

Highlights of Our 2017 Achievements

CEO-to-CEO

The Investment Industry Association of Canada (IIAC) is committed to constructive engagement with securities regulators and governments to fight for cost-effective rules, fight against rules that interfere with business activity and market efficiency, and to promote incentives for capital formation and growth. Our efforts are paying off. Here are some of our 2017 victories on your behalf.

Ian C. W. Russell, FCSI
IIAC President & CEO

Changes to the Montreal Exchange (MX) Form for reporting of Exchange For Physical (EFP), Exchange For Risk (EFR), and Riskless Basis Cross (RBC)

The issue: The IIAC [had requested](#), in February 2016, enhancements to the Special Terms Transactions Reporting Form (STTRF) used by Approved Participants (AP) to submit Exchange For Physicals (EFP), Exchange For Risk (EFR), and Riskless Basis Cross (RBC) transactions to the MX.

For the benefit of our readers, an EFP is a simultaneous transaction involving the exchange of futures contracts for a corresponding cash position. An EFR is a simultaneous transaction involving the exchange of futures contracts for a corresponding over-the-counter derivative instrument. An RBC transaction is a trade where an AP and a client engage in pre-negotiation discussions to agree upon the terms of a transaction on index futures contracts and on share futures.

What we got for you: Thanks to the IIAC's efforts, a new field was added to the STTRF as February 13, 2017. Firms are able to include the identification of the AP's non-SAM authorized personnel submitting the form to the MX. A non-SAM authorized person was not allowed to trade on the Montréal Automated System.

How does this benefit me? This change is expected to enhance the efficiency of the EFP, EFR and RBC reporting process and allow APs to keep an accurate audit trail of each transaction (re: who executed the trade; who submitted the form).



Order Protection Rule – Proposed Trading Fee Caps

The issue: The IIAC has long called for a trading fee cap on non-inter-listed securities – i.e. those that are listed on a Canadian exchange, but not listed on a U.S. exchange – to better reflect the lower volume-weighted average price of Canadian securities relative to the volume-weighted average price of U.S. securities, and to address liquidity needs in the Canadian marketplace.

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What we got for you: On January 26, 2017, the Canadian Securities Administrators (CSA) announced that it is reducing the cap on active trading fees for equities and ETFs that are only traded in Canada to \$0.0017 per share (or per unit traded, in the case of ETFs) from \$0.0030, if the execution price of each security or unit traded is greater than or equal to \$1.00.

How does this benefit me? Because the IIAC's efforts, market participants will see a 43% reduction in trading fees on non-inter-listed securities.



U.S. Tax Withholding – Qualified Intermediary (QI) Related Issues

The issue: A QI is a non-U.S. financial institution that has entered into an agreement with the IRS allowing it to be subject to simplified tax withholding and reporting rules. The QI Agreement also allows certain non-U.S. institutions to act as Qualified Derivatives Dealers (QDDs) and assume primary tax withholding and reporting responsibilities on all dividend equivalent payments received by clients holding financial products that reference underlying U.S. securities – such as options, swaps, futures and others. QIs had until March 31, 2017 to submit QI renewals and QDD status applications to the IRS. The IIAC pushed back against the unrealistic IRS deadline and asked for an extension citing the late availability of the QI System, technical issues, and outstanding questions regarding the information required.

What we got for you: At the IIAC's urging, the IRS extended the deadline to submit QI renewals and QDD status applications to May 31, 2017.

How does this benefit me? Member firms applying to be subject to simplified tax withholding and reporting rules have more time to do so.



Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) Reporting Requirements

The issue: Under both FATCA and the CRS, IIAC member firms are required to report relevant tax information directly to the Canada Revenue Agency (CRA) who then exchanges the information with the appropriate country's tax authority. Fulfilling two separate reporting requirements can potentially be very costly for member firms.

What we got for you: Given the similarities between FATCA and CRS, the IIAC impressed upon CRA the importance of harmonized reporting requirements, which would eliminate the need for costly systems changes by member firms and would minimize confusion and challenges experienced by clients. To further ease the compliance burden on member firms, the IIAC called for CRA to develop standardized tax residency certification forms for both FATCA and CRS. On March 22, 2017, CRA released guidance that incorporated the IIAC's recommendations, harmonizing reporting requirements for FATCA and CRS wherever possible and making available to Canadian financial institutions standardized tax residency forms whose use is not mandatory, but which may assist members with FATCA and CRS implementation.

How does this benefit me? The IIAC's efforts spared member firms from unnecessary costs and reduced client confusion.



