

## Highlights of Our 2015 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 2015 victories on your behalf.

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

### Client Relationship Model Phase 2 (CRM2)

**The issue:** The CRM2 rules framework requires registered firms to provide investors with enhanced client statements effective July 15, 2015, and annual disclosure on fees and investment performance effective July 15, 2016. Member firms must implement technology solutions, develop operations processes, and educate and train advisors to meet these requirements – all in all, a costly and complex initiative within a challenging time-frame.

**What we got for you:** The IIAC argued for delayed implementation of CRM2 requirements, aligned to calendar year-end to provide clients with clear and consistent information. Our efforts paid off. The Canadian Securities Administrators (CSA) permitted the industry to implement the CRM2 requirements by end-2015, rather than the previous deadline of July 15, 2015. Further, firms providing performance reports for calendar 2016 are not be required to include comparative data from 2015.

**How does this benefit me?** As a result of the IIAC's efforts, Member firms gained time to prepare enhanced client statements, allowing for a more efficient and effective transition. Further, basing the 2016 investment performance reports on 2016 information only will free up resources for your firm to accomplish other objectives.



### Disciplinary Sanctions

**The issue:** IIROC stated that firm-imposed disciplinary action against an employee (i.e. a fine or suspension) *may* not be considered a key factor in determining sanctions from IIROC disciplinary proceedings. The IIAC argued, to the contrary, that internal disciplinary action *should be* a key factor in determining regulatory sanctions.

**What we got for you:** IIROC agreed with the IIAC, acknowledging that internal discipline *is* an important factor for the Hearing Panel to consider, and recognized the value and importance of internal discipline in fostering a culture of regulatory compliance.

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**How does this benefit me?** As a result of the IIAC's push, investment dealer Member firms can rest assured they will receive a credit for any fine or suspension imposed upon an employee as a result of internal disciplinary action, and the respondent will not be subject to disproportionate sanction.



## **Specified Foreign Property (SFP) Tax Reporting**

**The issue:** Canadian-resident taxpayers must file Form T1135 with the Canada Revenue Agency (CRA) if they hold SFP with a total cost of more C\$100,000 at any time during the year in an account with a Canadian registered securities dealer. The Form created significant compliance and administrative challenges for dealers asked to provide clients the details for each SFP necessary to complete the Form.

**What we got for you:** The IIAC convinced the CRA to simplify and streamline reporting by allowing taxpayers to report just the aggregate amount of all SFP on a country-by-country basis, not the details for each SFP. The IIAC also produced a worksheet showing the correct way to calculate aggregate fair market value of SFP by country. The IIAC's worksheet was approved by the CRA in early 2015.

**How does this benefit me?** The IIAC's leadership resulted in a reduction in the tax compliance and administrative burden for 2014 (and later taxation years). Canadian registered securities dealers have a new value-added tool, the IIAC's worksheet, to assist clients with foreign asset holdings, and do not have to develop their own spreadsheets or software to do so.



## **Binary Options**

**The issue:** Much of the "binary options" market operates through Internet-based trading platforms (many based overseas) not registered to conduct business in Canada. Many Canadians have been victims of fraud.

**What we got for you:** The IIAC voiced its concerns to the Canadian Securities Administrators (CSA) and demanded the CSA take action to provide greater clarity. Regulators listened. In March 2015, the CSA issued an *Investor Alert* warning investors to exercise caution when considering an investment in binary options. The CSA also published a black list of 37 unregistered trading platforms soliciting Canadians. It set up a website for Canadians to check the registration of any person or company offering binary options, and to contact their local securities regulator if they have invested with these or other offshore binary options trading platforms.

**How does this benefit me?** The IIAC's efforts recognize and support the registered trading platforms and the strong and honest reputation of the registered broker-dealers operating in Canada who are leaders in providing investors financial protection and transparency. The IIAC will continue to work with regulators to tighten their controls on those who subvert our marketplaces and enrich themselves at the expense of Canadian investors.



## **Committed Orders**

**The issue:** In 2011, The Bourse de Montréal published for comment proposed rule changes to facilitate electronic prearranged transactions and cross transactions for eligible options and futures contracts listed on the exchange. However, divergent views among participants on the impact of the proposed rule changes led to a stalemate.

**What we got for you:** The IIAC and its Derivatives Committee were successful in kick-starting the dialogue among participants and with regulators. Our efforts were rewarded. On May 7, 2015, the Rules and Policies Committee of Bourse de Montréal announced it is implementing the rule changes effective June 26, 2015.

