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Marsha Gerhart
Vice-President, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
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Dear Ms. Gerhart:

Re: IIROC White Paper – The Public Policy Implications of Changes to Rules Regarding Proficiency Upgrade Requirements and Directed Commissions on the IIROC Platform (the “White Paper”)

The IIAC commends the IIROC effort to reach out broadly to the investment industry with respect to its illustrative proposal set out in the IIROC White Paper, a proposal to allow IIROC-registered firms and individuals to carry out, under IIROC regulatory oversight, a business limited to mutual funds and exchange-traded funds.

We applaud the extensive consultations across the investment industry to promote full and frank discussion of the IIROC White Paper, a necessary exercise as the proposal raises complex and inter-connected elements that have broad policy implications and impact a broad cross-section of IIAC members.

The IIAC has restricted its comments to the elimination of the proficiency upgrade requirement for mutual fund advisors operating in an IIROC-registered dealer. The IIAC cannot put forward a position on commission redirection because IIAC member firms are divided on the merits of the proposition.

We have, however, encouraged IIAC member firms to participate in the cross-country IIROC dialogues and urged firms to submit their views on the elimination of the proficiency upgrade requirement and the commission redirection proposal. Comprehensive industry input will assist IIROC staff in making the right decision on these proposals. Once IIROC has had an opportunity to review the comment letters submitted, we encourage IIROC to delineate a position and then move forward expeditiously with a strategic plan for implementation.

Elimination of the proficiency upgrade requirement for mutual fund registrants would bring MFDA and IIROC advisors together on a single IIROC-registered operating platform producing business synergies and efficiencies from an integrated operation. The migration of MFDA registrants would be more extensive if the elimination of the upgrade requirement was implemented in tandem with commission redirection, as many MFDA advisors redirect commissions to a private corporation and would like to retain this arrangement.

The White Paper states that IIROC is exploring ways to make securities regulation in Canada more efficient by reducing regulatory overlaps, and harmonizing requirements and standards across different regulatory platforms, while enhancing investor choice and protection. The IIAC agrees that these objectives can be achieved with the elimination of the proficiency upgrade requirement.

The anticipated benefits from removal of the proficiency upgrade requirement are described below:

Investors

The removal of the upgrade requirement and shift of the advisor to the IIROC platform, would facilitate “one stop shopping” and bolster consumer convenience, provide greater flexibility, and potentially lower costs as investors access the full range of investment products through a single dealer, rather than having to migrate assets to a new firm when they wish to build a more diversified financial portfolio or becoming more sophisticated over time. Further, suitability decisions would be more precise as advisors could take a more holistic view of the overall client portfolio when decisions are made. Finally, the standard of investor protection would not be compromised in any way, as the mutual fund advisor would be subject to IIROC oversight and supervision. The long history and high reputation of IIROC as a self-regulator could in fact boost investor confidence.

Registered Firms

The elimination of the proficiency upgrade requirement would allow many firms, including small, mid-sized and large IIROC firms, with different business models and firm structure, to reconfigure operations to generate significant cost savings. First, the elimination of the upgrade requirement will enable small and mid-sized firms to build scale and scope of their wealth management practices, by adding new mutual fund dealers to the IIROC platform, lowering per unit costs by spreading fixed costs of technology and compliance across a larger revenue base, gaining business synergies and efficiencies. This increased revenue would provide an economic base for smaller firms to provide ancillary services to clients such as financial planning or estate planning. Second, firms operating with two separately registered IIROC and MFDA platforms could collapse the two firms into a single IIROC registered firm, integrating the wealth management businesses and rolling back-office operations into a single entity, reducing overall fixed costs and per unit costs. Large firms with a specialized MFDA registered platform could retain both separate affiliate firms, but integrate the back-offices of the affiliates to IIROC compliance, consolidating the compliance and systems operations of the full service IIROC dealer and the mutual fund dealer to a single, back-office platform, achieving operating efficiencies, and cost savings. Some of the cost savings from these structural adjustments flowing from IIROC rule changes removing proficiency upgrades for mutual fund registrants would be passed on to investors in the form of lower fees.

Registered Individuals

The removal of the proficiency upgrade requirement would provide registered mutual fund advisors with greater professional choice among firms, expanding the range of employment options, from mutual fund dealers to IIROC registered dealers. Mutual fund advisors operating within an IIROC firm could offer the clients the convenience and lower transaction costs across the full range of investor products through “in-house” referrals to IIROC registered advisors. If the mutual fund advisor at some point decides to upgrade qualifications to a higher registration standard, the full service IIROC firm would facilitate a smooth transition to new registration, given the integrated advisor and supervisory architecture of the firm. Finally, this integrated architecture, with different classes of registrants working together, would broaden the mutual fund advisor’s knowledge and understanding of financial markets, and encourage upgrading in professional

qualifications. Mutual fund registrants would have to weigh these benefits against advantages under the MFDA regime, such as the ability to maintain accounts in client name (held with the mutual fund company) and the ability to redirect commissions.

Greater Harmonization and Integration of IIROC and the MFDA

Mutual fund advisors operating on the IIROC-registered platform would be subject to IIROC rules governing mutual fund transactions. Efforts to facilitate the integration of mutual fund advisors on the IIROC-registered platform through the removal of proficiency upgrade requirement would encourage a closer relationship between IIROC and MFDA in terms of the rule-making and compliance process to ensure advisor transitions to the IIROC platform occur smoothly. This closer working relationship between the SROs would result in greater rule harmonization and systems convergence. This would not only enable more efficient firm operations but ensure a more level playing field among registrants and firms selling and distributing mutual fund products.

However, the IIAC recognizes the elimination of the proficiency upgrade requirement, and the related cost savings from transfer and integration to an IIROC-registered platform, could lead to a loss of MFDA regulated member firms. The closure of several large MFDA dealers from proposed elimination of the upgrade requirement could undermine the business economics of the MFDA and put the viability of the self-regulator at risk.

IIROC should be aware of this possible outcome and the potential disruption it could cause small, regional mutual fund dealers regulated by the MFDA. These firms would be forced into the higher IIROC regulatory cost structure, subject to differences in rules and a potentially different oversight and audit processes. In these circumstances, IIROC will have to make appropriate regulatory accommodation to enable these smaller firms could continue operations and avoid disenfranchising small investors in regional communities.

Further, any consideration to integrate IIROC and the MFDA should be undertaken in a manner to enable MFDA firms to employ their existing business models and avoid disruption in their operations. IIROC would need to ensure that oversight and audit/compliance of MFDA registrants are compatible with existing practices and consistent with the existing MFDA approach to regulation.

The IIAC encourages active and direct consultation and dialogue between IIROC and the MFDA to reduce rule overlap and promote greater rule harmonization in the retail business. We urge IIROC to move forward expeditiously with the elimination of the upgrade requirement and begin discussions between the Boards of the SROs to encourage increased cooperation and integration of rule-making and regulatory processes.

In conclusion, the IIAC supports the removal of regulatory barriers that have no bearing on investor protection, and interfere with flexible restructuring of the wealth management business. This regulatory approach can achieve significant regulatory efficiencies and cost-efficiencies to dealers, a level playing field for advisors and firms in the mutual fund business, and increased investor participation in the capital markets.

Yours sincerely,

A handwritten signature in black ink, appearing to read "J. Mann".