provides for a harmonized CSA position that will ultimately be of benefit to all Canadians.

New SRO Implementation Process

The process to establish and operationalize the New SRO will have two phases. Phase 1 will focus on the design of the New SRO and the New IPF, the integration of the existing SROs and IPFs under the new framework and the adoption of the issue-specific solutions detailed in section 4 of this Position Paper. Phase 2 will consider whether it is appropriate to incorporate into the New SRO other registration categories, including Portfolio Managers (**PMs**), Exempt Market Dealers (**EMDs**), and Scholarship Plan Dealers (**SPDs**), which are currently overseen by the statutory regulators. Possible modifications to the New IPF (e.g., extending coverage to other registration categories) will also be considered.

All issue-specific solutions outlined in section 4 of this Position Paper will be addressed through these two phases.

Phase 1

An Integrated Working Committee (**IWC**) will be established under a separate CSA approved mandate to determine the appropriate corporate structure for the New SRO and define and oversee the execution of the implementation strategy to integrate the existing SROs and consolidate the two IPFs into the New IPF. Under Phase 1, the IWC will also facilitate the adoption by the New SRO of enhanced governance mechanisms outlined in section 4 of this Position Paper. Upon finalizing the appropriate corporate structure, a public communiqué will be made to include an implementation timeline.

The IWC will be led by CSA staff, and will be responsible to coordinate and work with external advisors and different subject matter experts from within the CSA. The IWC will engage and consult with existing SRO and IPF staff, as well as other stakeholders (including industry and advocacy representatives), as required. Each stakeholder group's active participation and cooperation will be important for a successful implementation. Decisions within the IWC with respect to the implementation of the New SRO will reside with the CSA.

The work of the IWC in Phase 1 will focus on:

- **Integration**: The IWC will identify the appropriate corporate structure for the New SRO and implement a CSA plan to integrate the existing organizations into the New SRO, including required member approvals, and consolidate the IPFs into the New IPF. This will be accomplished through appropriate legal and corporate transaction management in order to optimize outcomes, minimize impact and manage execution risk.

- **Harmonization**: The IWC will oversee and coordinate harmonization of SRO rules, policies, compliance and enforcement processes, and fee models. In developing the New SRO rule book, a policy initiative will focus on the review of current IIROC and MFDA rules in order to identify differences and, if appropriate, propose changes to harmonize rules, policies and related processes.[5]

- **Governance**: Many of the governance enhancements for the New SRO will be incorporated into the new Recognition Orders (**ROs**) to be approved by each statutory regulator. In regard to CSA oversight, necessary approvals will also be coordinated to implement a new Memorandum of Understanding (**MOU**) among the recognizing regulators setting out a strengthened CSA oversight framework for the New SRO reflecting effective oversight by all recognizing regulators. Similarly, the New IPF will require new approval orders and a new MOU among the statutory regulators.

As part of this process, the appropriate oversight relationship management structure between CSA members and the New SRO will be carefully considered and agreed upon amongst all the recognizing regulators, given that the New SRO will conduct activities requiring CSA member coordination currently fulfilled by two principal regulators (British Columbia Securities Commission for the MFDA, Ontario Securities Commission for IIROC). This consideration is necessary in order to ensure effective, meaningful and coordinated oversight of the New SRO by all recognizing regulators on significant matters and to enhance administrative efficiencies.

Lastly, the IWC will oversee the review and approval of the by-laws for the New SRO to ensure that the new governance structure, pursuant to the terms and conditions of recognition, is properly reflected.

As work in Phase 1 progresses, some initiatives may be implemented by sub-groups of the IWC or by other committees formed by the CSA.

Phase 2

Following Phase 1, a formal consultation with extensive stakeholder engagement will be initiated by the CSA through the formation of a distinct **CSA SRO Working Group,** which will coordinate with the CSA Registration Steering Committee to consider incorporating other registration categories (e.g., PMs, EMDs, SPDs) into the New SRO, including a review to assess the merits of

[5] The work will include coordination with the appropriate CSA committees (e.g., Registration Steering Committee) regarding applicable changes to securities regulation (e.g., National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*).

proficiency-based registration categories and a consideration to extend IPF coverage to these other registration categories.

The continuation of harmonization efforts with relevant insurance regulatory bodies, building on current projects such as the joint CSA / Canadian Council of Insurance Regulators project on Total Cost Reporting, will be contemplated in this phase as well.

Appendix C describes other areas where steps will have to be taken in order to facilitate implementation of the solutions outlined in the Position Paper.

4. Specific Solutions to Support the New SRO

Introduction

This section details specific solutions to support the New SRO and to address each of the seven issues and their respective sub-issues identified in the Consultation Paper. As many of the solutions applied to multiple issues and sub-issues, for improved readability, the solutions are characterized into the categories below.

a) Improving Governance
b) Strengthening Proficiency
c) Enhancing Investor Education
d) Increasing Access to Advice
e) Reducing Industry Costs
f) Fostering Harmonization / Efficiencies
g) Harmonizing Directed Commissions
h) Maintaining Strong Market Surveillance
i) Leveraging Ongoing Related Projects

a) Improving Governance

Introduction

In response to the issues identified in the Consultation Paper regarding a possible lack of public confidence in the current SRO regulatory framework, many stakeholders expressed concern that the current SRO corporate governance structure does not adequately support or promote the SROs' public interest mandate. In particular, comments were made that the current SRO corporate governance structure is too closely aligned to the interests of industry participants at the expense of the interests of other stakeholders, including investors. Commenters raised concerns that the composition of the SROs' boards of directors is weighted in favour of current and former industry participants. To address these concerns, commenters suggested several possible solutions, including requiring a majority of independent directors on an SRO's board, appropriate cooling-off periods for independent directors, and formal mechanisms within the SRO to facilitate investor consultation. These requirements would better align an SRO's corporate governance structure with its public interest mandate and mitigate the risk of regulatory capture.

Through its review of these issues and related research pertaining to governance models and best practices, the Working Group validated that the SROs' current corporate governance structure could be improved to optimally support and promote the SROs' public interest mandate. The CSA identified a number of opportunities for improvement to the corporate governance structure for the New SRO, including clear communication of the New SRO's public interest mandate, greater diversity in the composition of the New SRO's board of directors, objective criteria to determine the independence of directors, formalized mechanisms for the consideration of investor feedback, and enhancements to the CSA's involvement in and oversight of matters relating to the SRO's activities and corporate governance structure. The CSA further identified opportunities to improve the corporate governance structure to address issues of investor confusion regarding the current regulatory structure which would address perceptions that governance shortcomings could be responsible for perceived weaknesses in SRO enforcement mechanisms.

Solutions

Clear communication of public interest mandate

The New SRO will clearly convey how the public interest informs the New SRO's regulatory actions and responsibilities, specifically by:

- Emphasizing the public interest mandate in the ROs, by-laws, and other applicable constating documents of the New SRO.

- Requiring the New SRO to inform stakeholders of its public interest mandate and corporate governance structure, rulemaking processes and enforcement processes.

- Requiring training to directors, board committee members, senior management, and staff in interpreting its public interest mandate, to ensure alignment of the public interest between the New SRO, statutory regulators, and governments.

- Requiring the New SRO to describe the public interest impact of rule proposals, guidance and policies published for comment.

- Requiring the compensation structure for New SRO executives to be linked to the delivery of the New SRO's public interest mandate.

New SRO board composition

The CSA's solutions in respect of the composition of the New SRO's board of directors are intended to address the perception that the current SRO corporate governance structure underrepresents the concerns of investors and other stakeholders to the benefit of industry, and therefore, the majority of directors will be independent and the CSA will have a role in the consideration of independent directors.

Specifically, solutions include:

- Requiring a majority of the New SRO's directors to be independent.

- Requiring that the Chair of the New SRO board be an independent director and that the roles of Chief Executive Officer (**CEO**) and Chair be occupied by separate persons.

- Requiring that the Governance / Nominating committee of the board be composed entirely of independent directors and requiring that the Chairs of other committees such as Audit, Human Resources, etc. be independent.

- Requiring that a reasonable proportion of New SRO directors have relevant experience regarding investor protection issues (as has already been implemented by IIROC).

- Providing a CSA non-objection process grounded in principles-based considerations for all independent directors, including:

    - a mechanism for the New SRO to undertake due diligence and other governance best-practices such as the use of evergreen lists and development of board skills matrices that would take into account the attributes or backgrounds needed for a balanced board, including considering board diversity in terms of (i) director-type and (ii) geographic board representation, which will ensure an equitable balance of interests;

    - a mechanism for the CSA to review the initial matrices and any subsequent changes to them, including a reporting requirement in the RO for material change to the matrices; and

    - considering whether board composition requirements should form part of the by-laws or part of the RO.

- Requiring that appropriate cooling-off periods commensurate with governance best-practices for CSA regulators be considered for any independent director positions.

- Maintaining a workable board size for the New SRO of not more than 15 directors (including the CEO), subject to change with CSA approval.

- Maintaining appropriate term limits[6] for the New SRO board members and extending these term limits to the CEO.

- Requiring the New SRO to develop diversity and inclusion policies aimed at increasing underrepresented groups on the board.

[6] The current director term limits are set out within the IIROC and MFDA by-laws.

Independence criteria for independent directors

The CSA's solutions respecting the criteria to determine the independence of directors are intended to strengthen the definition of independence and address the perception that even independent directors could be too closely tied to industry. Specifically, solutions focus on:

- Requiring the New SRO to create, in consultation with the CSA, criteria to assess the independence of directors annually (e.g., affiliations with industry associations).

- Ensuring that independence requirements for New SRO directors are at least comparable to those for directors of public companies (as provided for in National Instrument 52-110 *Audit Committees* (**NI 52-110**), with necessary adaptations), including appropriate cooling-off periods. It is recognized that the context of NI 52-110 is different from the SRO context and that other prerequisites will be considered in determining the appropriate independence requirements for the directors of the New SRO.

- Exploring a definition of 'independent director' that excludes those associated with a New SRO member affiliate.

Formal investor advocacy mechanisms

The CSA's solutions in respect of formal investor advocacy mechanisms are intended to facilitate and formalize the New SRO's consideration of investor concerns in support of the New SRO's effective fulfillment of its public interest mandate. Specifically, solutions include:

- Requiring the New SRO to establish an investor advisory panel to provide independent research or input to regulatory and/or public interest matters (potentially financed through a restricted fund[7]). The Working Group acknowledges that IIROC has made public statements of their intention to establish a similar expert investor issues panel.