**How does this benefit me?** Dealers are now able to execute prearranged transactions and cross transactions without execution risk. This will enhance liquidity in the Canadian derivatives market and should foster growth of the institutional options and futures market.



## Registered Retirement Investment Funds (RRIFs)

**The Issue:** Since 1992, Canadians with Registered Retirement Investment Funds (RRIFs) are required to withdraw a set minimum percentage from their account annually. Many Canadians face a significant risk of outliving their savings.

**What we got for you:** The IIAC argued the federal government eliminate the rules mandating minimum yearly drawdowns from RRIFs and similar accounts. The government announced in Budget 2015 lower RRIF minimum withdrawal requirements for individuals age 71 to 94 inclusive for the 2015 and subsequent taxation years.

**How does this benefit me?** Seniors now have more flexibility and longer income tax deferral. A 90-year old will have 50% more capital as a result of the changes, according to Finance Canada. With more capital to work with, clients can have a wide-ranging portfolio of retirement investments under the umbrella of a RRIF, and investment dealers a greater role in helping their clients manage their investment portfolios.



## Common Reporting Standard (CRS) for Automatic Exchange of Tax Information

**The Issue:** In July 2014, the OECD called on national governments to require their financial institutions provide detailed financial account information (including account balances, interest, dividends and sales proceeds from financial assets) and exchange that information with other jurisdictions annually to combat cross-border tax evasion and protect the integrity of the tax systems. More than 40 tax jurisdictions pledged to achieve automatic information exchanges in 2017. The IIAC stressed the Canadian industry needed sufficient time to prepare for the tax-reporting demands. It proposed the federal government begin collecting data in mid-2017 and start sharing it in 2018.

**What we got for you:** Budget 2015 announced the CRS will be implemented on July 1, 2017, allowing for the first exchange of information in 2018 – exactly what the IIAC had asked for.

**How does this benefit me?** Canada's financial services sector will have more time to get ready to provide detailed financial account information to comply with the CRS. More time is welcomed by the industry, particularly as it continues to adapt to the requirements of the U.S. *Foreign Account Tax Compliance Act* (FATCA).



## Rights Offering Regime

**The issue:** When companies need to raise capital, they can give the right to existing shareholders to purchase additional new shares at what is typically a discounted price. Existing shareholders are, thus, afforded the

opportunity to protect themselves from dilution. The issuer must file a prospectus, unless it can rely on a prospectus exemption. Given the time, costs and conditions associated with obtaining a prospectus exemption, rights offerings have been relatively uncommon in Canada.

**What we got for you:** The IIAC asked the Canadian Securities Administrators (CSA) to streamline the prospectus exemption for rights offerings. The CSA responded positively. A new rights offering regime came into force on December 8, 2015. Rights offering circulars are no longer reviewed and cleared by securities regulators, and the permitted size of prospectus-exempt rights offerings has increased significantly.

**How does this benefit me?** CSA adoption of the IIAC's proposals resulted in a more flexible and streamlined rights offering regime, making it more attractive for issuers to raise fresh capital from existing security holders. With no need for prior regulatory review of rights offering circulars, the process has been shortened by 40 days, on average.



### **Proficiency Assurance Model**

**The issue:** The Investment Industry Regulatory Organization of Canada (IIROC) screens dealer firm registered employees to ensure they are properly trained and have successfully completed all the required educational courses and programs. The IIAC advocated a multi-education provider model where IIROC approves and oversees course providers, unbundles course offerings, and develops and administers a standardized exam. The IIAC also recommended that IIROC adopt competency standards and benchmarks to determine successful completion of licensing courses, and that it review its mandatory continuing education requirements and fees to ensure value for money.

**What we got for you:** IIROC adopted many of the IIAC's recommendations. It agreed to set and publish standards outlining the knowledge and competencies a person should have, or learn, to successfully complete a given licensing course. IIROC also agreed to review the continuing education program and to limit annual price increases for courses taken by IIROC Member employees.

**How does this benefit me?** The IIAC's successful efforts to improve the quality of IIROC licensing courses and the delivery of education services will enhance the proficiency of individual registrants working for dealer Member firms, while providing the firms more value for money.



### **Anti-Money Laundering (AML) Regulations**

**The issue:** Financial services firms follow an extensive and onerous process to verify client identity to prevent suspicious transactions. They are also required to identify money laundering/terrorist financing risks and have in place risk mitigation measures, including ongoing monitoring of transactions, as well as due diligence processes when dealing with a politically exposed person (PEP) – an individual who is or has been entrusted with a prominent public function, or a relative or known associate of that person, who due to his/her position and influence is more susceptible to being involved in bribery or corruption.

