ACTIVITY UPDATE

IIACACCVM

JANUARY / FEBRUARY
2019

A NOTE FROM IIAC PRESIDENT & CEO

Firms in our industry continue to be besieged by an onslaught of securities regulations and legislative changes. The IIAC is committed to constructive engagement with regulators and governments to help member firms succeed within a fair and thriving industry.

Our *Activity Update* helps our members keep on top of regulatory and policy developments and highlights our advocacy and member support efforts. Included are links to consultation documents, submissions, reports, industry educational material, and compliance tools and templates.

NEW INITIATIVES IN THE JANUARY-FEBRUARY 2019 ISSUE:

- Market Data Fees **(page 15)**
- U.S. Tax Withholding – Section 958(b)(4) **(page 23)**
- Canadian Depository for Securities (CDS) - Principles of Financial Market Infrastructure **(page 26)**
- Blockchain/DLT **(page 27)**

UPDATED SECTIONS IN THE JANUARY-FEBRUARY 2019 ISSUE:

- CSA Consultation on Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers **(page 5)**
- Embedded Commissions **(page 7)**
- Cooperative Capital Markets Regulatory System **(page 8)**
- Montreal Exchange – Changes to the Governance Structure of the Regulatory Division **(page 11)**
- IIROC Proposed OEO Guidance **(page 13)**

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

IIROC PROPOSED AMENDMENTS RESPECTING MANDATORY REPORTING OF CYBERSECURITY INCIDENTS

On April 5, 2018, IIROC published Proposed Amendments to its Dealer Member Rules which would require Dealers to report cybersecurity incidents to IIROC within three calendar days from discovering the incident, and submit an incident investigation report within 30 days of the incident, unless otherwise agreed to by IIROC.

The IIAC formed a working group to respond to IIROC's Proposed Amendments and provided comments on May 22, 2018.

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

After considering the comments received, IIROC is expected to publish amendments to Dealer Member Rules, either in final form or for another round of comments, in Winter 2018-19. The IIAC will respond accordingly.

COOPERATIVE CAPITAL MARKETS REGULATORY SYSTEM (CCMRS) PROPOSED EXEMPTIONS

On May 8, 2018, British Columbia, New Brunswick, Ontario, Prince Edward Island, Saskatchewan and Yukon (the CMR Jurisdictions) published for comment draft prospectus and related registration exemption regulations under the proposed provincial-territorial *Capital Markets Act*. The proposed exemptions would apply in CMR jurisdictions upon the launch of the Cooperative System.

On August 7, 2018, the IIAC submitted a response supporting the harmonized nature of the proposed exemptions, which increases regulatory efficiency and reduces uncertainty for market participants. In addition, the IIAC supported the decision to carry forward existing exemptions from various CMR Jurisdictions in place of developing new and untested exemptions that could result in confusion and unintended consequences.

The IIAC asked that some exemptions be reconsidered to ensure their current form does not impair issuers' capital raising efforts.

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

The IIAC is awaiting further developments.

IIROC ENFORCEMENT ALTERNATIVE FORMS OF DISCIPLINARY ACTION

On February 22, 2018, IIROC released Notice 18-0045, outlining two proposals designed to provide more tailored enforcement responses. Under the proposed Minor Contravention Program, a Dealer Member or Approved Person would agree to a sanction in circumstances where IIROC believes the contravention is minor enough not to warrant formal disciplinary action, but where a cautionary letter may not be a sufficient deterrent. The other proposal introduces the use of Early Resolution Offers to facilitate settlements earlier in the disciplinary process.

The IIAC formed a working group to review the proposals and provided comments to IIROC on May 23, 2018. On July 23, 2018, the IIAC participated in an IIROC Roundtable with other stakeholders to provide further comments and to outline member concerns.

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

IIAC is awaiting further developments. A revised IIROC proposal is expected in early 2019.

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 sought input from market participants and stakeholders to identify and consider areas of securities legislation affecting 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 focused on ways 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.

The CSA released a Staff Notice on March 27, 2018, indicating its intention to proceed with many of the initiatives advocated in the IIAC submission. In December 2018, the IIAC Investment Banking Committee provided feedback on specific CSA questions relating to prospectuses and capital raising.

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

The IIAC will continue to work with the CSA and provide feedback on its efforts to reduce the regulatory burden.