BC Financial Institutions Act (FIA) & Credit Union Incorporation Act (CUIA) Review

The issue: Dealers acting as deposit agents for credit unions register their clients' BC credit union guaranteed investment certificates (BCCU GICs) deposits in nominee name, rather than in client name with the credit union, because it is inefficient to require each client to become a credit union member and for each client's deposit to be held in a separate account requiring new account documentation. Given the BC's Financial Institution Commission (FICOM) review of credit union compliance with the FIA, the IIAC's member firms were concerned that credit unions could be restricted from continuing to take deposits registered in nominee name by the dealer acting as deposit agent. The IIAC argued that dealers ought not be subject to FIA restrictions intended for other purposes. Alternatively, if a broad interpretation of the FIA is taken, dealers must be exempt from the subject restrictions so as not to create an artificial barrier to legitimate deposit-taking business in respect of BCCU GICs that are accepted and held in nominee accounts on behalf of clients by member dealer firms.

What we got for you: Because of the IIAC's advocacy efforts, the FIA was amended to provide an exemption to investment dealers operating nominee accounts when holding BCCU GICs. Investment dealer will not have to register as an "authorized trustee" to act as deposit agent for credit unions.

How does this benefit me? BC dealers can continue to service clients' investment needs, as appropriate, with BCCU GICS. BC investors can continue to benefit from the financial services sector and maintain their confidence in it.



National Housing Act Mortgage-Backed Securities (NHA MBS) Program

The issue: Canada Mortgage and Housing Corporation (CMHC) guarantees timely payment on NHA MBS that are issued by Approved Issuers and backed by pools of residential mortgages insured against borrower default. The IIAC MBS Committee has been working with CMHC to further support NHA MBS market development and to enhance market transparency.

What we got for you: In April 2017, CMHC began publishing a disclosure report, "Syndicated NHA MBS Transactions." The report is prepared based on data largely provided by IIAC member firms. The IIAC MBS Committee worked with CMHC to identify the data elements to be included in the report. The report will be updated quarterly utilizing data provided by IIAC member firms.

How does this benefit me? The CMHC report, "Syndicated NHA MBS Transactions", is publicly available and discloses the pool characteristics and pricing information for each syndicated NHA MBS transaction, along with transaction volume and investor composition information on an aggregate basis. The report will be useful for investors and other market participants transacting in Canadian NHA MBS.



Montreal Exchange - Process to Impose Fines for Minor Violations

The issue: On May 10, 2017, the Montreal Exchange approved the adoption of new rules to introduce a process to impose fines for minor violations. The IIAC expressed concerns with the proposed process. Specifically, the IIAC requested that control mechanisms be put in place to ensure the scope of sanction activity does not increase beyond activities that would otherwise have been deemed, under the current process, to represent egregious violations sufficient to impact market integrity. Our member firms stressed that information submitted to the Bourse through Gatekeeper Reports not be used as evidence for their fines. The IIAC also

requested that in the event of unauthorized access to the automated system, fines should not be retroactively applied to the date of initial registration.

What we got for you: The Bourse indicated that it will issue a warning letter for the first violation. It committed to making a change to the fine calculation regarding the granting of unauthorized access to the automated system.

How does this benefit me? Thanks to the IIAC's efforts, there is greater efficiency in the application of the Rules by the Bourse and greater transparency on how the Bourse determines there is a violation.



Other Highlights

Watch Ian Russell BNN [interview](#): How the investment industry is bracing for hyper-competition in 2017. January 5, 2017.

Read Ian Russell's [Letter from the President](#): "Wisdom from the Asian Financial Forum and the lessons for Canadian policymakers." January 2017.

[Read](#) Ian Russell's comments in Canadian Business on "The higher-cost, higher-service future of investing advice." January 17, 2017.

Watch Ian Russell BNN interview: Robo-advisor versus the traditional advisor, [Part One](#); and Robo-advisor versus the traditional advisor, [Part Two](#). February 14, 2017.

Read Ian Russell's [Letter from the President](#): "Charting a course for regulatory reform: Discussions with global regulators." March 2, 2017.

Watch Ian Russell BNN [interview](#) on the 2017 Federal Budget. March 22, 2017.

Watch Ian Russell Bloomberg TV Canada [interview](#) on the 2017 Federal Budget. March 23, 2017.

Read Ian Russell's [Letter from the President](#): "Bold, aggressive policy needed to address the employment problem in Canada." March 24, 2017.

Watch Ian Russell Bloomberg TV Canada [interview](#) on the case for a lower capital gains tax. April 21, 2017.

Read Ian Russell's [Letter from the President](#): "The evolving new paradigm for financial advice." April 28, 2017.

Read Ian Russell's [Letter from the President](#): "Global Credit Markets: Prospects for Increased Fragmentation, Looming Brexit and Liquidity Concerns." May 31, 2017.

Read Ian Russell's [Guest Column](#) in *Investment Executive* titled "Boosting venture markets". June 1, 2017.

Watch Ian Russell on BNN [discussing](#) financial deregulation in the U.S. as well as the *IIAC Investment Industry Hall of Fame*. June 28, 2017.

Read Ian Russell's [Letter from the President](#): "IIROC Rule 42 Compensation-Related Conflicts Review: Observations and Next Steps." July 4, 2017.

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