

Notes for remarks by

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CHECK AGAINST DELIVERY

Welcome

Thank you, Kelley (Hoffer, Chair, CLS Executive) and good morning everyone.

Welcome to the IIROC CLS Compliance Conference. I'm pleased to be here with all of you today.

As we are a self-regulatory organization, perhaps no partner group is more important to IIROC's mission to protect investors and support healthy Canadian capital markets than our members – the organizations that many of you represent.

So, thank you all for making the time to attend.

I know some of you attended our annual conference in September so you will hear me provide updates on some of the same topics this morning.

But I hope you'll bear with me as I'll also take this opportunity to speak about other developments and newer issues.

Throughout today's conference you will also hear about current regulatory priorities for IIROC and our regulatory partners.

At this time I'd like to provide you with a few highlights of the progress we have made on implementing our Strategic Plan and how we're working to close regulatory gaps and effectively improve investor protection.

Progress on Strategic Plan

Those of you who attended this conference last year may recall that I spoke about IIROC's strategic planning process.

In April, we published our new Strategic Plan which explains what we want to accomplish for the coming years and lays out the elements of our vision which underlie those goals which I will quickly summarize for you.

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. So we must be and be seen to be a trusted, respected and valued partner to you and 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 introduction of a corporate debt transparency platform – but also with strong principled policies. I'll speak briefly to each of these in a moment.

We will also earn your trust and support by taking action against wrongdoers and holding them accountable for their misdeeds. Here too, we need your support and the help of firms like yours to do it.

Let me now give you a few 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 our new debt transaction reporting rule began to take effect just over a year ago on November 1st, 2015.

And with Phase Two of the Rule in effect since November 1st of this year, all IIROC-regulated firms that trade are now reporting their fixed-income trades to IIROC.

We collect that information for market surveillance 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 all market participants to benefit – with no duplication of cost – from a subset of that same information – information which we have published on our website since July and which we are working to expand and make more timely.

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 partners the Bank of Canada and others.

Leveraging information in this way to enhance market integrity is one way IIROC adds value to the system and helps inspire investor confidence. So this is an example of one of these ‘tangible outputs’ I spoke of earlier.

Equally though, the value we provide can be seen by our contributions to important policy positions ongoing in Canada.

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 a strong, principled policy position.

The ‘best interest’ debate

Most people in this room are familiar with the ongoing discussion on best interest.

This past year the OSC and other securities commissions announced the continuing consultation on the establishment of a best interest standard to better align the interests of registrants on all platforms to the interests of their clients.

Later today the OSC will host a roundtable to explore the issues in the CSA’s Consultation Paper 33-404 – as the proposals are known – 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 IIROC's illustrative proposal to eliminate the proficiency update requirement which we published as a White Paper.

We succeeded in stimulating the conversation – an important element of any public policy decisions – and we remain committed to reducing regulatory fragmentation, burden and arbitrage across platforms as that can only help Canadians.

So we are committed to working with the CSA through this process so that a workable best interest standard is established in Canada. This will help ensure a consistent, high standard for all regulatory platforms, a standard that in many cases IIROC registrants at firms like yours are already required to meet.

So 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, and consistent with the best interests of the client.

I'll spend a few minutes now to provide you with a brief update of the specific actions IIROC is taking to ensure that firms not only have but follow clear policies and procedures on compensation-related conflicts.

In April we issued guidance on Managing Conflicts in the Best Interest of Clients. We focused on how compensation-related conflicts of interest are managed because we see this as fundamental to any discussion about aligning the interests of those we regulate to the interests of their clients.

Next steps

This summer we completed a survey of 20 IIROC-regulated firms – delving into compensation-related grids, supervisory oversight of advisors recommending products with high commissions, and the monitoring of advisors approaching compensation thresholds.

We are in the process of interviewing those who participated in the survey to ensure we have a solid understanding of the compensation practices in use.

The follow-up questions being asked of these firms will be rolled into IIROC's compliance exam modules which are being updated. We are committed to sharing the survey results more widely, including identifying best practices and areas for improvements.

These are some of the ways we're working to ensure that the words 'conflict of interest' are not interpreted narrowly but broadly – as is just and appropriate. This 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.

Strengthening investor protection

Public confidence in our financial system also requires consistent, cooperative and credible enforcement.

By now, 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.

We've closed a number of the gaps that have existed by executing several co-operative information-sharing agreements with regulators, including la Chambre de la sécurité financière in Quebec, the Insurance Council of British Columbia and the Financial Services Commission of Ontario.

