

Notes for Remarks by

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Welcome

Thank you, Claudyne.

Good morning everyone. Welcome and thank you for being here.

As a public interest regulator, partnerships are critical to our ability to carry out our mission: to protect investors and support healthy Canadian capital markets.

And the most critical group of our partners is you, our members – for we are a self-regulatory organization – and it is with you that we work to ensure that we have an effective and efficient regulatory model that serves the public interest.

Throughout the day, you will be hearing about our regulatory priorities and how they contribute to our mandate from various members of IIROC's senior management team. There will also be opportunities to talk with each other throughout the day.

So for now, I'd like to offer you a high level overview of where we're heading and why. I'll pick up from where I left off last year – with our Strategic Plan.

Strategic Plan helped us better understand the environment

If you were here last year, you will recall that I spoke to you about our strategic planning process. Some of you participated in our consultations and provided valuable input that helped shaped our path to the future; so thank you.

Your comments, along with many others from the industry, regulators, investors and other interested parties, helped us better understand the shifting landscape and the structural changes taking place in Canada and abroad.

In different ways and with different words, they collectively sketched out this picture. Much of what we are living through today has its roots in the reaction to the financial crisis that first shook the world in 2008.

Certainly much of the regulatory activity that has taken place since that time was driven by the sea change that took place in the last decade.

Secondly, society is changing demographically. We are getting older and living longer – which presents unique and sometimes conflicting investment challenges. Our needs and

our behaviours as investors are changing. This will continue to shape the industry that serves those investors, as well as its regulatory framework.

Technology is acting as a catalyst for behavioural change. It is allowing people more and faster access to information – and allowing us to interact in different ways.

I'm sure you've seen this in your dealings with clients and in the information tools you use every day at work. We too are seeing the impact of technology with the evolution in different business models, the impact of social media on the way marketing is done and the trend toward robo-advice.

This is by no means an exhaustive list of the factors in play, but it gives you a flavor of the strategic landscape facing us all, the challenges and of course the opportunities.

IIROC is changing to respond appropriately to these challenges. But I want to underline that we cannot and should not act alone.

We are your industry's SRO, and while we want to demonstrate leadership, we all have a part to play in meeting the challenges posed by such fundamental change.

While I hope most of you had a chance to review our new Strategic Plan, please indulge me as I quickly summarize our key objectives.

First, IIROC aims to make the delivery of securities regulation in Canada significantly more efficient. Greater efficiency in securities regulation means reducing gaps, overlaps and regulatory arbitrages that can harm investors and the markets.

But we know that we can't do that alone. We can only do it in partnership with the people in this room and various other organizations with whom we work. And so, we must be and be seen to be a trusted, respected and valued partner to you and indeed to all of our stakeholders.

To earn your continuing support, we must carry out our mandate and do it well. In other words we must demonstrate that we are a leading-edge securities regulator.

We will demonstrate that with tangible outputs – like the implementation of a new market surveillance system and the resources we have created to help firms identify and manage cybersecurity risks and cyber-threats – but also with strong principled policies about which I will speak more in a moment.

We will also earn your trust and support by taking action against wrongdoers and holding these individuals accountable for their misdeeds.

Finally, as it is IIROC's employees who will together deliver on our mission to protect investors and support healthy capital markets, we must continue to attract and retain talented colleagues and support a strong performance culture.

Let me give you one or two concrete examples of the initiatives which will support the achievement of our vision and mission.

Debt market surveillance and transparency

Many of you are aware that last November our new debt transaction reporting rule took effect.

It requires IIROC-regulated firms, beginning with those who are government securities distributors with the Bank of Canada, to report all their fixed income trades to IIROC.

We collect that information for market surveillance purposes but it also supports many other public policy goals.

For example, the Canadian Securities Administrators appointed IIROC the Information Processor for corporate debt securities earlier this year, allowing the market and the public generally to benefit – with no duplication of cost – from a subset of that same bond trade data.

As of July, information on corporate bond trading became available to all market participants on our dedicated website. We hope to expand the information available and make its publication more timely as the site evolves.

