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A REPORT TO IIROC

SURVEY OF CANADIAN INVESTORS' VIEWS ON ALTERNATIVE DISCIPLINARY PROPOSALS

July, 2018



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OBJECTIVES AND METHODOLOGY

Objectives and Methodology

The objectives of the survey are to better understand:

- Investor views on how breaches of IIROC rules and/or wrongdoing should be dealt with;
- Approach IIROC should take regarding the proposed alternative disciplinary measures;
- Level of support for an early settlement and minor violations program;
- Views on fine amounts for individuals and firms;
- Situations that should or should not lead to a formal disciplinary hearing; and
- Impact the proposed alternative disciplinary measures would have on investor confidence.

This report is based on an online survey of 1,011 investors and is proportionate to the distribution of the population across the country.

Surveying took place between March 7th – 16th, 2018.



KEY FINDINGS

Key Findings

1

Investors were initially split on how breaches of rules should be dealt with. However, as the survey progressed, views shifted as specific cases examples were introduced. Investors became quite open to a variety of approaches being taken and to providing IIROC with more flexibility. (See slides 16 and 29/30 for details.)

Key Findings

2

Six-in-ten (63%) of investors support IIROC introducing flexibility for cases involving minor breaches that have little impact on investors. (Slide 17)

Half of investors (49%) believe a minor violation program should be used when a breach is ‘unintentional or inadvertent’, while one-third (34%) state it should be used when the breach ‘resulted in limited or no harm to clients or other market participants’.
(Slide 18)

The top factors investors agree should be considered for eligibility for a case to be adjudicated in a minor violation program are: (Slide 19)

- *Compensation has been paid (46%);*
- *Corrective measures have been taken (45%); and*
- *Violation reported to IIROC (43%).*

Key Findings

3

There was strong agreement among investors on the situations which should lead to a formal disciplinary hearing. (Slide 20)

Of the seven situations described in the survey, all were considered serious enough to lead to a formal disciplinary hearing as opposed to being treated as a minor violation.

Lead to a formal disciplinary hearing:

- *There was significant harm to investors (85%);*
- *There is a prior history of disciplinary action against the individual or firm (repeat offender) (85%);*
- *There was significant harm to the integrity of Canada's markets (85%);*
- *The wrongdoing is deliberate (84%);*
- *The matter involves a large number of investors (84%);*
- *The legal issues and facts are complicated (75%); and*
- *The firm did not properly supervise the activities of staff involved (70%).*

Key Findings

4

The fine amounts under a minor violation program of \$2,500 for individuals and \$5,000 for firms were considered ‘too little’ by many investors. (Slides 21 and 22)

For the two situations, the responses were as follows:

- For individuals, 45% of investors considered a fine of \$2,500 ‘too little’ (and 33% ‘about right’); and
- For firms, 63% considered the proposed \$5,000 fine ‘too little’ (and 20% ‘about right’).

Key Findings

5

Just over half (56%) of investors believe that IIROC should publish the names of firms and individuals in all cases of breaches of their rules. (Slide 23)

Three-in-ten (31%) believe names should only be published when the breach is serious or there was harm caused.

Key Findings

6

There is strong agreement on the approach IIROC should take regarding discipline when prosecuting breaches of its rules. In all, 85% of investors agree that the discipline should be proportionate to the seriousness of the breach. And, almost half (46%) ‘strongly’ agree with this approach. (Slide 24)

Key Findings

7

There is also strong support for an early settlement program, with three-quarters (76%) of investors showing support for this type of program. (Slide 25)

There is less support, though still a majority (57%), in favour of reducing the penalty for firms or individuals who settle a case early rather than going through a full contested hearing. Almost one-third (31%) of investors oppose reduced penalties. (Slide 26)

Key Findings

8

Investor confidence would be positively impacted if IIROC made the changes to allow for early settlements and fines for minor violations. (Slide 31)

The impact of these changes would be an increase in confidence levels for all five factors tested:

	Percent saying 'would increase my confidence'
• <i>How well the industry is regulated in Canada;</i>	32%
• <i>How well investors are protected;</i>	28%
• <i>The integrity of the Canadian investment industry;</i>	28%
• <i>The fairness and integrity of markets in Canada; and</i>	27%
• <i>Your willingness to invest through Canadian markets.</i>	22%

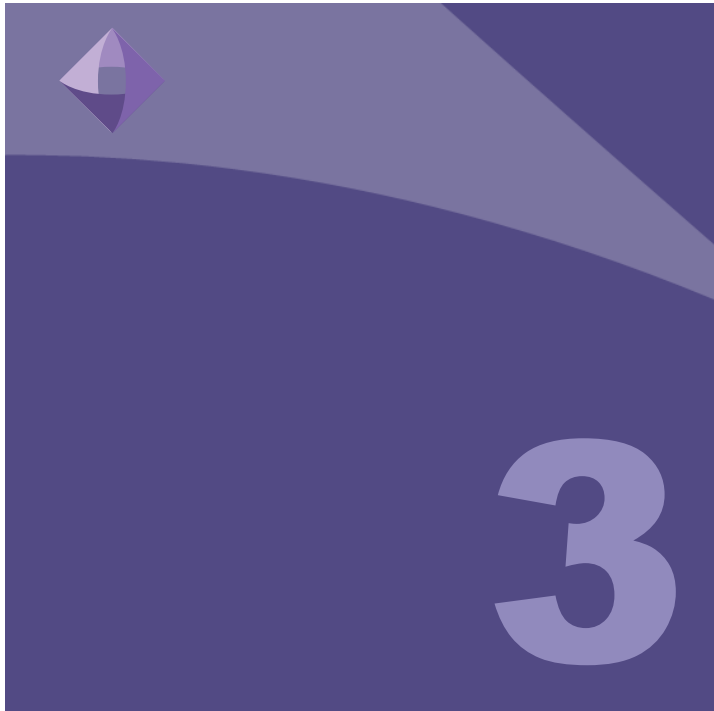
Key Findings

9

Overall, investors believe the proposed changes detailed in the survey will be important in improving IIROC's enforcement and regulatory role (with high levels of those saying 'very' important). (Slide 32)

Percentage of investors saying 'very' or 'somewhat' important:

