Notes for remarks by

Andrew J. Kriegler

President and Chief Executive Officer

Investment Industry Regulatory Organization of Canada

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CHECK AGAINST DELIVERY

Introduction

Thank you Prakash and good morning everyone.

It is a great honour to be here with you in India and to have been invited to participate in this important conference.

As a public interest regulator that sets and enforces high quality standards for the investment industry in Canada, I commend the Institute for hosting this forum and for the significant work you are doing to educate and provide skills certification for those involved in India's financial markets.

India ranks among the fastest growing large economies in the world. Healthy capital markets, backed by effective and efficient regulation, are a key ingredient in your economic success. Equally important are high levels of proficiency for your financial professionals, proficiency levels supported by rigorous, transparent and respected certification standards, and that is why we are all here today.

I'd like to give you a brief view of some of the issues that we are dealing with in Canada's securities markets – issues that link to this conference's focus on building capacity, on education, on training and on certification.

Evidently, the financial markets in India and Canada are at different stages. So of course, it may seem as if the issues we deal with must be different too. However, I can tell you that when I read the remarks delivered by Prime Minister Modi at the inauguration of this campus, I was struck by not by the differences in the challenges we face but rather by the similarities.

The world is changing

For example, we are all facing rapidly changing environments: be they political, economic or technological. To respond to those changes without being overwhelmed, we must strive to understand what's behind them – but to do so successfully requires a major investment in time, energy and money.

For that reason, I applaud the Institute, the Securities and Exchange Board of India and the government for having had the foresight to set up your seven schools of excellence and of course the new NISM campus itself.

Having done so will help ensure Indian market participants are well-informed, competent and aware of global trends and issues – and thus able to respond appropriately.

So what do I see happening today in Canada that relates to the subject of this conference?

First, I don't think it is possible to overestimate the degree to which the echoes of the financial crisis that shook the world beginning in 2008 continue to reverberate today. And while many accounts of the period focus on the destruction of wealth and the collapse of markets and financial institutions, in my view the real damage done cannot be measured in monetary terms alone.

That is because it was damage to confidence and damage to trust. The crisis hurt the confidence we had in our economic and political systems and diminished the trust that we had placed in the people who lead them.

Second, North American society is at the inflection point of a major demographic shift.

A huge population cohort – the post Second World War ‘baby boom’ generation – is getting older rapidly, but they are also living a lot longer than previous generations.

This presents unique and sometimes conflicting investment challenges. Retirees, for example, often grapple with balancing the need to preserve capital and generate income. This becomes even more challenging in a low interest rate/low return environment – challenging for investors, for the industry, and also for regulators like IIROC whose mandate is to protect those investors.

This has already changed what consumers demand from financial services providers and demand from those that regulate them: firms are shifting to offer a much broader range of services that include everything from financial planning to estate and trustee services. And, evidently, the people needed to deliver those services require more and different competencies, skills and knowledge than they did before.

At the same time, younger generations are making up an increasing percentage of the workforce and becoming investors themselves but with very different needs, behaviors and goals.

To begin with, they are very much more on their own than were their parents' generation when it comes to financial planning generally and retirement saving in particular.

The days when retirement security was broadly available through a defined benefit pension plan are effectively gone.

At the same time, this group is much less inclined to hire financial advisors or planners to help them with their financial goals and investment decisions. They are also much more at ease using technology – and indeed, prefer to do so for any number of interactions or transactions. Unfortunately, in the financial context, they sometimes do so without having the necessary knowledge and understanding to optimize its use.

That leads me to my third change driver – technology. Here too, I think we are at an inflection point… the acceleration curve – the rate at which technology is acting as a catalyst for behavioral change – is going nearly vertical in many parts of the world.

New technologies allow people greater and faster access to information and have vastly increased the availability of analytical support for individual decision making. They have also increased, exponentially, the speed at which these decisions and the transactions that follow can and do occur.

