ACTIVITY UPDATE

IIACACCVM

NOVEMBER/
DECEMBER
2017

A NOTE FROM IIAC PRESIDENT & CEO

As you are aware, most firms in our industry are constantly besieged by an onslaught of securities regulations, legislative changes and governmental initiatives, while at the same time trying to remain profitable and competitive businesses. The IIAC helps our members keep on top of these issues, and makes sure the industry's voice has a strong influence on our regulatory and governmental stakeholders. The *Activity Update* is a snapshot of the projects underway, awaiting regulatory response, or recently closed.

The *Activity Update* highlights a breadth of issues, including IIROC and CSA regulations, tax policy, marketplace issues and international developments. We also provide industry education, compliance tools and templates, and advocacy through public appearances and frequent media commentary.

NEW INITIATIVES IN THE NOVEMBER-DECEMBER ISSUE:

- Regulatory Accountability (page 5)

UPDATED SECTIONS IN THE NOVEMBER-DECEMBER ISSUE:

- Best Interest Standard (page 4)
- Embedded Commissions (page 5)
- Best Execution (page 6)
- IIROC Plain Language Rule Redraft (page 7)
- IIROC Continuing Education – Consultation on Plain Language Rule (PLR) Proposals and Ongoing Review (page 9)
- IIAC Market Restructuring Project (page 10)
- Montreal Exchange Rule Modernization Project (page 11); Large Option Position Reporting (LOPR) Warning System (page 12); and Introduction of Auctions During the Trading Process (page 14)
- CSA Conduct Rules for OTC Derivatives Products (page 15)
- IIROC's Futures Market Segregation and Portability Customer-Protection Regime (page 15)
- OSC Proposals on Foreign Distributions (page 17)
- CSA Review of the Proxy Voting Infrastructure (page 17)
- Illegal Binary Options Trading (page 19)
- Tax Reporting on Linked Notes (page 22)
- 'Advantage' Rules for Investment Management Fees on Registered Plans (page 23)
- High-Value TFSAs and Small Borrowings (page 24)
- U.S. Tax Withholding – QI Related Issues (page 25); and Section 871(m) (page 26)

If you have any questions about the *Activity Update*'s contents, the IIAC staff contact for each item is listed, or you can contact me at any time.
Yours sincerely,

Ian Russell
President & CEO of the Investment Industry Association of Canada

TABLE OF CONTENTS

CSA-SRO ISSUES

BEST INTEREST STANDARD

In April 2016, the CSA released Consultation Paper 33-404 *Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients* regarding conflicts of interest, know-your-client, know-your-product, relationship disclosure, suitability, proficiency requirements, titles and designations used by representatives, and the roles of the ultimate designated person ("UDP") and chief compliance officer. The CSA is also considering a regulatory standard mandating that registrants act in their clients' best interest. At the time of the paper's release, all CSA jurisdictions supported the proposed targeted reforms, but there was mixed support for the best interest standard. The BCSC expressly rejected a best interest standard because it may be unworkable and have unintended consequences.

In its September 2016 comment letter, the IIAC encouraged regulators to first consider the results of the CSA's announced multi-year Point of Sale (POS) and CRM impact study to inform the need for any new regulation, as well as engage in a rigorous cost-benefit analysis. The IIAC noted that a broad, sweeping and vague best interest standard has uncertain application which may lead to client confusion and have negative consequences for investors—reducing choice among business models, reducing access to financial products, decreasing affordability of financial advice, heightening uncertainty with respect to client-advisor relationship obligations—resulting in onerous compliance requirements, and increasing exposure to risk and liability for advisors. The IIAC retained Deloitte LLP to conduct a Cost of Compliance Survey respecting certain reforms. The findings can act as a launching pad for a full cost-benefit analysis undertaken by the CSA.

IIAC President and CEO Ian Russell reiterated the industry's concerns at a roundtable hosted by the OSC on December 2016, and in an Investment Executive *Letter to the Editor* in February 2017. The IIAC met with provincial securities commissions across the country to forcefully articulate the IIAC's concerns with a proposed best interest standard and the targeted reforms.

For more information, please contact Michelle Alexander (malexander@iiac.ca) or Adrian Walrath (awalrath@iiac.ca).

The IIAC will continue to engage in ongoing meetings with the OSC to provide input as the Commission develops a regulatory best interest standard.

CSA CONSULTATION ON REDUCING REGULATORY BURDEN FOR NON-INVESTMENT FUND REPORTING ISSUERS

In April 2017, the CSA issued Consultation Paper 51-504, *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*. The CSA is seeking input from market participants and stakeholders to identify and consider areas of securities legislation applicable to non-investment fund reporting issuers that could benefit from a reduction of undue regulatory burden, without compromising investor protection or the efficiency of the capital market. Parts of the Consultation Paper focus on considering options to reduce the regulatory burden associated with both capital raising in the public markets (i.e. prospectus related requirements) and the ongoing costs of remaining a reporting issuer (i.e. continuous disclosure requirements).

The IIAC formed a working group to respond to the Consultation Paper and submitted comments to the CSA on July 28, 2017. The IIAC was supportive of many of the proposals. Our primary concerns related to the preliminary prospectus process and electronic delivery of documents.

For more information, please contact Susan Copland (scopland@iiac.ca).

The IIAC will continue to monitor for further developments.

REGULATORY ACCOUNTABILITY

The IIAC is undertaking a project to develop a proposal for a framework for regulatory accountability. Research will be conducted on how other jurisdictions hold their regulators accountable for the regulatory process and outcomes. We anticipate the proposal will include processes that require regulators to establish the need for regulation, investigate alternative means of achieving the objective, undertake cost/benefit analysis, and review the effectiveness of any regulatory action. The final product, including recommendations, will be presented to regulators and legislators.

For more information, contact Susan Copland (scopland@iiac.ca)

The IIAC will consult with industry and experts in developing the proposal.

EMBEDDED COMMISSIONS

On January 10, 2017, the CSA released a Consultation Paper on The Option of Discontinuing Embedded Commissions. A Discussion Paper (i.e. the original consultation paper) was published in 2012 and subsequent research papers in 2015 and 2016.

The CSA pinpointed three investor protection and market efficiency issues stemming from embedded commissions. They: (1) raise conflicts between the interests of investment fund managers, dealers and advisors and those of investors; (2) limit investor awareness, understanding and control of dealer compensation costs; and (3) do not align with the services provided to investors.

The CSA is considering a ban on embedded commissions and is consulting on the potential effects on investors and market participants with respect to the provision and accessibility of advice, and business model and market structure. The CSA is also seeking to identify potential measures to mitigate any negative impacts, and alternative options.

The IIAC formed a Working Group and submitted a response to the January 10, 2017 Consultation Paper on June 9, 2017.

The IIAC raised the concern of unintended consequences (specifically a greater shift of firms to fee-based accounts), should the CSA prohibit embedded commissions. The IIAC also called for an adequate transition period for the industry to adapt, should the regulators ultimately proceed with a ban. The IIAC pointed to the possibility of regulatory arbitrage between the mutual fund and insurance industries—a segregated fund may be an insurance product, but is basically sold as a mutual fund with embedded fees and would not be subject to a potential ban.

The CSA has acknowledged the concern of the unintended consequences, should they discontinue embedded commissions.

For more information, please contact Michelle Alexander (malexander@iiac.ca) or Adrian Walrath (awalrath@iiac.ca).

The IIAC will continue to monitor developments and respond accordingly.

BEST EXECUTION

In December 2015, IIROC published proposed guidance to help dealer members strengthen their compliance with their best execution obligation in a multi-marketplace environment.