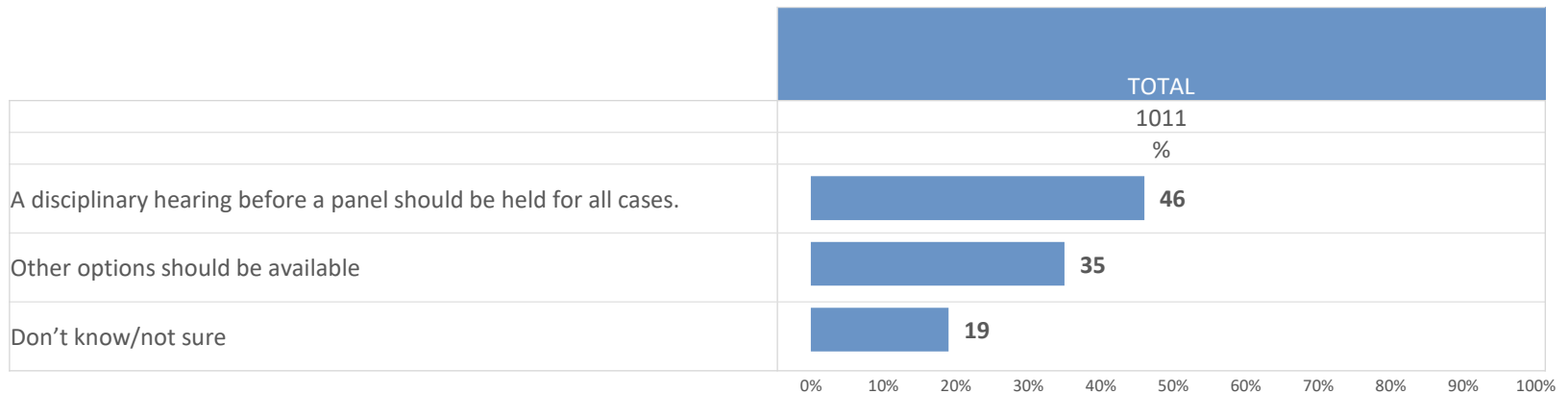
- *The more serious cases will be dealt with in a more timely manner (85%);*
- *Any compensation to investors will be paid out more quickly (84%);*
- *The process of dealing with all cases will be more timely (83%);*
- *It will make the regulatory system more effective (82%);*
- *It will make the regulatory system fairer (80%);*
- *IIROC will be able to devote less time and effort to cases of minor breaches (72%); and*
- *Fewer investors will be required to testify before a full panel hearing (61%).*



APPENDIX: SURVEY RESULTS

Initially, almost half (46%) of investors believed that all cases of a breach of IIROC rules and/or wrongdoing should be subject to a disciplinary hearing, while 35% believe there should be other options, depending on the seriousness of the offence and whether investors have been harmed.

VIEWS ON HOW BREACHES OF IIROC RULES SHOULD BE DEALT WITH

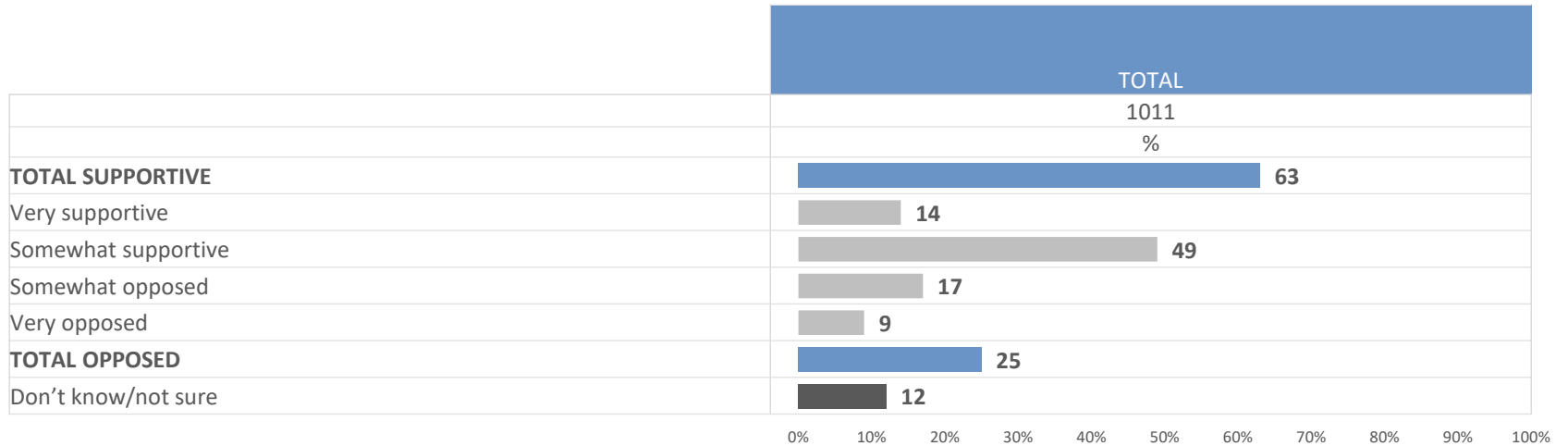


Part of IIROC’s role is to investigate breaches of its rules and or wrongdoing by firms and or individuals. Currently, when an IIROC investigation is concluded and a breach of the rules and or wrongdoing is found to have taken place, cases go to a formal hearing before a disciplinary panel. Breaches of rules and or wrongdoing can result in fines, suspension for a period of time or permanent bans from the industry. This process can sometimes take years to complete.

Base: Total sample

Six-in-ten (63%) investors show some support for IIROC introducing flexibility for cases involving minor breaches that have little impact on investors.

