



INVESTMENT INDUSTRY ASSOCIATION OF CANADA  
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Via email: [t.rijk@iosco.org](mailto:t.rijk@iosco.org)

Ms. Tillie Rijk  
IOSCO General Secretariat  
C/ Oquendo 12  
28006 Madrid  
Spain

Dear Sirs/Mesdames:

**Re: Public Comment on Market Intermediary Management of Conflicts that Arise in Securities Offerings**

The Investment Industry Association of Canada (IIAC) appreciates the opportunity to comment on the above noted discussion paper. IIAC is the professional association representing over 200 investment dealers in Canada. Our mandate is to promote efficient, fair and competitive capital markets for Canada and assist our member firms across the country.

As demonstrated by the paper, the issue of conflicts in relation to market intermediaries is a complex topic requiring an in-depth and practical understanding of the interactions and competing interests of various market participants. We note that the paper focuses on potential and theoretical issues, but does not necessarily identify or provide evidence of an existing concern or a real market problem in this area. We hope that IOSCO will not recommend regulatory intervention in this area unless an actual market problem has been identified as significant, and all other possible solutions have been thoroughly explored and ruled out.

The paper discusses and attempts to catalogue various competing interests in the market. We are concerned that the paper characterizes all of the competing interests as conflicts or potential conflicts of interest requiring regulatory intervention or action to be taken by market intermediaries.

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Buyers and sellers of products and services, inherently, have competing interests. Intermediaries, by virtue of their role in the market, often find themselves at the centre of these competing interests. We do not believe it is appropriate to suggest that intermediaries should be responsible for identifying and managing all conflicts and potential conflicts of interest that may exist in the ordinary course of business. This would place undue burden on the intermediary to assume responsibility for competing interests of other market participants, simply by virtue of its position as a middleman.

There is no doubt that there are areas of conflict that need to be identified and addressed by intermediaries. However, by focusing exclusively on potential conflicts, the business reality of the client relationship is ignored. For example, the paper expresses concern about potential conflicts where an intermediary offers both corporate banking and investment banking services to Company A. We would not characterize this as a conflict or real potential conflict of interest. Many intermediaries offer a full range of services to clients. Likewise, many clients seek out full-service firms to address, provide options and advise on their current and anticipated financial needs. Giving clients choices is not a conflict.

It may be helpful to examine the situation from the perspective of the client of the intermediary. Clients often choose to do business with an intermediary that offers a full slate of financial services, thereby consolidating their dealings and information in order to obtain an integrated approach to their business and financial needs. Although the divisions within an intermediary, such as cash management, lending and underwriting may operate as discrete units, they work towards the same objective, which is to establish, service and maintain a long-term mutually beneficial relationship with the client. Competitive market forces, which on the surface could suggest a potential conflict, actually serve a common interest, and provide the checks and balances to mitigate against any potential for intermediaries to take unfair advantage of its client relationships, without the need for regulatory intervention.

Clients are sophisticated and actively seek out expert advice and second opinions on complex business transactions. Intermediaries are professional service providers. If intermediaries put their short term internal objectives ahead of the interest and obligations owed to their clients, they will find that their credibility, reputation and relationships will be quickly compromised. This long term business relationship perspective acts to align the interests of clients and intermediaries.

The paper's recommendations that intermediaries should construct systems, extensive disclosures and processes to manage their dealings with clients for each different capacity in which they may serve them will create a complex and expensive bureaucracy and introduce inefficiencies and costs into the market that will ultimately be borne by the client for no clear benefit.

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The IIAC recognizes that managing the issue of conflicts of interest is important to the integrity of the capital markets. However, we are concerned that the paper's academic perspective on this complex topic does not frame the issue in its proper business context. Ultimately, this may result in potentially unrealistic recommendations which do not take into account the expectations and sophistication of the various market participants. The paper appears to drive to conclusions about the necessity for solutions to problems that may not actually exist. Further, many of the proposed solutions could have the unintentional effect of impairing the effectiveness of the markets by introducing inefficiencies and additional costs on the very parties that the measures seek to protect.

Thank you for considering our submission. If you have any further questions or comments, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Ben Russell", with a horizontal line underneath the name.