The IIAC expressed concerns about the need for detailed disclosure relating to order handling and routing practices. It noted it is inconsistent with the flexible manner in which firms undertake best execution, based on a number of fluid factors and circumstances. The IIAC was also concerned that the proposals appeared to require non-executing brokers to develop and audit best execution policies for their executing brokers, despite their lack of expertise or ability to control such execution. Lastly, there appear to be issues regarding the application of certain inappropriate best execution principles to the OTC market.

IIROC republished its proposals for comment in October 2016, incorporating many of IIAC's recommendations, but leaving a few problematic requirements in place, particularly for institutional trades.

In December 2016, the IIAC responded to IIROC enumerating a number of outstanding concerns in relation to the Proposed Provisions and the accompanying Guidance.

On July 6, 2017, IIROC published Guidance on Best Execution that largely took into account many of IIAC's comments and requests for clarification.

For more information, please contact Susan Copland (scopland@iiac.ca).

The IIAC will monitor how the Best Execution Guidance is implemented and any issues that need to be addressed. In addition, the IIAC will monitor the upcoming CSA proposal on the Order Protection Rule and how it may affect Best Execution principals.

IIROC PLAIN LANGUAGE RULE RE-DRAFT

In July 2016, the IIAC submitted comments regarding the re-publication of IIROC's Proposed Plain Language Rule Book, whose purpose is to restructure and clarify IIROC's rules. The IIAC pointed to a number of areas where the intended benefits may not be achieved because the changes identified do not improve regulatory policy or conform to existing requirements. An overarching concern is the introduction (under the proposed registration rules) of significant new burdens on registrants in the absence of clear problems. Investors may be negatively impacted, if advisors are driven away from the IIROC platform which has the highest standards in the industry. Additionally, the business conduct and client account rules introduced new requirements that may disadvantage clients, such as non-renewable discretionary account agreements. Finally, a new model for managed accounts could negatively impact clients' trade execution opportunities. The IIAC advocated that such new requirements be submitted for a necessary fulsome review by the industry to avoid negative unintended consequences.

On March 9, 2017, IIROC published a revised proposed Plain Language Rule Book for a 60-day comment period. The IIAC provided comments the proposed Rule Book on May 8, 2017.

For more information, contact Michelle Alexander (malexander@iiac.ca), Susan Copland (scopland@iiac.ca), Jack Rando (jrando@iiac.ca) or Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC will continue to monitor developments and respond accordingly. We expect a further revised Rule Book to be issued for comment shortly.

COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM (CCMRS)

Following earlier consultations on the CCMRS in 2014 and 2015, the Participating Jurisdictions released a revised *Capital Markets Stability Act* (CMSA) in May 2016. The CMSA sets out powers granted to the Capital Markets Regulatory Authority regarding national data collection, systemic risk related to capital markets and criminal enforcement. The revised draft addressed many of the IIAC's concerns regarding the potential for undue regulatory burdens on capital market participants. It also included a number of positive changes that will help to ensure that the new systemic risk powers granted to the Capital Markets Regulatory Authority are used only if necessary, and in coordination with all Canadian regulators, to promote efficient capital markets and achieve effective regulation.

On July 6, 2016, the IIAC submitted comments on the revised draft of the Act, suggesting additional amendments for consideration.

For more information, please contact Michelle Alexander (malexander@iiac.ca).

The IIAC will monitor developments and respond accordingly.

CLIENT RELATIONSHIP MODEL (CRM)

CRM is the most comprehensive initiative to reform the regulatory framework governing financial advisory services. CRM rules addressing relationship disclosure, conflicts of interest management/disclosure, and suitability assessment were among the first to be implemented. Rules related to pre-trade disclosure of advisor compensation and fees came into effect in July 2014. Amendments requiring registered firms to provide investors with enhanced client statements took effect year-end 2015, while rules relating to better disclosure around fees and investment performance took effect on July 15, 2016 and will be fully implemented by July 14, 2017.

In July 2016, The CSA sought comments on proposals to address matters that have arisen in the course of implementing the 2013 CRM2 amendments, including proposals to codify exemptions from certain requirements, revise guidance and propose new disclosure requirements for non-cash incentives and embedded fees. In October 2016, the IIAC issued a response in which it identified substantive changes in the proposed amendments included as guidance, without corresponding rule amendments to substantiate the requirements. The IIAC also expressed concern that there may be follow-on changes to SRO rules, which would create a great deal of confusion as member firms are already complying with their SRO's CRM2 rules, which have been finalized.

In December 2016, the IIAC developed a CRM2 webinar for advisors titled "Meet the Challenges. Capture the Opportunity". The webinar provides practical tips on helping clients understand the new fee and investment performance reports, addressing client questions and articulating value. A vigorous response to client queries will allay concerns and boost confidence.

In a news release, the IIAC called attention to the fact that the vast majority of member firms are already providing their clients with the new fee and investment performance reports, a full six months ahead of schedule.

For more information, please contact Adrian Walrath (awalrath@iiac.ca).

The IIAC will continue to engage its members, through its CRM2 Working Groups, to ensure smooth and successful implementation of all CRM2 requirements.

EXCHANGE TRADED FUNDS (ETF) DISCLOSURE REQUIREMENTS

On December 8, 2016 the CSA released final rules that will require dealers to provide clients purchasing ETF securities with a summary disclosure document called "ETF Facts" within two days of purchase. ETF Facts contains key information about the purchased investment product, written in plain language.

As part of the CSA's initial consultation, the IIAC called for a sufficient implementation timeline to ensure a positive investor experience as well as an efficient and cost effective implementation that avoids any negative market impact.

Effective September 1, 2017, ETFs will be required to produce and file an ETF Facts and make it available on the ETF's or the ETF manager's website. Dealer delivery obligations related to the ETF Facts will come into effect on December 10, 2018.

For more information, contact Adrian Walrath (awalrath@iiac.ca).

IIROC CONTINUING EDUCATION – CONSULTATION ON PLAIN LANGUAGE RULE (PLR) PROPOSALS AND ONGOING REVIEW

On April 27, 2017, IIROC published for comment a consultation paper on Continuing Education (CE), seeking input on a variety of issues, including: the goal of CE and what courses/activities qualify as CE; whether simple review of a firm's compliance manual should qualify for Compliance CE credits; the ability to repeat ethics courses for credit; reducing the CE cycle to two years; whether IIROC should bring the substantive CE course review function in-house and conduct the accreditation reviews itself; providing grandfathering relief from CE requirements; carry forward credit provisions; and Dealer Member reporting and the consequences for non-compliance.

The IIAC submitted comments on IIROC's Continuing Education proposals on June 30, 2017.

For more information, contact Susan Copland (scopland@iiac.ca).

The IIAC is awaiting IIROC's response, which is anticipated to be published in late October or November 2017.

IIROC PROPOSAL ON CLIENT IDENTIFIERS

On May 17, 2017, IIROC published the first paper in an extensive consultation on ways to expand the use of client identifiers. The proposals would require client identifiers on each order sent to a marketplace and each reportable trade in a debt security. Dealer members would need to provide client identifiers using a Legal Entity Identifier (LEI) for eligible clients (i.e. typically institutional clients, such as pension funds) or an account number for clients not eligible to obtain an LEI (i.e. typically retail clients), as well as unique client identifiers for clients of a foreign dealer equivalent whose orders are entered under a routing arrangement and are automatically generated on a predetermined basis. In addition to the client identifiers, the Proposals would introduce designations to flag orders sent using Direct Electronic Access, orders entered under a Routing Arrangement and orders entered through an Order-Execution Only service.

These Proposals have potentially significant effects on members.

For more information, contact Susan Copland (scopland@iiac.ca) or Jack Rando (jrando@iiac.ca).

The IIAC has formed a working group to respond to these proposals, which are due by November 13, 2017.

