

Highlights of Our 2018 Achievements

CEO-to-CEO

The Investment Industry Association of Canada (IIAC) is committed to constructive engagement with securities regulators and governments to fight for cost-effective rules, fight against rules that interfere with business activity and market efficiency, and to promote incentives for capital formation and growth. Our efforts are paying off. Here are some of our 2018 victories on your behalf.

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

Implementation of the Net Stable Funding Ratio (NSFR)

The issue: The NSFR is one of the Basel Committee's key reforms to promote a more resilient banking sector. Banks are required to hold a minimum amount of assets in the event a bank's regular funding sources are disrupted, which could lead to bank failure and potentially pose systemic risk. NSFR was implemented internationally January 2018, however, the Office of the Superintendent of Financial Institutions (OSFI) had announced a domestic implementation date of January 2019. The IIAC wrote to OSFI requesting that implementation be further delayed. Members were concerned about the potential effects of NSFR on the functioning of collateral markets and, by extension, the broader financial system.

What we got for you: In a February 6, 2018 letter, OSFI indicated it will revise its NSFR implementation date for Canadian deposit-taking institutions to January 2020.

How does this benefit me? Market participants will have more time to digest NSFR requirements and incorporate changes into their business/operational practices. OSFI will have more time to ensure domestic implementation is appropriately calibrated for the nuances of the Canadian market.



Foreign Issuer Exemption

The issue: In 2016 and 2017, the Ontario Securities Commission (OSC) published for comment a proposed rule that would provide issuers with more certainty when they sell securities to investors outside Canada. The IIAC formed a working group to comment on the proposal.

What we got for you: The CSA took the IIAC's comments into account and introduced a new prospectus exemption for the resale of securities of a foreign issuer.

How does this benefit me? There is now greater certainty and predictability in the application of prospectus and registration requirements in cross-border financings, improving efficiency and resulting in cost savings for issuers.



Regulatory Burden for Issuer Financing and Continuous Disclosure

The issue: In April 2017, the Canadian Securities Administrators (CSA) asked market participants and stakeholders to identify specific areas of securities legislation where the regulatory burden on reporting issuers may be out of proportion to the regulatory objectives. The IIAC made several recommendations to the CSA.

What we got for you: The CSA announced on March 27, 2018 that it will initiate policy projects focused on facilitating at-the-market (ATM) offerings; removing or modifying the criteria to file a business acquisition report (BAR); reviewing certain continuous disclosure requirements, with a view to reducing the burden of disclosure on issuers; and enhancing electronic delivery of documents, recognizing that some legal aspects of electronic delivery fall outside of the scope of securities legislation.

How does this benefit me? The IIAC's recommendations help 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).



Client-Focused Reforms

The Issue: In 2016, the CSA released proposals to *Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients*. It also pondered a regulatory standard mandating that registrants act in their clients' best interest. The IIAC encouraged regulators to first consider the results of the CSA multi-year Point of Sale (POS) and CRM impact study to inform the need for any new regulations, and not to proceed with an overarching best interest standard.

What we got for you: The CSA reached consensus on a package of harmonized rules and guidelines to achieve best interest/client-first conduct between registrants and their clients, and to promote a regulatory level playing field across all securities registrants. The proposed rules leverage the existing SRO rule framework and add additional requirements to core aspects of the retail business, including Know-Your-Client, Suitability, Know-Your-Product, and conflicts of interest. The model embeds a detailed and obligatory best interest and client-first conduct within the specific reforms, rather than the alternative of an overarching best interest standard.

How does this benefit me? A broad, sweeping and vague best interest standard would have created confusion and negative consequences for advisors and their clients. It would have reduced access to financial products, decreased affordability of financial advice, and heightened uncertainty with respect to client-advisor relationship obligations, resulting in onerous compliance requirements and increased exposure to risk and liability for advisors.