- Requiring the New SRO to create a mechanism to formally engage directly with investor groups (on an advisory basis) to obtain broader input on the design and implementation of applicable policy proposals and rulemaking.

- Requiring regulatory policy advisory committees to include a reasonable proportion of investor / independent / public representatives.

[7] A fund comprised of fines collected by SROs and payments made under settlement agreements with SROs. The use of this fund is limited by the ROs to: expenditures necessary to address emerging regulatory issues related to protecting investors or the integrity of capital markets; education and research relevant to the investment industry and benefiting the public or capital markets; contributions to non-profit organizations dedicated to investor protection; and other purposes as approved by the statutory regulators.

CSA involvement in New SRO corporate governance

The CSA's solutions in respect of the CSA's involvement in the New SRO's corporate governance are intended to bolster the New SRO's accountability to the CSA. Specifically, solutions focus on:

- Requiring the New SRO to engage with the CSA regarding the appropriateness of the nominees for independent directors and providing for a CSA non-objection to such nominees, selected through a fit and proper assessment process.

- Providing for a CSA non-objection process for the appointment of the CEO, including a requirement for the New SRO to develop a sub-matrix of appropriate criteria to inform the non-objection process.

- Clarifying existing authority in an appropriate governing document, as applicable for each CSA jurisdiction, to direct the New SRO to enact, amend, or repeal, either in whole or in part, any by-law, rule, regulation, policy, prescribed form, procedure, interpretation or practice.

- Enabling a specific by-law provision for the New SRO requiring that a director of the board be terminated from that position if the director no longer meets the relevant fit and proper criteria (e.g., Code of Ethics) as established by the New SRO and approved by the recognizing regulators.

During implementation of the New SRO, the CSA will need to amend the existing form of the ROs and the MOU (including the Joint Rule Review Protocol (**JRRP**)). The agreements between members and the New SRO will also need to be amended in order to ensure that the recognizing regulators can efficiently exercise the oversight powers described above.

CSA oversight

The following solutions are intended to promote the New SRO's accountability to the CSA, alignment of the New SRO's business planning processes with CSA priorities and transparency to the public by enhancing certain aspects of the CSA's program of ongoing SRO oversight. Specifically, solutions include:

- Enabling CSA review / non-objection process for member exemptions brought to the board of the New SRO.

- CSA publication of an annual activities report on the CSA's oversight of the New SRO and New IPF.

- Consideration of annual meetings between the CSA Chairs and the Chair of the New SRO as well as the Chairs of the New SRO's board committees.

- Ensuring that the New SRO's RO includes appropriate general requirements regarding the adequacy and location of New SRO staff / executives / board directors.

- A specific reporting requirement in the RO to refer escalated complaints about the New SRO by members or others under its jurisdiction to the CSA.

- Codifying within the new RO a requirement that the New SRO solicits CSA comments and input on annual priorities, strategic plans and business plans (including budget); and that the CSA maintains a non-objection mechanism, including over significant future publications and communications.

Other solutions

The CSA will implement the following additional solutions for the New SRO's corporate governance structure to adequately support and promote the New SRO's public interest mandate and to manage the risk of regulatory capture, as well as to address member concerns regarding access to the board. Specifically, solutions include:

- Transferring all current IIROC District Council regulatory decision-making functions to the board and staff of the New SRO. IIROC District Councils and MFDA Regional Councils will retain their advisory role with respect to regional issues, as well as the provision of regional perspective on national issues. This would involve ensuring an escalation mechanism within the New SRO as applicable.

- Requiring that all directors of the New SRO receive mandatory annual training on industry, governance, and investor protection issues, including training on their specific role and responsibilities within the corporate governance structure in support of the public interest mandate and the management of conflicts of interest.

- Requiring independent directors of the New SRO to have a separate "in camera" session at board meetings.

- Requiring the board of the New SRO to meet with the proposed investor advisory panel at least annually in addition to meeting with executives.

- Consideration of a mechanism giving members better access to the New SRO's board of directors (e.g., require the Chair and a majority of the Chairs of board committees to attend the Annual General Meeting to hear and discuss member concerns, possibly by way of a separate session).

b) Strengthening Proficiency

Introduction

Commenters expressed overall support for enhanced and harmonized proficiency standards for investment and mutual fund dealers, as differing registration categories currently result in uneven regulatory standards by virtue of differing individual proficiency requirements. As an example, IIROC has a well-established Continuing Education framework, and the MFDA is moving forward with developing such a framework for mutual fund dealers.

Furthermore, certain commenters confirmed that some investment dealers feel limited in their ability to grow their business by attracting mutual fund dealer representatives due to the IIROC proficiency upgrade requirement, which requires mutual fund dealer representatives transitioning to the IIROC platform to qualify as IIROC representatives within 270 days of approval. Generally, the industry views the 270-day requirement as an arbitrary and burdensome barrier which acts as a disincentive to transitioning to the IIROC platform, thus encumbering clients of mutual fund dealer representatives from more easily accessing certain products and services.

Through independent research, the Working Group identified that the current IIROC proficiency upgrade requirement is likely no longer fulfilling the initial policy objectives. However, once the New SRO is established, the immediate need to amend or repeal the requirement is likely lessened as the New SRO will enable separate mutual fund and investment dealer businesses within one member entity and thus investors will no longer encounter the aforementioned barriers to seeking a broader product offering. Therefore, the following solutions aim to balance practical industry needs and investor preferences while keeping the public interest as a guiding principle.

Solutions

- Consider proposing more nuanced proficiency-based registration categories to ensure consistent quality of standards for clients.

- Leverage ongoing and future work on proficiency standards, titles and designations that is part of the broader CSA Client Focused Reforms project.

- The New SRO to continue to promote the merits of additional credentials for individual registrants (e.g., so that they are better equipped to provide more holistic advice to their clients on financial concepts, planning for financial goals, budgeting or debt management, tax and estate planning).

- Implement a streamlined Continuing Education program for all dealer members that is fair, consistent and proportionate. As noted above, the MFDA will be establishing a Continuing Education framework for mutual fund dealers, and IIROC is currently assessing possible changes to its existing Continuing Education program for investment dealers. The New SRO will leverage these programs and initiatives as a starting point for the New SRO's Continuing Education program.

c) Enhancing Investor Education

Introduction

Investor education is a central pillar to achieving investor protection. Many stakeholder comments emphasized the importance of improving investor education. Relatedly, the Working Group's research validated that expanding outreach and other communication tools should improve investor protection by reducing investor confusion about (i) how the regulatory system works, (ii) the availability and coverage of the IPFs, and (iii) how to access the system and submit a complaint or seek redress.

Solutions

- The establishment of a separate investor office within the New SRO that is prominently positioned and supports policy development and is easily identifiable and accessible to investors.

- Funding the aforementioned investor education or outreach activities through a new requirement in the New SRO budget or a specific part of the restricted fund.

- Adding specific terms and conditions to the RO to require, to the extent possible, public transparency in enforcement notices in respect of processes for assessing firm supervision and reasons for disciplinary decisions.

- Reviewing the New SRO sanction guidelines / policies on the public disclosure of credit for cooperation, specifically for the inclusion and consideration of compensation to clients harmed by misconduct as a mitigating factor (or an aggravating factor if inadequate compensation was provided[8]) in assessing appropriate sanctions.

Once the new investor office has been established, the New SRO will implement the following:

- Raising public awareness on how the regulatory framework operates, including information regarding multiple registration categories, the role of the New SRO, New IPF and its coverage policy, the CSA and the Ombudsman for Banking Services and Investments (**OBSI**).

- Providing investor education and outreach on complaint filing options and how to file a complaint including what information or documents need to be submitted.

- Enhancing public understanding of processes member firms may use in relation to remediation of client complaints.

- Supporting member firms or individual registrants on how best to assist clients encountering issues in accessing and completing a member firm's complaint resolution process.

- Improving the awareness of SRO sanction guidelines / policies.

- Coordinating with CSA Investor Education / Communication groups on joint efforts to expand the reach and impact of investor education in promoting investor protection.

[8] If applicable, inadequate compensation could also justify proceeding with a separate enforcement case.

d) Increasing Access to Advice

Introduction

Many new investors start as clients of mutual fund dealers. The Working Group validated that investors are largely unaware of which products advisors are licensed to recommend or sell and, specifically, that mutual fund dealers are limited primarily to the sale of mutual funds. Often, as investors' net worth and investment knowledge grows, many investors want to progress to investing in exchange traded funds (**ETFs**) and other products, and it is confusing and dissatisfying for these clients to be advised that they are unable to easily purchase such other products from their mutual fund advisor. If the investor is a client of a dual platform dealer, it is even more difficult to understand why moving an account from a mutual fund dealer to the related investment dealer, often at the same location, involves the tedium of repapering and essentially opening a brand new account.

More broadly, when a client wants to change firms, the transfer of an account between unaffiliated firms will also result in transition and repapering costs, acting as a deterrent to move to gain better access to products that an investor may need. Additionally, in facilitating a transfer, many delivering dealers do not automatically provide the transactional history of a client account to the new receiving firm, resulting in the loss of information to support the adjusted cost base and historical data.

The Working Group also confirmed that many advisors in smaller geographic centres and rural communities offer or facilitate other financial services (e.g., preparing tax returns, insurance and mortgages) and thus, many of those individuals act as advisors only on a part-time basis through their SRO regulated firm. By contrast, investment dealer advisors are often required by their firms to operate in this capacity on a full-time basis and are thus more prevalent in large urban areas where there is greater demand for their services. The data has shown that mutual fund advisors are generally more prevalent in rural or smaller geographic communities operating in many different capacities and as a result, investors in these communities are less likely to have access to a broad range of investment-specific products and services (e.g., publicly listed equities, options and margin accounts). As such investors may be underserved relative to urban centres which raises a regulatory concern.

Facilitating easier and more cost-effective access to a broader range of permissible investment products, including ETFs[9] which mutual fund dealers are currently allowed to distribute, may now be considered an essential part of any investment portfolio.

[9] In order to ensure adequate proficiency of mutual fund dealers selling ETFs, the MFDA implemented Policy No. 8 – Proficiency Standard for Approved Persons Selling Exchange Traded Funds ("ETFs"), setting out additional proficiency and training requirements currently in effect.