IIAC MARKET RESTRUCTURING PROJECT

In 2016, IIAC established a Committee to examine the reasons behind the recent wave of consolidation in the investment industry through mergers, acquisitions and firm closure—both from a broad perspective and through lens of the individual firm coping with challenging business conditions. It sought input through in-depth interviews with executives of firms that are no longer IIROC members. The Committee also examined the impact of consolidation on capital formation and market liquidity. The Committee identified a series of practical, specific recommendations to address the issues raised by the executives, including measures to: reduce the excessive regulatory burden; reduce barriers to entry in the start-up of new firms, or the transfer of ownership of existing firms; facilitate the return of firms from the exempt market to the mainstream investment banking community; and improve capital formation in the public venture and SME market. The IIAC presented its findings to IIROC in January 2017 and to the CSA Chairs in September 2017.

For more information, contact Susan Copland (scopland@iiac.ca).

The IIAC will be working with regulators and government officials to implement the Committee's recommendations.

STRATEGIC REVIEW OF THE OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS (OBSI)

A 2016 independent review of OBSI produced a series of recommendations aimed at improving its operations and practices for investment-related complaints. These recommendations formed the basis of OBSI's strategic plan, released January 19, 2017.

Among the recommendations of the independent evaluators was that OBSI have the authority to bind firms to observe its compensation recommendations when complainants' cases are deemed worthy of compensation.

The IIAC maintains that OBSI should not have binding compensation authority without a right of appeal to an independent body.

For more information, contact Susan Copland (scopland@iiac.ca).

The IIAC will continue to consult with OBSI to ensure that recommendations enacted as part of OBSI's strategic plan balance the interests of all industry stakeholders.

CUSTODY AND TRADING ARRANGEMENTS FOR PORTFOLIO MANAGERS

In November 2016, the CSA issued a Notice to provide information and guidance to CSA-regulated portfolio managers that enter into custody and trading arrangements with IIROC-regulated investment dealer firms. Under these arrangements, an investment dealer holds an investor's assets and a portfolio manager trades those assets on a discretionary basis for the client. The investors is, thus, the client of both the portfolio manager and the investment dealer firm who each have different regulatory obligations to the client.

The CSA's staff notice indicates that provincial regulators' compliance reviews have uncovered several concerns with these custody and trading arrangements, including: inadequate or inconsistent disclosure to clients; inadequate or inconsistent agreements between the portfolio manager and the firm; and portfolio managers relying on dealers' records instead of maintaining their own as well as relying on dealers' account statements without ensuring those statements are complete and accurate.

The IIAC formed a Working Group to assist the industry in complying with the requirements in a consistent manner.

For more information, contact Susan Copland (scopland@iiac.ca).

The IIAC Working Group is developing a template agreement for use by firms undertaking these types of arrangements, and will be seeking IIROC input, as well as input from Portfolio Managers, once a draft is closer to final.

MONTREAL EXCHANGE RULE MODERNIZATION PROJECT – PHASE 2

As part of an effort to update and modernize its rules, on March 13, 2017, the Montreal Exchange had issued a circular requesting comments on Manipulative or Deceptive Methods of Trading Amendments to Article 6306 of Rule Six of Bourse de Montreal Inc. The circular is part of the MX Modernization Project. Other circulars may be issued.

On April 12, 2017, the IIAC submitted a comment letter to the Montreal Exchange regarding Phase 2 of its Rule Modernization Project.

The current rule, article 6306, is violated only when a person acts with intent, but proposed amendments add "recklessness" and "willful blindness" as additional standards of liability without describing how these terms will be interpreted. This lack of clarity creates confusion for IIAC member firms and runs counter to the Bourse's mission to promote the integrity of Canada's derivatives markets through the development and consistent application of clear, fair rules and policies that are effectively adapted to market needs. The IIAC calls on the Montreal Exchange to make clear its interpretation of "recklessness" and "willful blindness", and offer guidance and clear examples so member firms can ensure compliance with the amended rule.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the Montreal Exchange's response.

MONTREAL EXCHANGE POSITION LIMITS ON ETF OPTIONS

On April 18, the IIAC submitted a comment letter to the Montreal Exchange regarding Position Limits. The Montreal Exchange had issued a circular requesting comments on amendments to article 6651 of the Bourse regarding position limits for options on equity-holding exchange-traded funds (ETFs).

The IIAC and its Members feel the proposed limit increases, as stated in circular 037-17, are welcomed but are still too conservative considering international standards and market needs. The IIAC believes the limits should further be increased by the Bourse. Despite the proposed increases in ETF position limits, an arbitrage situation would still exist. The IIAC is urging the Bourse to adopt a more appropriate methodology for determining position limits on ETF options going forward. This new methodology should be used as soon as possible. It is a must that the methodology for establishing position limits on ETF options be responsive to market needs without compromising market integrity. Furthermore, the rationale for methodology must consider the structure of the ETFs and align itself to international position limit standards on ETF options.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the Montreal Exchange's response.

MONTREAL EXCHANGE LOPR WARNING

On multiple occasions, the Canadian investment industry, through the IIAC, has requested that the Bourse implement a Large Option Position Reporting (LOPR) warning or alert system similar to the one implemented by the Chicago Mercantile Exchange ("CME"). A member not submitting its LOPR file to the CME within the prescribed CME deadline will receive a notification from the CME. The notification will be received shortly after missing the LOPR deadline, generally within 5 to 10 minutes. The CME will give the member extra grace period of two hours to submit the overdue LOPR file. If the member's file is submitted within this additional two-hour period, no fine for late reporting will be issued by the CME. This notification is an effective way for the CME to proactively ensure that the outstanding LOPR files are submitted to the exchange rapidly. Members do feel a sense of urgency to submit their LOPR file following a CME notification. Our members truly appreciate the CME system and as such urge the Bourse to implement a similar notification system for its Approved Participants. The IIAC letter was submitted to the Montreal Exchange on April 20, 2017.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The Montreal Exchange indicated that it will not implement the tool requested by the Industry.

MONTREAL EXCHANGE – CHANGES TO THE GOVERNANCE STRUCTURE OF THE REGULATORY DIVISION

The Montreal Exchange issued circular 038-17 on March 22, 2017 and requested comments on the proposed governance structure of its Regulatory Division. Amendments proposed by the Montreal Exchange would allow members of the Bourse's Board of Directors to serve on the Special Committee that oversees the exchange's Regulatory Division.

The IIAC submitted its comments in a form of a letter on June 1, 2017, stating the proposal creates a lack of independence and contravenes a 2012 Decision by the Autorité des marchés financiers (AMF) requiring the functions and activities of the Bourse's Regulatory Division to be independent from its for-profit activities. The IIAC believes a governance structure like that of ICE Futures Canada, with distinct regulatory and business divisions and an independent committee to oversee the exchange's self-regulatory function, would meet all the AMF's requirements and best serve the interests of the Bourse, its Regulatory Division and Canadian market participants.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the Montreal Exchange's response.

MONTREAL EXCHANGE – EXTENDED TRADING HOURS PROJECT

The IIAC was made aware of the Montreal Exchange "1 am open" project. The Bourse is looking into extending trading hours for certain futures contracts. It should be noted that our members have had extensive conversations with the Bourse on this topic over the years. Our industry has major concerns on market liquidity, market integrity and market reputation if the Bourse does decide to extend its trading hours.

On May 19, 2017, the IIAC wrote to the Bourse to express its opposition to the "1am open" project, outlining major industry concerns regarding the initiative's implications for market liquidity, integrity and reputation. The letter also warned the project would result in additional costs and a potentially greater regulatory burden on IIAC members with only minimal offset from the expected incremental increase in revenue.