LEVEL OF SUPPORT FOR FLEXIBILITY FOR CASES

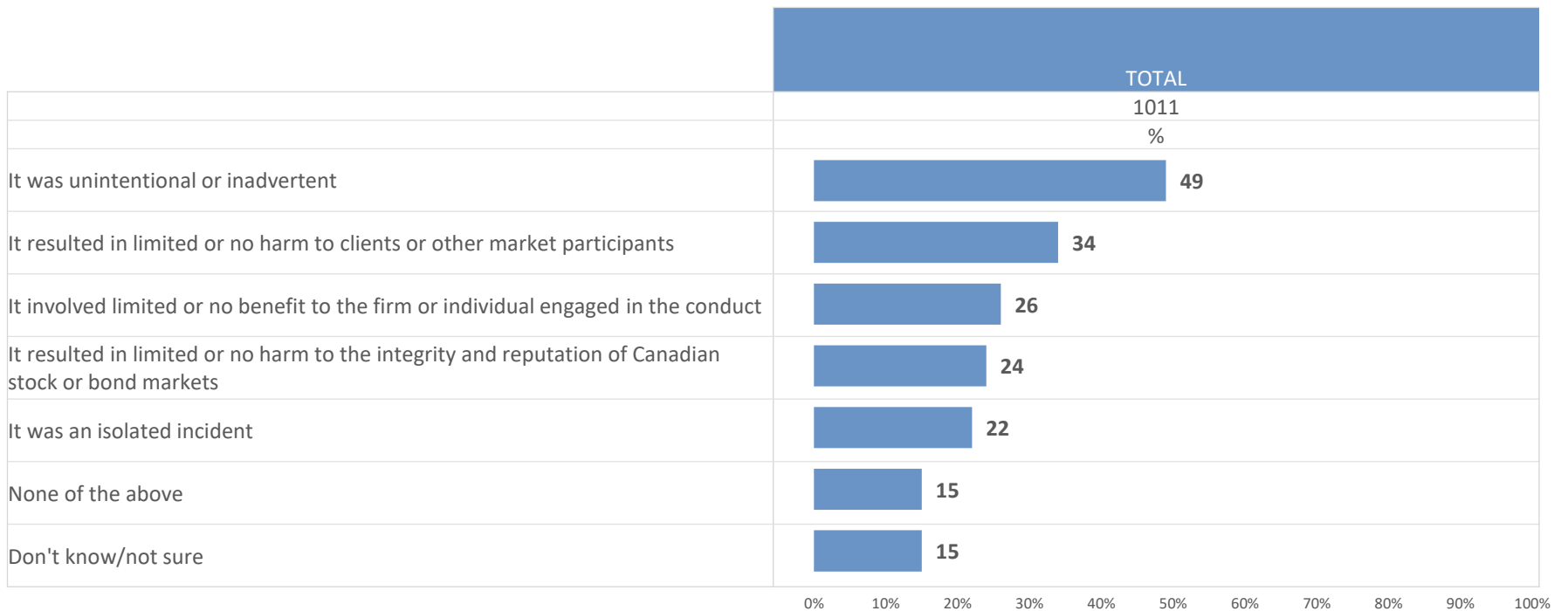


At present, when an IIROC investigation is concluded and there has been a breach of IIROC’s rules, this results in a full disciplinary hearing before a panel. IIROC is exploring another option to provide flexibility for minor or technical violations of its rules. How supportive or opposed are you to IIROC introducing flexibility for cases involving minor breaches that have little impact on investors?

Base: Total sample

Half of investors (49%) believe a minor violation program should be used when a breach is ‘unintentional or inadvertent’. One-third (34%) state it should be used when the breach ‘resulted in limited or no harm to clients or other market participants’.

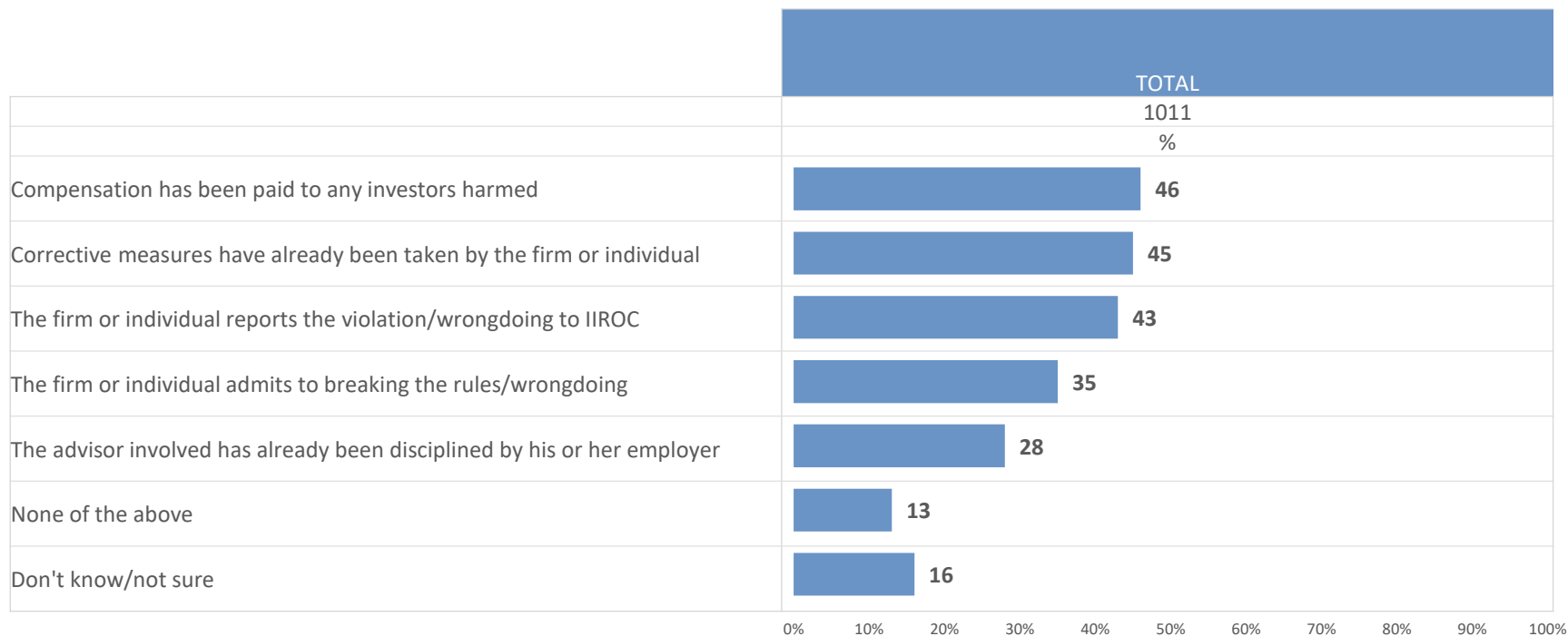
SITUATIONS IN WHICH A MINOR VIOLATION PROGRAM SHOULD BE USED



For which of the following situations should a minor violation program be used, rather than going to a full formal disciplinary hearing before a panel? (Please check all apply)
 Base: Total sample

When considering eligibility for a case to be adjudicated in the minor violation program, there are similar levels of support for the factors ‘compensation has been paid’ (46%), ‘corrective measures have been taken’ (45%) and ‘violation reported to IIROC’ (43%).

FACTORS IIROC SHOULD CONSIDER FOR ELIGIBILITY IN MINOR VIOLATION PROGRAM



In addition to the situations cited above, which of the following factors should IIROC also consider when determining if a case is eligible for the minor violation program, rather than a full formal hearing? (Please check all that apply)

Base: Total sample

There is a strong consensus, ranging from 70% - 85%, in the types of cases that should lead to a formal disciplinary hearing.