Solutions

Based on the foregoing, the CSA specifies the following solutions in relation to access, which are to be considered in part with the need for enhanced proficiency requirements as detailed in sub-section 4 e) *Reducing Industry Costs* of this Position Paper:

- Allowing introducing / carrying broker arrangements[10] between mutual fund dealers and investment dealers. Under such arrangements, which are currently not permitted, a mutual fund dealer contracts out elements of its operations to an investment dealer in order to access the back-office and clearing systems at the investment dealer. This type of introducing / carrying broker arrangement will:

    - Provide mutual fund advisors with flexibility through different business models to access a broader range of currently permissible products, such as ETFs and permissible bonds;

    - Enable mutual fund advisors, through an alternate access model, the ability to offer a broader permissible product shelf than what is currently available to potentially facilitate their transition to an advisor at a full-service investment dealer; and

    - Provide clients with a broader range of permissible products through their existing mutual fund dealer to retain their relationship with a trusted advisor.

- Enable a dual platform dealer to include its mutual fund dealer and investment dealer businesses within one legal entity and integrate similar back-office functionalities. The client can then access more investment products and services through a single dealer, rather than dealing with multiple firms. Relatedly, if dual platform dealers choose to maintain their mutual fund dealers and investment dealers as separate legal entities, require affiliated firms to cross guarantee each other's liabilities and obligations.

- Taking into account privacy and security considerations, perform an assessment and propose a rule enabling dealers to centrally gather standard client information (such as name, address, social insurance number, driver's license) and consistent know your client information in digital format to use across multiple accounts to minimize transition and repapering costs. If advisors or clients are transferring between unaffiliated firms, member firms will be required to share information, upon request, on a bulk basis to streamline the process.

- Perform an assessment and propose a rule to require the transfer of historical data, upon request by the receiving dealer, for client securities and accounts transferred

[10] Under the current respective IIROC and MFDA rules, members of each respective SRO may enter into arrangements with other members of the same SRO pursuant to which the accounts of one member (the "introducing broker / dealer") are carried by the other member (the "carrying broker / dealer") provided that prescribed terms and conditions are satisfied.

within a dual platform dealer or between unaffiliated firms, to allow investors to move more seamlessly between firms.

- Consider a rule or provide explicit guidance that would enable more part-time advisors in all dealer platforms, provided that all applicable regulatory approvals are obtained, the firm consents and enters into an agreement with the advisor to continue proper supervision and compliance, and all obligations to the client are retained.

- Consider including a requirement in the New SRO's RO that promotes the servicing of clients in different geographic zones (i.e., urban and rural).

e) Reducing Industry Costs

Introduction

A key point in the previous discussion on the ability to fairly access products and services is that, increasingly, clients of mutual fund dealers want access to a broader range of products, such as ETFs and permissible bonds. The Working Group validated that though progress is being made, many mutual fund dealers cannot easily distribute ETFs directly to their clients because of the cost and complexity to integrate back-office systems between dealers and, accordingly, have been forced to use cumbersome workarounds to service clients (including referring the investor to another dealer, entering into a service arrangement with an IIROC dealer, or advising the client to purchase an investment fund that wraps ETFs). These alternatives, however, result in higher costs for mutual fund dealers which, in many cases, are ultimately passed on to their clients.
Other significant costs to the industry are specific to dual platform dealers that pay duplicate fees to the two existing SROs and two related protection funds and maintain separate compliance functions and information technology (**IT**) systems to handle two sets of distinct rule books. Although the issue of duplicate costs borne by dual platform dealers was initially identified in the Consultation Paper, it was determined that anticipated cost savings may be less than expected if dual platform dealers choose not to consolidate their administrative functions immediately. Consolidation of these functions is more likely once the existing rule books are consolidated. Lastly, the Working Group notes that certain industry stakeholders also assert that high operating costs borne by dealers are tied to regulations that impede them from enhancing innovation in the delivery of products and services.

Solutions

- Allow introducing / carrying broker arrangements between mutual fund dealers and investment dealers to avoid the workarounds currently required for many mutual fund dealers to access certain products, such as ETFs.

- The New SRO to permit Chief Financial Officers (CFOs), Chief Compliance Officers (CCOs) and other compliance staff to serve multiple firms simultaneously when appropriate risk controls are in place, subject to applicable regulatory approvals.

Currently, IIROC rules permit part-time CFOs for both affiliated and non-affiliate firms,[11] and similar guidance relating to shared CCOs for all registrant categories (including those at IIROC and MFDA dealers) has been published by the CSA.[12] This could reduce industry costs and better enable dealers to determine appropriate staffing levels and structure based on operational needs and demands.

- Review the current SRO fee models used to set fees paid by members, and take the steps below respecting New SRO fees:

    - Ensure that fees in the New SRO are proportionate to registrants' activities and do not carry over any duplications currently experienced by dual platform dealers;

    - Until any proposed changes to fee models are approved, enable a moratorium on an increase in fees, particularly for non-dual platform dealers without CSA authorization. The CSA will monitor the collection of member fees against SRO benchmarks; and

    - More broadly, consider the impact of the New SRO on the profitability of smaller and independent dealers, both from the perspective of whether the new rules could have a detrimental impact on revenue earned and fees paid.

- Add terms and conditions in the New SRO RO that enable a transparent and accessible means by which members can develop and employ the use of technological advancements to achieve greater efficiencies and productivity, while considering the risks and benefits to the public interest. A related reporting obligation would keep the statutory regulators apprised of such work.

- Specific to mutual fund dealers, allow those dealers to continue using their existing front / mid / back office systems, as appropriate. This should primarily benefit smaller dealers whose existing business models would not warrant the cost outlay for new systems.

- Specific to dual platform dealers:

    - Enable a dual platform dealer to include its mutual fund dealer and investment dealer businesses within one legal entity, and integrate similar functions relating to compliance, back-office and administration (e.g., legal services and human resources), to realize economies of scale. Relatedly, if dual platform firms choose to maintain their mutual fund dealers and investment dealers as separate legal entities, require affiliated firms to cross guarantee each other's liabilities and obligations; and

[11] IIROC DMR 38.6 https://www.iiroc.ca/rules-and-enforcement/dealer-member-rules

[12] https://www.albertasecurities.com/-/media/ASC-Documents-part-1/Regulatory-Instruments/2020/07/5817162-_-CSA-Staff-Notice-31-358.ashx

- Harmonize applicable policies and rules into a consolidated rule book to eliminate the need for separate compliance departments or IT systems, thereby reducing operating costs.

f) Fostering Harmonization / Efficiencies

Introduction

In response to the issues noted in the Consultation Paper, many stakeholders communicated the need to address existing differences in rules between each SRO, and between the SROs and the CSA, including differences in the interpretation and application of rules, respecting regulation of similar products and services across registration categories. Some stakeholders also pointed out that the regulation of similar products distributed within the securities and insurance industries (e.g., segregated funds) is not harmonized.

Furthermore, the Working Group validated that investors are generally confused: (i) by the overlap of the current regulatory structure, (ii) about accessing and understanding multiple complaint resolution processes (as well as being frustrated over the effectiveness of the processes), and (iii) about the availability, scope and coverage of investor protection funds.

Solutions

- As outlined in section 3 of this Position Paper, the IWC will oversee a policy review of the existing IIROC and MFDA rule books / guidance to increase harmonization of similar rules, as well as their interpretation and application. The focus will be to identify differences in the rules / guidance, arbitrage opportunities and overlaps, and propose either (i) to maintain necessary differences, or (ii) seek appropriate amendments to harmonize or eliminate regulatory gaps.

  As part of this policy initiative, the IWC will consider the following:

  - harmonized interpretation of rules with securities legislation (e.g., Client Focused Reforms);
  - guidance that clearly articulates the intended outcomes for rules;
  - rules that are scalable or proportionate to the different types and sizes of member firms and their respective business models;
  - assessment of the economic impact of proposed rule changes to affected stakeholders;
  - harmonization of rules that individually may require unnecessary technological systems or processes; and
  - identifying improvements to internal processes (e.g., for SRO examination reports, as applicable, to reference guidance to assist firms in improving outcomes).

- To foster harmonization between the New SRO and the CSA, require the New SRO to solicit CSA comment and input on annual priorities and business plan (including budget); and furthermore, the CSA to maintain a non-objection mechanism, including over significant future publications and communications.

- To assist investors in effectively navigating the complaint resolution processes, review existing regulatory processes across channels with the intent to:

    - centralize the complaint reporting process and explore the merits of creating a single complaint filing portal for the New SRO through which investors could use a standard complaint form to file all types of complaints which the portal would then consolidate, filter and route to the appropriate organization (e.g., the registered firm, internally within the New SRO, appropriate CSA member, OBSI);

    - apply a consistent complaint handling process to review and investigate all types of complaints;

    - develop and apply service standards for complaint resolution; and

    - consider the merits or feasibility of allowing client / victim impact statements for consideration by a hearing panel during the sanction proceedings.

  In the longer term, consideration will be given to expanding the process to include a single complaint filing portal for all registration categories, integrating current CSA processes.

- Given the similarities in coverage for the IPFs, to alleviate investor confusion and to facilitate an improved understanding of the role of investor protection funds, consolidate CIPF and the MFDA IPC into a single protection fund that is independent from the New SRO. An appropriate governance structure for this New IPF will be considered as well.

  The New IPF will review and propose changes to its policies related to disclosure, coverage and claims, focusing on improving plain language disclosure. Furthermore, until any proposed changes are approved, the New IPF would be required to maintain separate coverage pools for investment and mutual fund dealers. Initially maintaining separate coverage pools will enable the consolidated protection fund to conduct a proper assessment of insolvency risks for the different types of dealers. Until the assessment is complete, a moratorium on any change to the methodology, applied to fees or assessments that would result in a material increase in applicable IPF fees without CSA authorization, will apply.

  In the second phase, when consideration is given to assessing the feasibility of incorporating other registration categories within the one SRO framework, consideration will also be given to the possibility of providing coverage to clients of

the other registration categories and harmonizing the consolidated protection fund with the *Fonds d'indemnisation des services financiers* in Québec.

g) Harmonizing Directed Commissions

Introduction

A directed commission arrangement generally refers to an arrangement whereby a dealing representative or other registered individual requests their sponsoring firm to pay part or all of the commissions or fees earned by the individual to a personal corporation owned by the individual and / or the individual's family members. This is different from an incorporated salesperson model, which is the ability of an individual to carry on registrable activities through a corporation that itself is registered under securities legislation.