On August 9, 2017, the Bourse's CEO explained to members of the IIAC Derivatives Committee the steps being taken to make sure the extended hours (now a "2 am open") will not negatively impact market integrity. Our members still have concerns, and will have an opportunity to share these concerns with the Bourse once the official Request for Comments is issued by the Bourse (expected soon).

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the publication of the Bourse's Request for Comments.

MONTREAL EXCHANGE – INTRODUCTION OF AUCTIONS DURING THE TRADING PROCESS

The Montreal Exchange proposes introducing auctions at different points throughout the trading day to increase trading volumes and boost liquidity for certain illiquid products.

The IIAC, in its submission letter dated June 14, 2017, stressed that the auction process proposed by the Bourse will not provide the desired liquidity boost, and warned it will increase risk and the supervision burden on IIAC member firms. For particularly illiquid products, the proposal could lead to market dislocation and result in inappropriate pricing. To more effectively address liquidity issues, the Bourse should, before launching a new product, prepare a thorough analysis—including consultation with market participants—to determine if sufficient demand exists to ensure ongoing liquidity.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The Montreal Exchange self-certified and implemented its proposal on September 12, 2017

MONTREAL EXCHANGE – BASIS TRADES ON CLOSE FOR INDEX FUTURES, SECTOR INDEX FUTURES, AND SHARE FUTURES

The Montreal Exchange issued circular 078-17 on Basis Trades on Close for Index Futures, Sector Index Futures, and Share Futures. The Exchange is proposing a functionality that will allow participants to post and trade "basis spread type" orders on index, sector index and share futures contracts on the Bourse's electronic trading platform.

The IIAC submitted a letter on July 21, 2017, with questions from industry members.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the Montreal Exchange's response.

IIROC'S FUTURES MARKET SEGREGATION AND PORTABILITY (SEG & PORT) CUSTOMER PROTECTION

On May 18, 2017, IIROC issued Notice 17-0110 *Amendments to Dealer Member Rules and Form 1 relating to the futures market segregation and portability customer-protection regime.*

The Amendments include an increase in IIROC's customer margin requirements for futures positions to harmonize with the new Central Clearing Counterparty Gross Customer Margin model (Seg & Port). The IIAC submitted a comment letter on August 15, 2017, which included many concerns on the Seg & Port model.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits IIROC's response.

CSA – CONDUCT RULES FOR OTC DERIVATIVES PRODUCTS

The CSA has issued the proposed National Instrument 93-101 on Conduct Rules for OTC Derivatives Products. The proposals establish requirements that are similar to existing conduct rules for dealers in equities markets. The proposals include a requirement for fair dealing and include measures for dealing with conflicts of interest, suitability and know-your-client, disclosure requirements and detailing senior management duties.

On September 1, 2017, the IIAC issued a letter requesting exemption for IIROC-regulated Broker Dealers due to the duplication of rules.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC awaits the CSA's response.

ORDER PROTECTION RULE – PROPOSED TRADING FEE CAPS

In April 2016, the CSA published Proposed Amendments to NI 23-101 Trading Rules, reducing the cap on active trading fees for non-inter-listed securities from $0.003 to $0.0017. Given the inflated trading and market data fees in the Canadian market, the CSA's efforts to ensure certain market participants do not use their position to create economically burdensome pricing structures that negatively impact the industry are welcomed.

However, in its July 2016 response, the IIAC raised concerns and sought clarification on certain elements of the Proposed Amendments. Acknowledging the CSA's concerns regarding limiting the scope of the trading fee cap to non-inter-listed securities, the IIAC called on the CSA to continue to gather information and monitor trade flows as the U.S. launches a pilot program relating to its fee caps. In addition, the IIAC sought clarification on how the Proposed Amendments would apply to certain dark orders and recommended that the fee cap not apply to the passive side for trades on inverted markets.

The CSA responded in its final version published January 26, 2017 by reducing the active trading fee on non-inter-listed securities to $0.0017, and clarifying that the fee cap does not apply to passive trades on inverted markets.

For more information, contact Susan Copland (scopland@iiac.ca).

MIFID II PROVISIONS RELATING TO RESEARCH

MiFID II comes into effect in January 3, 2018. One of the many provisions in the regulation is a requirement that investment research be unbundled from transaction commissions. This will have material implications for firms doing business in EU jurisdictions.

The unbundled pricing models will affect the equity as well as the fixed income space, transforming the way in which investment research is delivered, priced and justified as an expense to clients and regulators. It is expected that unbundling will increase the cost of research. This may cause, or allow managers to look beyond traditional research sources, resulting in fragmentation of the research industry. Alternatively, it may push some firms to move research in-house.

The unbundling is also expected to affect the commission structure of all asset classes. In the fixed income space, the Financial Conduct Authority (FCA) says it expects tighter bid offer spreads in credit markets, as income research costs are typically embedded in the spread.

The rules also increase the regulatory scrutiny of research quality, and how it contributes to better investment decisions. Where clients pay for research, there are strict requirements including the use of dedicated research payment accounts funded by research charges to the firm's clients.

For more information, please contact Susan Copland (scopland@iiac.ca).

An IIAC working group is discussing the regulation, and sharing ideas and practices on how they may implement changes to their systems to accommodate the regulation.

OSC PROPOSALS ON FOREIGN DISTRIBUTIONS

In June 2016, the OSC published for comment a proposed rule that would provide issuers with more certainty when they sell securities to investors outside Canada. In its October 2016 response, the IIAC expressed support for the OSC's efforts to provide clarity regarding the extent of the application of the prospectus and registration requirements in certain cross-border transactions, noting it will promote efficiency and cost savings by introducing certainty and predictability in cross-border financings. It is important that provinces act in a unified manner. The existing and ongoing divergence in securities regulation across jurisdictions creates costly inefficiencies in the Canadian capital markets, increasing costs for issuers and investors, and reducing our competitiveness in the global market.

In June 2017, the CSA published a revised version of the Proposals, reducing the circumstances where a prospectus will be required. The IIAC formed a working group and commented on the Proposals on September 27, 2017.

For more information, contact Susan Copland (scopland@iiac.ca).

The IIAC will monitor the CSA response.

CSA REVIEW OF THE PROXY VOTING INFRASTRUCTURE

Shareholder voting is essential to the quality and integrity of Canada's public capital markets as it enables shareholders of companies to have their say on corporate governance matters. In Canada, shareholders typically vote by proxy, as opposed to in-person at shareholder meetings. Concerns have been raised with respect to the quality of the shareholder voting process and the integrity of the results. In response, the CSA undertook a multifaceted review of proxy voting with the aim of improving the fragmented and complex proxy voting infrastructure. The IIAC participated in the development of guidance on the roles and responsibilities of key participants in the proxy voting process that describes the existing operational processes for tabulating proxy votes for shares held through intermediary dealers. This guidance formed the basis of the CSA's Proposed Proxy Voting Protocols.

In July 2016, the IIAC commented on the Proposed Proxy Voting Protocols, noting they will increase the transparency and accountability of the proxy voting process to the benefit of issuers and investors. The IIAC cautioned, however, that to the extent the Proposed Proxy Voting Protocols refer to any new proxy voting processes that have not been developed, a careful review must be undertaken assess costs and benefits.

The IIAC met with the CSA and other stakeholders in October 2017 to discuss data that intermediaries and transfer agents voluntarily collected. The data highlights issues related to U.S. intermediaries and provides evidence that instances of over votes from Canadian intermediaries is very low. CSA staff will receive ongoing input from a Technical committee made up of representatives from key service providers involved in the proxy voting process.

The IIAC is working with the CSA over the next two proxy seasons to monitor the implementation of the protocols and assess the need for any enhanced regulatory measures.

For more information, contact Adrian Walrath (awalrath@iiac.ca).