SITUATIONS WHICH SHOULD LEAD TO A FORMAL DISCIPLINARY HEARING



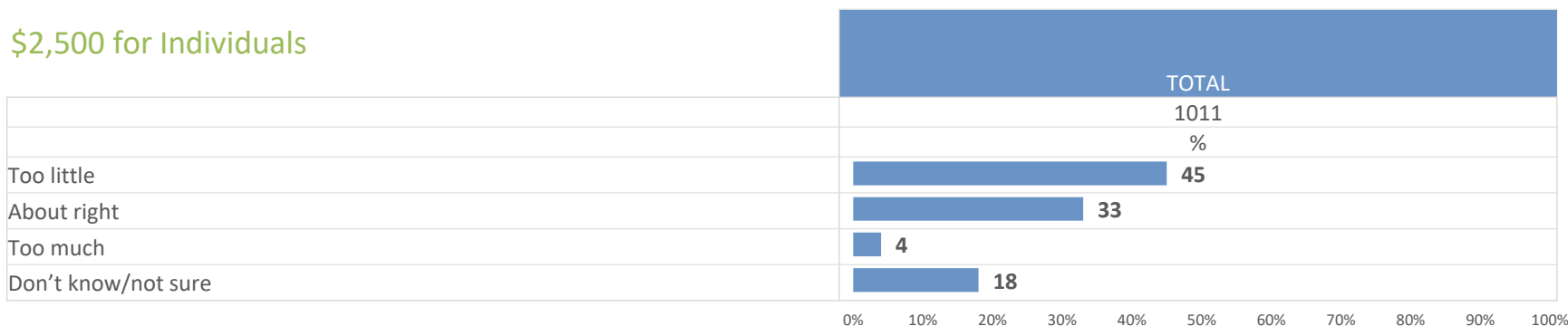
For the following situations, which should lead to a formal disciplinary hearing and which should be treated as a minor violation of the rules?

Base: Total sample

Overall, 45% of investors considered a fine of \$2,500 for individuals for a minor violation ‘too little’. One-third (33%) thought this fine was ‘about right’. A minimal number (4%) think it is ‘too much’.

AMOUNT OF FINE UNDER A MINOR VIOLATION PROGRAM - INDIVIDUALS

\$2,500 for Individuals

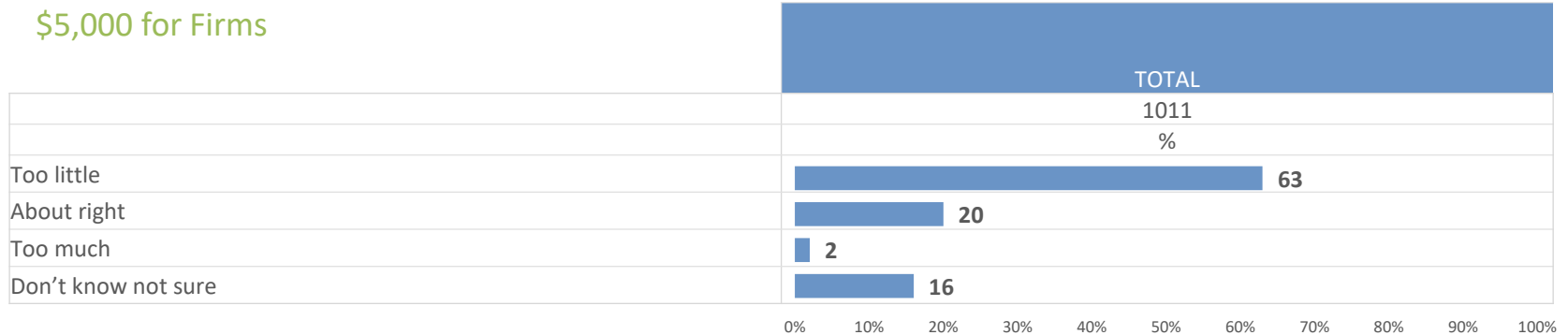


IIROC is considering set amounts for fines under a minor violation program. For the following, please indicate if the amounts are:

Base: Total sample

Six-in-ten (63%) investors believe that a \$5,000 fine for firms under a minor violation program is ‘too little’. In all, 20% feel that this amount is ‘about right’, while only 2% believe it would be ‘too much’.

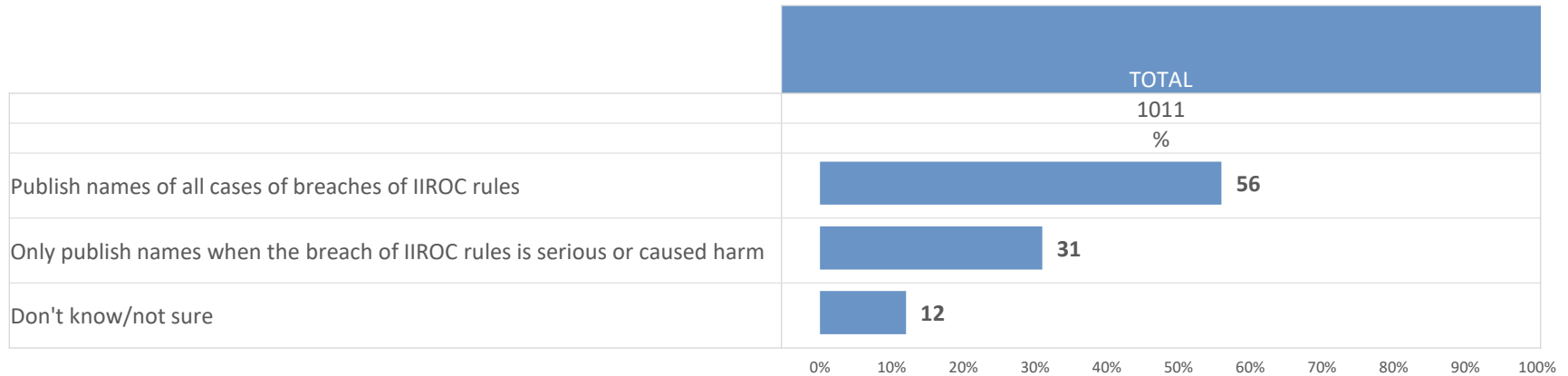
AMOUNT OF FINE UNDER A MINOR VIOLATION PROGRAM - FIRMS



IIROC is considering set amounts for fines under a minor violation program. For the following, please indicate if the amounts are:
 Base: Total sample

Just over half (56%) of investors believe that IIROC should publish the names in all cases of breaches of their rules. Three-in-ten (31%) believe names should only be published when the breach is serious or there was harm caused.

