

NEWS RELEASE

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Next steps include enhanced examination program

IIROC Publishes New Guidance to Address Findings of Compensation-related Conflicts of Interest Review

April 27, 2017 (Toronto, Ontario) – The Investment Industry Regulatory Organization of Canada (IIROC) today published detailed [findings](#) of a targeted review which assessed how well investment firms are meeting the requirement to manage compensation-related conflicts in the best interest of the client. Based on the results, IIROC has also published supplementary guidance to clarify and ensure that all IIROC-regulated firms comply with existing rules.

Early in 2016, IIROC made it a priority to gain a better understanding of the range of compensation practices in place at a cross-section of IIROC-regulated firms and to assess compliance with its conflict-of-interest rules, primarily Rule 42. This IIROC rule requires that any conflict of interest between an advisor and their client must be resolved in a fair, equitable and transparent manner, and consistent with the best interests of the client.

While IIROC found some best practices in place, its review identified three significant areas of concern:

- reliance on disclosure without first addressing the conflict, and poor quality of disclosure
- a lack of comprehensive oversight of compensation programs and their associated conflicts by investment firms
- a shift to fee-based and managed accounts without appropriate supervision and monitoring of the unique risks associated with these account offerings.

Where IIROC identified significant issues that it believes were the result of clear breaches of its rules as part of this review, it is investigating and may pursue enforcement action as appropriate. In the meantime, today's guidance helps to clarify the regulatory requirements IIROC already has in place.

“As a public interest regulator, we believe that the proper management of conflicts of interest, and compensation-related conflicts in particular, is at the core of the best interest debate and is critical to improving public confidence in our capital markets and our financial system,” said IIROC President and CEO Andrew J. Kriegler. “As a result of these findings, IIROC is immediately taking a number of important steps to make it clear that our rules and guidance put the best interest of the client ahead of the interests of IIROC-regulated firms and their representatives.”

“Our targeted review provides us with important insights into how firms are interpreting our rules and what we need to do to ensure that firms have clear policies and procedures to resolve compensation-related conflicts in the best interests of the client,” added Wendy Rudd, IIROC Senior Vice President of Member Regulation and Strategic Initiatives.

IIROC will continue to work with the Canadian Securities Administrators (CSA) to ensure that Canadian regulatory requirements are harmonized and reflect that:

- disclosure alone is not sufficient to address conflicts, particularly those that are compensation related
- conflicts must be avoided or addressed before disclosure is considered.

IIROC is also significantly enhancing its business conduct examination program to better assess how effective dealers are in complying with its rules. All IIROC-regulated firms are subject to regular comprehensive examinations, with more frequent exams if closer scrutiny is required to protect investors.

To address concerns identified regarding fee-based accounts, IIROC has requested that firms identify where their policies and procedures related to controlling conflicts associated with “double-charging” have not been followed, or where the best interests of clients have not been considered. Depending on the responses, IIROC will take appropriate regulatory action. Failure to self-report any issues will result in a referral to enforcement if significant deficiencies are identified during future examinations.

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.