The IIAC will meet with the CSA and other stakeholders again in January 2018 to assess preparedness for the upcoming proxy season.

AMENDMENTS TO UMIR

IIROC proposed amendments to its trading rules (UMIR) to include a new definition of Acceptable Foreign Trade Reporting Facilities (FTRF) and allow large trades to be reported initially only to certain FINRA-operated trade reporting facilities. The IIAC requested clarification concerning how the proposed amendments would operate in practice, though it supports the intent of the proposal to mitigate the challenges posed by previously issued guidance on the definition of a Foreign Organized Regulated Marketplace (FORM) which would have required changing long-standing institutional trading practices and affected access to liquidity for large orders.

The IIAC wrote to IIROC and the OSC in June 2016. The IIAC remains concerned that retail trading challenges that emerged with the FORM guidance remain unaddressed and that its application to prohibit access to FTRFs for all retail order flow will weaken retail trading market efficiency.

The IIAC recommended that the results of a review in respect to retail order flow to the U.S. inform any consideration of trading restrictions so to avoid unintended negative consequences for retail investors.

For more information, contact Susan Copland (scopland@iiac.ca).

Developments will continue to be monitored.

IIROC'S PROPOSED OEO GUIDANCE

Order Execution Only (OEO) firms execute trades based solely on client instructions, and do not provide any investment advice or recommendations. In response to technological evolution, competitive pressures and client demand, OEO firms make available tools and educational resources that investors may find helpful in informing their self-directed investment decisions. Clients benefit from access to accurate information from reputable sources, and Canada's investment industry and markets benefit from well-informed investors.

On November 3, 2016 IIROC issued guidance setting out expectations and requirements for OEO firms. The IIAC raised several concerns in its response to IIROC-issued guidance. The guidance has implications for the entire OEO business model and, therefore, the industry. If implemented, the guidance would, among other things, limit the range of tools available to clients through OEO firms. This would force clients to make self-directed investment decisions without the benefit of access to information that might assist in making well-informed decisions. Even worse, it may cause clients to look to unreliable sources for information. This could result in negative outcomes for clients, and runs counter to IIROC's mission to protect investors and support healthy Canadian capital markets.

On August 8, 2017, IIROC provided an update to IIAC members. IIROC is still reviewing and analyzing comments received by the industry.

For more information, please contact Annie Sinigagliese (asinigagliese@iiac.ca).

Developments will continue to be monitored.

ILLEGAL BINARY OPTIONS TRADING

In response to a request for comment from Quebec's Autorité des Marchés Financiers on the issue of binary options trading, the IIAC called on the AMF to put an end to illegal binary options trading to protect retail investors and shield Canada's investment industry from unfair reputational damage.

Currently, there are no individuals or companies in Canada that are registered to conduct binary options trades for retail investors. Despite public warnings issued by regulators across Canada, some retail investors are lured into trading these derivative products through illegal electronic platforms, mistaking them for regulated Canadian brokers. These investors often fall victim to unfair, abusive and fraudulent practices.

To end illegal binary trading activity, regulators across Canada must consider the possibility of allowing IIROC-regulated firms to offer binary options to investors. Dealing with an IIROC-regulated firm will ensure retail investors who wish to trade binary options properly understand the product and the significant risks involved. It will also eliminate the risk of fraud.

For more information, please contact Annie Sinigagliese (asinigagliese@iiac.ca).

On September 28, 2017, the CSA announced it is banning binary options trading by the implementation of Multilateral Instrument 91-102.

NEW ISSUES NOT AVAILABLE IN QUEBEC

Section 40.1 of the *Quebec Securities Act* mandates the translation of all prospectuses filed in Quebec as well as all documents incorporated by reference. Because of this obligation, half of new "national issues" are not filed in Quebec. As a result, investors in Quebec are largely excluded from the primary market. To address this problem, the IIAC has recommended the adoption of the "European approach" of translating only a summary of the prospectus.

This issue will be pursued as part of a broader project of addressing the structural issues that have contributed to a collapse of the IPO market in Quebec.

For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC will be collaborating with other private sector participants and government entities on this agenda.

GOVERNMENT & TAX ISSUES

FINANCIAL PLANNING IN ONTARIO/ BRITISH COLUMBIA

On June 10, 2016, the IIAC submitted a comment letter to the Ontario Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives. The IIAC outlined its support for additional clarity and standardization for the provision and supervision of financial planning in the industry, as it is important for consumers that financial planners satisfy minimum proficiency levels regardless of the regulatory channel within which they work. The IIAC also welcomed the recommendation that firms and individuals providing financial planning through other existing regulatory frameworks be allowed to have their activities regulated by their existing regulator to avoid regulatory duplication. However, the IIAC has concerns with a number of recommendations, including those related to implementing a statutory best interest duty and prohibitions on referral arrangements.

The IIAC has stressed the need for the harmonization of financial planning standards not only in Ontario, but across Canada to ensure maximum effectiveness and efficiency. The BC Government is examining the issue of financial planning, and the IIAC met with government representatives to discuss its position, as outlined above.

The Expert Committee has now released its final report supporting a number of recommendations made by the IIAC including: 1) that those that hold themselves out as financial planners or provide financial advice be regulated by their existing regulator; and 2) that financial advisors whose activities occur outside the current regulatory framework for securities, insurance and mortgage brokering, be regulated by the FSCO/FSRA. The IIAC was also pleased to see that the Expert Committee supported the IIAC's recommendation to develop a harmonized regulatory framework and create harmonized proficiency standards and titles for those who wish to hold themselves out as financial planners

For more information, contact Michelle Alexander (malexander@iiac.ca).

With the release of the Expert Committee's final recommendations in March 2017, the IIAC now awaits the next steps from the Ontario Ministry of Finance and the BC Government regarding financial planning initiatives in both provinces.

ANTI-MONEY LAUNDERING REGULATIONS

In August 2015, the IIAC provided comments to Finance Canada regarding its proposed amendments to the Proceeds of Crime and Terrorist Financing Regulations. The IIAC was pleased that the Regulations were amended to provide broader and more flexible sources that firms can use to verify the identity of clients, allowing such methods as a credit card statement or utility bill, thereby reducing the administrative burden on firms.

In June 2016, the IIAC became an active member of the federal government's new Advisory Committee on Money Laundering and Terrorist Financing. Through the Committee, the IIAC continues to encourage Finance Canada to implement amendments that have been discussed in the past, most notably regarding the removal of the $75 million asset requirement for public corporations and an exemption from the authorized signing officer verification of foreign bodies.

In March 2017, the IIAC's Anti-Money Laundering Committee participated in FINTRAC's regulatory consultation with the securities sector. The meeting served as the final consultation on guidance regarding the Regulations Amending the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations and the regulatory amendments coming into force on June 17, 2017. Questions raised by IIAC members relating to new methods of identifying clients, including the use of technology, new risk assessment considerations and identification of beneficial owners were shared as part of the discussion.

In April 2017, the IIAC submitted comments to Finance Canada in advance of the upcoming five-year review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, as well as Canada's Anti-Money Laundering and Anti-Terrorist Financing regime. The IIAC recommended improvements to Canada's AML and ATF regime through better disclosure and transparency with the investment industry in order to obtain more accurate beneficial ownership information and improvements to the client identification method. This would reduce the administrative burden on member firms without sacrificing risk mitigation efforts. In addition, the IIAC continues to advocate for exemptions from ascertaining the identify of authorized signers of foreign-regulated entities. This would allow IIAC member firms to compete on a level playing field with foreign dealers.

For more information, contact Michelle Alexander (malexander@iiac.ca).

The IIAC awaits proposed guidance being developed by FINTRAC.

The IIAC will continue to participate on Finance Canada's Advisory Committee and accompanying Working Groups, as well as in future consultations related to additional reg-ulatory amendments.