WHEN NAMES OF THOSE INVOLVED IN BREACH OF RULES SHOULD BE PUBLISHED

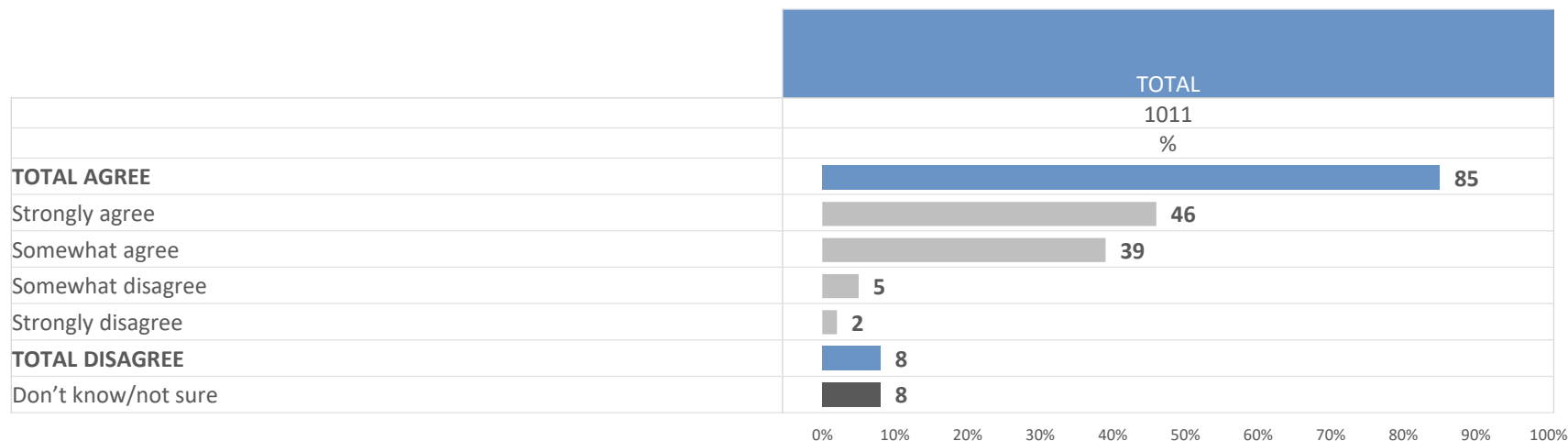


In reporting on firms and individuals that have breached its rules and/or been involved in wrongdoing, should IIROC publish the names in all cases, including those involved in minor violations of its rules or only publish the names of those cases where there has been a serious breach of its rules and/or wrongdoing that caused harm?

Base: Total sample

There is strong agreement (85%) that, in prosecuting cases of breaches of its rules, IIROC discipline should be proportionate to the seriousness of the breach. And, almost half (46%) ‘strongly’ agree.

DISCIPLINE SHOULD BE PROPORTIONATE TO SERIOUSNESS OF BREACH OF RULES

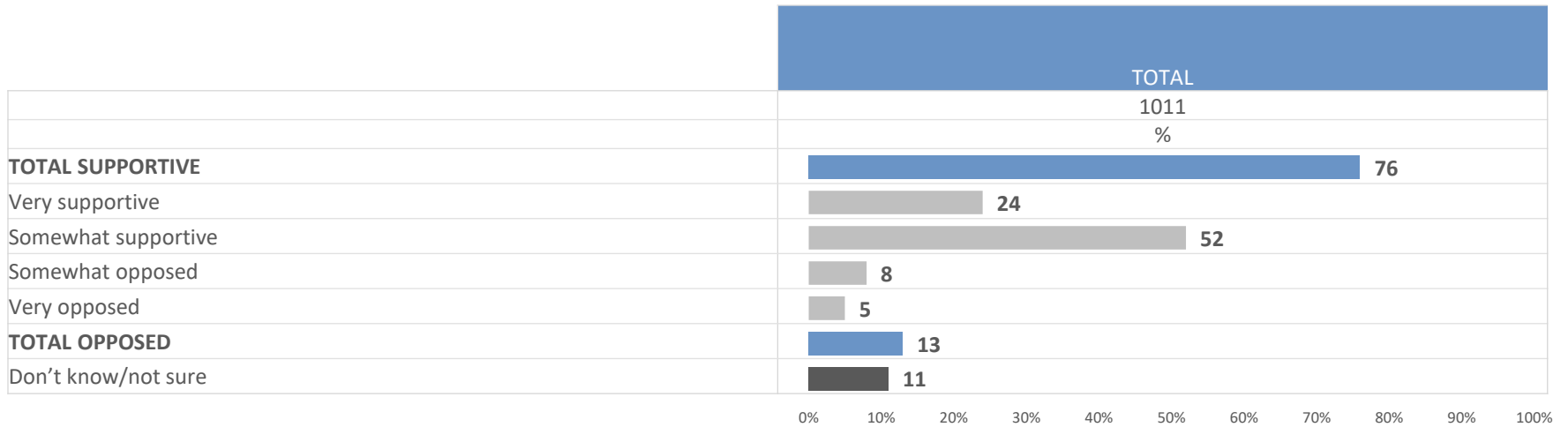


How much do you agree or disagree with the position that in prosecuting cases of breaches of its rules, IIROC should take the approach that discipline should be proportionate to the seriousness of the breach of its rules?

Base: Total sample

Three-quarters (76%) of investors support an early settlement program, with 24% being ‘very’ supportive.

