

Highlights of Our 2017 Achievements

CEO-to-CEO

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

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

Order Protection Rule – Proposed Trading Fee Caps

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

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

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



Order Protection Rule – Best Execution Procedures for Introducing Firms

The issue: Introducing brokers must demonstrate they have procedures to ensure best execution is achieved for their clients. They rely on their carrying brokers' (who perform certain trading-related functions on behalf of introducing brokers) actual procedures to conduct the trades in a manner consistent with best execution. The procedures include detailed descriptions of the factors that are considered and their relative importance when trading decisions are made. In addition to the written procedures, firms are expected to conduct internal testing and retain records of the internal testing to ensure that policies and procedures are being followed and are effective in achieving best execution. IIROC proposed rules requiring introducing brokers to do the same, despite the fact introducing brokers do not have the technology or expertise or access to carriers' systems to undertake this activity. The proposed requirements would necessitate introducers draft policies independent of their carriers, and hire experts to audit the carriers trading execution. Given that the carriers are already required to undertake these functions, this would result in an unnecessary duplication of efforts.

What we got for you: The IIAC wrote to IIROC stating there is no need for introducers to meet additional process requirements and duplicate carriers' best execution testing. IIROC agreed. Introducing firms will be able to reference their carriers' procedures and execution testing certification in furtherance of their best execution obligations.

How does this benefit me? The IIAC's efforts have resulted in time and cost savings for introducing brokers.



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

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

What we got for you: Given the similarities between FATCA and CRS, the IIAC impressed upon the CRA the importance of harmonized reporting requirements, which would eliminate the need for costly systems changes by member firms and would minimize confusion and challenges experienced by clients. To further ease the compliance burden on member firms, the IIAC called for standardized tax residency certification forms for both FATCA and CRS. On March 22, 2017, the CRA released guidance that incorporated the IIAC's recommendations, harmonizing reporting requirements for FATCA and CRS wherever possible. It also made available to Canadian financial institutions standardized tax residency forms that may assist firms with FATCA and CRS implementation.

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



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

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

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

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



Advantage Tax Rules Pertaining to Investment Management Fees

The issue: In November 2016, the Canada Revenue Agency (CRA) announced that paying registered account (RRSP, RRIF or TFSA) investment management fees from non-registered or open accounts will incur a tax penalty equivalent to the fee. The CRA considers using funds from outside the plan to pay fees an unfair advantage because it results in an indirect increase in the value of the registered plan. The CRA had proposed to apply such a tax as of January 1, 2018.

What we got for you: The IIAC expressed various concerns with CRA's application of the advantage rules to investment management fees on registered plans and asked, at the very least, for a delay in implementation. In September 2017, the CRA announced that it will defer the application of the advantage rules by one year, to January 1, 2019. The IIAC will continue to engage the CRA and provide further industry insights on this issue. The CRA has committed to release a folio with more details in late 2017 or early 2018.

How does this benefit me? The postponed implementation of the advantage rule will allow more time for investors and the industry to prepare for the changes, for the CRA to work with the industry to detail how the new rule will work, and for member firms to inform clients of their options.



Tax Reporting for Equity Linked Notes

The issue: In its draft 2017 *T5 Guide – Return on Investment Income* shared with industry in 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 *Income Tax 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.

What we got for you: On October 2, 2017, the IIAC wrote to the CRA requesting Equity Linked Notes interest be reported with interest from other Canadian sources in existing Box 13 of the T5 slip. On October 17, 2017, the IIAC received confirmation from the CRA that it is granting our request for the 2017 taxation year.

How does this benefit me? IIAC Member firms, or their service providers, will have one year of additional time to plan, budget and implement the system changes required to report interest from Equity Linked Notes on the mandated new Box 30.



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

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

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

How does this benefit me? BC dealers can continue to service clients' investment needs, as appropriate, with BCCU GICS.



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

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

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

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



Net Stable Funding Ratio (NSFR) Treatment and the Canadian Derivatives Clearing Corporation (CDCC)

The issue: The NSFR is one of the Basel Committee's key reforms to promote a more resilient banking sector. Under NSFR, Banks are required to hold a minimum amount of assets that can provide stable funding in the event there is disruptions to a bank's regular funding sources that could lead to a bank failure and potentially pose a systemic risk. NSFR has an international implementation date of January 2018, however, the Office of the Superintendent of Financial Institutions (OSFI) has announced a domestic implementation date of January 2019. The IIAC requested from OSFI that the Canadian Derivatives Clearing Corporation (CDCC), which runs the Canada's central counterparty (CCP) for repurchase agreements, be classified as a 'financial institution' for the purposes of NSFR. Absent this classification, the incentives for market participants to centrally clear transactions through CDCC would greatly diminish, reducing netting efficiencies for the industry and limiting the systemic risk reductions available through CCP clearing.

What we got for you: OSFI agreed that for the purposes of NSFR in Canada, CDCC (as a designated qualified central counterparty - QCCP) should be considered a financial institution. OSFI will include this clarification in its revised Liquidity Adequacy Requirements (LAR) Guideline in 2018.

How does this benefit me? Since its launch in 2012, CDCC's CCP has come to clear an increasing proportion of Canada's interdealer repo transactions for most of the largest sell-side participants in Canada. The first buy-side participants are anticipated to join the CCP in 2018. Classifying CDCC as a financial institution for the purposes of NSFR will ensure Canada continues to foster centralized clearing which contributes to the soundness of the financial system and capital markets.



