



# IIROC Strategic Plan

2012 - 2015

## **IIROC 2012 – 2015 Strategic Plan**

### **IIROC Mandate**

We set and enforce high quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

### **IIROC Vision**

We will be known for our integrity, our transparency and our fair and balanced solutions. We aim for excellence and regulatory best practices. Our actions are informed by sound deliberation, analysis and consultation.

### **IIROC Values**

- *Act with Integrity* – We conduct ourselves in an ethical manner in accordance with the highest degree of fairness and professionalism.
- *Be Accountable* – We act in a timely, diligent and responsive manner.
- *Be Proactive* – We are open to new ideas as we anticipate and collaborate to meet the challenges of a constantly changing environment.

## **IIROC Strategic Goals**

Our stakeholders are Dealer and Marketplace Members, investors, our employees, other regulators and government agencies. In fulfilling our mandate, we must be aware of and balance the interests of each of our stakeholder groups while acting with integrity, transparency and fairness. We must also be aware of market developments and regulatory initiatives that are taking place beyond our borders. By successfully meeting the challenges we face through the pursuit of the following strategic priorities, we will achieve our goals to protect investors and to promote confidence in the fairness, integrity and competitiveness of the Canadian capital markets.

The following are IIROC's seven strategic goals for 2012 - 2015:

1. promote a culture of compliance;
2. promote the protection of the investing public;
3. deliver effective and expert regulation;
4. strengthen the fairness, integrity and competitiveness of the Canadian capital markets;
5. act in an accountable, transparent and fair manner;
6. be a cost-effective and efficient organization; and
7. be an employer of choice.

## **Goal #1: Promote a culture of compliance.**

The industry and markets we oversee should operate with high standards of fairness and integrity so that the confidence of all market participants is preserved and enhanced. Accordingly, a strong culture of compliance benefits investors and contributes significantly to the competitiveness of the Canadian capital markets.

IIROC Dealer Members face many compliance challenges. Canadian market structure continues to rapidly evolve, against the backdrop of a challenging economic environment and ongoing market volatility. Business structures increasingly involve interconnections with affiliates, both domestically and cross-border. The proliferation and complexity of products available to investors require enhanced due diligence and proficiency.

In this environment, robust risk management, internal controls and supervisory systems are more critical than ever. Dealer Members must adopt and maintain policies and procedures designed to manage the full range of credit, market, operational, legal and reputational risks associated with their business models. Effective regulation requires a continued emphasis on promoting a strong culture of enterprise-wide risk management and compliance at IIROC regulated firms.

### **To accomplish this goal, we will:**

1. undertake periodic, industry-wide **compliance audits and surveys** to identify and address common compliance issues and to inform policy development
  - review Dealer Members' compliance with best execution obligations
  - review Dealer Members' policies relating to the management of conflicts of interest in the distribution of non-arms' length products
2. provide relevant and timely **guidance and education** sessions to communicate regulatory expectations, promote compliance and share best practices
  - issue guidance on the use of leverage, particularly in retail client accounts
  - assist Dealer Members in understanding and successfully implementing enhanced requirements flowing from the Client Relationship Model rule amendments
  - issue guidance on manipulative and deceptive trading

3. issue **annual reports on significant issues** that will be future areas of regulatory emphasis for IIROC
4. **allow Dealer Members flexibility** to determine how best to comply with clearly stated regulatory expectations, provided the desired regulatory outcomes are achieved
5. deliver **compliance examination reports** in a timely, consistent manner with clear findings and recommendations aimed at improving compliance standards and addressing material risks
  - focus on suitability, supervision, outsourcing arrangements and liquidity risks
6. monitor and **respond to Dealers' evolving service offerings** to ensure that they continue to comply with applicable requirements
  - ensure that the regulatory framework for order execution and advisory channels continues to be appropriate
7. complete our **plain language rule initiative** to enhance stakeholder comprehension of, and compliance with, IIROC's Dealer Member Rules
8. continue compliance efforts to identify and address issues relating to **product due diligence**, with a focus on the risks associated with complex products
  - continue to focus on the risks associated with the sale of inverse/leveraged ETFs, PPNs and other structured products
9. conduct a review, with industry participation, of **underwriting due diligence standards** to promote industry best practices and inform any future standard-setting in this area.

## **Goal #2: Promote the protection of the investing public.**

As part of the securities regulatory framework in Canada, IIROC's mandate includes a strong focus on investor protection. We continue to look for opportunities in our regulatory activities to enhance investor protection given changing demographics and to promote investors' awareness of who we are, the regulatory function we perform and the resources available.

Investors should have a clear understanding of their client/advisor relationship, including the services offered, the cost of those services and the performance/results actually achieved. Achieving these goals is critical to enhancing investor protection. IIROC will continue to work with the industry and the investing public to ensure that there is clear, ongoing communication

and access to fundamentally important information to help investors make informed choices/decisions.

Rapid changes in the capital markets also bring investor protection to the forefront. The advent of electronic trading and growth of algorithmic and “high frequency” trading in recent years has changed the dynamics of the equity markets, with significant implications for the investing public and IIROC’s investor protection mandate. We will therefore actively monitor and address new developments in market structure in order to ensure that market integrity is maintained and investor protection is strengthened.