LEVEL OF SUPPORT FOR AN EARLY SETTLEMENT PROGRAM

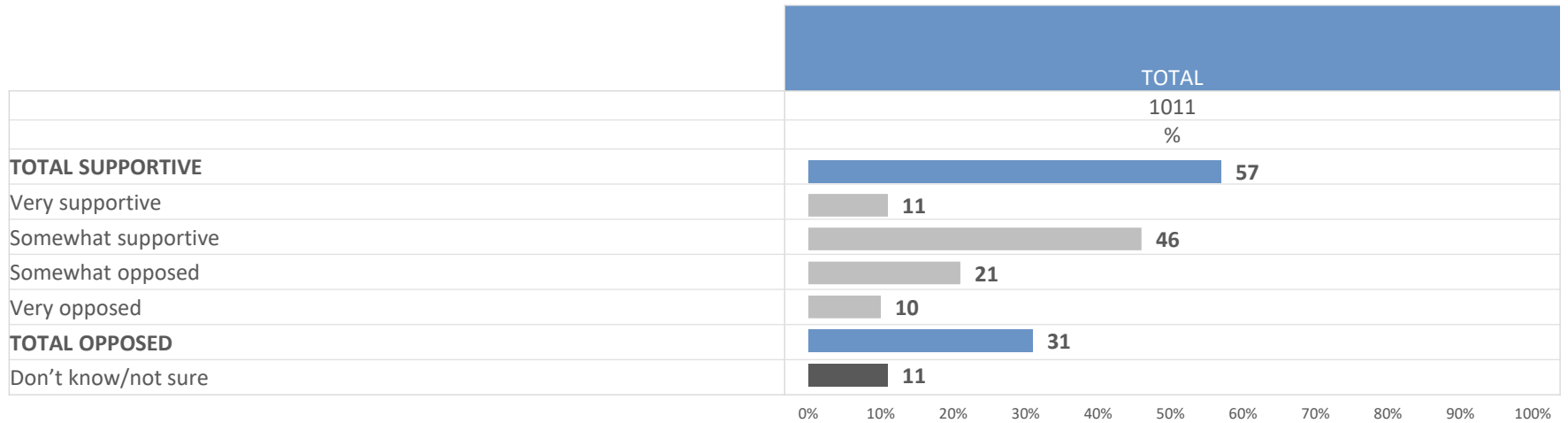


IIROC is also considering putting in place an early settlement program. For those firms or individuals who cooperate with an investigation and accept responsibility for a breach of rules and/or wrongdoing, this program would allow for an early settlement of the case. In return, individuals and firms would receive a reduced penalty for settling early. This reduces the time and resources spent on a case, allows for compensation and corrective measures to be taken more quickly and ensures that IIROC devotes its resources to more serious cases. Overall, how supportive or opposed are you of IIROC putting in place an early settlement program?

Base: Total sample

However, there is less support, though still a majority (57%), in favour of reducing the penalty for firms or individuals who settle a case early rather than going through a full contested hearing. Almost one-third (31%) of investors oppose reduced penalties.

LEVEL OF SUPPORT OF IIROC REDUCING PENALTY FOR EARLY SETTLEMENT

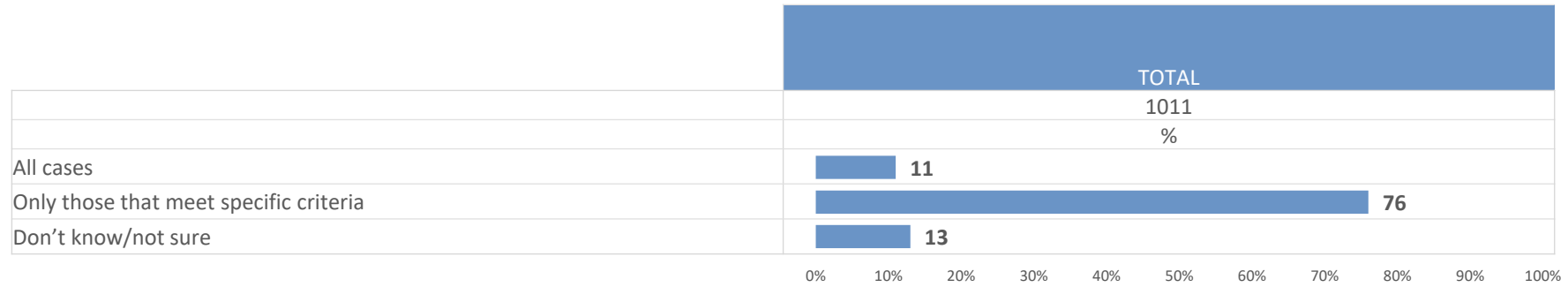


Overall, how supportive or opposed are you of IIROC reducing the penalty for firms and/or individuals who settle a case very early on in the process rather than going through a full contested formal hearing?

Base: Total sample

Three-quarters (76%) of investors believe that IIROC should only make an offer to settle early for cases that meet specific criteria. Only 11% think this should happen for ‘all cases’.

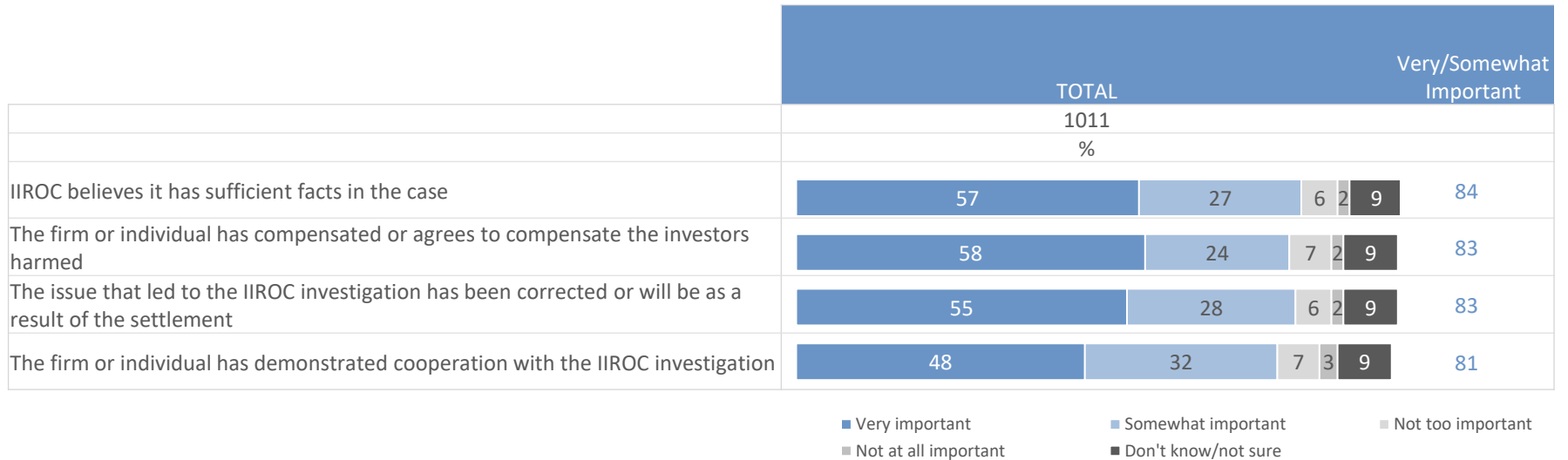
WHEN IIROC SHOULD MAKE AN OFFER TO SETTLE EARLY



Should IIROC make an offer to settle early in all cases or only those that meet specific criteria?
 Base: Total sample

Eight-in-ten investors believe that the four criteria listed are important in the decision to make an offer.

