IIROC OCRCVM

Investment Industry Regulatory Organization of Canada

Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC Strategic Plan

December 2008

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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 driven 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.

Challenges

Our stakeholders are our dealer and marketplace members, investors, our employees and other regulators. In addressing the challenges described below and 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. By successfully meeting these challenges through the achievement of our goals and the execution of our strategies, we will demonstrate our value to our stakeholder groups and promote the fairness, efficiency and integrity of Canada's capital markets.

1. Industry Compliance

If the industry and markets we oversee operate in accordance with high standards of fairness and integrity, the confidence of investors and other market participants is enhanced. Accordingly, promoting a strong culture of compliance and the highest standards of integrity benefits investors, the industry and the capital markets overall.

At the same time, we recognize that Canadian market structure is developing rapidly. Our members and those subject to our jurisdiction must adjust to these changes. We need to encourage a continued focus on compliance despite the distraction and strain of changing market conditions.

Effective risk-management and monitoring, as well as robust internal controls, are more critical than ever. Our members must adopt and maintain policies and procedures designed to identify, evaluate, assess, document and control the full range of credit, market, operational, legal and reputational risks associated with their business model and activities.

We need to promote an effective partnership with our dealer and marketplace members and other industry representatives to ensure that we consult and engage them in regulatory initiatives in a timely and meaningful way. This will help to ensure balanced, practical regulation while simultaneously promoting a compliance focus within the industry.

Because our members have diverse business models, structures and risk profiles, we must adopt flexible, risk-based and diverse regulatory approaches to reflect the nature of the industry and the markets we oversee.

Effective principles-based regulation requires a strong and continual emphasis on promoting a culture of compliance among regulated entities.

2. *The Quality of IIROC Regulation*

We must maintain a continual focus on the quality and relevance of our regulation in order to deliver effective, efficient and expert regulation.

We must bring to bear all of the expertise within IIROC, ensuring that know-how through all levels of the organization is shared, and that we effectively mine the available information and intelligence. Promoting effective communication and coordination between IIROC's head office and its regional offices is vital to the pursuit of consistency in regulatory standards and approach across Canada.

Operational "silos" should not impede our ability to understand and effectively address emerging risks and industry trends.

We must encourage proactive approaches to emerging issues by ensuring that our internal processes, practices and staff training promote staff judgement and critical thought, within an appropriate accountability framework.

We need to be aware of domestic and international developments that impact the markets and the industry we regulate. Coordination with other regulators (domestic and foreign) will have an impact on our effectiveness in an increasingly global environment. We must strive to develop policy and carry out our regulatory operations in an efficient manner while addressing the priorities and concerns of each of our recognizing regulators. Finally, we must successfully balance made-in-Canada approaches and solutions to regulatory issues against maintaining consistency with global approaches.

3. *Confidence in Financial Markets*

The increased sophistication of the financial markets means that investors today are faced with enormous choice among increasingly complex financial instruments. Many place considerable reliance on their financial advisors to ensure adequate retirement income. At the same time, the participation of Canadian pension funds in the equity and fixed income markets we regulate means that almost every Canadian is a stakeholder in a well-run industry and in IIROC's regulatory effectiveness.

The increase in the volume of market activity has challenged our resources, just as the globalization of financial services activity tests our ability to detect and act against misconduct affecting Canadian financial markets.

While industry pillars have been dismantled in Canada for decades, we continue to regulate along functional lines. We therefore need to co-ordinate with other regulators to ensure that regulatory fragmentation does

not reduce efficiency, increase costs or impair the delivery of effective consumer protection across the financial services industry.

We must continue to develop and refine robust measures of our regulatory effectiveness. We must do our part to earn and maintain confidence in the fairness and integrity of the financial markets.

4. Cost-Effectiveness

Cost pressures, IIROC's not-for-profit status and the importance of being accountable for cost-effective operations drive the need for increased productivity within our organization. IIROC must continuously strive to manage costs through the strategic utilization of resources and effective planning and execution of important initiatives.

To this end, we must meet the challenge of ensuring that our IT resources, particularly those devoted to market surveillance, keep pace with the introduction of new marketplaces and the rapid growth of trading activity. We must effectively integrate the business processes and technology of our predecessor organizations to capture the best approaches and achieve synergies from each. We must track and manage costs across our regulatory functions to support a harmonized fee model that treats all of our members equitably.

We must ensure that we discharge our responsibilities to our recognizing regulators in a cost-effective manner. In addition, we need to work effectively with other regulators and agencies to avoid unnecessary duplication of effort, reduce the overall costs of regulation and avoid regulatory fragmentation and gaps.

5. IIROC as an Employer

IIROC's greatest strength is our skilled and engaged staff. We can build on this strength by ensuring that effective internal processes and training discourage "check the box" approaches and promote independent thought, judgement and creativity amongst our staff. We must develop and maintain a confident, well-trained staff with deep and broad knowledge about our members, the markets we oversee and the industry we regulate.

As we meld the cultures of IIROC's two predecessor organizations, we need to ensure that this important process is not inhibited by geographical separation or operational "silos".

Our goal is to be and be seen as a flexible and dynamic organization. We will provide our employees with competitive compensation and a healthy motivating environment in order to help us attract and retain staff and keep

turnover at desirable levels. We must adopt succession planning that will develop and recognize internal resources and help prepare them for leadership positions.

IIROC Goals and Strategies

Goal #1: Drive a culture of compliance among those subject to IIROC's jurisdiction.