And finally, that same information has the potential to be of significant value in the monitoring of systemic risk, something of great importance to our partner the Bank of Canada and to a number of our stakeholders including the AMF and others.

So this is an example of one of those ‘tangible outputs’ I spoke of earlier.

Now let me spend a moment on what I feel is a critical policy debate in Canada and one on which it is vital for IIROC to have strong, principled policy position.

Collaboration in the Best Interest of Investors

I'm sure most of you are familiar with the national discussion on best interest and the ongoing consultation both on this standard specifically and on a range of targeted reforms proposed to better align the interests of registrants on all platforms to the interests of their clients.

Over the past few weeks, I had the opportunity to sit down with several of our District Councils from Vancouver to St. John's and more recently I attended a branch manager conference hosted by one of our dealer members.

I expected to get some opposition to the very concept of a best interest standard but that wasn't the case. Most questions and comments were about the practical implication of implementing such a standard. Generally there was support and that is probably the case because most financial advisors want to deliver what is best for their clients.

So what is IIROC's position on best interest?

We are committed to working with the CSA through this process as it will help ensure a consistent, high standard for all regulatory platforms – a standard that in many cases IIROC registrants are

already required to meet. It therefore supports our objective of making the delivery of securities regulation more efficient by reducing gaps and arbitrages. That can only help Canadians.

But let me address directly the question of ‘best interest’. To my mind, the most important part of the best interest issue is how advisors must act when their interests conflict or are perceived to conflict with those of their clients.

Our rules say explicitly that any conflict of interest between a registrant and their client must be resolved in a fair, equitable and transparent manner, consistent with the best interests of the client.

To be sure, making these words truly ‘live’ will take more work. Ensuring that, for example, firms not only have but follow clear policies and procedures on compensation-related conflicts is an effort we’ve begun but which will take time to complete.

Similarly, we need to ensure that the words ‘conflict of interest’ are not interpreted narrowly but broadly – as is just and appropriate. This too will take time and may require some rewording of our rules.

But let me be clear, as we have already said, we will make certain that our rules and guidance put the best interest of the client ahead of the interests of IIROC-regulated dealers and their representatives.

This can only improve public confidence in our markets and our financial system and contribute to their health and vibrancy.

Collaborating to strengthen investor protection

Public confidence in markets also requires consistent and credible enforcement.

Most of you have heard me say that it's not acceptable for an individual who has been disciplined by one regulator to escape the consequences of their actions by simply working in a different part of the industry or another jurisdiction.

Over the past year, we've closed a number of the gaps that have existed by executing co-operative and disciplinary information-sharing agreements between regulators in Quebec, Ontario and British Columbia. By working together, we are strengthening protection for financial consumers, here in Quebec and across the country.

Negotiating co-operative agreements is one way to improve investor protection. But there are other gaps that need to be closed. And we need the support and assistance of our provincial government partners across the country to do that.

I'm speaking of course of our inability to enforce the penalties levied by our disciplinary panels against those who have been proven to have violated the trust of their clients in jurisdictions across the country, with the exception of Quebec and Alberta.

Thanks to the leadership of the governments in la belle province and Alberta, which in the past amended their provincial securities acts, IIROC has the legal ability to enforce our penalties through the courts. As a result, collection rates in these two provinces are significantly higher than the national average which currently stands at less than 20 %.

In fact, there remains outstanding nearly \$30 million in uncollected fines against individuals coast to coast, monies that could be used to improve our investor protection efforts, at no cost to taxpayers.

Another area which would help IIROC staff, including our disciplinary hearing adjudicators, more effectively carry out

duties delegated to us by provincial commissions is the need to have statutory immunity.

For example, here in Quebec, if the AMF and its staff were to carry out regulatory duties directly that they delegate to us, they would have the benefit of protections embedded in the legislation. We are pursuing an immunity provision for the good faith performance of our functions. This would allow IIROC staff to act in the public interest without fear of lawsuits related to their regulatory role.

The Quebec Government, we know, shares our view and is committed to enhancing consumer protection. We commend the government for its recent initiatives to modernize financial services regulation in Quebec and for leading the way on the collection of fines. We remain hopeful that our collaboration will result in even stronger protection for Quebec investors.