**To accomplish this goal, we will:**

1. continue to focus, from policy development through to enforcement, on issues relating to **retail or less sophisticated investors**
  - review the use and supervision of titles that connote expertise and invite reliance
  - continue to focus on industry compliance with know your client, suitability and product due diligence obligations in order to identify and respond to potential issues and trends
2. undertake **ad hoc consultations with retail and institutional investors** and investor groups in order to understand their views and consider their input
3. through investor education and outreach, **raise awareness** of IIROC’s regulatory functions and investor protection mandate, and highlight IIROC’s existing investor resources
  - promote awareness of IIROC’s complaints and inquiries service, independent dispute resolution services (OBSI and arbitration), CIPF insolvency protection and other benefits of dealing with IIROC member firms
  - promote awareness of IIROC’s AdvisorReport service and our Guide to Trading on Equity Markets
4. identify gaps in current investor education programs and introduce **new education materials** to investors and members of the public generally
5. continue to **collaborate with investor education bodies**, domestically and globally, to share and implement best practices
  - provide leadership for the International Forum for Investor Education (IFIE)
6. participate in **government consultations** concerning legislation and regulations that impact investors.

### **Goal #3: Deliver effective and expert regulation.**

Our mandate requires that we balance protecting investors with maintaining efficient and competitive capital markets. In order to achieve this balance, we must take a flexible approach that is appropriate within the context of global market developments, yet tailored to the unique characteristics of the domestic financial services industry.

We will undertake ongoing evaluations of the quality and relevance of our regulatory framework and approach. We will maintain and strengthen the high standards for which the Canadian capital markets are known while achieving regulatory outcomes in a cost-effective manner.

IIROC's strength is a reflection of the expertise and professionalism of our staff. We can build on this strength by promoting continuing education, training and personal development of our staff. We will deliver effective and expert regulation by complementing technical skill with data, research and the effective leveraging of organizational knowledge.

#### **To accomplish this goal, we will:**

1. ensure that our approach strikes an **appropriate balance** between prescriptive and principles-based regulation and provides the flexibility necessary to effectively regulate firms that vary in size and business model
2. refine existing management benchmarks and key performance indicators to be **more outcome-focused** in our regulatory efforts
3. continue to apply a consistent **risk-based approach** to our regulatory activities in order to efficiently allocate internal resources to the most significant high-risk issues
4. address issues using the **full range of regulatory tools** available to us
5. **proactively use data, research and organizational knowledge** to analyze trends, identify emerging risks and inform our regulatory approach
  - create an equity data mining facility
  - analyze trends in complaints received
6. **refine our regulatory approaches** in response to changes in the industry, market structure and investor demographics
  - conduct a review of portfolio-based margin methodologies
  - enhance our compliance examination modules

7. maintain ***relationships with other domestic and international regulatory bodies*** and law enforcement organizations to enhance collaboration and effective standard-setting in a Canadian context
  - continue to share our expertise and marketplace intelligence to address regulatory arbitrage and cross-border regulatory concerns
  - effectively utilize and build upon our relationships with other international bodies, including IOSCO and the Inter-market Surveillance Group

***Goal #4: Strengthen the fairness, integrity and competitiveness of Canadian capital markets.***

Many Canadians, whether as members of a pension plan or through direct market participation, are stakeholders in the Canadian capital markets. Many investors place considerable reliance on their financial advisors to help them plan for retirement. As such, Canadians have the right to expect that the capital markets are operated in a fair and transparent manner by firms and individuals with integrity.

In the aftermath of the global credit and financial crisis, policy makers globally are working to address regulatory gaps that continue to expose markets and investors to systemic risk. These discussions have focused principally on redefining the perimeters of regulation, including how to define and effectively oversee significant market participants, activities and practices which have grown in scope and importance, and unregulated or under-regulated products. IIROC can contribute to the ongoing efforts of governments, central banks and other regulators to reduce systemic risk.

Manipulative and deceptive trading activities, like systemic risk, undermine the fairness and integrity of, and investors' confidence in, markets. IIROC will be vigilant in identifying and addressing aberrant trading activity in order to maintain investor confidence.

Investor confidence also depends in part on ensuring that Canadian capital markets remain competitive and attractive to investors. Accordingly, IIROC is mindful of the potential effect that regulatory initiatives have on capital raising efforts and economic growth.

We will ensure that our activities promote behavior amongst market participants that serves as the foundation for fair, efficient and competitive capital markets.