There are additional similar arrangements in progress to strengthen consumer protection and provide more effective regulation, and we hope to announce more details soon.

Getting the right tools to protect investors

Negotiating co-operative agreements is one way to improve investor protection. But there are other gaps that need to be

closed and to do so we need the support and assistance of governments.

I'm speaking of course of our desire to improve the way we investigate, prosecute and enforce the penalties levied by our disciplinary panels against those who have been proven to have violated the trust of their clients.

Currently, across the country there remains outstanding nearly \$30-million in uncollected fines against individuals, monies that could be used to improve our investor protection efforts, at no cost to taxpayers. The national collection rate is just under 20% and much lower here in Ontario at 13%.

In provinces where governments have given IIROC the ability under their securities legislation to enforce our penalties through the courts collection rates are significantly higher than in the rest of Canada. In Québec, for example, our collection rate is more than 30%.

IIROC is asking provincial governments across the country to give us better enforcement tools to more effectively protect the investing public.

We know that there is overwhelming consumer support for these changes. How do we know?

What investors think

IIROC has conducted a national survey to look at what Canadians think about the idea of strengthened enforcement and the ability of IIROC to protect investors.

The research revealed that an overwhelming majority of Canadians would support legislation in every province and territory to better protect investors by providing IIROC with increased legal authority to more effectively enforce its rules and discipline those who break them.

Fully 89% of the more than 1,200 Canadian investors surveyed online by the Strategic Counsel would support IIROC being given authority to collect fines by legally pursuing those who do not pay penalties levied by IIROC disciplinary hearing panels.

Support is similarly high for strengthening IIROC's enforcement abilities in related areas – 87% when it comes to the authority to compel cooperation with our investigations

and testimony at our disciplinary hearings, and 80% for IIROC to be given the same legal protection as the provincial and territorial commissions that give authority to IIROC to regulate Canada's investment industry.

Most people in this room know – perhaps better than most – how important it is for investors to be confident that firms and individuals are complying with the rules and that any breach will result in real consequences.

With this research we can be confident that enacting the legislative reforms we're seeking would significantly bolster investor confidence ...

... including that 64 per cent of investors would have more confidence in the ability of regulatory bodies to protect investors and 57 per cent would have more confidence to invest.

The results of this survey should assure government that Canadians want wrongdoers to be held accountable and be sent a strong deterrent message that penalties must and will be paid.

IIROC's nationwide Investor Panel – the mechanism which facilitated our ability to obtain these insights – demonstrates IIROC's commitment to directly engage investors. Through this panel we will continue to conduct quantitative and qualitative research on important issues where we want to better understand the consumer's experience and point of view so that we can incorporate this input into our decisions and actions.

High-quality data such as these must serve as the basis for important decisions. We have posted the report on the IIROC website and will continue to share insights we gain through our Investor Panel for the benefit of all market participants, including Member Dealers, our regulatory partners, governments and the investing public. This commitment to information sharing is an important priority that supports the elements of IIROC's vision which I described when I began my remarks.

Providing value to help firms improve

Another way that IIROC ensures we get the investor perspective is through our front-line Complaints and Inquiries (C&I) department.

In the two most recent fiscal years IIROC had an average of 1,130 contacts with clients of IIROC-regulated firms.

IIROC reviews every matter brought to our attention and this year – for the first time – we used the information from calls, emails and letters we received to provide firm-specific reports on complaints and inquiries to help your firms improve compliance and customer service.

In the interest of transparency, we have also published the aggregated C&I statistics on our website.

Also new this year, last month IIROC issued individual assessments to firms on their cybersecurity preparedness.

The reports evaluated practices compared to the industry and firms of a similar size and business model, and identified particular areas that should receive priority attention.

These report cards followed from responses to an extensive assessment survey tool developed by Deloitte on behalf of IIROC to measure firms against a recognized cybersecurity framework.

IIROC's cybersecurity assessments – like the new C&I reports and our risk trend reports which many of you are familiar with

– are designed to help firms strengthen best practices, reduce risk and protect their clients and organizations.

I believe these initiatives again demonstrate the “tangible outputs” that are IIROC’s focus and how we continue to add value and be a trusted partner to Member Dealers firms.

Closing

In conclusion, 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.

We are also looking to make more effective and efficient use of the various standing committees, including the CLS Committee, as well as the District Councils 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.

I wish you a productive and insightful day.

Thank you.