CRITERIA FOR MAKING AN EARLY SETTLEMENT OFFER



If IIROC were to establish criteria for making an early settlement offer, how important should each of the following be in the decision to make an offer?
 Base: Total sample

This slide and the next (slide 30) show the type of enforcement investors believe should be applied for a range of situations. This slide focuses on the situations where a half or more thought a full formal hearing should take place. For example, there is strong agreement that a situation of investing in high risk stocks against a client’s wishes (77%) and a misappropriation of funds with no compensation (76%) should proceed to a full formal hearing.

TYPE OF ENFORCEMENT THAT SHOULD TAKE PLACE FOR SPECIFIC SITUATIONS

	TOTAL				
	Take no action	Impose a fine as a minor violation	Try to negotiate an early settlement	Proceed to a full formal hearing before a disciplinary panel	Don't know/not sure
	1011				
	%	%	%	%	%
An investment advisor invests a client’s money in high-risk stocks, even though the client stated that he or she wanted only low risk investments in their portfolio. The client subsequently lost money. Despite the evidence, the advisor refuses to acknowledge the mistake and does not cooperate with the IIROC investigation.	1	7	9	77	11
An advisor misappropriates funds given to him for investment, most of which is lost. The advisor acknowledges and admits his actions, but no money is returned to the investors.	2	6	13	76	11
An advisor engages in excessive trading on clients’ behalf, which generates higher commissions for the advisor, but does not benefit the client.	2	15	19	58	12
An advisor made unsuitable high-risk investments for a client which resulted in losses. The individual supervising this advisor became aware of the situation, but took no action to deal with this situation, thereby breaching IIROC rules. This is the supervisor’s first offence.	1	15	26	55	12
An investment firm increases its fees, but does not inform its clients of this change and does not admit the mistake.	1	21	24	49	12
An advisor fails to make an investment on a client’s behalf on the day he said he would. When later the investment is made, fewer shares than anticipated were purchased, as the share price had risen. The advisor does not admit to the mistake.	2	20	30	45	12

For each of the following situations, please indicate what types of enforcement you believe should take place? (Please check all that apply)

Base: Total sample

For the balance of the situations tested, there is more limited consensus. But, in most cases, less than half believe a full formal hearing should take place. Overall, these results suggest that investors believe that a range of alternative disciplinary approaches are appropriate depending upon the situation, even if they do not agree on what the best approach should be.

TYPE OF ENFORCEMENT THAT SHOULD TAKE PLACE FOR SPECIFIC SITUATIONS (CONT'D)

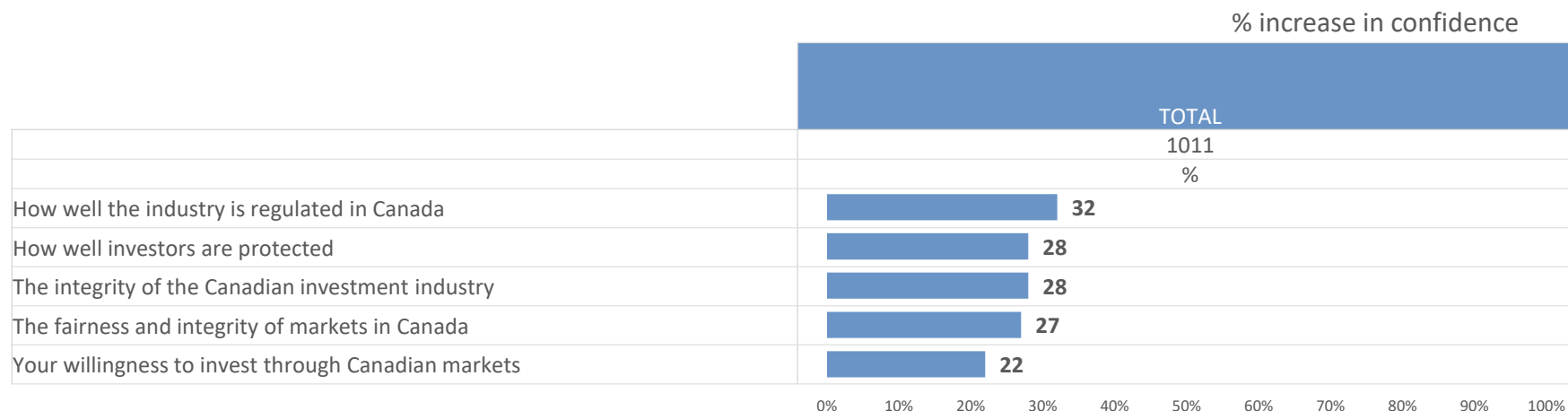
	TOTAL				
	Take no action	Impose a fine as a minor violation	Try to negotiate an early settlement	Proceed to a full formal hearing before a disciplinary panel	Don't know/not sure
	1011				
	%	%	%	%	%
An investment advisor buys or sells an investment without the approval of the client, but the advisor admits the mistake.	2	23	35	38	12
For several years, an advisor engages in a practice where as a matter of convenience, he signs account documents on behalf of his clients. Notwithstanding that this is a breach of IIROC rules, his clients are aware of this practice and have given him verbal approval. There was no harm to his clients.	12	34	19	26	15
An advisor at an investment firm makes an investment for a client that has a higher risk than the client's risk tolerance and the client loses money. The advisor and the firm fully cooperate with IIROC's investigation, apologize and compensate the client for his or her losses.	9	26	38	23	12
When the risk profile of a client changes, an advisor is required to update the Know Your Client form and have the client review and sign. An advisor had for many years discussed fully with clients any changes to their risk profile and had invested accordingly. The advisor neglected to have the client review and sign the appropriate updated documents. Clients did not complain about this oversight, but the advisor breached IIROC rules by not completing the documentation.	9	44	23	18	14
An investment firm discovers that it has been over-charging clients for each trade. It identifies all the cases where this has occurred and pays back investors. . It also notifies IIROC of its actions to correct the situation.	26	29	24	16	11

For each of the following situations, please indicate what types of enforcement you believe should take place? (Please check all that apply)

Base: Total sample

If IIROC made the changes to allow for early settlements and fines for minor violations, investor confidence in the regulatory process would be positively impacted.