**To accomplish this goal, we will:**

1. continue to proactively **address new and evolving market structure issues**
  - establish an appropriate framework for electronic trading
  - complete the implementation of industry-wide and marketplace volatility controls
  - update surveillance alerts, analytics and enforcement approaches in the context of “high frequency” and algorithmic trading
2. actively **pursue those engaging in unfair, misleading and/or abusive practices**
  - continue to prioritize enforcement cases involving unsophisticated investors and seniors
  - continue to implement improvements in IIROC’s enforcement program to ensure we deliver timely and effective results that serve as a clear and appropriate deterrent
3. identify and **address opportunities for regulatory arbitrage**, including by coordinating our activities with other regulators and agencies
  - work with the CSA to develop a comprehensive package of rules that will address concerns arising out of the existing regulatory regime which allows Exempt Market Dealers (EMDs) to offer brokerage services to accredited investors without being IIROC Dealer Members
  - work with the CSA to develop an appropriate electronic trading framework and risk controls
4. work with educational service providers to **enhance proficiency standards** for IIROC industry participants
5. implement a **fixed income trade reporting system**, for effective surveillance and oversight of Dealer Members’ trading activity, and enhance our examination modules to assess sales practices in this market
6. identify and assess the risks of **systemically-important Dealer Members and counterparty arrangements** entered into by Dealer Members to mitigate such risks and protect client assets.

**Goal #5: Act in an accountable, transparent and fair manner.**

IIROC is committed to ongoing, constructive dialogue with regulated firms and marketplaces, as well as other industry and investor representatives. Timely and meaningful consultation on important regulatory initiatives will help to ensure

balanced and practical regulation and promote a compliance focus within the industry.

We are also committed to developing and refining appropriate measures of our regulatory effectiveness in raising the standards of fairness and integrity in the Canadian capital markets.

**To accomplish this goal, we will:**

1. ensure our rules **clearly set out our policy objectives** and regulatory expectations
2. ensure that **experienced staff** are involved in the compliance examination process and are **accessible to members** to discuss issues identified through compliance reviews and supervisory oversight
3. **monitor the impact and effectiveness** of our regulatory initiatives
  - study the impact of new/amended market and member regulation initiatives on trading behavior and Dealer Member conduct
4. **respond to the results of our Dealer Member survey**
  - implement a strategy to engage small and mid-sized Dealer Members more effectively in the self-regulatory process
  - improve our policy consultation process
5. continue to **solicit the views of all stakeholders** on our regulatory initiatives, and provide timely feedback on the results of these consultations
6. continue to enhance the **new IIROC website** and promote it as our primary communications tool, ensuring it contains timely and relevant information
7. continue to use our **Annual Report** as an important accountability tool for reporting progress on our strategic goals and priorities.

**Goal #6: Be a cost-effective and efficient organization.**

Economic pressures impacting industry profitability, and the importance of being accountable for cost-effective operations, drive the need for robust fiscal management and stewardship. Our goal is to increase productivity through effective prioritization and execution of strategic initiatives, and efficient utilization of resources across our operations. We will continue to work with

other regulators to avoid unnecessary duplication of effort and reduce the overall costs of regulation in Canada.

**To accomplish this goal, we will:**

1. **leverage information technology** to increase productivity, streamline processes and facilitate intelligence sharing internally
  - implement a new case tracking system in Enforcement
  - develop a single, secure **electronic gateway for Dealer Members** to file documents and reports to reduce/eliminate duplicate requests for information for regulatory purposes and to facilitate access to such information
2. **rationalize our IT data centres** to reduce costs and improve controls
3. explore creative, cost-effective ways to **supplement our existing expertise** on projects and initiatives as needed without adding to full-time staff
  - make use of project consultants and contract staff where appropriate
4. create an equity data mining facility to support **timely and efficient analysis** of post-trade data
5. enhance our **cost/benefit analysis** procedures for considering significant capital expenditures
6. implement a **vendor management policy** to ensure achievement of economic benefits and service levels with third-party service providers
7. implement **integrated compliance examinations** where appropriate, starting with “high-risk” firms
8. enhance the robustness of our **enterprise risk management** framework
9. implement an **internal audit** function to work with management in ensuring that our controls and processes are effective and efficient, and to enhance monitoring of our risk mitigation strategies
10. continue to enhance our **information security** framework, standards and practices to ensure that they are aligned with stakeholder expectations.

### **Goal #7: Be an employer of choice.**

We offer our employees the opportunity to work in a dynamic field and to have a direct and positive impact on investors and the industry we regulate. Our goal is to attract and develop a confident, well-trained staff with deep and broad knowledge of the markets we regulate. We will encourage proactive approaches to emerging issues by ensuring that our corporate culture, practices and staff training promote staff judgment and critical analysis, within an appropriate accountability framework.

Our goal is to be and to be seen as a dynamic organization. We will provide our employees with competitive compensation, relevant and timely training and a professionally motivating environment to help us attract and retain high-performing staff. We are committed to talent management to recognize, develop and leverage internal resources and help prepare them for lateral, promotional and leadership opportunities as they arise.

#### **To accomplish this goal, we will:**

1. continue to provide a rewarding and challenging work experience for employees in a **performance-based environment**
2. provide **training and development** that is timely, relevant, job-specific and cross-functional to ensure that employees continue to be experts in their fields
3. continue to focus on an effective **talent management plan** for key individuals and roles
4. respond to the results of our second **employee engagement survey** and conduct our next survey
5. ensure that **organizational objectives are broadly communicated** and well understood so that individual goals and objectives are aligned with them
6. continue to support corporate campaigns that enhance **workplace spirit** and help make our communities a better place to live and work.



## Investment Industry Regulatory Organization of Canada

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