To accomplish this goal, we will:

- work in partnership with our members to promote compliance with high industry standards
- provide timely, clear and concise information and guidance to enhance industry compliance
- provide timely and relevant industry education programs
- consult with regulated entities to promote their understanding of and input into regulatory initiatives
- encourage firms to lower the risks that their activities present

We will undertake the following projects:

- reorganize and reformat our rules in plain English to enhance comprehension, accessibility and compliance and achieve a better balance between principles and prescriptive rules
- provide compliance examination findings and recommendations to each Dealer Member that are clear and informative and that reflect in a fair and balanced way the material regulatory and reputational risks for that Dealer Member
- undertake periodic industry-wide compliance audits to assist IIROC and members to understand industry-wide compliance issues
- produce annual reports on key audit findings and identify those areas that will be the focus of IIROC's regulatory attention

Goal #2: Deliver effective, efficient and expert regulation.

To accomplish this goal, we will:

- complete the integration of the regulatory programs of the predecessor organizations to create a common platform within IIROC
- use research, risk analysis and knowledge management to help us to identify important trends and emerging issues
- undertake comprehensive consultation in connection with regulatory initiatives to obtain the views of the industry, investors and other stakeholders
- take a risk-based approach to regulation

- strike a balance between prescriptive requirements and a more principles-based approach
- continually evaluate the effectiveness of our regulatory approaches
- use the best regulatory tools to address relevant regulatory concerns
- deliver our regulatory programs in a timely fashion
- work with other regulators and agencies to ensure effective regulation

We will undertake the following projects:

- help Dealer Members manage their capital with up-to-date and realistic margin rates
- develop a single electronic gateway to allow firms to file information with IIROC and to reduce the number of requests for information prior to audits
- ensure that UMIR and other Marketplace Member rules keep pace with market structure developments
- work with the CSA to develop a comprehensive oversight scheme for alternative trading systems
- adopt a risk-based methodology for Registration
- integrate Trading Conduct Compliance audit results into the risk-trend analysis

Goal #3: Strengthen confidence in the fairness and integrity of Canadian financial markets.

To accomplish this goal, we will:

- reflect and address investors' concerns through regulatory activity and priority-setting
- take action to address unfair, fraudulent, misleading and/or abusive practices
- monitor markets to promote fair and orderly trading activity
- reduce timelines to complete enforcement investigations and bring proceedings
- coordinate enforcement activities with other regulators and agencies as appropriate
- help address gaps in investor education relating to matters within our mandate

We will undertake the following projects:

- strengthen our complaint intake and resolution process
- implement, educate and monitor compliance with our Dealer Member complaint handling standards
- identify and focus our resources on high-impact enforcement cases in a timely way
- provide transparency on the status of our implementation of recommendations in IIROC reports and industry-wide compliance audits
- provide public and timely information regarding the background of registered individuals to support informed decision-making by investors
- clarify roles and relationships in order to strengthen the client/advisor relationship, and improve transparency concerning account performance
- develop a policy and rule framework and systems for the supervision of trading activity on debt markets in compliance with applicable rules

Goal #4: Be a cost-effective organization.

To accomplish this goal, we will:

- integrate the business processes and technology of the predecessor organizations
- leverage information technology to increase productivity and streamline processes
- develop accurate and timely management information

We will undertake the following projects:

- develop an equitable Dealer and Marketplace Member fee model
- review all non-UMIR services provided to Marketplace Members to ensure full funding on a cost recovery basis
- implement a more cost-effective trading surveillance system

Goal #5: Be an accountable, fair and flexible organization.

To accomplish this goal, we will:

- build a unified culture for IIROC
- be an employer of choice, able to attract, develop and lead skilled and engaged staff
- evaluate skill and competency requirements for roles in IIROC and provide relevant and timely training and development
- provide a competitive compensation package
- implement succession planning

We will undertake the following projects:

- implement regular monitoring of employee satisfaction through formal and informal means
- perform job evaluation and compensation benchmarking
- develop a single, centrally-administered orientation program for new employees
- identify specific competency and skill requirements and provide training in a cost-effective way

Our Regulatory Philosophy

The specific regulatory projects that we undertake to fulfill our goals and execute our strategies will reflect the following regulatory philosophy.

Prior to regulatory intervention, it is important to assess the nature of a perceived problem and the various options available to deal with it. There will be circumstances where regulatory tools other than rules will address the conduct in question more effectively.

Our rules should not reflect a "one-size-fits-all" approach. For example, where appropriate, our rules distinguish between large and small firms, institutional and retail investors, and trading as principal or agent.

We believe that the move towards a more principles-based approach to regulation is desirable. The balance between principles and prescriptive requirements in any particular policy formulation will inevitably depend upon the problem sought to be addressed.

Rules should clearly state principles or desired outcomes so that regulatory expectations are clear to market participants. In order to achieve certain outcomes or regulatory objectives, mandatory or minimum requirements may need to be established. To the extent possible, regulation should allow sufficient flexibility for market participants to assume responsibility for determining how best to comply with clearly stated expectations to achieve the desired outcome in their particular circumstances. Rules should be supported by regulatory guidance notices and education sessions to promote compliance, communicate and share best practices and monitor the impact of regulatory initiatives in actual practice.

We will continue to apply a risk-based approach to dealer and market regulation in order to efficiently allocate internal resources to the most important and highest-risk matters.

Investment Industry Regulatory Organization of Canada

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