IIROC'S PROPOSED EXPANDED DEBT TRANSPARENCY SERVICE AND NEW DEBT INFORMATION PROCESSOR FEE MODEL

In December 2016, IIROC signalled its intent to launch an expanded debt transparency service that will make its dealers' corporate bond trade data available to customers, for a fee, via bulk download. In its January 2017 response, the IIAC raised several concerns regarding this initiative, given its limited public benefit and unnecessary cost burden for dealers coping with difficult business conditions. The IIAC questions whether such a service is needed as more timely and comprehensive alternatives are already available through the private sector. The IIAC also requested that IIROC undertake a broad industry consultation before proceeding with any plans to launch and expanded debt transparency service.

IIROC proposes that its dealer members fully cover the costs of operating the SRO's debt transparency service. The IIAC objected on the grounds that the users and beneficiaries of the service extend well beyond the dealer community. Furthermore, the proposal ignores the material costs already incurred by IIAC members to establish the systems and processes for submitting to IIROC the debt transactions that underpin the transparency service.

On March 31st 2017, IIROC announced its approval of the proposed fee model. IIROC also announced it would not proceed with its expanded debt IP service until it has consulted broadly with dealers and other stakeholders.

For more information, contact Jack Rando (jrando@iiac.ca).

The IIAC will monitor action taken by IIROC and will respond accordingly.

TAX REPORTING ON LINKED NOTES

The 2016 Federal Budget introduced new tax measures on Linked Notes as well as new tax reporting obligations for investment dealers transacting in these instruments. Finance Canada proposed implementing the new measures effective October 2016; however, the IIAC, in collaboration with other industry associations, successfully convinced Finance to delay implementation of the regulations until 2017 to allow additional time for firms and service providers to develop the necessary systems and procedures to fulfill their tax reporting obligations on Linked Notes for the 2017 tax year.

In its draft 2017 T5 Guide shared with industry this September, the Canada Revenue Agency (CRA) revealed its intent to introduce a new box on the T5 slip (Box 30) to capture deemed interest from the assignment or transfer of Equity Linked Notes (pursuant to subsection 20(14.2) of the Act). This new requirement would entail substantial systems development on the part of industry not previously contemplated and not likely to be completed in time for the 2017 tax reporting season.

On October 2, 2017, the IIAC wrote to the CRA requesting administrative relief for the industry pertaining to some of the required tax reporting–specifically, that Equity Linked Notes interest be reported on Box 13 of the T5 slip, similar to interest reported from other Canadian sources. On October 17, 2017, the IIAC received confirmation that CRA is granting our request for the 2017 taxation year only.

For more information, contact Jack Rando (jrando@iiac.ca).

The IIAC has formed and industry working group comprised of members and various industry service providers to examine implementation issues related to the new tax measures.

'ADVANTAGE' RULES FOR INVESTMENT MANAGEMENT FEES ON REGISTERED PLANS

CRA considers the increase in value of property held in a registered plan that indirectly results from investment management fees being paid outside of the plan to constitute an "advantage" as set out in the *Income Tax Act*. At the November 2016 Canadian Tax Foundation Conference, CRA representatives indicated that registered plan holders should pay investment management fees charged to those plans out of the plan's assets to avoid adverse tax consequences.

Under the "advantage rules", CRA may charge a 100 per cent penalty tax on fees paid by an investor that are deemed to be an advantage. CRA will allow a transitional period for the industry to adapt and will not assess tax in respect of such fees paid outside a registered plan before January 2018 (provided that such payments do not relate to services to be provided after 2017).

On September 15, 2017, the CRA informed the IIAC that it will defer implementation of the Advantage Rules until January 2019.

For more information, contact Jack Rando (jrando@iiac.ca).

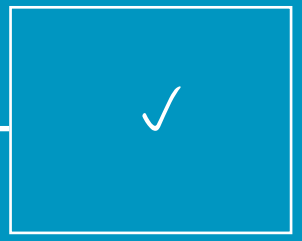
The IIAC is participating in industry discussions with the CRA to determine which fee arrangements will be affected by this policy. CRA has committed to release a folio with more details in late 2017 or early 2018.

TFSA DEBIT–BALANCES

The IIAC had brought to CRA's attention concerns about how certain "administrative/procedural" overdrafts in Tax Free Savings Accounts (TFSAs) (such as through settlement mismatches or automated fee charges where there is insufficient cash in the account to cover the fee) were being viewed by the CRA as a "borrowing" by the annuitant, putting the TFSA offside with the terms of its use and exposing the account holder to potential penalties. The IIAC indicated that these unintended and incidental short-term overdrafts are not meant to enhance TFSA values through the use of leverage, and requested that the CRA consider appropriate administrative relief in these cases to avoid adverse tax consequences to the annuitant.

In response to the IIAC's arguments, the CRA granted administrative relief to avoid adverse tax consequences and the de-registration of TFSA accounts. Although the IIAC's concerns were in the context of TFSAs, the Income Tax Act imposes borrowing restrictions on RRSPs, RRIFs, RDSPs and RESPs similar to those imposed on TFSAs. The CRA administrative position applies to all five registered plans.

For more information, contact Jack Rando (jrando@iiac.ca).



HIGH-VALUE TFSAS AND SMALL BORROWINGS

The IIAC continues to work on a high-value TFSA matter that leaves dealers exposed to considerable risk of loss. In a February 2015 letter to Finance Canada, the IIAC requested an amendment to the *Income Tax Act* that ensures TFSA trustees (including IIAC member firms) not be held liable for any shortfall in taxes should funds within a TFSA be insufficient to cover off any liability stemming from the account being found to have carried on as a business.

The IIAC has drafted proposed amendments to the federal legislation that would address the industry's concerns, and has provided the draft to the Department of Finance for its consideration.

For more information, contact Jack Rando (jrando@iiac.ca).

The IIAC continues to monitor developments.

U.S. TAX REPORTING AND WITHHOLDING – FATCA

In June 2014, the Canadian government passed legislation (Part XVIII of the Income Tax Act) and published detailed guidance to implement the intergovernmental agreement (IGA) with the United States to facilitate the provisions of the Foreign Account Tax Compliance Act (FATCA) in Canada. All Reporting Canadian financial institutions (which will include all IIROC-registered investment dealers) should have registered and obtained a Global Intermediary Identification Number (GIIN) by December 31, 2014. The first FATCA/Part XVIII reporting to the CRA occurred on May 1, 2015. Due diligence on all pre-existing accounts to identify U.S. reportable persons should have been completed by all Reporting Canadian FIs by June 30, 2016. In December 2016, the CRA released significant revisions to the Part XVIII guidance in response to industry dialogue, and to better align with the OECD Common Reporting Standard (CRS) requirements. The IIAC U.S. Tax Committee reviewed these revisions and provided additional comments to the CRA in January 2017.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC will monitor CRA's response to comments submitted and will reply accordingly.

U.S. TAX WITHHOLDING – QI RELATED ISSUES

On December 30, 2016, the IRS released Revenue Procedure 2017-15, which contains the final version of the revised Qualified Intermediary (QI) Agreement. The Agreement and its preamble contain a number of provisions addressing the concerns raised by the IIAC in its written submissions to the IRS throughout 2016. These provisions will:

- Grant Qualified Derivatives Dealers (QDDs) additional time to implement and comply with new section 871(m) computations.
- Reduce confusion by providing important clarification for QIs and QDDs regarding certain section 871(m) transactions.
- Reduce the risk of over-taxation on QIs, QDDs and their clients.
- Specific information on the changes made by the IRS and their benefits to IIAC member firms is available here.