As noted in the Consultation Paper, the MFDA and IIROC currently take different approaches to directed commissions arrangements. In short, the MFDA rules permit these arrangements except in Alberta. IIROC rules do not permit these arrangements. Directed commission arrangements are generally not permitted for other registrant categories, such as exempt market dealers, except in Manitoba and Saskatchewan. However, CSA staff continue to see directed commission arrangements being used by other registrant categories in the context of compliance reviews. Registered individuals generally seek to adopt directed commission arrangements to enable a more tax-efficient structure to manage business flow and disbursements.

MFDA Rule 2.4.1 currently allows individuals to direct commissions to personal corporations provided specific conditions are met. These conditions include the personal corporation being incorporated under the laws of Canada or a province or territory of Canada. Furthermore, the sponsoring firm, registered individual and the personal corporation must have entered into an agreement, in a form prescribed by the MFDA, the terms of which provide that the sponsoring firm and the registered individual remain liable to third parties, including clients, and payment to an unregistered corporation does not in any way limit or affect the duties, obligations or liability of the firm or individual. The terms also require supervision of the arrangement by the sponsoring firm and appropriate access to books and records of the registered individual and personal corporation.

In practice, there is some uncertainty as to when and in what circumstances activities being conducted through a personal corporation require registration, and some jurisdictions appear to take the view that the payment of fees or commissions is registerable activity. Accordingly, several jurisdictions[13] in Canada have adopted local registration exemptions (the **local registration exemptions)** to allow registered dealing representatives of mutual fund dealers (and in Manitoba, any type of dealer) to make use of directed commission arrangements.

The tax status of individual registrants who use a directed commission arrangement is unclear. A corporation that does not carry on the business for which commissions are paid, and merely acts

[13] British Columbia, Manitoba, New Brunswick and Newfoundland and Labrador.

as a conduit to receive commissions, may not be able to achieve the desired outcome for tax purposes.

An incorporated salesperson model allows a registered individual to carry on registrable activities through a corporation that itself is registered under securities legislation. As a registrant, the corporation would be subject to registration requirements. Because the corporation itself would be registered and, therefore, able to engage in the registerable activities that would *earn* the commissions, this model would not seem problematic from a tax perspective. This model has been adopted and utilized by other professionals, such as physicians, lawyers and accountants. Although this model would likely alleviate the issue of tax uncertainty, it would require legislative amendments, which would take considerable time to implement. Legislative amendments that would allow for incorporated salespersons have been made to the securities legislation of Alberta and Saskatchewan, but they have not been proclaimed.

Solutions

The topic of directed commission arrangements is a complex matter with many considerations. Further work will need to be completed, including consultations with other CSA stakeholders, to reach definitive conclusions on the appropriate treatment under the New SRO model. This additional work should be completed as part of the rulemaking process for the New SRO.

Therefore, a CSA working group comprising appropriate CSA stakeholders will be formed (the **Directed Commissions WG**) to continue working on this analysis. In the interim, the Working Group has compiled some preliminary views based on its analysis that could provide assistance and help inform the additional work required during the next steps of the SRO implementation process:

1. The Directed Commissions WG should consider the tax status of registered individuals and whether there are any regulatory concerns with permitting directed commission arrangements, at least as an interim step while other options, such as adopting a true incorporated salesperson regime are studied.

2. Following further consideration of the tax issue and appropriate consultation with stakeholders in conjunction with the IWC's efforts to harmonize rules, the Directed Commissions WG should complete the necessary work to consider, and if applicable, propose a rule and prescribed form of agreement that provide the appropriate protections. This rule would permit directed commission arrangements for registered individuals sponsored by any type of dealer member of the New SRO.

3. The Directed Commissions WG should consider whether a consequential amendment to Part 8 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* modelled on the existing local registration exemptions is the appropriate approach under the New SRO model. This registration exemption could be available to registered individuals sponsored by any type of registrant firm (both dealers and advisers) on appropriate terms and conditions.

4. Depending on the outcome of the additional analysis, the Directed Commissions WG could consider whether any other options, such as adopting a true incorporated salesperson regime as a long-term solution, is warranted.

h) Maintaining Strong Market Surveillance

Introduction

In addition to member regulation functions, IIROC currently regulates marketplace members and conducts real-time surveillance of the trading activity on Canadian equity marketplaces as well as timely surveillance of all fixed-income trading conducted by its dealer members, together with the supervision of member compliance with the Universal Market Integrity Rules. IIROC also provides trading-related information to securities regulators in support of the CSA's oversight of marketplaces carrying on business in Canada, including enforcement activities regarding possible market misconduct. IIROC also promotes transparency in Canada's fixed-income markets as the Information Processor for Canadian corporate and government debt securities.

Specific stakeholders expressed general concerns about the potential for inefficiencies and information gaps as a result of the separation of market surveillance from statutory regulators, including possible impacts on CSA enforcement processes as well as the CSA's ability to monitor for systemic risk in Canada's capital markets. After extensive research and analysis, the Working Group concluded that the specific issues raised in the Consultation Paper were not validated and that the surveillance of Canadian equity and debt marketplaces should remain with the New SRO. However, as a result of internal discussions, the Working Group has concluded that there may be opportunities for improvement in the sharing of relevant information across regulators arising from the market surveillance function.

Consequently, the CSA will review current processes with the view to enhancing the processes for the sharing of trading-related data between the New SRO and the CSA. The goal of this review will be to identify any gaps or inefficiencies in current processes that may impact the CSA's enforcement function, its policy functions, or its ability to effectively monitor for systemic risk. To the extent that gaps or inefficiencies are identified, solutions will be implemented to establish appropriate practices for the sharing of trading-related information between the CSA and the New SRO with the New SRO's continued responsibility for carrying out market surveillance.

Solutions

- To improve collaboration and the sharing of information between the CSA and the New SRO, a new CSA working group (**CSA Market Information Coordinating Working Group**) will be established to review differences in jurisdictional enforcement processes and engage with the New SRO regarding the supervision of market related data and sharing like information in order to:
    - adopt optimal practices and procedures for a collaborative approach to market surveillance; and

- identify and resolve gaps or inefficiencies in information sharing that may impact, as noted, the CSA's enforcement processes, its policy functions or the CSA's ability to effectively monitor systemic risk in the Canadian capital markets.

- The composition of the CSA Market Information Coordinating Working Group will be determined at a later stage, but will be composed of CSA staff with experience in the market surveillance function, including staff involved in Enforcement, Market Regulation, SRO Oversight and Systemic Risk as appropriate. Staff of the New SRO will be expected to contribute to the CSA Market Information Coordinating Working Group's review and assist in optimizing information sharing processes.

- The CSA Market Information Coordinating Working Group will be expected to identify and recommend opportunities for improvement to existing processes within a timeline to be established once the working group is constituted.

i) Leveraging Ongoing Related Projects

Introduction

The CSA recognizes that existing CSA or SRO related projects will assist or lead to the resolution of certain sub-issues identified in the Consultation Paper. Specific targeted suggestions are being made for consideration by the respective working groups involved in these ongoing projects. Examples of these ongoing projects and working groups are:

Complaint resolution

- The CSA OBSI Working Group's continuing efforts to make OBSI decisions binding and to assess the need for an appeal or review mechanism.

- The role of the CSA OBSI Joint Regulator Committee (**JRC**). As part of its oversight role for OBSI, the CSA encourages the JRC to review:

    - the merits of (i) restricting the scope of matters the member firm's internal ombudsperson can address, as well as (ii) educating investors on their ability to access OBSI's services without using an internal member firm ombudsperson; and

    - OBSI complaint data to assess if the New SRO should include "complaint handling" as a separate category in the New SRO's complaint reporting system to better identify when clients are dissatisfied with a member firm's complaint handling process.

- An ongoing project on complaint resolutions in Québec, which is expected to be published in the form of a local instrument in Fall 2021.

- IIROC's ongoing assessment of its current arbitration program with the intent to enhance its usefulness as a means of recourse for investors.

- CSA staff's review of complaints and other enforcement data, and information provided as required by the existing ROs to determine if complaints reported to the SROs are appropriately assessed and investigated.

- The CSA Committee on Vulnerable Investors ongoing assessment of securities legislation to enhance protection of older and vulnerable adults.

Consolidation of databases and harmonization with insurance regulators

- The CSA SEDAR+ project which will improve the CSA's national consolidated database and enhance public disclosure of registered firms and individuals in one portal, including historical disciplinary information of active or former registrants. Regulatory staff involved in the project should consider the merits of including public disclosure and easy access to information pertaining to registrants similar to that contained in the SEC's Form ADV, or the current IIROC Advisor Report.

- The CSA initiative with the Canadian Council of Insurance Regulators on full cost disclosure and performance reports.

SRO enforcement practices

- IIROC's ongoing efforts to obtain enhanced legislative enforcement powers directly from jurisdictional governments (i.e., statutory immunity, ability to collect fines, compel witnesses, collect and present evidence).

- IIROC's ongoing project to conduct an assessment regarding enabling the disgorgement of profits and direct compensation back to victims for losses in cases decided by hearing panels and cases resolved by a settlement agreement.

Registration

- The CSA proposed targeted changes to enable a more efficient registration and oversight process by providing registered firms and individuals with greater clarity on what information is required as part of the registration process, while also improving the quality of information received by regulators.

5. Consideration of Written Representations and Next Steps

The Working Group will consider written representations submitted in hard copy or electronic form received within 60 days of publication of the Position Paper. At the same time, the CSA will be moving forward to establish and lead the IWC to begin the work to implement the New SRO.

Please submit your written representations in writing on or before **October 4, 2021**. If you are not sending your written representations by email, please send us an electronic file containing submissions provided (in Microsoft Word format).

Address your submission to all of the CSA as follows:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Please send your written representations only to the addresses below. Your written representations will be forwarded to the other CSA member jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West 22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar 2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax : 514- 864-638
Email: consultation-en-cours@lautorite.qc.ca

Certain CSA jurisdictions require publication of the written representations received during the comment period. All written representations received will be posted on the websites of each of the ASC at www.albertasecurities.com, the AMF at www.lautorite.qc.ca and the OSC at www.osc.gov.on.ca. Please do not include personal information directly in written representations to be published and state on whose behalf you are making the submission.