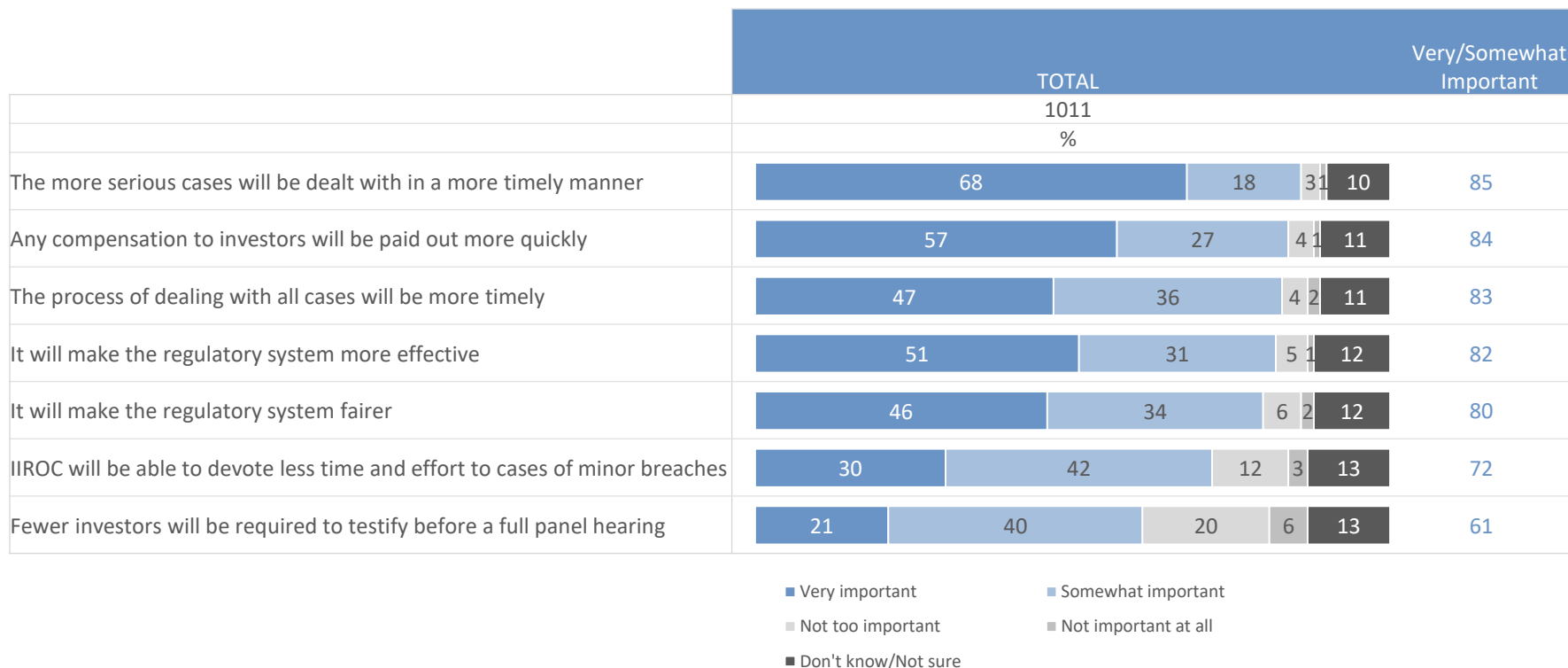
INCREASE IN CONFIDENCE IF REGULATORY CHANGES MADE



Overall, if IIROC makes changes to allow for early settlements and fines for minor violations, would this increase, decrease or not affect your confidence in each of the following?
 Base: Total sample

Eight-in-ten or more believe that the proposed changes discussed in the survey will be important in improving IIROC’s enforcement and regulatory role (with strong levels of ‘very’ important), with the exception of ‘devote less time to minor breaches (72%) and ‘fewer investors required to testify’ (61%).

IMPORTANCE IN IMPROVING ENFORCEMENT OF IIROC’S REGULATIONS/REGULATORY ROLE



If IIROC makes the changes proposed in this survey, how important is each of the following in improving the enforcement of IIROC’s regulations and IIROC’s regulatory role?

Base: Total sample
 BTS: Base size too small



DEMOGRAPHICS

Demographics

GENDER

	Male	49%
	Female	50%
	Other	<1%
	Prefer not to answer	1%

AGE

	18-34	32%
	35-54	34%
	55-64	16%
	65+	17%

EDUCATION

	HIGH SCHOOL OR LESS	10%
	Public or elementary school (grades 1-8)	<1%
	High school	9%
	CEGEP/COLLEGE	29%
	Vocational or technical training, or CEGEP	6%
	Some Community college	5%
	Graduated Community college with a diploma or degree	18%
	UNIVERSITY	60%
	Some university	10%
	Undergraduate university degree	28%
	Graduate university degree	22%
	Prefer not to answer	1%

EMPLOYMENT

	Employed full-time	60%
	Employed part-time	8%
	Unemployed	2%
	Home-maker	2%
	Student	3%
	Retired	22%
	Other	2%
	Prefer not to answer	2%

MARITAL STATUS

	Single (never married)	26%
	Married or living common-law	61%
	Widowed	3%
	Separated	3%
	Divorced	5%
	Prefer not to answer	2%

HOUSEHOLD INCOME

	UNDER \$60K	21%
	Less than \$20,000	2%
	\$20,000 to less than \$40,000	7%
	\$40,000 to less than \$60,000	13%
	\$60K-\$100K	28%
	\$60,000 to less than \$80,000	11%
	\$80,000 to less than \$100,000	17%
	\$100K+	34%
	\$100,000 to less than \$120,000	12%
	\$120,000 to less than \$150,000	9%
	\$150,000 to less than \$200,000	8%
	\$200,000 to less than \$250,000	3%
	\$250,000 or more	2%
	Prefer not to answer	16%

VALUE OF INVESTMENTS

	<\$25K	18%
	Under \$5,000	6%
	\$5,000 - \$24,999	12%
	\$25K-\$99K	29%
	\$25,000 - \$49,999	11%
	\$50,000 - \$99,999	18%
	\$100,000 - \$249,999	17%
	\$250,000 - \$499,999	10%
	\$500,000 or more	11%
	Prefer not to answer	15%

REGION

	ATLANTIC	7%
	Newfoundland & Labrador	2%
	Prince Edward Island	<1%
	New Brunswick	2%
	Nova Scotia	3%
	Quebec	25%
	Ontario	36%
	MB/SK	8%
	Manitoba	4%
	Saskatchewan	4%
	AB/NORTH	11%
	Alberta	10%
	Northwest Territories	1%
	Nunavut	<1%
	British Columbia	13%

Base: Total sample (n=1011)