

September 28, 2018

Canada Deposit Insurance Corporation
50 O'Connor Street
17th floor
Ottawa ON
K1P 6L2

Via email: consultation@cdic.ca

RE: CDIC Joint and Trust Account Disclosure By-Law Consultation

The Investment Industry Association of Canada (the "IIAC") appreciates this opportunity to provide comment on the Canada Deposit Insurance Corporation's ("CDIC") proposed amendments to its Joint and Trust Account Disclosure By-law (the "By-law"). Our members generally act as nominee for their clients when placing deposits at CDIC's member institutions and, as such, will be directly impacted by the proposed amendments to the By-law.

General Comments

The IIAC supports the policy rationale for CDIC's proposed amendments to the By-law, 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. The IIAC also supports the changes to the CDIC coverage framework detailed in *Budget Implementation Act, 2018* as financial consumers will benefit from the expanded universe of products eligible for coverage.

The IIAC believes effective rule-making requires thoughtful analysis of the impacts to investor protection, market functioning, competition and capital formation. To the extent feasible, the benefits of proposed rules also need to be carefully weighed against the time and costs to implement. The amendments to the By-law introduce requirements that entail significant systems and procedural changes for our members acting as nominee brokers. The extent of these changes to our members should be taken into consideration by CDIC when it decides on an effective date for the By-law amendments and when the amendments to the CDIC Act come into force. Furthermore, there are areas in the proposed By-law that we believe require additional clarity to ensure all stakeholders understand the requirements, and the coverage available to clients of nominee brokers.

Lastly, it is imperative that the CDIC recognize the significant role nominee brokers play in placing deposits at CDIC's member institutions by ensuring coverage for eligible deposits made through nominee brokers be on equal footing with deposits made directly at a CDIC member institution.

Recommendation Summary

We submit the following comments and recommendations:

1. Industry be provided between twenty-four months and thirty-six months from the date the By-law is finalized to complete the extensive work required by the By-law amendments.
2. CDIC provide clarity on how the 'Nominee Broker' and 'Nominee Broker Deposits' definitions will be applied in the context of some of our members' business models, including those operating under a Carrying Broker – Introducing Broker relationship.
3. CDIC provide additional clarity in the By-law related to the use of alphanumeric codes and percentage breakdowns for deposits made through joint accounts at a nominee broker.
4. CDIC provides confirmation that separate deposit coverage for RESPs can still be obtained for nominee brokers who can only report at the subscriber level.
5. CDIC provide additional clarity in the By-law related to how professional trustees' deposits through nominee brokers will be treated under the new coverage framework.
6. CDIC provide sufficient opportunity for nominee brokers to work with CDIC to remedy any non-compliance before any public statement is issued by CDIC regarding that nominee broker.
7. The By-law should provide the nominee broker sufficient flexibility in determining who the signing senior officer for their firm should be based on the organizational structure of the firm's activities and the separation of duties that exist within the firm.

Each of the above are detailed in the commentary that follows.

1. Assignment of Alphanumeric Code

For a deposit held by a nominee broker to receive coverage the new legislation requires, among other things, that a unique alphanumeric code for each beneficiary of the deposit be provided by the nominee broker to the member institution at the time the deposit is made and each time a change is made to the deposit. The consensus among our members is that creating and assigning alphanumeric codes to their depositors will be a very complex undertaking.

For example, firms will have to develop procedures for identifying the same client potentially holding multiple accounts across their institution and then develop systems for assigning the client with a unique

alphanumeric code and capturing the current name and address of the beneficiary associated with that code. Additional considerations are then required for generating information and alphanumeric codes for joint accounts. Our members collectively manage more than 12 million client accounts making this a very large exercise for our industry.

Our members will also have to coordinate with industry vendors to agree on what form the alphanumeric code should take and how best to transmit that information to the member institutions. End-to-end testing will also be required.

The By-law also requires that for certain deposits the percentage of each beneficiary's interest in the deposit be disclosed, which will also entail extensive development work for the industry.

Given the above, our members believe that CDIC's targeted April 30, 2020 implementation date is not feasible for the industry. We recommend that industry be provided between twenty-four months and thirty-six months from the date the By-law is finalized, to complete the extensive work required for reporting alphanumeric codes.

