



August 3, 2021

CSA to establish new, single self-regulatory organization

The Canadian Securities Administrators (CSA) released Position Paper 25-404 – *New Self-Regulatory Organization Framework* supports the establishment of a new, single self-regulatory organization (SRO) for IIROC and MFDA dealers and consolidates their investor protection funds (IPFs).

“The IIAC commends the CSA for its decision to create a single SRO for IIROC and MFDA members”, said Laura Paglia, IIAC President and CEO. “The IIAC looks forward to a continued contribution to the implementation process”.

An Integrated Working Committee (IWC) will be established to determine the appropriate corporate structure for the new SRO and IPF under Phase 1.

Phase 2, through the formation of a CSA SRO Working Group, will include a public consultation to consider integrating other registrants (PMs, EMDs etc.) into the new SRO.

No timelines have been specified.

To address some concerns raised by industry members and in the previous CSA consultation Paper 25-402, the CSA has put forward proposals that include the following:

Governance

Amendments to the new SRO Board of Directors structure would include the requirements that:

The majority of the board, the Chair of the new SRO, and Chairs of other committees – such as Governance, Nominating, Audit and Human Resources – be independent. Independence criteria is to be established by the new SRO in consultation with the CSA;

The transfer of 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 an advisory role;

CSA involvement in corporate governance for the new SRO to include a CSA non-objection process to nominees for independent directors and the appointment of the CEO; and

A formal investor advocacy panel be created to provide research and input.

Proficiency

The new SRO will enable separate mutual fund and investment dealer businesses within one member entity.

The CSA Working Group identified that the IIROC proficiency upgrade requirement, which requires mutual fund representatives transitioning to an IIROC platform to qualify as IIROC representatives within 270 days

of approval, is likely no longer required. More nuanced proficiency based registration categories are being considered.

Investor Education

The CSA is proposing to establish a separate investor office within the new SRO.

Access to Advice

“Access to Advice” proposals include:

- Permitting introducing/carrying broker arrangements between IROC and MFDA dealers;
- Enabling dual platform mutual fund and investment dealers to integrate their back-office functions;
- Centralizing client information to reduce repapering within a dealer;
- Proposing a rule that requires historical data to be transferred between a dual platform dealer or within unaffiliated dealers;
- Permitting more part-time advisors; and
- Promoting the servicing of clients in different geographic zones.

Industry Costs

Proposals to reduce industry costs include:

- Permitting CFOs, CCO and other compliance staff to serve multiple firms simultaneously with appropriate risk controls and regulatory approvals;
- Examining the fee structure for the new SRO for proportionality and lack of duplication; and
- Enabling a dual platform mutual fund and investment dealers within one legal entity and integrating compliance, back office and administration.

Harmonization/Efficiencies

The IWC will oversee a policy review of the existing IROC and MFDA rule books to increase harmonization. The IWC will also evaluate the rules against additional criteria (for example, scalability) as well as their economic impact.

Directed Commissions

The CSA will establish a Directed Commissions Working Group to analyze the issue of commissions or fees earned directed to a personal corporation and to provide recommendations to the new SRO.

Market Surveillance

Market surveillance will remain with the new SRO. The CSA proposes to improve information sharing between the new SRO and the CSA. The CSA will establish the CSA Market Information Coordinating Working Group.

Next Steps

The CSA has invited public comment on its proposed solutions related to the new SRO and new IPF. Comments are due by October 4, 2021. The IIAC will be convening a meeting of its SRO Regulatory Reform Working Group to discuss our response to the CSA Position Paper and next steps.