BCSC CONSULTATION ON FINTECH

On February 14, 2018, the British Columbia Securities Commission (BCSC) published a notice requesting comment on the results of its consultations on FinTech and potential regulatory action to clarify or modernize securities laws to benefit all stakeholders, including investors in FinTech. The notice sought input on matters including crowdfunding and online lending, online advisory models, cryptocurrency funds, initial coin offerings and cryptocurrencies, as well as the future of FinTech regulations. The IIAC formed a working group and submitted its response on April 3, 2018.

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

The IIAC will continue to monitor developments and provide input to regulators.

CLIENT FOCUSED REFORMS

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 noted it is 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 negative consequences for investors—i.e. reduce choice among business models, reduce access to financial products, decrease affordability of financial advice, and heighten uncertainty with respect to client-advisor relationship obligations—resulting in onerous compliance requirements and increased 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.

On June 21, 2018, the CSA released its long-awaited proposals to address the client-registrant relationship. The IIAC was pleased the CSA proposed a harmonized approach and moved away from an overarching best interest standard that would have created confusion and negative consequences for advisors and their clients. The IIAC engaged with member firms and submitted its response to the proposals on October 19, 2018 advocating the need for clarity regarding regulator expectations, ensuring the guidance allows firms to develop alternative policies/controls to comply with the rules, and improving the practicality of the rules for firms to implement.

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

REGULATORY ACCOUNTABILITY

The IIAC will 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 our 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 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—e.g. 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.

On June 21, 2018, the CSA announced its policy decision on mutual fund embedded commissions. The IIAC supports the proposal to continue permitting mutual funds with embedded commissions, and the CSA's intent to prohibit all forms of deferred sales charges. On September 13, 2018, the CSA released its Notice and Request for Comment, specifically proposing the elimination of the deferred sales charge option and prohibiting trailing commissions to OEO dealers not subject to a suitability requirement. The IIAC formed a working group to review the CSA proposals and responded on December 13, 2018.

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

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 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.

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

On January 18, 2018, IIROC published another revised proposal, incorporating many of the IIAC's comments while disregarding others, and requested comments in writing by March 5, 2018. The IIAC reconvened its working groups and provided comments on the March 5, 2018 deadline.

On March 16, 2018, the IIAC provided additional comments related to proficiency of research supervisors.

For more information, contact Susan Copland (scopland@iiac.ca), Annie Sinigagliese (asinigagliese@iiac.ca) or Adrian Walrath (awalrath@iiac.ca).

The IIAC will monitor developments and respond accordingly.

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.

On November 9, 2018, the Supreme Court confirmed the constitutionality of the Cooperative Securities Regulator, ruling on two questions before the Court. The Court concluded the federal government has the authority, under federal legislation governing banking and commerce, to regulate systemic risks in national markets through the Canadian Securities Regulatory Authority. The Court also concluded that the Memorandum of Understanding between the provinces and federal government does not fetter or interfere with the sovereignty of the provinces in discharging day-to-day regulation of securities markets.

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

The IIAC will monitor developments and respond accordingly.

EXCHANGE TRADED FUNDS (ETF) DISCLOSURE REQUIREMENTS

On December 8, 2016 the CSA released final rules requiring 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 are required to produce and file ETF Facts and make the document available on the ETF's or the ETF manager's website. Dealer delivery obligations related to ETF Facts came 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 several 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.

On January 25, 2018, IIROC published further amendments—clarifying earlier proposals and taking some comments into account—and requested comments by February 26, 2018. The IIAC re-formed its working group and commented on the proposals.

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

The IIAC will monitor IIROC's regulatory response.

IIROC PROPOSAL ON CLIENT IDENTIFIERS

On September 26, 2018, the IIAC responded to IIROC's proposed amendments that would require dealer members to report client identifiers to IIROC for each order for an equity security that is sent to a marketplace as well as each reportable trade in a debt security.

The IIAC is pleased that IIROC addressed several of our concerns and requests for clarification outlined in our previous submission. Most importantly, the IIAC obtained certainty from IIROC that retail accounts will not require a legal entity identifier (LEI). Institutional clients requiring an LEI, but have not obtained one, can continue to trade with IIAC members using an account number as the identifier until an LEI is obtained. Markets can continue to function efficiently and without disruption.

The IIAC, however, has concerns about implementation of the proposed framework. We requested a delay in implementation of Phase 1 (requiring client identifiers for each reportable trade in a debt security) from no less than 90 days after Notice of Approval to 180 days; and Phase 2 (requiring client identifiers for each order in equity securities sent to a marketplace) from no less than 180 days after Notice of Approval to no less than 1 year, and preferably not before 2021. A delay would provide members time to implement procedural and system changes and reach out to affected clients to obtain LEI information.