IIROC Order Execution Only (OEO) Guidance

The issue: In November 2016, IIROC issued proposed guidance setting out expectations and requirements for OEO firms. The guidance would, among other things, have limited the range of tools available to clients through OEO firms, forcing 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, resulting in negative outcomes for them, and run counter to IIROC's mandate to protect investors and support healthy Canadian capital markets.

What we got for you: IIROC issued Notice, its final OEO guidance, in April 2018. The proposed guidance was significantly amended based on the IIAC's discussions and comments. However, industry members were concerned with new items included in the Notice of Implementation that were not previously discussed in the consultation process. Parts of the Notice were suspended on August 14, 2018.

How does this benefit me? As a result of IIAC advocacy efforts, the OEO business model remains an investment option for Canadian investors.



MX Extended Hours Project

The issue: The Bourse was looking into extending trading hours for certain futures contracts. In May 2017, and again in January 2018, the IIAC wrote to the Bourse to express its opposition to the Extended Hours Project. Extended hours would result in additional costs and a greater regulatory burden on IIAC members, with only minimal offset from the expected trading volumes during extended hours. Furthermore, potential illiquidity during extended hours may increase market manipulation and damage the integrity and reputation of the Canadian derivatives market.

What we got for you: The Bourse wanted to implement extended hours as early as Q3, 2017. The IIAC believed that a proper assessment of the project was not performed by the Bourse and its Regulatory Division. Following questions and concerns raised by the IIAC in its submission letters, the Bourse announced it would delay launching the Extended Hours Project until October 2018. It also undertook additional risk assessment and indicated it will be conducting further analysis following the launch.

How does this benefit me? Firms had more time to assess the project's impact on their business and to decide if they would participate in extended hours trading. While the IIAC still opposes extended hours, we believe the Bourse is now better equipped to deal with any issues that may arise.



Montreal Exchange (MX) Participant Portal

The issue: On June 19, 2017, the IIAC requested "SAM approved/MX ID" automation to the Montreal Exchange.

What we got for you: On October 15, 2018, the IIAC received written confirmation that the MX Regulatory Division will implement a secure Participant Portal (initial delivery in November 2018; other features to be added incrementally) allowing firms to submit and update regulatory information, access application forms, and view regulatory registrations.

How does this benefit me? A Participant Portal will enhance member firm operational efficiency.



Application of the Advantage Rules to Investment Management Fees on Registered Plans

The issue: The Canada Revenue Agency (CRA) considers the increase in value of property held in a registered plan that indirectly results from investment management fees being paid from outside of the plan to constitute an "advantage", as set out in the *Income Tax Act*. The CRA indicated, effective January 2019,

registered plan holders should pay investment management fees charged to those plans out of the plan's assets to avoid adverse tax consequences—i.e. 100 per cent penalty tax on fees paid by an investor that are deemed to be an advantage.

What we got for you: The IIAC met with the CRA to explain the reasons investors choose to pay investment fees from outside their registered plans and illustrated that this practice is not providing a material tax advantage to investors. As a result of discussions with the IIAC, the CRA communicated in a September 2018 letter that it will defer its decision “indefinitely” while government officials continue to evaluate the CRA proposal. The IIAC expects the government will publish its final position for another round of consultation.

How does this benefit me? IIAC members are spared from having to make costly systems or procedural changes and can continue to follow current practices.



Section 871(m) Regulations

The issue: Section 871(m) of the U.S. Internal Revenue Code aims to prevent non-U.S. persons from using derivative instruments to avoid U.S. withholding tax on U.S. equities by imposing withholding taxes on certain dividend equivalent payments. The IIAC repeatedly lobbied the U.S. Department of the Treasury and the Internal Revenue Service (IRS) requesting amendments and clarity on how firms could comply with the final rules.

What we got for you: On September 21, 2018, the Treasury and the IRS released Notice which further extends the phase-in of regulations under Section 871(m) and related provisions by two years. Specifically, the Notice extends the phase-in for delta-one transactions (which the IIAC has recommended as the permanent delta threshold) as well as the qualified securities lending regime and certain corresponding qualified derivative dealer requirements.