Questions

If you have any comments or questions, please contact any of the CSA staff listed below.

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Addendum – Recognition of the New SRO in Québec

Background

Mutual Fund dealers

Firms pursuing activities as mutual fund dealers in Québec are required to register with the AMF. Firms also pursuing such activities in other Canadian provinces or territories are required to be members of the MFDA under the regulations applicable outside Québec.

Natural persons registered with the AMF in the category of mutual fund dealer representative are required to be members of the CSF, a self-regulatory organization established by the *Act respecting the distribution of financial products and services*, whose mission is to ensure the protection of the public by maintaining discipline among and supervising the compulsory professional development and ethics of its members. This obligation also applies to mutual fund dealer representatives registered in other provinces or territories when they pursue activities in Québec.

As at May 31, 2021, 71 firms were registered as mutual fund dealers with the AMF, and 22,076 natural persons were registered in the category of mutual fund dealer representative. Of those 71 firms, 20 were operating in Québec only, and 748 representatives were acting on their behalf. The remaining 51 firms were MFDA members and accounted for 21,329 representatives. The AMF is the principal regulator for 31 of these 71 firms.

Investment dealers

In Québec, as in all other Canadian provinces and territories, firms registered as investment dealers are required to be members of IIROC.

As at May 31, 2021, 145 firms were registered as investment dealers with the AMF and were members of IIROC, and 12,409 natural persons were registered in the category of investment dealer representative. Of these 145 firms, 140 were registered in at least one other province or territory in Canada, and 12,398 representatives were acting on their behalf. In addition, five investment dealers were registered as such in Québec only, and 11 representatives were acting on their behalf. The AMF is the principal regulator for 22 of these 145 firms.

The AMF's position

The AMF agrees with the CSA that a new, single SRO, consolidating the activities of IIROC and the MFDA and with an enhanced governance structure, is in the best interests of investors and the financial industry. In addition to the many benefits associated with the CSA's position, greater harmonization of the SRO framework applicable in Québec with that of other Canadian jurisdictions will reduce complexity and confusion for investors, who will then benefit from comparable protections, regardless of their place of residence. Also, for financial groups including a firm registered as a mutual funds dealer and a firm registered as an investment dealer and operating in Québec and elsewhere in Canada, a simplified framework will reduce their compliance burden, which will translate in particular into lower costs.

Accordingly, the AMF will recognize the New SRO in the same way as the other CSA members to ensure harmonized oversight of firms registered as investment dealers and mutual fund dealers as well as natural persons registered in the categories of investment dealer representative and mutual fund dealer representative acting on their behalf.[14] This recognition of the New SRO will not affect the mandate, functions and powers of the CSF. The New SRO will ensure compliance with its operating rules, which will be harmonized with securities regulations, including *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* (in other CSA jurisdictions, National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*). Through its power to approve the rules of the New SRO, the AMF will be able to ensure that those rules do not have duplicative effects where equivalent provisions apply to representatives of mutual fund dealers under Québec regulations.

Upon its recognition, and in accordance with any such transitional provisions as may be adopted by the AMF, investment dealers and their representatives will be required to become members of the New SRO and comply with its rules. This requirement will also apply to mutual fund dealers and their representatives registered in Québec.

Stakeholder representations

Stakeholders in the Québec financial sector are invited to make representations, in accordance with the instructions in Section 5 of this document, regarding the AMF's desire to recognize the New SRO, whose mandate will include overseeing investment dealers and mutual fund dealers in Québec.

[14] If necessary, the AMF could, on the conditions that it determines, delegate to the New SRO the exercise of some of its functions, subject to the approval of the Government as set out in section 61 of the *Act respecting the regulation of the financial sector*.

Appendix A -- Summary of Public Comments

Background

As noted in the Introduction section to this Position Paper, in late 2019 and early 2020, the Working Group completed informal consultations with key stakeholder groups regarding the current SRO regulatory framework.

On June 25, 2020, the CSA published the Consultation Paper for a 120-day public comment period. The Consultation Paper sought public input on the following seven key issues identified as a result of the informal consultations:

1. Duplicative operating costs for dual platform dealers
2. Product-based regulation
3. Regulatory inefficiencies
4. Structural inflexibility
5. Investor confusion
6. Public confidence in the regulatory framework
7. Separation of market surveillance from statutory regulators

The comment period ended on October 23, 2020. In response to the Consultation Paper, 67 public comment letters were submitted. This Appendix summarizes the written public comments, and includes the section - *Other issues related to Québec* - for comments received that address the specific regulatory framework in Québec.

Commenters are listed below along with statistical information relating to the number of stakeholders in each category commenting on specific issues. We thank everyone who took the time to prepare and submit comment letters.

Summary of comments received in response to the Consultation Paper

Issue 1 – Duplicative operating costs for dual platform dealers

A large proportion of commenters, including industry associations along with IIROC dealers, MFDA dealers and dual-platform dealers confirmed that the current structure results in duplicative costs. Key comments are noted below:

- There seems to be no economic basis to continue having two SROs for Canada's investment industry, particularly given the decline in MFDA membership. In 2002, the MFDA had 220 dealer members; today, the number of dealer firms has dropped to 90, 25 of which are dual platform (IIROC and MFDA). This leaves only 65 firms that deal exclusively in mutual funds.
- Commenters pointed to the need to maintain separate compliance and supervisory functions in respect of each SRO, leading to increased costs in legal, regulatory, tax, operations, compliance

and technology matters. These costs ultimately affect service to investors as they hamper economies of scale and innovation in the delivery of products.

- Commenters pointed to IIROC's cost analysis to assert that a single regulatory structure will lead to cost savings.
- Other commenters noted that some of the duplicative operating costs cannot be attributed to the regulatory framework but rather are the result of business decisions taken by the firms.
- The savings as a result of consolidation could be reinvested in some innovation field and client service.
- Consolidation, through merger or another approach, may provide efficiencies, at a minimum through the elimination of duplication of overhead.
- The revised SRO model in Canada should bring increased efficiencies, increased consistency, increased transparency, reduced costs and an enhanced member experience, and should be able to address the specific needs of smaller dealers, while maintaining or enhancing integrity, oversight and investor protection.

Investor advocates, mutual fund only dealers and other commenters also noted the following key elements regarding this issue**:**

- An investor advocate warned that this consultation should not be an industry-driven initiative to reduce the "burden" of regulation; the new framework should be designed to improve outcomes for both industry and investors.
- Potential operational cost savings should not be a major factor in the development and implementation of a new SRO framework and should not prejudice investor protection or effective compliance or enforcement.
- The client lens is far more important in measuring the potential benefits of changes to the regulatory framework than the impact of lessening regulatory fragmentation on firm costs and profits.
- The Deloitte cost-saving estimates presents limits, since only the largest dealers would benefit from the bulk of estimated savings and the savings are not substantial.
- There might be material membership fee decreases for large and medium-size MFDA dealers; there could also be material membership fee increases for small MFDA dealers absent specific action to address this.
- There should be a level playing field between mutual fund dealers and investment dealers to the extent that existing mutual fund firms would not be pushed out of the investment industry due to an increase in cost or regulatory burden. Changes should not create additional regulatory burden or require unnecessary operational and infrastructure costs for MFDA-only firms.
- There is a need to ensure that a new consolidated SRO encourages new entrants, stimulates innovation and is fair to all members.
- Those who choose to operate under multiple platforms / registration categories should embrace the relevant costs and constraints. Small adjustments to the current framework (e.g., IT gateway, passport system, mutual recognition, exemptions, better alignment of requirements among SROs) rather than a major structural overhaul should be favored.
- More significant savings would be achieved if advice-based trailing commissions are rebated or banned outright.

Issue 2 – Product-based regulation

A vast majority of commenters, including industry associations, investor advocates, and industry stakeholders agree that the current framework and the structure around products need to be redesigned and that similar products and services should be regulated in a consistent manner, preferably under a single SRO. Key comments were:

- Product-based regulation is becoming anachronistic in an industry that is slowly shifting away from a transactional, "selling" model to one that favors advice that is appropriately targeted to the needs of clients.
- The framework should regulate across the continuum of products and type of advice rather than be structured and separated based on the product. Expectations on key principles such as know your client, suitability, etc. should be the same across products.
- Having a single SRO is likely the only way to avoid inconsistent approaches to the distribution of similar products. Examples of different treatment between registrant categories when accessing similar products include how a security is registered (nominee v. client name), availability of fee-based or commission-based accounts, and investor protection fund services available.
- There should be as much harmonization as possible in terms of product and distribution standards across various types of registered firms.
- If there is some type of merger, investment dealers should be allowed to provide a mutual fund-only offering in their legal entity without requiring a separate dealer on the MFDA platform.

Several commenters, including industry associations, investor advocates, and industry stakeholders agreed that regulatory arbitrage exists and can be an issue. The common theme that emerged is that a single national regulator is a means by which to minimize regulatory arbitrage opportunities. Key comments provided were:

- A single national SRO regulator will create a regulatory framework that minimizes opportunities for regulatory arbitrage, including the consistent development and application of rules.
- Consolidating registration categories under a single SRO will facilitate a consumer-focused approach that would reduce regulatory arbitrage, limit investor confusion and better reflect how Canadians seek financial advice and make product-purchasing decisions.
- Regulatory standards should be applied uniformly across the CSA and the SROs, both to firms and individual registrants to address arbitrage opportunities. Standards should be harmonized to the extent possible.
- The differences in registration between IIROC and the MFDA, with the applicable provincial regulator overseeing MFDA registration can lead to "regulator shopping". A consolidated SRO should be responsible for registering individual representatives.

Both investor advocates and industry stakeholders commented on converging registration categories:

- The new regulatory framework should provide flexibility in registration categories to allow innovation and variety in business models to better meet the current and future needs of

customers. Mutual fund-only registered individuals should be allowed to work for an investment dealer and indefinitely provide mutual fund-only account services to their clients.
- The new regulatory framework should provide flexibility in registration categories to allow innovation and various business models to better meet the current and future needs of customers.
- Currently, registrants in different registration categories are permitted to provide advice on identical products, which is sufficient to raise questions about product-based regulation.
- It is appropriate to require additional proficiencies for registrants related to variations in complexities of products. However, differing registration categories based on proficiency should still be within a single registrant category to ensure consistent treatment of clients.
- With investor protection and business efficiency as objectives, the primary determination should be what level of protection and regulatory standards are appropriate for the different products/services offered to investors, regardless of the registration category title.
- Minimum requirements should be focused on skills, competency, and professionalism, with less regard to the specific scope of products sold by a given registrant.