And, since the financial theory that underlies many decision-making support tools is the same, there's an argument to be made that the correlation of moves that are made by market participants is increasing.

To put it in other words, technology has increased the speed of finance; the speed of markets and the speed at which all of our financial interactions take place. And I would tell you that increased speed equals increased volatility. That makes human judgment much more important than ever before.

Implications and Responses

So what is the common thread that ties these issues together? And what does it mean to us here today?

Simply, I would say that the change drivers I've described – changes in demographics, in behavior and in the social contract that used to define retirement saving, have combined with rapid technological advancement to mean that people – investors – need, more than ever, to have confidence in the system (political, economic, financial, etc.) that supports them.

They have to feel they have a place in the system particularly if they aren't incredibly wealthy or financially sophisticated.

They need enough trust in the system and its participants and leaders to get the help and advice that they need to prepare for the future. And that is as true for an Indian farmer who is considering whether to try to use commodity derivatives to hedge the prices of his crops for the first time as it is for a Canadian retiree trying to ensure that his savings and investments will last his lifetime.

Yet, as we have already talked about, trust and confidence in the status quo are in short supply in much of the world. For evidence of that, one can simply point to recent political changes in any number of countries.

Of course there has already been an enormous political, economic and legislative response to the global financial crisis. You need only look at the individual and collective efforts of the countries of the G20, of the Financial Stability Board, of the Basel Committee and of IOSCO over the last several years, and it becomes clear just how significant an effort it has been and continues to be.

But while trust and confidence in systems and institutions can easily be lost, I would say that they – that is financial systems and financial institutions – cannot easily earn back by themselves what has been lost. It doesn't just happen on a macro level nor does it happen overnight.

Trust and confidence are earned slowly and individually, by and between people....between, for example, investors and the financial professionals with whom they work. Well-trained, well-educated financial professionals who follow a rigorous code of ethics – and whose proficiency is backed by a transparent and respected certification standard will help inspire confidence and trust.

And I think that takes us full circle to why we are here today.

IIROC's view

So let me now spend just a couple of minutes to speak to some of my organization's responses to the challenges we have been talking about.

IIROC is of course a relatively small regulator, operating in what is a relatively small market. We know we can't change the world by ourselves. But, we can take some small steps, together with the firms and individuals we regulate, to build more confidence and to earn trust. And that is surely consistent with our mission to protect investors and support healthy Canadian capital markets

Putting Clients First

Some of you are perhaps familiar with the recent moves by the U.S. Department of Labour to introduce a fiduciary standard (admittedly, something that is now in question given the change in administration). Or the Financial Conduct Authority's reforms in the UK in recent years that resulted in the banning of embedded commissions.

As much as there are reasonable concerns about the impact of these individual moves on access to financial advice, I would argue that they represent a broad trend of reform – a trend that is helping improve the lot of investors, helping improve the structure of financial markets and helping improve the skills and capabilities of those that work in them.

Advisors have had to become more transparent and have had to invest in their skills, their education and their knowledge. I would suggest that advisors who have embraced these new requirements are increasingly in demand by clients seeking comprehensive financial advice.

In Canada, all registrants are required to act fairly, honestly and in good faith with their clients.

Over the last several years, we – IIROC and our regulatory partners – built on this fundamental standard of care by introducing a series of reforms called the Client Relationship Model. It was designed to increase transparency around fees and performance, improve disclosure and enhance suitability.

But disclosure alone is never the answer.   As a result, there is an active debate led by many of the the provincial securities commissions in Canada – who together delegate some of their regulatory authority to us – on the establishment of a formal best interest standard.

We strongly support this exercise and believe that a workable best interest standard can be established in Canada.

For example, we already have a rule that requires firms to address existing or potential conflicts of interest between advisors and their clients, in a manner that *is consistent with the best interests of the client.*

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.

So, in parallel with the effort being led by the provincial securities commissions, we are in the midst of a targeted review of our member firms on compensation related conflicts.