The revised Agreement contains a number of other important clarifications and changes. The IRS has activated the new Qualified Intermediary Application and Account Management System, through which QIs can renew their existing QI Agreements and apply for QDD status. QIs must renew their agreements (and if applicable, apply for QDD status) using this system. The IIAC had requested additional time for firms to renew, which the IRS granted, by extending the deadline from March 31, 2017 to May 31, 2017.

On October 12, 2017, the IIAC submitted a letter requesting for an extension of the expiry date for existing client's treaty statements. The additional time would increase response rates and align treaty renewals with W-8BEN-E renewals.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC U.S. Tax Committee will continue to monitor policy developments.

U.S. TAX WITHHOLDING – SECTION 302 / 304 DTC WITHHOLDING

In 2008, the IRS proposed regulatory changes to the Internal Revenue Code section 302 rules, which recommended amended procedures for certain distributions on redemptions of U.S. stock held by non-U.S. resident shareholders which may be subject to U.S. withholding tax. The procedures would have involved the U.S. payor (and not the QI) placing 30 per cent of the proceeds into escrow, pending receipt of a certification from the account holder (within 60 days), as pro-ceeds from sale or as dividends. Despite the fact that the regulations were never finalized by the IRS, the Depository Trust Company (DTC) notified all of its Canadian QI participants that these procedures would be implemented by DTC beginning January 1, 2016. The IIAC made a written submission to the IRS in December 2016, asking it to consider alternative arrangements that would be less disruptive and costly for Canadian QIs and their clients. The IIAC also worked with members to develop Sections 302 and 304 Certification forms and FAQs for advisors, and continues to compile an industry list of Sections 302 and 304 transactions.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC will follow up with the IRS on its written submission.

The IIAC Section 302 Working Group is providing a forum for members to discuss upcoming section 302 and 304 transactions.

U.S. TAX WITHHOLDING – SECTION 871(M)

Internal Revenue Code section 871(m) treats dividend equivalent payments on certain financial products that reference underlying U.S. securities—such as options, swaps, futures and others—as U.S.-source dividends for U.S. withholding tax purposes. Starting January 1, 2017, Canadian financial institutions that are Qualified Derivatives Dealers, including some IIAC member firms, are required to withhold tax on certain dividend equivalent payments received by clients holding the affected products.

In December 2015, and again in June 2016, the IIAC provided comments to the IRS, raising significant concerns about delayed regulation, and a lack of guidance with respect to the newly proposed "Qualified Derivatives Dealer" program, the applicability of the regulations to exchange-traded options, and the requirements for combining transactions. Given the lack of guidance, the IIAC recommended in a number of letters to Treasury and the IRS that the general implementation deadline for section 871(m) be delayed to January 1, 2018. Otherwise, there could be significant negative implications for global capital markets, as financial institutions choose not to enter into transactions with unknown tax consequences. In December 2016, the IRS agreed to delay implementation for all non-delta-one contracts until January 1, 2018, and confirmed that implementation during the 2017 and 2018 calendar years would be on a "good faith efforts" basis. On August 4, 2017, the IRS agreed to further delay implementation of non-delta-one contracts until January 1, 2019.

On January 19, 2017 the IRS issued final and temporary regulations containing additional guidance for the implementation of section 871(m). On September 22, 2017, the IIAC submitted additional comments to the IRS and Department of Treasury outlining remaining concerns that members have with the proposed regulations.

The amendments contain a number of technical clarifications, including the adoption of the IIAC's recommendation to determine the "delta" of an option listed on a regulated exchange at the close of business on the business day before the date of issuance. This confirmation by the IRS will facilitate the application of the delta test with respect to these contracts, which would have been extremely difficult for dealers, if not impossible, under the previous version of the regulations.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC will continue to advocate for amendments to section 871(m) to reduce the compliance burden and the potential for double taxation.

U.S. TAX WITHHOLDING – SECTION 305(C)

In 2015, the IRS announced its intentions to audit and enforce the requirements of Internal Revenue Code section 305(c), which deems a holder of rights or convertible securities in a corporation (such as warrants, rights or convertible debt) to have received a taxable distribution upon the occurrence of a conversion rate adjustment (CRA) that increases the number of shares that the holder would receive upon a conversion or exercise of the instrument.

In April 2016, the IRS published draft regulations for industry review and comment which provide additional clarity around (i) who is deemed to be a withholding agent with respect to section 305(c) distributions; (ii) when such deemed distributions and obligations to withhold arise; and (iii) the method of calculating the amount of the deemed distribution.

The IIAC provided a written submission to the IRS in July 2016, pointing out that identifying these transactions and building systems to withhold and report would be a significant undertaking for the entire industry, and would require adequate time for implementation. The IIAC also recommended that the IRS consider placing more responsibility on issuers to post the information that withholding agents and QIs require to carry out withholding and reporting on a publicly available repository (which could potentially be facilitated by the IRS, or using an existing system, such as EDGAR). Without this change, withholding agents and QIs would be required to continuously search for information manually, or engage an outside service provider, at considerable expense.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC awaits further regulatory guidance from the IRS in 2017.

OECD COMMON REPORTING STANDARD (CRS)

In the summer of 2014, the OECD published a final version of the framework for a Common Reporting Standard (CRS), which would require multilateral information sharing of non-resident tax information (similar to FATCA) among all countries that adopt the CRS and implement local legislation to implement the Standard. Canada has committed to implementing the CRS as of July 1, 2017 and will begin sharing information with other jurisdictions in 2018.

In December 2016, the Canadian government passed the implementing legislation (now "Part XIX" of the Income Tax Act), and the Canada Revenue Agency (CRA) published comprehensive guidance for FIs, along with certification forms and general information for individual and entity clients. Most notably, IIAC efforts to have TFSAs excluded from the scope of CRS due diligence and reporting were successful, as they are now listed as "excluded accounts" in the tabled version of the Canadian legislation.

For more information, contact Adrian Walrath (awalrath@iica.ca).

The IIAC OECD CRS Working Group will monitor implementation issues and provide additional feedback and recommendations to the CRA as necessary.

REVENU QUÉBEC – WITHHOLDING TAX

Taxes are withheld by financial institutions when clients withdraw funds from their registered accounts. For withdrawals made between December 22 and December 31, Revenu Québec (RQ) requires firms to remit payment of taxes withheld by the third business day of January. The Canada Revenue Agency (CRA), meanwhile, requires this remittance by January 15. Firms that miss either of these deadlines are assessed heavy penalties and face interest charges. Logistical barriers make it difficult for firms to ensure all withholding taxes are paid to RQ by its due date.

On January 31, 2017, the IIAC and IFIC wrote to the Ministère des Finances du Québec to request that RQ's deadline be extended to January 15 to align with the CRA deadline, and to lessen the risk of late remittances.

For more information, please contact Annie Sinigagliese (asinigagliese@iiac.ca).

The IIAC will continue to monitor developments.

OPERATIONAL ASSISTANCE

BEST PRACTICES, TOOLS AND TEMPLATES

The IIAC offers a variety of materials to help member firms operate efficiently and effectively in an ever-changing regulatory environment. We also develop best practices on new or complex processes and provide templates and samples that leverage our members' collective expertise. Access is reserved for IIAC members.

INDUSTRY DATA

Our Member firms have access to a cross-section of industry data.

IIAC'S MEMBER OFFERS

Our Partners look forward to assisting you and your employees to drive your business success and improve your bottom line through various benefit programs offered at preferred rates. For more information, contact Jack Rando (jrando@iiac.ca).

INFORMATION PERTAINING TO SMALL AND INDEPENDENT DEALERS (SAID)

In our "Small Dealers" tab of our website, there are areas accessible only to Member firms where you will find publications, tools and committee meeting minutes specific to SAIDs. For more information, contact Susan Copland (scopland@iiac.ca).

