

# IIROC NOTICE

## **Administrative Notice General**

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Operations  
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## **IIROC Priorities for 2018**

This Notice summarizes the significant activities and initiatives that we will focus on in our 2018 fiscal year: April 2017 – March 2018 (**FY18**). Our priorities for FY18 support the objectives outlined in the [three-year strategic plan](#) we published in May 2016.

IIROC's **Mission** is to **protect investors and support healthy Canadian capital markets**. Our **Vision**, which represents our definition of long-term success, is to **demonstrate how our self-regulatory model serves the public interest by:**

1. inspiring confidence and deterring wrongdoing by having and using robust and appropriate tools
2. making the delivery of securities regulation in Canada significantly more efficient
3. being known as a trusted, respected and valued partner by our stakeholders
4. being a leading-edge regulator
5. creating a culture that attracts and retains high-quality employees.



This year, we will focus on the following priorities:

<b>Principal Strategies</b>	<p><b>Policy Development</b> Deliver timely, relevant, comprehensible and proportionate regulation, while minimizing undue impact</p>	<ul style="list-style-type: none"> <li>• Take steps to ensure Dealers manage conflicts in the best interest of clients</li> <li>• Ensure IIROC requirements accommodate new advice and service models</li> <li>• Finalize the Plain Language Rule Book and introduce Dealer training</li> <li>• Conduct investor research on key policy issues</li> </ul>
	<p><b>Enforcement</b> Deter wrongdoing by pursuing credible enforcement action in a timely, responsive and robust manner</p>	<ul style="list-style-type: none"> <li>• Pursue and implement additional powers, protections and tools</li> </ul>
	<p><b>Market Supervision</b> Foster confidence in the fairness and integrity of markets</p>	<ul style="list-style-type: none"> <li>• Initiate implementation of new surveillance system to support the continued evolution of market supervision</li> </ul>
	<p><b>Information Sharing</b> Efficiently gather data from market participants and make it readily available to stakeholders</p>	<ul style="list-style-type: none"> <li>• Explore Expanded Debt Information Processor Service</li> <li>• Enhance data-sharing platform and capabilities</li> </ul>
	<p><b>Conduct and Prudential Supervision</b> Apply regulation that is proportionate, consistent, and risk-based, and anticipate trends</p>	<ul style="list-style-type: none"> <li>• Improve compliance risk models</li> <li>• Continue to help Dealers improve cybersecurity preparedness</li> </ul>
<b>Enabling Strategies</b>	<p><b>Value Delivery</b> Enhance delivery of value within the Canadian regulatory framework</p>	<ul style="list-style-type: none"> <li>• Identify and work to reduce regulatory arbitrage in Canada</li> <li>• Conduct biennial Dealer Survey</li> <li>• Continue to increase information sharing with other regulators</li> </ul>
	<p><b>Investor Awareness</b> Improve investor awareness of the standards and protections afforded by IIROC</p>	<ul style="list-style-type: none"> <li>• Begin rebuild of IIROC website</li> </ul>
	<p><b>Technology Capabilities</b> Optimize data collection, protection, storage and use, and improve internal processes</p>	<ul style="list-style-type: none"> <li>• Continue to optimize investments in information technology</li> </ul>
	<p><b>People &amp; Organizational Culture</b> Attract, retain and invest in our people and culture to deliver on our objectives</p>	<ul style="list-style-type: none"> <li>• Improve employee experience through full roll-out of work-from-home program</li> </ul>



In addition to the above priorities, our Policy teams will continue to deliver timely, relevant, comprehensible and proportionate regulation that minimizes undue impact. Our quarterly [Policy Priorities](#) publication is an important way we help Dealers, investors and other stakeholders anticipate, plan for and/or comment on our current and upcoming policy initiatives.

As a conduct and prudential regulator, we will continue to take a risk-based approach to business conduct, trading conduct, and financial and operational reviews of IIROC-regulated firms to ensure they comply with statutory and IIROC requirements, and to encourage a strong culture of compliance. As a market regulator, we will continue to oversee both debt and equity trading in Canada to ensure the integrity of our capital markets. For more details of our compliance activities and priorities, see the IIROC [Compliance Priorities Report for 2016/17](#).

In keeping with our oversight role, we will continue to investigate and enforce our rules and hold IIROC-regulated dealers and individual registrants responsible for their actions through various disciplinary sanctions. For more details of our investigation and enforcement activities, see our [2016 Enforcement Report](#).

For more information on IIROC, please visit [www.iroc.ca](http://www.iroc.ca).