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

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

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

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

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



Montreal Exchange - Process to Impose Fines for Minor Violations

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

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

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



FTSE Russell Commercial Pricing Policy Regarding Market Data

The issue: FTSE Russell implemented a new global pricing policy for market data in Canada. Some of our members' costs increased significantly.

What we got for you: The IIAC Market Data Committee organized firm consultations with FTSE Russell to discuss the new global policy for pricing market data. After listening to the industry's concerns, FTSE Russell agreed to postpone the implementation of its new pricing policy to November 1, 2017.

How does this benefit me? IIAC member firms saved, in aggregate, hundreds of thousands of dollars because of the postponement.



Aggregation of Options and Shares Futures Position – Large Open Position Reporting (LOPR)

The issue: The Montreal Exchange had requested that members aggregate their options and shares futures positions as of December 1, 2017.

What we got for you: The IIAC met numerous times with the Regulatory division of the Montreal Exchange to explain the important technological impact and cost associated with the aggregation. The Exchange agreed to postpone the aggregation deadline to June 30, 2018.

How does this benefit me? Members will have an additional seven months to implement the aggregation process.



Large Open Position Reporting (LOPR) Certification

The issue: The Regulatory Division of the Montreal Exchange asked members to sign an ‘absolute’ LOPR certification. Legal Counsel indicated, at least to certain of our members, that they will not permit signature of the LOPR certification in its current form since the wording of the TMX Certification Form is absolute. If legal departments confirmed that a certification could be submitted, the certification would need to be approved by executive management and the wording of the certification would need to be revised to reflect the reality of each firm’s business practice.

What we got for you: The IIAC requested a change to the certification wording from ‘absolute’ to ‘best effort’ and got it.

How does this benefit me? Having a ‘best effort’ wording allowed members to comply with the new requirement.



U.S. Withholding Taxes on Securities Lending Transactions

The issue: The Qualified Securities Lender (QSL) Regime is a set of U.S. rules and regulations that allow IIAC Member firms to avoid excessive U.S. withholding taxes on securities lending and sale and repurchase transactions. The QSL regime was to be replaced by a new set of rules in 2018, referred to as the Qualified Derivative Dealer (QDD) Regime. The QDD Regime, not yet properly defined, would have resulted in excessive withholding tax on securities lending transactions, a disproportionate compliance burden and potential disruption of business. The IIAC wrote to the Internal Revenue Service and U.S. Department of the Treasury calling for the QSL regime to be preserved, or at least to delay the transition to the QDD regime until key concerns are addressed.

What we got for you: On December 20, 2017, the Internal Revenue Service and U.S. Treasury announced that the Qualified Securities Lender (QSL) Regime will be extended another two years.

How does this benefit me? Member firms were spared paying excessive withholding tax on securities lending transactions.

Other Highlights

Opinion and Commentary from Ian Russell, IIAC President and CEO

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

[Letter from the President](#): “Wisdom from the Asian Financial Forum and the lessons for Canadian policymakers.” January 2017.

[Canadian Business](#): “The higher-cost, higher-service future of investing advice.” January 17, 2017.

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

[Letter from the President](#): “Charting a course for regulatory reform: Discussions with global regulators.” March 2, 2017.

BNN [interview](#): 2017 Federal Budget. March 22, 2017.

Bloomberg TV Canada [interview](#): 2017 Federal Budget. March 23, 2017.

[Letter from the President](#): “Bold, aggressive policy needed to address the employment problem in Canada.” March 24, 2017.

Bloomberg TV Canada [interview](#): The case for a lower capital gains tax. April 21, 2017.

[Letter from the President](#): “The evolving new paradigm for financial advice.” April 28, 2017.

[Letter from the President](#): “Global Credit Markets: Prospects for Increased Fragmentation, Looming Brexit and Liquidity Concerns.” May 31, 2017.

Investment Executive [Guest Column](#): “Boosting venture markets.” June 1, 2017.

BNN [interview](#): Financial deregulation in the U.S.; *IIAC Investment Industry Hall of Fame*. June 28, 2017.

[Letter from the President](#): “IIROC Rule 42 Compensation-Related Conflicts Review: Observations and Next Steps.” July 4, 2017.

[Letter from the President](#): “The Policy Landscape in Washing.” August 4, 2017.

Investment Executive [Guest Column](#): “MiFID II represents a challenge for Canadian dealers.” August 17, 2017.

[Letter from the President](#): “The Investment Industry as Mid-Year.” September 8, 2017.

BNN [interview](#): Recent trends and outlook for Canada’s investment industry. September 12, 2017.

[Letter from the President](#): “Another blow for small business capital-raising.” October 6, 2017.

BNN [interview](#): Proposed tax treatment of passive investments should be reversed. October 6, 2017.

Toronto Sun [Opinion Editorial](#): “Taxation of Passive Investment Income.” October 30, 2017.

[Letter from the President](#): “The need for better regulatory coordination in global markets.” November 7, 2017.

Business in Vancouver radio [interview](#): Why fewer companies are going public? November 8, 2017.

[Canadian Business Journal](#): “International Capital Market Fragmentation – The Risks Are Real.” December 2017

Investment Executive [Guest Column](#): Renovating the rulebook must be a top priority for regulators. December 14, 2018.

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