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

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 has 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 investor 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 indicated that provincial regulators' compliance reviews have uncovered several concerns with the 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. It also consulted with the Portfolio Management Association of Canada (PMAC) on the draft. The IIAC working group developed a template agreement for use by firms undertaking these types of arrangements. It is available here.

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

The IIAC will provide feedback to IIROC on guidance in this area, expected to be released in Q1 2019.

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 a comment 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 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.

In June 2018, the Montreal Exchange informed the IIAC that changes had been made to the proposed governance structure and were now being reviewed by the AMF. Details were not provided.

On October 23, 2018, the Montreal Exchange issued a second request for comment in regard to a proposed governance structure. The IIAC commented on November 23 and discussed with the AMF on November 29, 2018.

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

The IIAC awaits information from the Montreal Exchange and the AMF.

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

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 included 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 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 met with the CSA and other stakeholders again in January 2018.

The IIAC is working with the CSA to review the past two proxy seasons to monitor 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 to discuss the 2018 proxy season and determine if any additional regulatory initiatives are needed.

IIROC 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 had implications for the entire OEO business model and, therefore, the industry. If implemented, the guidance would, among other things, have limited the range of tools available to clients through OEO firms. This would have forced 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 have caused clients to look to unreliable sources for information. This could have resulted in negative outcomes for clients, and ran 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 was still reviewing and analyzing comments received by the industry.

On January 23, 2018, IIROC provided an update to IIAC members.

On April 9, 2018, IIROC issued Notice 18-0075, its final OEO guidance. The proposed guidance was significantly amended based on IIAC comments. However, industry members were concerned with new items included in the guidance that were not previously discussed in the consultation process. Parts of the Notice were suspended on August 14, 2018, when IIROC issued Notice 18-0158 suspending expectations in section 2 of IIROC Notice 18-0075.

On June 21, 2018, the CSA informed the industry that it may consider banning embedded commissions on OEO platforms. The CSA indicated that proposals should be published for comment in the fall.

On August 14, 2018, IIROC indicated it was awaiting completion of the CSA's rule development process and may ultimately align with the CSA's requirements regarding embedded commissions on OEO platforms.

On September 13, 2018, the CSA and the OSC issued Proposed Amendments to National Instrument 81-105 *Mutual Fund Sales Practices* (Embedded Commissions). On the same day, the Ontario Minister of Finance issued a statement regarding the publication. On December 13, 2018, the IIAC published a comment letter opposing a complete ban of trailing commissions on the OEO platform.

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

The IIAC awaiting the CSA response.

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 the province are largely excluded from the primary market. To address this problem, the IIAC recommended the adoption of the "European approach", i.e. translating only the 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 collaborate with other private sector participants and government entities on this agenda.

IIROC PROPOSED AMENDMENTS TO TRANSACTION REPORTING FOR DEBT SECURITIES

On March 8, 2018, IIROC published proposed amendments to its trade reporting requirements for debt transactions. Included in the proposal is a shortening of the transaction reporting deadline to 10 p.m. on the day of execution (compared to the existing requirement of 2 p.m. on the day following execution). IIROC also proposed collecting additional data fields including: Variable Rate Note indicator, Callable bond indicator, a Derivatives indicator (to show whether the price results from the exercise of a derivative), the fee associated with a new issue distribution, and the name or code of the retail advisor executing the trade. IIROC also proposed material new reporting requirements related to repo transactions conducted by its dealer members.

IIROC indicated that the purpose of the proposals is to enhance its debt surveillance capabilities. Data may be shared with the Bank of Canada so it can better assess vulnerability in the financial system.

The proposed amendments, if implemented, would affect member firms. Operational and systems changes may be required to accommodate the shorter transaction reporting deadlines and the new data fields.

The IIAC organized a meeting with IIROC staff in May 2018 to discuss the proposals. The IIAC submitted its response to the IIROC proposals on June 6, 2018.

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

DEBT MARKET TRANSPARENCY

On May 24, 2018, the Canadian Securities Administrators (CSA) released a proposed framework for mandatory post-trade transparency of trades in government debt securities as well as a proposal to expand the framework for mandatory post-trade transparency of trades in corporate debt securities.