2. Nominee Broker Definition

We welcome the inclusion of definitions for Nominee Broker and Nominee Broker Deposits in the CDIC Act. However, we believe it will be helpful if the By-Law provides clarity on how the definitions will be applied in the context of some of our members' business models. Specifically, some of our members have several legal entities through which they conduct nominee business. For example, some members may have a full service and online/discount brokerage. Additionally, some of our "Introducing Broker" Members rely on their "Carrying Broker" for facilitating deposits to a member institution. A Carrying Broker may in turn support several Introducing Brokers. In these situations, how is the CDIC's 'Nominee Broker' definition applied?

We believe it would also be helpful to obtain additional clarity around CDIC's treatment of nested trusts held through a nominee broker. Specifically, in order not to disadvantage clients of IIAC members, we believe CDIC should consider a look-through beyond the first level of trust.

3. Joint Deposits

Our members have identified the need for additional clarity in the By-law related to the use of alphanumeric codes and percentage breakdowns for deposits made through joint accounts at a nominee broker.

Page 10 of the Consultation document states that where beneficiaries co-own an equal and undivided interest in the deposit they are considered a single beneficiary and a unique alphanumeric code must be assigned by the nominee broker to identify the joint account. However, that same page also states that if there are multiple beneficiaries under the same trust deposit, the unique alphanumeric code for each beneficiary must be disclosed.

For joint accounts held through a Nominee Broker, please clarify the scenarios for which a single alphanumeric code and percentage ownership needs to be communicated to the member institution¹.

4. Registered Education Savings Plans (RESPs)

The IIAC welcomes the newly established coverage category for RESPs. However, the section in the Consultation paper pertaining to Registered Deposits in Nested Trust states that coverage will be available for registered plans at the level of the ultimate beneficiary. We interpret this to possibly mean that for RESPs the alphanumeric identifier must be assigned for the child as opposed to the RESP subscriber, which is usually the parent or grandparent. Assigning an alphanumeric identifier to the children beneficiaries of RESPs may be problematic for some nominee brokers whose systems were not designed to capture the beneficiary information.

We request confirmation that separate deposit coverage for RESPs can still be obtained for nominee brokers who can only report at the subscriber level – i.e. if a nominee broker provides member institutions with alphanumeric code and other required information pertaining to the subscriber of the RESP, coverage will not be denied².

5. Professional Trustees

The Consultation Paper details coverage available to professional trustee deposits made directly by professional trustees with a Member Institution. However, nominee brokers may also have accounts held by professional trustees that may purchase CDIC eligible products in their nominee broker accounts. We request the By-law clarify how professional trustees' deposits through nominee brokers will be treated under the new coverage framework.

6. Information Respecting Nominee Brokers

The Act will permit CDIC to make public the identity of any nominee broker that is not capable of meeting the reporting requirements established by the By-laws. The IIAC requests that CDIC provide sufficient opportunity for nominee brokers to work with CDIC to remedy the situation before any public statement is issued by CDIC regarding that nominee broker.

¹ It may be that CDIC is attempting to draw a distinction between two methods of holding a joint account: 1) Joint Tenancy with Right of Survivorship (JTWROS): each of the joint account owners has an undivided ownership interest in the whole account or 2) Tenancy in Common: each joint account owner will have an individual ownership interest in a specific percentage of the account.

² In this scenario CDIC should also inform stakeholders whether coverage will be aggregated at the subscriber level and, if so, the implications this could have on RESP coverage.

7. Attestation

The By-law proposes that Nominee Brokers provide an initial and annual attestation to indicate whether they can carry out their required obligations pertaining to eligible deposits. The By-law specifies that the attestation be signed by a senior officer of the nominee broker such as, for example, Chief Executive Officer (CEO), Chief Operating Officer (COO), or Chief Financial Officer (CFO).

We believe the By-law should provide the nominee broker sufficient flexibility in determining who the signing senior officer for their firm should be based on the organizational structure of the firm's activities and the separation of duties that exist within the firm. While for some firms this may be the CEO, COO or CFO, for most its likely to be someone more closely connected to this part of the nominee broker's business. It would be helpful if CDIC provide guidance on the separation of duties it sees necessary for the signing officer.

Sincerely,

"Jack Rando"

Jack Rando
Managing Director