**What we got for you:** The IIAC, as part of consultations launched by Finance Canada, requested changes to Canada's AML regulatory regime to minimize the compliance burden of Member firms. As a result of the IIAC's push, the regulations now provide: 1) broader and more flexible methods that firms can use to verify client identity, such as a credit card statement or utility bill; and 2) less onerous due diligence requirements for financial institutions when dealing with a PEP.

**How does this benefit me?** Changes to Canada's AML regime minimize the compliance burden for IIAC's dealer Member firms, resulting in a less time-consuming and costly processes.



## Marketplace Thresholds

**The issue:** In 2012 and 2014, the Investment Industry Regulatory Organization of Canada (IIROC) solicited comments on Marketplace Thresholds – specific price thresholds beyond which a marketplace must preclude trading activity). The IIAC argued for the same standards across all marketplaces, including dark marketplaces, to enhance efficiencies and ensure erroneous trades do not take place on one marketplace after being halted on another. IIROC also proposed that dealers tailor their individual order flow so as to avoid exceeding the marketplace threshold for a particular security. The IIAC argued that the responsibility for administering thresholds should fall solely on each marketplace, noting that dealer thresholds would be unnecessary and complex, would result in inconsistent practices among dealers, could prejudice certain investors whose orders may have to be held back, and would be costly as new and more elaborate technology would be required.

**What we got for you:** IIROC adopted the IIAC's proposal – there is now uniform application of price thresholds across all marketplaces, including dark marketplaces. Further, IIROC withdrew its proposal for dealer thresholds.

**How does this benefit me?** Market integrity is better served because there is a higher degree of predictability as to when Marketplace Thresholds will be triggered, helping to enhance investor confidence. Orders subject to a freeze on one marketplace will not continue to trade on another, resulting in fair and orderly markets. Member firms were saved the time and expense of having to create duplicative and complex systems required to anticipate possible trading patterns and halt trading, possibly to the detriment of clients.



## U.S. Internal Revenue Code Section 871(m)

**The issue:** In 2013, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) released proposed regulations about the application of U.S. federal withholding tax on payments to non-resident individuals or foreign corporations on certain equity-linked instruments (ELIs) and notional principal contracts (NPC). The rules are novel, broad and complex. They present significant challenges to Canadian financial services companies in terms of developing robust in-house capabilities to interpret the rules and confirm a payment is subject to U.S. withholding tax, and possibly build new systems and design new processes. Moreover, in 2015, the IRS proposed an "early" implementation date – January 1, 2016 – for the new rules.

**What we got for you:** The IIAC has been the dominant voice in the Canadian financial services industry on U.S. tax code section 871(m). The IIAC pinpointed the technical complexities of accurately identifying, reporting and for withholding for these derivative instruments. The IRS agreed to dispense with "early" implementation of the aforementioned rules in response to IIAC arguments that dealers' back-offices were not adequately structured to comply with the reporting and withholding requirements. The general effective date for all affected transactions will be January 1, 2017. The IIAC was also successful in getting the IRS to change the test for determining which payments will be subject to U.S. withholding.

**How does this benefit me?** As a result of the IIAC's efforts, our Member firms will have additional time to build the systems needed for withholding and reporting under U.S. Internal Revenue Code Section 871(m). Further, the change in the test for determining which payments will be subject to U.S. withholding will minimize potentially "over-including" payments that should not be subject to these provisions.



### **Tax-Free Savings Account (TFSA) Debit Balances**

**The issue:** The *Income Tax Act* (ITA) prohibits a TFSA trust from borrowing money or other property (i.e. there cannot be a lender/borrower relationship). If a TFSA goes into overdraft, and it can be established that there is a lender/borrower relationship, the Canada Revenue Agency (CRA) considers the TFSA trust to have borrowed money or other property and the account is de-registered. The *ITA* imposes similar borrowing restrictions on RRSPs, RRIFs, RDSPs and RESPs.

**What we got for you:** The IIAC stressed temporary technical factors can result in a TFSA negative account balance, including: portfolio rebalancing; if there are insufficient funds to cover fees; or a TFSA holder inadvertently writes a cheque for a TFSA contribution in which insufficient funds are available. In response to the IIAC's arguments, the CRA granted administrative relief in such cases to avoid adverse tax consequences and the de-registration of TFSA accounts.

**How does this benefit me?** As a result of the IIAC's efforts, TFSA holders and Member firms that serve these investors can rest assured that TFSA's will not be de-registered as a result of an infrequent and inadvertent overdraft that can quickly be reversed.