The IIAC set up a working group to review the proposed amendments. It met on June 20, 2018 to consider the CSA proposed framework. An initial draft comment letter was updated to reflect input from members subsequent to the working group meeting. The IIAC submitted its comment letter to the OSC and AMF on August 24, 2018

If you have any questions, please contact Todd Evans (tevans@iiac.ca).

The IIAC is awaiting further developments (updates from OSC and AMF).

MARKET DATA FEES

As part of the IIAC's ongoing advocacy to have regulators place controls on market data fees charged by marketplaces, the IIAC made a submission to the CSA referencing the October 2018 SEC decision that found that marketplaces hold an effective monopoly on their respective data. This is consistent with a study commissioned by the IIAC in 2011, and similar study from Copenhagen Economics, commissioned by the Danish and Swedish Securities Dealers Associations in November 2018. The IIAC encouraged the CSA to take into account the monopoly power of marketplaces when reviewing market data fee applications.

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

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 had concerns with several recommendations, including those related to implementing a statutory best interest duty and prohibitions on referral arrangements.

In November 2016, the Expert Committee 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 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.

In its November *2017 Ontario Economic Outlook and Fiscal Review*, the Ontario government indicated that it planned to develop legislation to regulate financial planners in Ontario. Under the proposed framework, financial planners would be required to meet specified proficiency requirements. The government planned to reduce consumer confusion created by the wide variety of titles used in the industry, by restricting the use of titles related to financial planning.

The Ontario government released its Consultation Paper in March 2018 which specifically looked at restricting the use of the title of Financial Planner, the use of other titles, and creating a central database of information related to financial planners. On April 16, 2018, the IIAC commented on the government's proposals.

In the November 2018 *Ontario Economic Outlook and Fiscal Review*, the government indicated its commitment to the regulation of financial planners.

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

The IIAC will participate in stakeholder consultations, and engage with other industry groups to attempt to develop consensus on a framework to regulate financial planners in Ontario.

Awaiting next steps from the Ontario government.

ANTI-MONEY LAUNDERING REGULATIONS

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 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.

On February 7, 2018, the Department of Finance Canada published a discussion paper, *Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime*. The paper supported the study of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* by the House of Commons Standing Committee on Finance and its consideration of the issues relating to money laundering and terrorist financing in Canada. At the same time, Finance sought input from stakeholders in response to this paper to support the development of forward policy and technical measures that could lead to legislative changes or inform the Department's longer-term approaches to anti-money laundering and anti-terrorist financing. The IIAC responded to the Department of Finance request for comments on May 18, 2018.

On March 27, 2018, IIAC President and CEO Ian Russell testified before the House of Commons Standing Committee on Finance on the five-year statutory review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. His testimony is available here.

On June 9, 2018, the Canada Gazette published the Department of Finance's second AML regulatory package. While the spirit of the regulations is intended to stay the same, there are several significant updates, including those related to suspicious transaction reporting, record keeping for authorized persons, virtual currency and online records. The IIAC AML Committee submitted a comment letter on the regulatory package to the Department of Finance on the September 7, 2018.

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

DEREGULATION INITIATIVE

The IIAC is calling on various provincial governments to undertake a deregulation initiative, like that initiated by the BC government in 2001. The initiative created a separate Ministry of Deregulation and required government departments to reduce regulatory requirements by one-third within a 3-year span. For every new regulatory requirement introduced, two existing requirements had to be removed. The deregulation initiative met its goal, and the 1-in-2-out requirement was superseded by a 1-in-1-out requirement, which is currently in effect.

The IIAC wrote to the Premier of Ontario and met with the Ontario Minister of Finance and the President of the Treasury Board and their senior staff to advance this initiative.

The IIAC plans to meet with other government officials in other provinces.

'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", the CRA may charge a 100 per cent penalty tax on fees paid by an investor that are deemed to be an advantage. The CRA initially announced that it 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.

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

On September 28, 2018, the CRA informed the IIAC that it will again defer implementation of the Advantage Rules to investment management fees, pending a completion of a review of the issue by the Department of Finance.

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.

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 proposed amendments to the federal legislation to address industry concerns.

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 – 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 proceeds from sale or as dividends. Even though regulations were never finalized by the IRS, the Depository Trust Company (DTC) notified all 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 – 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.

On March 16, 2018, the IIAC submitted a letter to the IRS requesting guidance for QIs with respect to their Responsible Officer certification obligations. On April 4, 2018, the IRS released the certification questions in the QI portal (new section titled "Periodic Certification") which will assist Dealer Members in their preparations for certification.