A few commenters expressed concern about regulatory arbitrage between the securities industry and the insurance and banking industries, with products such as segregated funds, GICs and term deposits. Key comments were:

- Regulation governing the distribution of segregated funds differs significantly from investment funds and enhances the possibility of regulatory arbitrage.
- Since the formation of the MFDA in the 1990s, there has been a slow consistent migration from mutual funds to segregated funds, with many advisors giving up their mutual fund registration.
- Products such as mutual funds, exchange traded funds and segregated funds are very similar; it is crucial to have consistent regulatory oversight of all such products to minimize opportunities for regulatory arbitrage.
- Potential regulatory arbitrage may arise between investment dealers and the insurance industry with the CSA's Client Focused Reforms and deferred sales commission prohibition / restrictions on mutual funds.

Several investor advocates and industry stakeholders expressed concerns about the current regulatory framework's impact on consumers access to financial advice and products, the services rendered, and investor protection. Key comments provided were:

- A single, consolidated SRO, with a single set of rules and guidance would provide clarity and consistency to firms and SRO staff and would ultimately benefit consumers.
- Regulatory projects should start from the client's point of view and offer a holistic and inclusive approach guaranteeing the same degree of protection and oversight, regardless of the product or the registration category.
- Existing regulation focuses on products, at the expense of proper regulatory oversight of the critical relationship between financial advisors and clients.
- Investors should have confidence that their needs are being served with consistent regulatory expectations, regardless of the product or service that is recommended or sold.

- A new SRO should focus on governance and regulation of personalized financial advice rather than sales transactions related to certain investment products.
- The level of protection and regulatory standards should be similar for registrants in different registration categories but engaged in similar conduct and offering similar products / services. The regulatory framework should be designed and implemented to ensure such protections and standards are applied consistently, minimize the gaps in protections and efficiency, and meet the desired regulatory objective.

Issue 3 – Regulatory inefficiencies

A majority of commenters, including investor advocates, industry associations, and IIROC and MFDA dealers expressed their concerns that the current framework results in limitations on product access by investors. The following key comments were articulated by stakeholders:

- Concern that mutual fund dealers are not able to access ETFsefficiently due to operational issues and costs involved. Change is needed to allow mutual fund dealers to use investment dealers back-office systems for ETF transactions via IIROC / MFDA introduction arrangements.
- IIROC / MFDA introducing arrangements would also require the harmonization of IIROC / MFDA proficiency and continuing education requirements.
- Barriers to distributing ETFs are business barriers, not regulatory barriers.
- The new framework should aim to address uneven regulatory requirements for similar products / services depending on which regulatory platform the products / services are offered. Similar regulatory standards should apply to similar products.
- Investors should have efficient access to a wide range of products / services, provided investor protection is not compromised.
- Investors want holistic advice. A modern SRO should concentrate on transaction-based regulation and the regulation of financial advice as a service, rather than product-based regulation

Several commenters, mostly from the industry, noted that the current framework leads to inefficiencies that do not provide regulatory value:

- For dealers, two SROs lead to duplicative costs to: interpret and apply un-harmonized rules, maintain different accounting and compliance systems that cater to each set of rules, and maintain two sets of policies and procedures.
- Different approaches taken by IIROC and MFDA with regard to, amongst other things, ETFs, managing product risk, enforcing sales practice rules, differing approaches to audits and compliance matters results in increased cost for dealers, regulatory arbitrage, and an uneven playing field between industry participants.
- Having multiple SROs results in higher CSA oversight costs; duplicative costs relating to overhead / non-regulatory functions (e.g., accounting, HR, office services and IT) and higher costs in terms of rule development and interpretation among multiple regulators.

Finally, some commenters expressed the following other key elements:

- MFDA members feel that the ability to incorporate professional corporations for the purpose of directing commissions is an important tool for business needs / corporate structure.
- A single SRO would help unify the 13 provincial / territorial regulators.
- There are also obstacles faced by investors in navigating a confusing and unnecessarily difficult complaints process, with limited access to receiving compensation for losses caused by industry misconduct.
- When a mutual fund dealing representative wants to transfer to an investment dealer, course providers charge the full price for a course already taken by a mutual fund dealing representative.

Issue 4 – Structural inflexibility

The vast majority of industry stakeholders expressed concerns that the current dual SRO structure is inflexible. Investor advocates were also generally supportive of changes to the existing structure. The common theme that emerged is that the current regulatory framework inhibits the efficient evolution of business, limits dealers' ability to leverage technological advancements and from an investor standpoint results in a negative impact on investors, particularly retail investors who would prefer a simpler system where most products and investment services are available through a single source. Key comments provided were:

- There is a need for simplification to enable dealers to avoid having to become dual platforms.
- Registrants are currently disincentivized from switching back and forth between platforms due to associated costs with this practice (e.g., cost of renewing proficiency courses) and the differing approaches in what is allowable compensation and tax planning structures.
- Any move to a single SRO entity must preserve flexibility in recognition of the various business models such as small independent mutual fund dealers and investment dealer registrants.
- Dual platforms result in in a cumbersome and confusing client experience, as a result of being forced to switch back and forth between platforms. A single SRO entity would also result in less administrative complexity, and reduced time and cost burden for both investors and registrants.
- There are structural limitations in a dual platform environment when accessing products. SRO consolidation will eliminate duplication and will encourage development of back-end office solutions and client-facing tools for advisors.
- There should be equal treatment going forward to provide SRO members the same options (e.g., directed commissions).
- A consolidated SRO can better facilitate innovation and encourage the development of back-end office solutions and client-facing tools for advisors. More specifically, FinTech entities would benefit from a consolidated structure that allows for timely and cost-effective innovation, as the reduced costs would encourage re-investment and advancement in this area.
- Access to advice for rural and underserved investors needs to be preserved with any change to the existing SRO structure.

- The IIROC upgrade rule (270-day requirement) curtails the desire to grow investment dealer firms, which limits the ability of all investment dealers of all sizes to efficiently service their clients.

Issue 5 – Investor confusion

Both industry stakeholders and public commenters agree that the current regulatory framework leads to investor confusion. Key comments provided were:

- The current regulatory framework is fragmented and complex, which leads to client confusion.
- Investors are confused and dissatisfied about the different products that are available and that are subject to different regulatory regimes.
- Investors are confused by the multiple registration categories and plethora of titles in use in the industry.
- Investors are generally confused by the complaint handling process within the current SRO structure and the role that each SRO plays with respect to complaint resolution and enforcement. The current complaint resolution process is difficult to navigate.
- Several commenters support a single point of contact for all consumer complaints regarding financial advisors, regardless of product sector.
- The role and scope of protection offered by the existing investor protection funds is not well understood by the investing public. Most commenters supported changes to the current investor protection fund coverage model. Investor advocates don't feel that this is an area of confusion; however, expressed support for a consolidation on terms that provide a uniform level playing field to investors.

Issue 6 – Public confidence in the regulatory framework

Several investor advocates and some industry stakeholders expressed concern that the current SRO corporate governance structure does not adequately support or promote the SROs' public interest mandate and is too closely aligned with the interests of industry participants at the expense of the interests of other stakeholders. Key comments provided were:

- Public interest mandate is paramount to maintaining consumer confidence in the SRO model.
- An MFDA research report suggests that the public lacks confidence in the current regulatory framework as less than half trust the investment industry to make decisions that are in the public interest; 76% of people think conflicts of interest among SRO board members happen frequently and are not declared or eliminated before making important decisions, and 60% believe the current regulation model of the investment industry is not working and think the government securities regulators need to be more directly involved.
- A single SRO may better enhance public confidence in the regulation of investment dealers and mutual fund dealers.
- Existence of multiple regulators (provincial or SROs) has had a negative impact on the exercise of powers to sanction in the public interest.
- Formal investor advocacy mechanisms and more robust CSA oversight of the SROs is needed to improve adherence to public interest mandates and increase public confidence.

- The CSA should consider defining what "public interest" means in the context of an SRO and identifying key factors of the public interest to be met by the SRO. The CSA needs to ensure that any new SRO framework responds to the public interest and manages the inherent conflicts of self-regulation, as well as potential concerns around the growing hegemony of, and reliance on, the SRO structure within Canada.

There is a perception amongst the public that the SROs executives and Board do not adequately consider the concerns of investors and other stakeholders, in favor of industry concerns. Many commenters, including both investor advocates and industry stakeholders proposed addressing this by requiring that the majority of directors of the new SRO be independent, and that the CSA have a role (and be seen to have a role) in choosing the independent directors. Key comments provided were:

- IIROC has made significant strides in governance recently – e.g., revising its Director qualifications to include consumer protection experience and announcing the creation of an investor advisory panel.
- There may be room for improvement regarding the rules and procedures on the composition of the SRO's board of directors, committees and councils, cooling off periods and the definition of independent directors.
- The SRO needs a governance structure which contemplates a majority of independent directors, members with experience with investor protection issues and better public reporting requirements.
- The SROs' governance and accountability frameworks should be significantly enhanced to address the lack of transparency and the potential for conflicts of interest. The independent directors should not be from industry, even after a cooling-off period. Both independent directors and industry directors should be provided with mandatory industry and governance education.
- SRO officers and directors must be held to at least the same ethical and conduct standards (including those related to conflicts of interest) applicable to CSA Members (Commissioners).
- SROs' Nominations Committees should be comprised of, and chaired by, an independent director.
- SRO committees and district / regional councils should be required to have independent members.
- A recommendation is made that at least one Board position be reserved for a "retail investor" and that all SRO Board policy committees be chaired by an independent director.
- The SRO should have an investor advisory panel, which should be financed by the SRO and should include a budget for seeking independent research as required.
- The formation of a committee focused on investor issues should be considered, and the inclusion of independent board members with demonstrated expertise and knowledge in investor advocacy and protection should be encouraged.
- All SRO regulatory policy advisory committees should include independent representatives.
- The CSA's current risk-based oversight methodology is too narrow / technical and needs to be broadened, with a focus on higher-level issues such as the quality of governance and independence of directors, overall operational effectiveness and outcomes that promote the public interest, the level of public transparency provided by the SRO, and both enforcement and investor engagement.