### **Position Cost Reporting for Futures Contract Accounts**

**The issue:** CRM2 rules require registered dealers and advisors to include position cost information [i.e. the total amount paid for a security, including any transaction fees (i.e. original cost) or the book cost] on client account statements. The objective is to enable investors to assess gains or losses on individual account investments. In a submission to IIROC, the IIAC argued that position cost reporting cannot be provided for future contracts. It noted there is no purchase price associated with a futures contract—an initial deposit (i.e. margin) is made into an account as collateral. The contract only gains or loses value as the futures trade price differs from the settlement price. The IIAC stated that investment dealer Member firms are already providing equivalent information to clients for futures contract positions under current IIROC rules.

**What we got for you:** The IIROC agreed with the IIAC that Member firms are already providing clients with futures contract trade price information, effectively meeting CRM2 position cost requirements.

**How does this help me?** As a result of the IIAC's efforts, dealer Member firms do not have to provide position cost information under the CRM2 rules for futures contract accounts, saving the industry time and money.



## Other Highlights

IIAC President and CEO Ian Russell shares “Some Thoughts on the Recent CSA Proposal for Corporate Bond Transparency” in his [December Letter from the President](#). December 9, 2015.

Ian Russell presents the IIAC’s priority recommendations for the Government of Canada in [Policy Options](#) – “Unlock private capital to kick-start the economy.” December 1, 2015.

Read Ian Russell’s [Letter from the President](#): “Blazing a Trail – IIAC Helps Member Firms Counter the Global Cyber Threat.” November 24, 2015.

[Watch](#) Ian Russell on BNN as he discusses the six elements of an effective cybersecurity plan for financial services firms. November 24, 2015.

[Read](#) IIAC President and CEO’s Ian Russell’s Guest Column on “CRM: Where Do We Go From Here?” in *Investment Executive*. November 2015 Edition.

[Watch](#) Ian Russell on BNN: What the election means for the Canadian economy. October 19, 2015.

Check out Ian Russell’s [Letter from the President](#) answering the question: “What’s Going on in Global Reform?” October 14, 2015.

Read Ian Russell’s address to the Derivatives World Congress: “[The Cross-Border Conundrum: Reducing Regulatory Impediments to Improve Global Market Efficiency](#).” October 7, 2015.

[Read](#) Ian Russell’s Letter to the Editor in *Investment Executive* titled “Fiduciary Standard Not Needed.” October 2015 Edition.

[Listen](#) to Ian Russell discuss bond market liquidity issues with Michael McKee and Kathleen Hays on Bloomberg Radio. September 30, 2015.

[Read](#) Ian Russell’s FP Comment special to the *Financial Post*, titled “Calm Coming Over the National Regulator.” August 19, 2015.

Read Ian Russell’s [Letter from the President](#) titled “Tackling Systemic Risks.” August 5, 2015.

Check out the IIAC’s Cybersecurity Resource Centre [here](#). June 4, 2015.

Read Ian Russell’s [Letter from the President](#): “Global Credit Markets at a Crossroads: Implications for Canada.” June 2015.

“Who gets audited when the CRA scrutinizes Tax-Free Savings Accounts?” [Watch](#) IIAC Ian Russell’s interview with Greg Bonnell on BNN. June 2, 2015.

Check out [Advisor.ca](#) on what ails the TSX Venture Exchange and Ian Russell’s recommendations to create a viable and sustainable Exchange. June 2, 2015.

Ian Russell speaks with BNN’s Catherine Murray about a potential voluntary expansion of the Canada Pension Plan. [Watch here](#). May 27, 2015.

Click [here](#) to watch Ian Russell’s analysis of Budget 2015 live from Parliament Hill. April 21, 2015.

[Watch](#) Ian Russell's interview with BNN's Greg Bonnell on *The Close* discussing the merits of boosting the TFSA contribution limit. March 11, 2015.

Read Ian Russell's *FP Comment* opinion piece in the Financial Post: "[TFSA Criticisms Miss Key Points: The Benefits of the Most Popular Savings Tool Ever.](#)" March 10, 2015.

Read Ian Russell's [speech](#) to the Prospectors & Developers Association of Canada 2015 Convention: "The Investment Industry's Role in Raising Capital for the Mining Industry." March 4, 2015.

Ian Russell led the Canadian delegation to the annual Asian Financial Forum in Hong Kong, January 19-20, 2015. Read his [Letter from the President](#), "Economic Growth: How to Renew it and Sustain it?" January 2015.

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