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

The IIAC U.S. Tax Committee will continue to monitor policy developments. The IIAC also has a forum for members to discuss QI issues and to assist firms in preparing for their QI periodic reviews.

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 contained several 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 facilitates 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.

On September 22, 2017, the IIAC submitted additional comments to the IRS and Treasury outlining remaining concerns that members have with the proposed regulations.

In addition, the IIAC submitted a request to the IRS and Treasury to preserve the Qualified Securities Lender Regime or, at the least, provide additional transition time for members. On December 22, 2017, the IRS and Treasury granted a two-year extension to Qualified Securities Lending Regime.

On April 16, 2018, the IIAC provided additional comments to the IRS and Treasury requesting amendments and clarity on s. 871(m). The IIAC also participated in in-person meetings with members of Treasury and the IRS to emphasize industry concerns.

The Treasury and IRS agreed on September 21, 2018 to delay the effective date of certain final and temporary regulations under s. 871(m) s. The two-year extension will provide relief to IIAC member firms as we believe the rules had become increasingly complex and burdensome for IIAC member firms to comply with. The IIAC will have additional time to work with Treasury and the IRS to improve the proposed final rules.

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.

U.S. TAX WITHHOLDING – SECTION 958(B(4)

On November 28, 2018, the IIAC submitted a request to the U.S. Department of the Treasury and the Internal Revenue Service for relief from unintended consequences stemming from the repeal of Section 958(b)(4) of the U.S. Internal Revenue Code. The repeal could impact Canadian-based firms with U.S. subsidiaries – i.e. a foreign subsidiary could be considered a "controlled foreign corporation" in the U.S. and therefore would be treated as a U.S. Payor subject to onerous withholding and backup reporting requirements. These firms may also lose their eligibility for the Portfolio Interest Exemption, impacting how they would structure international internal financing arrangements. The IIAC requested relief in a November 28, 2018 letter.

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

The IIAC is awaiting further developments.

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.

In January 2018, the IIAC commented on draft Mandatory Disclosure Rules aimed to prevent CRS avoidance arrangements and certain offshore structures. The IIAC asked for assurance that the rules do not inadvertently prevent legitimate retirement strategies, such as transferring funds from a non-registered account into a registered account for the tax deferral or tax refund.

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.

CDIC CONSULTATION ON JOINT & TRUST ACCOUNT DISCLOSURE BY-LAW

On September 28, 2018, the IIAC responded to the Canada Deposit Insurance Corporation's (CDIC's) consultation on proposed amendments to its Joint and Trust Account Disclosure By-law. CDIC's proposal will have a material impact on IIAC members acting as nominee for their clients when placing deposits at CDIC's member institutions. While the IIAC supports the policy rationale for CDIC's proposed amendments, namely to ensure CDIC obtains the information it requires to reimburse insured depositors as quickly as possible in the event of a member institution failing, it will entail significant systems and procedural changes for IIAC member firms. The extent of these changes should be taken into consideration by CDIC when it decides on an effective implementation date. Further, there are areas of the proposed by-law that require additional clarity to ensure IIAC members understand what is required to develop the necessary systems and procedures to ensure compliance. It is also imperative that the CDIC recognize the significant role nominee brokers play in placing deposits at CDIC's member institutions by ensuring insurance coverage for eligible deposits made through IIAC members are on equal footing with deposits made directly at CDIC member institutions.

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

REVENU QUÉBEC – RELEVÉ 18 SLIP, BOX 20 (SECURITIES TRANSACTIONS)

Revenu Québec asked the IIAC to create a working group to discuss RL-18 (CRA Form T5008). Revenu Québec may require all firms to populate Box 20 of RL-18 (Securities Transactions – cost or book value). The IIAC has met with its Québec Compliance Committee members and is looking for ways to implement a solution that will satisfy Revenu Québec, the CRA and our members.

Furthermore, Revenu Québec may want to implement a standard tax slip in relation to Relevé 18. The IIAC believes if standard forms are implemented, they should be harmonized with the CRA.

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

The IIAC is waiting to meet with Revenu Québec to further discuss.

QUÉBEC IMMIGRANT INVESTOR PROGRAM (QIIP)

On March 26, 2018, the IIAC wrote (in French) to the Quebec Ministry of Immigration, Diversity and Inclusion to obtain more information concerning the Québec Immigrant Investor Program (QIIP) and the impact of the modernization taking place.

In May 2018, the Quebec Ministry of Immigration, Diversity and Inclusion wrote that it could not currently provide further information on the Program, as it is still under review.

