

# Fair and transparent markets



**Fair, timely and consistent** treatment of complaints is essential to earning the confidence of investors in the financial services industry.

In the final quarter of fiscal 2010, we introduced a new complaint handling rule that sets clear standards and timelines for investment dealers to acknowledge, investigate and respond to client complaints. During the past year, we monitored dealer compliance with the new, stricter guidelines. We conducted a survey to examine how firms were implementing the new rule and will be reviewing their practices in our compliance reviews.

The new complaint handling standard called for firms to provide a substantive response to clients within 90 calendar days or communicate with the client and IIROC within 90 days, explaining the reason for any delay and providing an expected new response time. During the first year of implementation, firms provided a substantive response to their clients within 90 days in 78.3% of cases, compared to just 47.6% in the same period a year earlier (prior to implementation of the new rule). IIROC is monitoring all cases where a firm has not been able to meet the 90-day standard.

Internally, we strengthened our intake and resolution process for complaints and inquiries by creating a new unit to assist members of the public in a more effective and timely manner. This new

unit is staffed by a dedicated team of knowledgeable, experienced staff whose sole focus is to assist the public with their inquiries.

## **Dispute resolution**

We completed a comprehensive review and evaluation of the IIROC Arbitration Program to identify opportunities to improve its effectiveness and accessibility.

The resulting changes, now in effect, included an increase in the maximum award limit to \$500,000 from the previous award limit of \$100,000. We also introduced an option for investors to choose whether participants will pay their own legal costs or leave the decision relating to the awarding of all legal costs with the arbitrator. We are developing new web-based videos to help investors better understand the different dispute resolution and compensation options available to them as clients of IIROC-regulated firms, including the services offered by the two arbitration providers designated by IIROC. We are monitoring the programs to see if more clients of our regulated firms opt to use the revised arbitration program to resolve disputes.

## **Enforcement process and priorities**

We continued to improve the efficiency and timeliness of our enforcement procedures and operations. Operationally, we created a dedicated market enforcement unit to specialize in marketplace rule violations. We also adopted an integrated team model



where investigators and counsel work together throughout the enforcement process to jointly determine strategy and ensure that enforcement outcomes are fair, timely and effective.

We undertook a comprehensive review, with resulting changes to our case selection criteria for pursuing enforcement proceedings, and through closer collaboration with our compliance branches, we are focusing on priority disciplinary issues, including those involving supervision and suitability matters.

We also took steps to clarify our enforcement jurisdiction by publishing a proposal to establish a clearly defined limitation period of six years, within which staff must commence proceedings against current or former member firms or approved individuals.

We are consolidating and updating the enforcement rules applicable to investigations of investment dealers' business conduct and trading activities on Canadian marketplaces supervised by IIROC. These proposed rules will be published for comment following Board approval. This consolidation of former Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) procedural enforcement rules marks an important step forward in our ongoing efforts to create a single consistent set of rules that are fair, transparent and easily understood by our stakeholders.

Last year, our enforcement staff completed a total of 303 investigations, 60 disciplinary proceedings (47 against individuals and 13 against firms) and referred four cases to the appropriate police authorities. IIROC suspended one firm and 18 individuals, permanently

banned 13 individuals, terminated two firms and assessed fines of \$4.9 million. We collected 98.8% of fines assessed against firms and 14.6% against individuals, based on the total assessed after appeals.

### Violation Type in Enforcement Actions

#### Individual – Breakdown by Violation

Discretionary trading	4
Fail to cooperate	9
Forgery	4
Fraud	1
Gatekeeper	10
Due diligence/suitability	16
Inappropriate personal financial dealings	7
Misappropriation	6
Misrepresentation	11
Off book transactions	6
Outside business activities	1
Supervision	5
Trading conflict of interest	1
Trading order violation	3
Trading without appropriate registration	4
Unauthorized trading	5
Undisclosed conflict of interest	6
<b>Total*</b>	<b>99</b>

#### Firm – Breakdown by Violation

Capital deficiency	5
Failure to handle client accounts	2
Failure to meet best price obligations	3
Inadequate books and records	2
Internal controls	4
Supervision	8
<b>Total*</b>	<b>24</b>

\* Note: Totals reflect the range of violations found in disciplinary proceedings in aggregate and therefore exceed the total number of 47 actual proceedings against individuals and 13 against firms.