- The CSA should obtain veto power over "significant" SRO publications (e.g., guidance and rule interpretations).
- An oversight program should be created for assessing overall performance of the SRO based on its mandate and responsibilities. It should include onsite and offsite review processes.
- There should be firm term limits for directors (e.g., 8-year term limit).
- Conflicts of interest and codes of conduct should be independently audited.
- A single SRO should have one set of rules and one approach which will benefit investors, as it will be simpler to administer, be more cost effective and easier to oversee from a compliance perspective.

Issue 7 – Separation of market surveillance from statutory regulators (CSA)

Most commenters supported the inclusion of market surveillance within the new SRO's mandate, a few suggested patriating this function to the CSA. Key comments provided were:

- There is no evidence of any concerns with the current surveillance framework. IIROC has responsibly and effectively discharged their surveillance responsibilities to date, as evidenced by their performance during recent market volatility.
- IIROC remains uniquely positioned in the current Canadian regulatory framework to continue to discharge its market regulation and surveillance mandate on a national basis. As an entity recognized across Canada, IIROC speaks with one voice internationally, enabling it to focus on continual improvements to surveillance systems.
- IIROC has state of the art surveillance systems and completed the implementation of a new, leading-edge surveillance IT platform that significantly improved its ability to supervise markets.
- Permitting IIROC, or a consolidated SRO, to continue to perform market surveillance does not compromise regulators in managing systemic risk. IIROC is complementary to statutory regulators, and shares information and data efficiently with regulators.
- One SRO stakeholder suggested that market regulation has systemic risk implications and such risk is more properly the responsibility of government agencies, including the CSA. The Australian model is an example whereby the statutory regulatory authority is responsible for direct conduct of market regulation for elimination of conflict of interest and management of overall systemic risks.
- One investor advocate stakeholder noted that there might be a merit in the CSA taking over the market surveillance function, either directly or through a new single purpose market surveillance entity, in order to eliminate concerns about information gaps and transparency.
- However, several industry stakeholders expressed serious concerns with transferring the market surveillance function to the CSA due to the current fragmentation of the statutory regulators, the potential disruptions to the industry, and the CSA's limited role in managing systemic risk and the costs associated with such transition.

Other issues related to Québec

One SRO expressed concern that the unique nature of the securities regulatory framework in Québec needs to be considered in determining a new SRO regulatory framework. Since the MFDA

has never been formally recognized as an SRO by the AMF, in the event of SRO consolidation, mutual fund firms registered by the AMF with activities outside of Québec will still be regulated by multiple authorities.

An industry stakeholder submitted that the Québec framework is also distinct by the presence of the Chambre de la sécurité financière (CSF), which poses major challenges and prevents meeting the stated objectives of regulatory simplification and harmonization of the supervision of the mutual fund sector. However, the consolidation of SROs remains desirable for Québec firms doing business across Canada and it was recommended that:

- A consolidated SRO should include a strong office in Québec that can guarantee expertise in the French language, combined with significant representation on its board of directors and in its decision-making process. This would make it possible to maintain the proximity necessary for healthy competition and innovation for both the Québec and Canadian markets, in a regulatory environment that meets the needs of investors and the industry.

Other commenters from the industry also support the need for a proximity regulator with a wide scope ensuring investor protection by encompassing all firms and professionals who work in Québec's financial sector and a single window for investor complaints.

While aware of the limitations and weaknesses of the current model in Québec, other industry stakeholders, including small dealers and Québec-based advisors, suggested that the current regulatory framework should not be dismissed completely. Key comments provided are:

- The existence of the CSF in Québec is an interesting model, and the possibility of extending its responsibilities to brokers should be considered.
- The CSF is relevant for a single organization to exercise supervisory and sanctioning powers over individuals, regardless of their registration category.
- The current Québec model empowers the professional advisor who must primarily serve the interest of the client as customers must be able to trust their advisor due to the complexity of the field and the impacts on their financial health.

Industry stakeholders from Québec, mainly registered mutual fund representatives and Québec only registered mutual fund dealers, pointed out that the creation of a single SRO with authority throughout Canada would negate the specificities of Québec and its expertise and decision-making power in matters of securities regulation. Some commenters strongly believe that on the regulatory front, Québec would suffer from a substantial loss of influence. They submitted that Québec must ensure that its provincial jurisdiction in matters of securities is respected and must oppose any threat to the skills and professional autonomy of the securities industry participants.

Statistical information about stakeholders who provided written comments

i) Number of stakeholders by category

Stakeholders by Category	#
Other Industry Participants[15]	14
Industry Associations	13
Other IIROC Dealers	9
Dual Platform Dealers	8
Investor Advocates	7
SRO-related[16]	5
Other MFDA Dealers	5
Individuals / Other	5
Investor Protection Fund	1
Total Comment Letters	**67**

ii) Detailed list of stakeholders

Industry Associations

- Advocis
- Alternative Investment Management Association Canada
- Association professionnelle des conseillers en services financiers
- Canadian ETF Association
- CFA Societies Canada
- Federation of Mutual Fund Dealers
- FP Canada
- Independent Financial Brokers of Canada
- Investment Funds Institute of Canada
- Investment Industry Association of Canada
- Portfolio Management Association of Canada
- Private Capital Markets Association
- Registered Deposit Brokers Association

[15] Québec-based advisors, TMX Group, Horizons ETFs, etc.
[16] MFDA, IIROC and 3 IIROC district councils / advisory committees.

SROs and Investor Protection Funds

- Canadian Investor Protection Fund
- Investment Industry Regulatory Organization of Canada
- Mutual Fund Dealers Association of Canada
- National Advisory Committee - IIROC
- Ontario District Council - IIROC
- Quebec District Council - IIROC

Industry Stakeholders (individual and corporate)

- Angiletta, Michael
- ATB Securities Inc.
- Aviso Wealth
- Ayotte, Réjean
- Bergeron, Stephane
- Charest, Réal
- CI Assante Wealth Management
- Citadel Securities Canada
- CTI Capital Group
- D.W. Investment Co. Ltd.
- Fidelity
- Fugère, Michel
- GF Securities (Canada) Company Ltd.
- Groupe Cloutier Investissements
- Groupe Financier Multi Courtage Inc.
- Groupe Planifax Inc.
- Horizons ETFs Management (Canada) Inc.
- IA Financial Group
- Independent Trading Group
- Labbé, Jean-François G.
- Leede Jones Gable Inc.
- Madore, Michel
- Manulife Securities
- Merici Services Financiers
- Mouvement Desjardins
- Paquette, Serge
- Paradigm Capital
- PEAK Financial Group
- PFSL Investments Canada Ltd.
- Portfolio Strategies Corporation

- Spencer, Suzanne
- Sun Life Financial Investment Services (Canada) Inc.
- TD Bank Group
- TMX Group Ltd.
- Wellington West-Altus Private Wealth Inc.
- Worldsource Wealth Management Inc.

Investor Advocates

- FAIR Canada
- Groupe recherche en droit des services financiers, Université Laval
- Kenmar Associates
- OSC Investor Advisory Panel
- Osgoode Investor Protection Clinic
- Royal Roads University
- University of Toronto Investor Protection Clinic
- Whitehouse, Peter

Individual / Other Stakeholders

- Blanes, Alan
- Kennedy, Bev
- Learnedly
- Macguire, Philip

iii) Stakeholder Comments on specific issues

The below tables briefly describe the issues identified in the Consultation Paper and provide the number of stakeholders who commented on those issues.

Issue 1: Duplicative Operating Costs for Dual Platform Dealers

Issue Description	Stakeholder Category	# of Stakeholders Commented
Dual platform dealers face increased operating costs in having separate compliance functions, information technology systems, non-regulatory costs and multiple fees.	Industry Associations	9
	Dual Platform Dealers	6
	Other IIROC Dealers	6
	Investor Advocates	5
	SRO-related	3
	Other MFDA Dealers	2
	Other Industry Participants	3
	Individual / Other	1
	Total Comment Letters	**35**

Issue 2: Product-Based Regulation

Issue Description	Stakeholder Category	# of Stakeholders Commented
Registration categories are converging but different rules between each SRO, and between the SROs in general and the CSA with respect to similar products and services, might result in regulatory arbitrage.	Industry Associations	9
	Dual Platform Dealers	5
	Other IIROC Dealers	5
	Investor Advocates	5
	SRO-related	3
	Other MFDA Dealers	2
	Other Industry Participants	3
	Individual / Other	1
	Total Comment Letters	**33**

Issue 3: Regulatory Inefficiencies

Issue Description	Stakeholder Category	# of Stakeholders Commented
Inefficient access to certain products and services for certain registration categories; as well as inefficiencies and duplicative costs for the CSA in overseeing two SROs, and duplicative fixed costs and overhead for the SROs.	Industry Associations	9
	Other IIROC Dealers	4
	Investor Advocates	4
	SRO-related	3
	Other Industry Participants	3
	Dual Platform Dealers	2
	Individual / Other	2
	Other MFDA Dealer	1
	Investor Protection Fund	1
	Total Comment Letters	**29**

Issue 4: Structural Inflexibility

Issue Description	Stakeholder Category	# of Stakeholders Commented
Evolving business models are limited by the current regulatory framework; structural inflexibility is creating challenges for dealers to accommodate changing investor preferences, as well as limiting investor access to a broader range of products and services from a single registrant; and the current regulatory framework limits opportunities for registrant professional advancement.	Industry Associations	10
	Dual Platform Dealers	7
	Other Industry Participants	6
	Investor Advocates	6
	Other IIROC Dealers	5
	SRO-related	2
	Other MFDA Dealers	2
	Individual / Other	1
	Total Comment Letters	**39**

Issue 5: Investor Confusion

Issue Description	Stakeholder Category	# of Stakeholders Commented
Investors are generally confused by the current regulatory structure; specifically, the inability to access similar investment products and services from a single source, the complaint process, investor protection fund coverage, and multiple registration categories and titles.	Industry Associations	8
	Investor Advocates	7
	Other IIROC Dealers	6
	Dual Platform Dealers	4
	SRO-related	3
	Other MFDA Dealers	2
	Other Industry Participants	2
	Investor Protection Fund	1
	Individual / Other	1
	Total Comment Letters	**34**