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

IIAC is requesting that QIIP accounts be exempted from the CSA proposed amendments to National Instrument 31-103 issued on June 21, 2018, namely the sections on Client Relationships – Part 13 "Dealing with clients – Individuals and Firms".

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).

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).

CANADIAN DEPOSITORY FOR SECURITIES (CDS) PFMI WORKING GROUP

The Principles of Financial Market Infrastructure (PFMI) are international standards that must be met by key constituents in the financial industry, including organizations responsible for clearing and settlement. As such, CDS must implement these standards. The IIAC formed a working group to help advise CDS on the impact of these standards on member fees and collateral requirements, and possible means to mitigate negative impacts, particularly on small and independent dealers. For more information contact Susan Copland (scopland@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?

Following the success of the first IIAC FinTech Summit held in Toronto on June 1st, 2018, the IIAC hosted a similar educational event in Montreal on October 11, 2018. Media coverage of the FinTech Summit was extensive. IIAC will hold similar events in 2019 in Toronto and Montreal.

For more information, contact Susan Copland (scopland@iiac.ca) or Annie Sinigagliese (asinigagliese@iiac.ca).

BLOCKCHAIN/DLT WORKING GROUP

Following the successful implementation of blockchain/DLT technology at member firms, a working group is being created to assess the role and impact of blockchain/DLT in the Canadian industry. The newly formed group should start meeting in Q1-2019.

For more information, contact Susan Copland (scopland@iiac.ca) or Annie Sinigagliese (asinigagliese@iiac.ca)

OPPORTUNITIES IN THE CANADIAN GREEN BOND MARKET

The IIAC published a position paper that outlines opportunities in the Canadian green bond market. Response to the paper has been very positive, from both the members and the media. The IIAC met with a newly formed green bond working group to develop a set of recommendations, voluntary standards and insights to facilitate the advancement of a more liquid green bond market in Canada.

The IIAC published an update to the green bond position paper on September 24, 2018. The IIAC is looking to schedule a green bond luncheon and information session in early 2019 inviting financial institutions, the buy side, and government entities.

For more information, please contact Todd Evans (tevans@iiac.ca).

NPC-IIAC CYBERSECURITY WEBINAR

NPC, an IIAC affiliate and partner, created a webinar specifically for IIAC members to advise them of the current cybersecurity risks, and how they can take steps to protect their businesses. The webinar, titled *Ransomware, BEC and Cyberjacking - The New Front of The Cyber War: Defense Strategies for Companies Large and Small* is available for viewing here.

MILLER THOMSON / FLEISHMANHILLARD HIGHROAD WEBINARS

The IIAC partnered with Miller Thomson LLP and FleishmanHillard HighRoad to present a live webinar on Cyber Incident Response Planning. Surveys conducted by IIROC identified incident response planning as an area of critical importance for IIROC dealers. The webinar assists dealers in developing plans to restore business functions and minimize liability in the event of a cyber incident. It is available for viewing here.

The IIAC also partnered with Miller Thomson LLP and FleishmanHillard HighRoad in December to present a live webinar on the upcoming new PIPEDA Cybersecurity reporting and governance requirements.

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 has published 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 SAVING-TO-INVESTMENT PROSPERITY CYCLE

The Prosperity Cycle illustrates 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.

IIAC WHITE PAPER ON GOVERNMENT DEBT MARKET TRANSPARENCY

On March 28, 2018, the IIAC published a position paper titled 'Filling the Gap: Perspectives on Transparency for Canada's Government Debt Markets'. The paper argues that market-led initiatives have been effective in providing the information required for most Canadian market participants to transact confidently in Canadian government bond markets. The paper identifies retail investors as potentially benefiting most from the transparency solution Canadian regulators propose to soon mandate and makes several recommendations in the design of the transparency system. Click here to read the paper. For more information, contact Jack Rando (jrando@iiac.ca)

CANADA'S CENTRAL COUNTERPARTY CLEARING SERVICE (CCP)

The IIAC engaged the services of Deloitte to write a paper outlining the evolution and evaluating the contributions of Canada's central counterparty clearing service (CCP) to domestic repo markets. Over time, the CCP has added selected fixed income cash trading and, more recently, has added buy side participants. The paper is meant to showcase what we believe has been a successful collaboration between industry participants–the Canadian Derivatives Clearing Corporation (CDCC), IIAC, and Bank of Canada, among others.

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.