While early results show that there are best practices in place at some firms, there is definitely room for improvement at others. While we have not made any final decisions, we are prepared to take appropriate regulatory action as required to ensure that the interests of clients come first.

Innovation and online offerings

Regulatory reform often increases the cost of doing business and this can cause market participants to look for other ways to serve their clients more cost effectively.

One of the trends we are seeing in Canada is that some firms – because of regulatory and other costs – are starting to restrict advisors to only taking on higher net worth clients. Others are looking to technology as a way to maintain or even expand their client base to smaller investors at a lower cost. The result is that an increasing number of investors may only be able to get services and/or advice through online delivery.

Our challenge is to keep up with the evolution of business models and to determine how best to regulate this evolving spectrum of services – from full service financial planning and investment advice, to automated or so-called robo-advice to true do-it-yourself, and everything in between.

When originally developed, our rules dealt with a simpler world: traditional full service advice or simple trade execution tools. There was nothing in between. Now there is – and there is more every day.

We can only determine the appropriate regulatory response in consultation with those who are affected – industry and investors. We not only established an industry working group to consider the products and tools being offered in the context of our current regulatory framework but we also surveyed clients who use trade execution and portfolio construction tools to understand how they characterize the services they are receiving.

We firmly believe that making good public policy requires engaging all of your stakeholders.

Sometimes the conversations with them are very difficult because there is so much at stake – but at the end of the day, the destination is worth the journey.

Proficiency truly matters

So where do higher education and certification standards – proficiency is our word for it - fit into our agenda at IIROC?

We think it is and should be viewed as being a significant advantage by those who embrace it. And I believe you do too given the investment you are making with regards to this conference, within your Institute and with partnerships, like the one with Moody's Analytics that you are building.

I mentioned automated or 'robo-advice' a moment ago. Some see these portfolio management tools as a threat to traditional business models.

To be sure, as we've talked about, it will be an important product for some clients. Others however will want to continue to work with a human advisor at some, or every step of the process....but I suspect only if that advisor has invested in his or her skills and capabilities and is able to add value – and more important – valuable judgment to their client. Value, in this context, is judgment that goes beyond what can be generated by a model portfolio generating an efficient frontier.

Where the advisor is working together with technology, proficiency is just as important – technology is only as good as the input that is provided.

In addition to the build out of decision support tools for advisors and end clients – going deeper, so to speak – many firms are also broadening their offerings. These include a full range of financial services, from tax and estate planning to insurance.

Firms that do so can hope to build better and fuller advisory relationships with their clients. To do it well, they are investing in their people to give them the necessary skills and education to serve their clients and, over time, we see this creating a new "norm" of higher proficiency levels for everyone.

And at the end of the day, that is ultimately our goal – as I know it is for all of you here.

Conclusion

I would like to conclude by reinforcing the points I made earlier.

Investors deserve financial professionals that they can trust and markets that they can have confidence in. Although the examples I used were drawn from the world of investment advisors, I think they apply equally to every corner of the financial markets. Sadly, in some of those corners, trust is in short supply.

One of the ways that we can, together, rebuild some of the trust and confidence that has been lost is by ensuring high standards for professional knowledge, for ethics and for certification. At the same time, we will provide the some of the necessary conditions for future economic growth here in India, in Canada and around the world.

On that note, I would like to congratulate the National Institute of Securities Markets and Moody's Analytics for taking the initiative to launch a Certificate in Derivatives Market Strategies – which I understand is the first in a series of advanced certifications designed to elevate proficiency standards in your financial services sector.

This type of investment in education and capacity building underscores exactly the type of leadership I believe needs to be shown in order to enhance confidence in the markets and its participants, which will only help to propel India's economy forward.

Prime Minister Modi noted, in his remarks here last month, his aim to make India a developed country in one generation. Rightly, he cited robust financial markets, populated by educated professionals as part of the path to that future – based on what I have already seen and heard since arriving here, it is a path on which you are already well advanced.

Thank you.

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