How does this benefit me? The two-year extension provides relief to IIAC member firms, as the rules had become increasingly complex and burdensome to comply with. Canadian firms can continue their business lines unimpeded by excessive taxation.



Electronic Delivery of Tax Slips to Clients

The issue: A March 2018 CRA Technical Interpretation letter stated Financial Institutions (FIs) can issue tax slips electronically to clients, only if they obtain the express consent of the client. This places an additional administrative burden on IIAC members and their clients and may be contrary to current practices.

What we got for you: The IIAC sought administrative relief for the industry. In October 2018, the CRA issued another Technical Interpretation letter stating the requirement for client consent is deemed to have been met where the client signs up for online access to a secure website on which the FI has electronically uploaded tax slips.

How does this benefit me? The IIAC obtained administrative relief for the industry. Firms that currently permit clients to retrieve tax slips electronically through a secure client portal can take comfort they are meeting CRA requirements.



Annual Reporting of Payment of Account Fees/Charges Through Other Accounts

The issue: In July 2018, IIROC stated in an email that members will not be permitted to aggregate account fees/charges of related or linked accounts through one designated account to facilitate client payments in order to comply with the annual client account fee/charges reporting requirements implemented under the Client Relationship Model (CRM). Dealers must reallocate fees charged back to their proper accounts before preparing the annual fee/charges report and annual performance report.

What we got for you: As a result of discussions with the IIAC, IIROC decided, on an interim basis, to continue to permit the account fees/charges aggregation practice for multiple accounts of the same individual and for multiple accounts of individuals within the same household, without requiring that the fees charged be reallocated back to their proper accounts before preparing the annual account fee/charges and performance reports. IIROC is currently considering what approach to take to formally permit these arrangements.

How does this benefit me? As a result of IIAC advocacy efforts, members firms, or their service providers, will not have to undertake costly systems changes to reallocate fees charged back to proper accounts. Clients of member firms can continue to experience the convenience and other benefits stemming from aggregation of account fees/charges.



OBSI Terms of Reference

The issue: In April 2018, the Ombudsman for Banking Services and Investments (OBSI) sought public comment on its updated Terms of Reference (TORs). The TORs lay out OBSI's principal powers and duties, scope of mandate, and processes for receiving, investigating and seeking resolutions of complaints, as well as the obligations of participating firms, including IIAC member firms. The goal of the updated TORs is not to change OBSI's mandate, rather to ensure the TORs are up-to-date, clear, and easy to use and understand. In May, the IIAC expressed concern with several of the amendments, as they appeared to expand or change the scope of OBSI's investigative and information gathering process.

What we got for you: The publication of OBSI's new TORs in December 2018 reflected all but one of the IIAC's recommendations, either in the text of the TORs, or in an explanation of the interpretation.

How does this benefit me? IIAC members will benefit from a more tightly written document which more clearly articulates OBSI's authority to investigate complaints, leaving less room for OBSI to go beyond the specific investor complaint.



Other Highlights

Opinion and Commentary from Ian Russell, IIAC President and CEO

BNN [interview](#): NAFTA to be key risk to Canada's investment industry in 2018. January 11, 2018.

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Canadian Business Journal [article](#). "On NAFTA, uncertainty is our enemy." February 28, 2018.

BNN Advisor interviews. The great robo debate: [How traditional advisors can add value?](#) and [Hybrid models emerging](#). March 16, 2018.

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Business in Vancouver [Podcast](#). Issues plaguing global financial markets. December 3, 2018.

Globe and Mail [Op-Ed](#). “Small investors will benefit from the Ontario government’s deregulation plans.” December 3, 2018.

Investment Executive, [Industry Perspectives](#). “FSRA will have many benefits.” December 14, 2018.

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