

NEWS RELEASE

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Results highlight best practices and areas for improvement

IIROC provides compliance survey update on managing conflicts in clients' best interests

December 15, 2016 (Toronto, Ontario) –The Investment Industry Regulatory Organization of Canada (IIROC) today published high-level [results](#) of a targeted review of firms' policies and procedures for meeting the regulator's "best interest" requirements, showing both best practices and areas of concern in how firms manage compensation-related conflicts of interest. As it continues this review, IIROC will take appropriate regulatory action as required.

The review followed publication of an [IIROC notice](#) in April 2016, in which the regulator announced its intention to strengthen compliance with IIROC Rule 42 among the investment firms it regulates. This rule requires firms to address existing or potential conflicts of interest between advisors and their clients in a fair, equitable and transparent manner, consistent with the best interests of the client. It also requires firms to have clear policies and procedures in place for managing compensation-related conflicts.

The review and follow-up meetings were conducted among a cross section of 20 IIROC-regulated investment firms representing various sizes, business models and products. As a result of this work, IIROC identified best practices related to compensation, including enhancements to supervision of possible conflicts, approaches to product due diligence, and staff training. IIROC also identified concerns with some compensation practices, particularly in relation to payouts and extra commissions in fee-based accounts, preferences for the sale of proprietary products and conflicted supervision.

"IIROC believes that the proper management of compensation-related conflicts of interest is critical to ensure that the interests of registrants are aligned to those of their clients. Our work in this area will help IIROC-regulated firms and their representatives identify and manage compensation-related conflicts of interest in a way that's consistent with the best interests of their clients," said Wendy Rudd, IIROC Senior Vice-President, Member Regulation and Strategic Initiatives.

IIROC is continuing to conduct targeted reviews and will publish a more detailed report on the results when completed. IIROC will also consider issuing further guidance and/or rule amendments to better address compensation-related conflicts. In addition, IIROC will more closely examine compensation practices and the management of any associated conflicts by investment dealers.

“We will continue working and sharing with our regulatory partners the results of our efforts on this important issue,” added Rudd.

Earlier today, the Canadian Securities Administrators (CSA) published a [notice](#) outlining the results of its 2014 survey on compensation arrangements and incentive practices at Canadian investment firms, pointing out some potential conflicts of interest that could arise. The CSA is in the midst of an extensive consultation on a framework of proposed targeted reforms relating to the client-registrant relationship.

IIROC is the national self-regulatory organization which oversees all investment dealers and their trading activity in Canada’s debt and equity markets. IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while supporting healthy Canadian capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

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