

IIROC NOTICE

Administrative Notice General

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IIROC Priorities for 2019

This Notice summarizes the significant activities and initiatives that we will focus on in our 2019 fiscal year: April 2018 – March 2019 (**FY19**). Our priorities for FY19 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.



Our three-year strategic plan has included nine different strategies to help us achieve our Mission and Vision. This year, we have created a new, 10th strategy – Supporting Industry Transformation. The pace of industry change continues to accelerate, and the rise of financial technology (**FinTech**), blockchain, digital assets, etc. has transformational implications for markets, investors, Dealers and overall industry infrastructure.

Through this new strategy we will provide more insight for stakeholders on how we are exploring emerging issues and trends, while focusing on investor protection. We expect that our efforts in this strategy will result in new, supporting priorities and multi-year initiatives across the other nine core strategies.

As this is the final year of our three-year plan, we will review and update our strategic plan, in addition to focusing on the following priorities:



Principal Strategies	<p>Policy Development</p> <p>Deliver timely, relevant comprehensible and proportionate regulation, while minimizing undue impact</p>	<ul style="list-style-type: none"> • Issue additional guidance on compensation-related conflicts, and align with CSA on Client-Focused Reforms and embedded commissions • Propose a safe-harbour rule, complemented by additional tools to help Dealers protect the interests of vulnerable investors • Implement the Plain Language Rule Book and introduce Dealer training • Finalize the requirements for the mandatory use of client identifiers • Conduct investor research on key policy issues
	<p>Enforcement</p> <p>Deter wrongdoing by pursuing credible enforcement action in a timely, responsive and robust manner</p>	<ul style="list-style-type: none"> • Continue to pursue additional powers, protections and tools
	<p>Market Supervision</p> <p>Foster confidence in the fairness and integrity of markets</p>	<ul style="list-style-type: none"> • Complete implementation of new surveillance system to support the continued evolution of market supervision
	<p>Information Sharing</p> <p>Efficiently gather data from market participants and make it readily available to stakeholders</p>	<ul style="list-style-type: none"> • Add government debt to IIROC's Debt Information Processor Service • Continue to enhance data-sharing platform and capabilities
	<p>Conduct and Prudential Supervision</p> <p>Apply regulation that is proportionate, consistent, and risk-based, and anticipate trends</p>	<ul style="list-style-type: none"> • Implement improved Trading and Business Conduct Compliance risk models • Conduct industry table-top exercises and second self-assessment to improve Dealers' cybersecurity preparedness
	<p>Support Industry Transformation</p> <p>Proactively explore significant industry issues and trends to determine next steps and supporting initiatives</p>	<ul style="list-style-type: none"> • Prepare to regulate blockchain applications and digital assets • Complete industry consultation on evolution of advice and identify opportunities for improvement
Enabling Strategies	<p>Value Delivery</p> <p>Enhance delivery of value within the Canadian regulatory framework</p>	<ul style="list-style-type: none"> • Continue working with other regulators to reduce regulatory arbitrage and increase information sharing
	<p>Investor Awareness</p> <p>Improve investor awareness of the standards and protections afforded by IIROC</p>	<ul style="list-style-type: none"> • Continue to rebuild our corporate website to improve user experience
	<p>Technology Capabilities</p> <p>Optimize data collection, protection, storage and use, and improve internal processes</p>	<ul style="list-style-type: none"> • Transition IT infrastructure and information-security operations to a new, secure, hybrid-cloud platform
	<p>People & Organizational Culture</p> <p>Attract, retain and invest in our people and culture to deliver on our objectives</p>	<ul style="list-style-type: none"> • Improve employee experience



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 2017/18](#).

Our Policy teams will continue to strive 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.

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 enforcement activities, see our [2017 Enforcement Report](#).

For more information on IIROC, please visit www.iiroc.ca.



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1. Policy Development

We continue to strive for simplified, principle-based rules that can be applied flexibly as the industry we regulate evolves. Our challenge this year will be balancing that objective with the need to address the many new issues arising as the pace of industry evolution increases. Our approach to policy development will continue to be informed through active engagement with a wide variety of stakeholders. Key policy initiatives in FY19 will include the following:

1.1 Issue additional guidance on conflicts, and align with CSA on Client-Focused Reforms and embedded commissions

Last year, we issued [supplemental guidance](#) on compensation-related conflicts, and enhanced our Business Conduct Compliance (BCC) examination procedures to better address compensation-related conflicts. We actively participated in the Canadian Securities Administrators' (CSA) work on Client-Focused Reforms, which dealt with, among other things, conflicts of interest, know-your-client and suitability requirements, and we will continue to work toward harmonizing these requirements across regulatory platforms.