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## 1. Policy Development

There are many important issues facing the industry today that impact investors, Dealers we regulate and our regulatory and government partners. Our approach to policy development will continue to be informed through active engagement with a wide variety of stakeholders.

Key policy initiatives in FY18 will include:

### 1.1 Take steps to ensure Dealers manage conflicts in the best interest of clients

In the [Notice](#) we published in April 2017, we provided details of the key findings from our comprehensive review of compensation-related conflicts (**Compensation Review**) and issued new, supplementary guidance for Dealers. In FY18, as we committed in the notice, we will:

- enhance our Business Conduct Compliance (**BCC**) examination procedures to put greater focus on:
  - compensation grids and programs
  - whether/how Dealers are addressing conflicts in the best interest of clients
  - the quality of disclosures
  - sales targets
  - compliance with National Instrument 81-105 – Mutual Fund Sales Practices
- include a new factor in our BCC risk model that considers compensation arrangements, along with other changes resulting from our recalibration work this year (as discussed further in section 5.1)
- work with the Canadian Securities Administrators (**CSA**) to ensure our requirements are materially harmonized and implemented on the same schedule, and that they clarify that:
  - disclosure alone is not sufficient to address conflicts, particularly compensation-related conflicts
  - conflicts must be avoided or addressed in another way before disclosure is considered.
- provide additional guidance on the approaches Dealers can use to address conflicts of interest, with particular focus on the findings from the Compensation Review.



## **1.2 Ensure IIROC requirements accommodate new advice and service models**

As Dealers' advice and service offerings continue to evolve, the provision of advice is increasingly automated, and non-dealer entrants bring new competition, IIROC rules and guidance need to keep pace. In FY18, we will work with the industry to determine whether our requirements present any unnecessary barriers, and if so, how they should change to align with evolving business models. Our goal is to ensure that our core regulatory obligations (including Know Your Client, Know Your Product, and suitability rules and guidance) are:

- appropriately scalable for the level of service and nature of advice provided by each business model
- sufficiently flexible to enable automation where appropriate
- materially harmonized with those of the CSA

and that the cost of providing advice does not outweigh the benefit.

## **1.3 Finalize Plain Language Rule Book (PLR) and introduce Dealer training**

Our goal this year is to bring to conclusion the multi-year effort to rewrite the IIROC Dealer Member Rules in plain language by implementing the final rules, and establishing an appropriate implementation period. Where necessary and appropriate, we will address any outstanding issues through separate follow-on initiatives.

As a result of the PLR project, not only have old rules been simplified and clarified, but some have also changed substantively. To help Dealers adjust to the new rule book, we are developing a training program that will be delivered prior to the new rules becoming effective, and on an ongoing basis.

Our PLR initiative and improvements to Dealer training are consistent with our commitment to:

- communicate concisely and in plain language
- educate Dealers on key rules and ways to comply.

## **1.4 Conduct investor research on key policy issues**

In FY17 (April 2016 – March 2017), we established an online pool of 10,000 Canadian investors, in order to better understand their needs and perceptions, and actively consult on key policy issues. For example, we surveyed investors across the country to determine their



knowledge of regulation, in order to develop and distribute new educational information to help them make more informed decisions.

We will use this national pool to conduct research on various policy issues throughout the year, as part of our commitment to consult directly and effectively with investors.

## **2. Enforcement**

### **2.1 Pursue and implement additional powers, protections and tools**

To fulfill our investor-protection mandate and more effectively deter wrongdoing, we will continue to pursue the following powers:

#### *Increase our fine collection against individuals through expanded legal authority*

While firms and individuals must pay their fines if they wish to remain Dealers or registrants of IIROC, many individuals choose to avoid payment by simply leaving the securities industry and abandoning their registration with IIROC.

Currently, we have the legal authority to enforce fines in Alberta, Quebec and, since January 2017, in Prince Edward Island (**PEI**). As well, on May 17, 2017, the Ontario government passed legislative amendments that gave us the same power to pursue the collection of disciplinary fines directly through the courts.

In FY18, we will begin to apply our new powers, and continue our efforts to achieve the same legal authority in the remaining provinces and territories.

#### *Obtain statutory immunity for IIROC and its personnel when acting in the public interest*

IIROC is seeking statutory immunity for its good-faith performance of all of its regulatory functions, including actions taken by Enforcement. Statutory immunity would ensure that IIROC, its employees and its Disciplinary Tribunals have the same protection as provided to the provincial securities commissions and other regulatory bodies when they carry out their regulatory responsibilities. We believe that this is necessary in order to allow us to take appropriate regulatory action in the public interest, without fear of reprisal. In May 2017, the Government of Alberta introduced legislation which is expected to receive Royal Assent shortly giving IIROC this important protection.