I'd now also like to take the opportunity to commend the Prince Edward Island Office of the Superintendent of Securities for its commitment to protecting investors. You may be aware that in late September the PEI Superintendent gave us the authority to enforce the payment of a fines by filing the enforcement decision with the Supreme Court of PEI.

IIROC appreciates the support and collaboration of the PEI Office of the Superintendent of Securities in helping us in this endeavor, which we believe will help deter wrongdoers and support investor confidence in the regulatory system.

In the meantime, we continue to ask governments and our regulatory partners across the country to please help us better protect investors; to give us fine enforcement and the other tools we need to do the job that we have been assigned.

Nobody disagrees. It is not a question of convincing governments that our view is right and another is not. There is no other view. The only task is to convince governments that the time to act is now.

White Paper update

At the outset of my remarks, I started by talking about our commitment to making the delivery of securities regulation in Canada more efficient.

This was one of the key objectives we had when published our White Paper last November which was designed to consider ways to reduce regulatory overlaps and harmonize IIROC's

requirements and standards with those of other regulatory platforms – all while pursuing the public interest and maintaining or enhancing investor choice and protection.

We wanted to stimulate debate on how this might be accomplished. As such, we included an illustrative proposal that would allow firms and individuals to conduct, under IIROC’s regulatory oversight, a business that is limited to mutual funds and ETFs – and which would provide more consistency in the regulation of MFDA and IIROC registrants with respect to proficiency standards and directed commissions.

We kick-started this discussion because we believe that such conversations on fundamental issues – though at times difficult – lead to better public policy decisions that make the regulatory regime more efficient.

We succeeded in stimulating this conversation which garnered more submissions from a broad spectrum of stakeholders than we have ever received on any request for comment – 36 public comment letters to be exact.

We received a range of opinions, and while there were a number of common themes, there were substantial differences – important hallmarks for strong policy making.

We also took into consideration the range of financial industry and investor protection issues currently being considered by other regulators and governments in Canada. This includes various CSA policy initiatives, possible legislative amendments governing financial services in Quebec and the work on the regulation of financial planning activities in other jurisdictions.

Most of you in this room should be familiar with the CSA's Consultation Paper 33-404 which discusses targeted reforms to enhance the obligations of advisors, dealers and representatives toward their clients.

The CSA's proposals touch on a number of foundational elements of the securities regulatory regime including proficiency requirements. In fact, they raise many of the same issues as our illustrative proposal to eliminate the proficiency update requirement.

That is why we have committed, in the notice we published earlier this month, to actively participate in these CSA

consultations that may result in a more harmonized proficiency standard across regulatory platforms. In fact, if implemented, the reforms could make the elimination of our proficiency upgrade requirement unnecessary.

Our response to the comments on the White Paper and our next steps appropriately reflect a number of new developments, including the CSA's broad ranging consultation, in the Canadian policy landscape.

In addition, we are also seeking clarification from federal authorities on the tax rules applicable to directed commissions when used by individual registrants.

We will also, on a case-by-case basis, work with interested firms to help their advisors upgrade to meet our proficiency requirements as efficiently as possible.

Creating a more level playing field and reducing fragmentation, burden and arbitrage across regulatory platforms while maintaining – or increasing investor protection – is something we take very seriously. That's why we will continue to engage our partner regulators, government authorities, investors and other stakeholders in these important discussions.

Closing

IIROC's public interest agenda can only be achieved in partnership with all of you.

And that means we want you to continue to play a role in our policy development and implementation processes.

In our Strategic Plan, we committed to enhancing the way we consult with all stakeholders and ensuring that we deliver timely, relevant and proportionate regulation that minimizes undue impact.

As such, we are planning to directly engage investors by conducting quantitative and qualitative research on important issues where we want to better understand the consumer's experience and point of view.

We are also looking to make more effective and efficient use of the various standing committees, including the CLS and FAS Committees that many of you participate in, as well as the Quebec District Council and our National Advisory Committee. We truly want to use these forums as opportunities for two-way dialogue and a chance to hear about practical implications of our policy decisions.

On behalf of our Senior Management Team, I wish you a productive and insightful day.

Thank you.