CYBERSECURITY MICROSITE

The IIAC's website has a section that provides information, tools and updates on cybersecurity. Access is reserved for IIAC members. For more information, contact Susan Copland (scopland@iiac.ca).

CLIENT RELATIONSHIP MODEL (CRM) MEMBER SUPPORT

A wealth of information at your fingertips. Access is reserved for IIAC members.
For more information, contact Adrian Walrath (awalrath@iiac.ca).

IIAC TECHNOLOGY AND OPERATIONAL RISK COMMITTEES

As firms look to leverage technology to improve operating efficiencies, reduce costs, facilitate compliance and mitigate risk, the importance of understanding emerging technology trends and how they might benefit Member firms has heightened greatly. Given technology's broad application, so too has the need for industry collaboration. To facilitate better understanding and collaboration, the IIAC established in early 2016 two Technology and Operational Risk Committees (one focused on Market Data, the other on Equity Infrastructure) to assist Member firms. The Committees and related working groups provide a forum for Member firms to discuss emerging trends and innovations. They provide an important industry voice on technology matters in discussions with regulators, exchanges, vendors and other market participants, as well as input and assistance to other IIAC Committees. Opportunities for technical collaboration between IIAC Member firms are also explored. For more information, contact Annie Sinigagliese (asinigagliese@iiac.ca).

FINTECH WORKING GROUP

The mandate of the Working Group is to understand the nature of the FinTech space—including the business, developers, clients, products and existing and proposed regulation—and how it will impact member firms and other market participants (i.e. risks and opportunities). Some of the questions the Working Group will address include: Who are the new Fintech players IIAC member firms are competing against? How are these competitors interacting with their clients, and how will this change members' relationship with the clients? How can we ensure a level-playing field between member firms and FinTech companies? How will investors benefit from FinTech? What financial Apps are being created? How can our member firms benefit from FinTech? What are the barriers to entry, expansion, or adoption for IIAC member firms? What are the regulatory/compliance issues a firm will encounter in becoming more "tech"? What is the current regulatory framework for financial services? What role should regulators play (sandboxes, provincial committees, scope of involvement with the industry)? What does the future hold? For more information, contact Susan Copland (scopland@iiac.ca) or Annie Sinigagliese (asinigagliese@iiac.ca).

CYBERSECURITY VENDOR DUE DILIGENCE CHECKLIST

The recent IIROC Cybersecurity survey identified lack of due diligence when working with third parties as an area that small dealers must address as part of their cybersecurity efforts. The IIAC formed a working group comprised of IIAC member firms, industry vendors and IIROC representatives and developed guidance and a checklist to assist dealers in evaluating potential and existing vendors' cybersecurity to ensure they understand the risks and measures that must be taken to protect their own systems when working with third parties. For more information, contact Susan Copland (scopland@iiac.ca).

SMALL DEALER SALARY SURVEY

As a follow-up to a similar survey conducted in 2012, the IIAC surveyed small and mid-sized dealers in early 2017 to assess the current range of salaries paid for non-advisory roles within the sector. The results of the survey were provided to dealers that participated in the survey to ensure they have the latest competitive intelligence. For more information, contact Susan Copland (scopland@iiac.ca).

TEMPLATE FOR PORTFOLIO MANAGERS - DEALER SERVICE ARRANGEMENT

The IIAC is in the process of developing a template agreement to be used by executing dealers and portfolio managers incorporating the guidance in CSA Staff Notice 31-347 *Guidance for Portfolio Managers for Service Arrangements with IIROC Dealer Members.*

PUBLICATIONS

IIAC NEWSLETTER

On Monday mornings, the IIAC distributes an e-newsletter to subscribers, including industry participants, regulators, media and government officials. The newsletter contains the latest IIAC news and advocacy initiatives, as well as information on upcoming events and the previous week's media commentary. Register for free here.

IIAC LETTER FROM THE PRESIDENT

The IIAC *Letter from the President* is distributed monthly to CEOs, senior industry executives, regulators and financial media. The Letter is a distillation of topical financial and regulatory issues impacting the performance and well-being of the Canadian investment industry and domestic capital markets. Previous volumes of the *Letter* are available here.

SECURITIES INDUSTRY SAVINGS-TO-INVESTMENT PROSPERITY CYCLE

Provides a snapshot of the securities industry, and highlights graphically how the industry connects savers and investors to help generate economic activity and jobs. It is an excellent tool for members to use in their social media and advocacy efforts.

FIXED INCOME MARKET REGULATORY UPDATE

This monthly publication sets out new developments in the regulation of fixed income markets in Canada, as well as highlights of major developments in the U.S., Europe and Asia. Past editions are available here.

NORTH AMERICA CYBERSECURITY BRIEF

The Financial Services Information Sharing and Analysis Center (FS-ISAC), the Investment Industry Association of Canada (IIAC), and the Securities Industry Financial Markets Association (SIFMA) are working together to provide member firms a monthly newsletter that highlights cybersecurity topics and emerging threats to the securities industry within North America. The information provided in the monthly newsletter is intended to increase the cybersecurity awareness of end users and help them behave in a more secure manner. Past editions of the newsletter are available here.

RETAIL PUBLICATIONS

IIAC has several retail publications of interest to our members. They are available here.

THE 'SECURITY' IN THE SECURITIES INDUSTRY BROCHURE

This brochure summarizes some of the major regulatory and structural elements unique to the Canadian securities industry that safeguard investors. It touches on the roles of IIROC, CIPF, securities commissions and the clearing agencies.

EQUITY CAPITAL MARKETS NEW ISSUE PRACTICES HANDBOOK (FORMERLY SYNDICATE PRACTICES HANDBOOK)

The Handbook helps firms improve the efficiency of the underwriting process, especially in the execution of bought deals. It also provides member firms with a better understanding of their responsibilities in underwriting and selling newly issued securities to the public by providing a base-line reference point for syndicate managers to indicate possible differences from the normal practice.

DEBT MARKETS SYNDICATION BEST PRACTICES HANDBOOK

The Debt Markets Syndication Best Practices handbook illustrates industry "best practices" in the syndication of corporate and provincial debt offerings. The document was prepared by a working group of industry professionals under the auspices of the IIAC.

PROTECTING SENIOR INVESTORS REPORT

In 2014, the IIAC released a guidance report, *Canada's Investment Industry: Protecting Senior Investors*, to share best practices investment dealer firms and advisors are using when working with senior clients. The report underscores how seriously the industry takes its responsibility to ensure senior investors are being served in an ethical, respectful and informed manner. It also calls attention to the important role firms and advisors play in protecting this client base.

PROFILE-BUILDING INITIATIVES

IIAC INVESTMENT INDUSTRY HALL OF FAME

The *IIAC Investment Industry Hall of Fame* honours excellence, integrity and leadership in Canada's investment industry. More information is available here.

IIAC TOP UNDER 40 AWARD

The *IIAC Top Under 40 Award* recognizes the new generation of talented young professionals whose drive, dedication, qualities and accomplishments have brought distinction to the investment industry. More information is available here.

IIAC MEDIA COVERAGE

Read more in The IIAC in the News.

IIAC SOCIAL MEDIA

Connect with us on LinkedIn, Twitter, Facebook, Google+, YouTube and Flickr, and check out the IIAC Blog.

SECURITIES INDUSTRY INFOGRAPHIC

The infographic conveys the important contribution the industry makes to capital markets, the economy and communities across Canada. The infographic has proven useful and compelling in summarizing the characteristics of our industry to clients and others, creating content for news releases or marketing opportunities, and in distributing visual content on social media.

UPCOMING IIAC EVENTS AND PRESENTATIONS

For a list of our upcoming events, click here.
For a list of upcoming presentations by IIAC staff, click here.