#### *Powers to strengthen evidence collection*

IIROC has taken steps to seek additional powers that would allow us to require cooperation in both our disciplinary investigations and hearings. Under our current rules and jurisdiction, we can require our registrants and Dealer Members to cooperate with our investigations and



prosecutions. With few exceptions, we have no ability to require cooperation of individuals and entities that are not regulated by us, even where they have relevant evidence to provide us.

In Alberta and PEI, IIROC has the ability to require cooperation from individuals and entities not under our jurisdiction at our disciplinary hearings. In the same Securities Act amendment which will grant IIROC immunity for good-faith actions undertaken while carrying out our regulatory responsibilities, Alberta extended our ability to require cooperation during the investigation phase of our disciplinary activities.

In FY18, we will continue to work with other CSA jurisdictions and their respective governments to extend these authorities across the country.

#### *Acquire alternative forms of disciplinary action*

We are considering alternative forms of disciplinary action and tools that will enhance our ability to deliver an enforcement response that is firm, timely and proportionate to the circumstances. In FY18, IIROC will seek public and industry stakeholder input regarding these potential new Enforcement measures.

## **3. Market Supervision**

### **3.1 Initiate implementation of new surveillance system to support the continued evolution of market supervision**

Last year, IIROC undertook a robust vendor selection process to ensure we have the best surveillance system to continue to support our mandate of monitoring equity and debt trading in Canada for the next five years. This year, we will begin the multi-year implementation of an enhanced market surveillance system which builds on our current cross-market capabilities and will enable us to conduct cross-dealer, cross-product, and cross-asset surveillance.

In parallel, we will initiate a review of the approaches we take in market supervision which will build on the foundation of the new system. This will ensure we continue to evolve along with the markets that we regulate and fulfill our mandate to protect the integrity of capital markets in Canada.



## **4. Information Sharing**

### **4.1 Explore Expanded Debt Information Processor Service**

In FY17, as the newly appointed Corporate Debt Information Processor (**IP**), we began publishing trades in corporate debt securities. By July 2017, all corporate debt trades executed by all IIROC-regulated firms will be available on our web portal ([www.bondtradedata.iiroc.ca](http://www.bondtradedata.iiroc.ca)).

In our December 2016 [consultation](#) on a new Debt IP fee model, we signaled the possible introduction of an “Expanded Debt IP Service”. Through consultations with a variety of market participants, we have learned that downloadable bulk corporate debt transaction data would be useful for activities such as:

- Dealer Member and client monitoring of fair pricing compliance, commission payment practices, etc.
- position / fund-level accounting (independent price verification or IPV)
- risk management
- activity analysis and forecasting
- credit index creation and management
- ETF structuring and valuation.

We are therefore exploring the distribution of downloadable bulk data for a fee through the Expanded Debt IP Service. Our next steps and approach in FY18 will be informed by work we have underway to validate our preliminary research on a potential corporate bond service, as well as collaboration with the CSA and provincial and federal governments on the appropriate course for government debt transparency.

### **4.2 Enhance data-sharing platform and capabilities**

This is a multi-year set of initiatives with the objective of efficiently gathering data from market participants and complementary sources, organizing it, enriching it and making it readily available to internal and external stakeholders.

In FY17 we compiled a complete inventory of all internal and external data sources used in our operations, and mapped them to the relevant business, technology and application components.

We also completed a proof-of-concept for a scalable, shareable, cost-effective and secure data repository using commercially available cloud-based services. In addition, we provided our



regulatory partners at the CSA with access to the Analytics Data Portal, to empower them with aggregated equity trade data and analysis tools.

In FY18, we will build on this initial work to:

- create a master data management environment and business processes as a foundation to all other initiatives
- using commercially available cloud-based services, launch an internal data-sharing platform to provide broad access to cross-functional data and tools such as shared reports, dashboards and ad hoc analysis
- work with our regulatory partners to define data-sharing needs in support of their analytics initiatives.

## **5. Conduct and Prudential Supervision**

### **5.1 Improve compliance risk models**

IIROC is focused on the efficient delivery of regulation by applying a risk-based and proportionate approach. In FY17, we performed a comprehensive review of our risk models. Building on this recalibration work, we will test the changes we have identified and implement improved risk models, to ensure Dealers are appropriately risk-ranked. Our risk models<sup>1</sup>, which inform the frequency and content of compliance examinations, are designed to recognize the diversity in business models, structures and profiles among Dealers. We use the risk rankings to prioritize our resources – to efficiently manage regulatory costs while focusing appropriately on higher-risk activities.