Issue 6: Public Confidence in the Regulatory Framework

Issue Description	Stakeholder Category	# of Stakeholders Commented
Possible lack of public confidence in the current SRO regulatory framework; the SRO governance structure does not adequately support the SROs' public interest mandate due to an industry-focused board of directors and lack of a formal mechanism to incorporate investor feedback; concerns regarding regulatory capture and ineffective SRO compliance and enforcement practices contributing to the erosion of public confidence in the SROs' ability to deliver on their public interest mandates.	Industry Associations	10
	Investor Advocates	7
	Other Industry Participants	7
	Individual / Other	3
	SRO-related	2
	Other IIROC Dealers	2
	Other MFDA Dealers	1
	Investor Protection Fund	1
	Total Comment Letters	**33**

Issue 7: Market Surveillance

Issue Description	Stakeholder Category	# of Stakeholders Commented
Possible information gaps and fragmented market visibility resulting from market surveillance functions being separated from the statutory regulators.	Industry Associations	6
	Other IIROC Dealers	3
	Investor Advocates	3
	Dual Platform Dealers	2
	Other Industry Participants	2
	SRO-related	2
	Other MFDA Dealers	1
	Individual / Other	1
	Total Comment Letters	**20**

Appendix B – Other Options Considered

As described in Section 2 of this Position Paper, the Working Group also identified and defined five other possible Options to restructure the current SRO framework (including the IPFs) for further consideration and detailed analysis. The other Options were:

- Straight merger between IIROC and the MFDA
- Two SROs / enhanced status quo
- No SRO / 13 individual statutory regulators
- CSA-led regulatory organization
- Multiple SROs

After considerable review and analysis[17], it was determined that the other Options outlined below would not address the specific issues and sub-issues or deliver on the CSA targeted outcomes identified in the Consultation Paper, as effectively as the New SRO and New IPF described in Section 3 - New SRO Framework.

Straight merger between IIROC and the MFDA

An immediate merger of IIROC and the MFDA would have occurred following CSA approval. In the short term, separate rule books would have been maintained, along with separate compliance structures, enforcement processes, and fee structures. The harmonization of these elements as well as possible governance related changes would not have been be prioritized.

In the longer term, the merged SRO would have harmonized the MFDA and IIROC rules, consolidated other aspects of their respective organizations, and would have considered whether other registration categories should have been consolidated under the new SRO; although, there would have been no set plans to do so.

Consolidation of the two IPFs into one independent entity could have occurred in either the short or longer term.

Implementing this Option would have been led by the SROs and IPFs, with the CSA overseeing the consolidation process, as opposed to the CSA leading the process.

Two SROs / enhanced status quo

Both SROs and IPFs would have continued to operate independently under existing rules, by-laws, and fee structures. However, enhancements to applicable SRO and IPFs structures, governance, rules and processes would have been adopted. The existing CSA Principal Regulator coordinated oversight model for each entity would have remained unchanged. There would have been no consolidation of any aspects of their respective organizations or of any other registration categories. Implementation of the enhancements would have been directed by the CSA.

[17] For details on the methodology used, refer to section 2 of the Position Paper.

No SRO / 13 individual statutory regulators

IIROC and the MFDA would have ceased to exist and their respective regulatory functions would have been transferred to the statutory regulators, which would have performed the primary oversight of all registrants, with the possibility of coordination of regulatory initiatives on a cross-Canada basis through the CSA. The role of the IPFs providing coverage to eligible investors would have been the responsibility of the statutory regulators. The inherent challenges associated with the multi-jurisdictional securities regulation in Canada would not have been resolved under this Option.

CSA-led regulatory organization

This Option would have involved the creation of a new regulatory organization controlled directly and exclusively by the CSA. Each of the CSA's recognizing regulators would have been a member of the regulatory organization with exclusive voting rights over the by-laws of the organization and the appointment of the organization's board of directors, among other things.

Under this Option, IIROC and MFDA would have been integrated within the new CSA regulatory organization and their members would have become non-voting members of the new regulatory organization. The rule books for IIROC and the MFDA would have been consolidated into a single rule book and overseen by the regulatory organization. The regulatory organization would have also overseen the consolidation of compliance and enforcement processes for investment dealers and mutual fund dealers. The CSA would have considered the merits of consolidating other registration categories under the new regulatory organization during a later phase. Lastly, CIPF and the MFDA IPC would have been integrated into a similar CSA independent investor protection fund created to provide coverage to eligible investors.

As this Option would not fit within the existing legislative framework of the statutory regulators, amendments to numerous securities legislations across the country would have been required, in addition to the resolution of numerous uncertainties as to how the Option could be effectively operationalized in practice. Significant changes to numerous existing securities legislation would have been required.

Multiple SROs

Other applicable registration categories currently overseen directly by the statutory regulators would have been incorporated into a multiple SRO framework. The design and scope of such a framework could have included:

- one SRO for Investment Dealers (**ID**s) and Mutual Fund Dealers (**MFD**s); and separate SROs for each of the other categories;
- one SRO for IDs, MFDs, EMDs and SPDs; and a separate SRO for PMs and/or IFMs; or
- a separate SRO for each registration category.

The number of IPFs and scope of coverage would have been driven by the design and scope of the multiple SRO framework. Any changes would have occurred after extensive consultation with

key stakeholders to minimize duplicative costs, reduce fragmentation of product-based regulation, and limit other inefficiencies noted from the current structure.

Appendix C – Enabling Changes

This Appendix provides a description of various areas where steps will have to be taken in order to facilitate the implementation of the proposed solutions outlined in the Position Paper. These steps will involve some regulatory changes as well as the formation of various committees / working groups for the implementation strategy that will lead or assist with further consultations, transition and implementation of the specific solutions denoted in this section.

Regulatory Changes

Most of the regulatory changes necessary for implementation will be addressed through the ROs for the New SRO. Currently, both IIROC and the MFDA are subject to their respective ROs, which lay out various terms and conditions, the governance structure and reporting requirements. Similarly, the two current IPFs are subject to their respective Approval Orders (**AOs**). Both ROs and AOs are largely harmonized across all CSA jurisdictions as well as between IIROC and the MFDA and between the IPFs respectively, as a result of a recently completed CSA initiative.

CSA oversight staff will also need to draft a new single MOU, including the new JRRP, among the recognizing regulators setting out a strengthened CSA oversight framework over the New SRO. A new single MOU regarding the oversight of the new IPF will also be drafted. Similar to the ROs and AOs, the current SRO and IPF MOUs have been recently updated and harmonized.

The agreements between members and the New SRO will need to be amended.

Finally, the National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* will need to be adjusted to appropriately reference the New SRO.

While the above-noted documents are being developed / updated, it will be important to ensure that both the CSA oversight staff and the SROs continue to efficiently exercise their respective responsibilities.

Committees / Working Groups

The following is a list of committees and working groups that will need to be established or engaged as part of the implementation strategy to ensure the success of the New SRO and implement the various solutions.

As already described in Section 3 – New SRO Framework, after receiving necessary approvals including a CSA mandate, the IWC will be formed to oversee an agreed upon implementation strategy, and to act as a steering committee to provide direction and coordination. In addition, through specialized committees and working groups, the following areas will be considered:

- **Directed Commissions:** After appropriate stakeholder consultations, in conjunction with the IWC's efforts to harmonize the rules, a distinct **Directed Commissions WG** will complete the necessary work, such as: (i) considering any tax-related or other regulatory concerns with permitting directed commissions arrangements; (ii)

following the completion of consideration of tax-related or other regulatory concerns and in consultation with appropriate stakeholders if applicable, proposing a rule and a prescribed form of agreement that provides the appropriate protections; (iii) assessing a possible consequential amendment to Part 8 of NI 31-103 modelled on the existing CSA local registration exemptions; and (iv) considering whether a long-term solution, such as a true incorporated salesperson regime, is warranted.

- **OBSI:** There will be engagement with the **CSA OBSI Working Group** to consider assessing the need for an appeal or review mechanism regarding continuing efforts to make OBSI decisions binding; and the **Joint Regulator Committee** assessing (i) the scope of matters an SRO firm's internal ombudsperson can address, and (ii) OBSI complaint data for complaint handling trends.

- **Education:** There will be coordination with **CSA Communications / Education groups** on joint efforts to expand the reach and impact of investor education, as specified in the solutions.

- **SEDAR+ Project:** There will be engagement with **CSA regulatory staff** involved in the project to consider the merits of including public disclosure and easy access to information pertaining to member firms of the New SRO, including consideration of information disclosure similar to that contained in the SEC's Form ADV, and, in cases of individual registrants, the current IIROC Advisor Report.

- **Market Surveillance:** A new distinct **CSA Market Information Coordinating Working Group,** composed of staff with market surveillance knowledge or experience (Enforcement, Market Regulation, SRO Oversight, Systemic Risk), in collaboration with the relevant New SRO staff, will work to identify and recommend improvements to existing processes relating to the supervision of market data.

Following Phase 1, a distinct **CSA SRO Working Group**, in coordination with the CSA Registration Steering Committee, will assess and consult on the merits of consolidating, based on proficiency, some registration categories regulated directly by the CSA (e.g., PMs, EMDs, SPDs). Further, it will consider the merits of (i) integrating some or all of these registration categories into the New SRO, (ii) allocating registration functions as between CSA members and the New SRO and any necessary resulting changes to the governance structure, (iii) assessing adequacy of advocacy mechanisms considering the allocation of registration functions, and (iv) extending fit-for-purpose IPF coverage to the other registration categories.

Finally, work will be considered to harmonize certain securities regulation with that of the insurance regulators. This will be conducted through the **Joint Forum of Financial Market Regulators** and more specifically the joint CSA / Canadian Council of Insurance Regulators project on Total Cost Reporting.

Appendix D – Table of References

This Table of References provides a comprehensive list of materials the Working Group reviewed and considered in the development of the Position Paper. The documents were identified and sourced directly by the Working Group or highlighted by stakeholders. The degree to which any document listed below was reviewed and analyzed varied and depended on the relevance of its underlying content to the issues identified, and the solutions set out in the Position Paper. Inclusion of third-party publications in this Table of References does not connote the Working Group's endorsement or agreement with the opinions expressed, or the information contained therein. All below electronic links were confirmed to be functional as of July 12, 2021.

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