This work supports our commitment to:

- apply a risk-based approach to our regulations
- be proportionate and minimize unnecessary regulatory burden
- avoid any unintended bias against smaller dealers.

### **5.2 Continue to help Dealers improve cybersecurity preparedness**

Cybersecurity is a complex issue facing all industries and organizations around the world, and it will remain a focus for IIROC over the coming years. All Dealers completed a self-assessment in FY17, and we have since provided each Dealer with a cybersecurity “report card”.

Throughout FY18 we will meet with each firm that scored as moderate and/or high-risk to

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<sup>1</sup> For more information about the factors and weightings we use, please refer to the [Industry Compliance section](#) of the IIROC website.



review their specific business model and systems. After each meeting, we will provide a report to the firm summarizing the systems used in the life-cycle of client information, and affirming or changing the risk rating of the firm. The report will also provide supporting advice on the high-priority opportunities we identified to improve the Dealer’s cybersecurity preparedness. Our approach to working with Dealers toward improving their cybersecurity preparedness is consistent with our commitment to:

- protect investors
- foster confidence in the integrity of the markets
- provide practical support where possible
- tailor our approach across the firms we regulate, where appropriate.

## **6. Value Delivery**

### **6.1 Identify and work to reduce regulatory arbitrage in Canada**

Our Value Delivery strategy aims to reduce fragmentation, burden and arbitrage across regulatory platforms. To that end, we have completed a detailed comparison of IIROC rules, fees and costs, proficiency requirements, and our enforcement and compliance approach versus those of other Canadian regulators, where we oversee the same activity. There are several areas where the same activity is subject to different standards, and in collaboration with the CSA, we will work to address the issues that are most important to resolve. The pursuit of solutions to “level the playing field” will be a priority for IIROC through FY18.

### **6.2 Conduct biennial Dealer Survey**

Seeking feedback is an important part of our process to determine how effective we are in helping Dealers comply with our regulatory requirements. In FY18, we will invite Dealers to tell us how we are doing, and where they feel we need to improve our approach to be more effective, efficient and relevant.

Key areas of interest will include:

- our proportionate approach to regulation
- the effectiveness of our approach in addressing industry issues
- the efficiency, effectiveness and timeliness of our examinations and investigations
- the value of our education programs and communications.



This supports our commitment to enhance our delivery of value within the Canadian regulatory framework.

### **6.3 Continue to increase information sharing with other regulators**

As a public interest regulator, IIROC recognizes the importance of collaborating with other regulators who oversee the financial services industry to strengthen investor protection and provide more effective regulation. In FY17, we announced that we had established information-sharing arrangements with the Canada Deposit Insurance Corporation, the Financial Service Commission of Ontario, the Alberta Insurance Council and the Insurance Council of British Columbia. We have already seen investor-protection benefits under these and our other information-sharing arrangements. We will continue to discuss information sharing with other regulators, as well as enhancing our internal processes for providing information and acting on the information that we receive.

## **7. Investor Awareness**

### **7.1 Begin rebuild of IIROC website**

Transparent communications and access to information for all stakeholders is an important part of being an effective regulator. During FY18 we will continue to solicit input from stakeholders about their information needs and how the IIROC website can become more intuitive and user-friendly. We will initiate a Request for Proposal process to select a vendor to rebuild our site, and make it mobile-friendly and more accessible. Work will also begin on improving the content, ensuring it is written in plain language and addresses the information needs of all stakeholders. We expect to launch the new site in fiscal 2019.

## **8. Technology Capabilities**

### **8.1 Continue to optimize investments in information technology**

In FY18, we will continue leveraging existing and emerging technologies and our information technology/security service-provider relationships to improve internal processes, strengthen data protection, and optimize the collection, storage and use of data by:

- consolidating and simplifying the architecture for various applications and data repositories



- maintaining our investment in cybersecurity measures to prevent unauthorized access to personal and confidential information and in response to the evolving threat landscape
- optimizing our implementation of the new finance management information system
- selecting an infrastructure service provider that meets our expanding business and technology requirements
- upgrading our infrastructure and services to support our staff so they can effectively work from anywhere (office, Dealer locations, home).

## **9. People & Organizational Culture**

### **9.1 Improve employee experience through roll-out of work-from-home program**

Building on a successful pilot program in FY17, we are introducing an organization-wide work-from-home program that will give eligible employees the opportunity to work from home at certain times. IIROC remains very committed to enhancing employee engagement and improving productivity and workflows. We also continue to focus on attracting and retaining key talent, fostering individual development, planning for succession, and improving organizational change management capability.