In the meantime, we plan to publish additional guidance on the approaches Dealers can use to address conflicts of interest, with particular focus on compensation-related conflicts, as we committed in our 2017 guidance.

Embedded commissions are a common source of potential compensation-related conflicts. We will continue to engage with the CSA toward alignment on any proposals on embedded commissions.

1.2 Propose a safe-harbour rule, complemented by tools to help Dealers protect the interests of vulnerable investors

Our [2016 guidance](#) on compliance and supervisory issues when dealing with senior clients provided Dealers with information on, among other things, responding to potential financial exploitation and diminished capacity situations. To complement the guidance, we developed a member education webcast which continues to be an important resource for investment advisors working with seniors and vulnerable persons.

Feedback from our stakeholders suggests that a formal "safe harbour" – giving Dealers the ability to place a temporary hold on a client's account where financial exploitation or diminished capacity is suspected – would make it easier for Dealers to protect the interests of vulnerable investors.

In FY19, we plan to propose a safe-harbour rule, taking care to align with the CSA. We are also developing a multi-faceted strategy that will include additional webcasts and other materials, produced in conjunction with community and government partners, to further raise awareness about issues facing seniors and vulnerable persons and the resources available to both investors and those



who work with them.

We continue to make the exploitation of seniors and vulnerable investors an Enforcement priority as well.

1.3 Implement the Plain Language Rule Book (PLR) and introduce Dealer training

Our goal last year was to bring to conclusion the multi-year effort to rewrite the IIROC Dealer Member Rules in plain language. Given the scope of this initiative, more time was needed to address the comments we received and resolve any material issues. Pending CSA approval, we now anticipate finalizing the rules in FY19, and establishing an appropriate implementation period.

The goal of the PLR project has been to simplify and clarify the Dealer Member Rules, but in some cases, substantive changes have also been proposed. To help Dealers understand and operationalize the new rules, we will begin to deliver a training program, well in advance of their effective date.

1.4 Finalize the requirements for the mandatory use of client identifiers

The mandatory use of client identifiers would make it significantly easier for IIROC and other regulators to carry out our public-interest mandate, and make surveillance and investigation more efficient and timely. Last year we issued a proposal on the mandatory use of client identifiers on all equity orders submitted to a marketplace and all debt trades reported to IIROC. We also struck an industry working group composed of representatives from Dealers, vendors, marketplaces and the CSA to advise us on implementation issues. This year, based on feedback from both the public consultation and the working group, we will publish a revised proposal for comment and, pending the responses from that proposal, finalize the rule amendments.

1.5 Conduct investor research on key policy issues

We will continue to leverage the online pool of 10,000 Canadian investors we established last year to engage retail investors directly about their investment needs and views. Administered by an independent national research firm, these surveys help inform our policy-making and allow us to gauge investor understanding and awareness of key issues. We expect to conduct at least three surveys this year.

2. Enforcement

2.1 Continue to pursue additional powers, protections and tools

To fulfill our investor-protection mandate and more effectively deter wrongdoing, we will continue to pursue the following powers and where obtained, integrate them into the enforcement process:



(1) Increase our fine collection against individuals through expanded legal authority

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

In 2017, we obtained fine-collection power in Prince Edward Island and Ontario. Prior to that, IIROC only had the legal authority to enforce fines in Alberta and Quebec. We continue to make progress: in April and May 2018, the BC and Manitoba governments, respectively, passed legislation to give IIROC the ability to collect disciplinary fines through the courts.

These are significant developments that give IIROC the ability to pursue fine collection in the majority of our disciplinary cases. We have already begun to apply our new powers, and continue our efforts to achieve the same legal authority in the remaining provinces and territories.

(2) Obtain statutory immunity for IIROC and its personnel when acting in the public interest

We continue to seek statutory immunity for IIROC's 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 and territorial securities commissions and other regulatory bodies when they carry out their regulatory responsibilities.

In June 2017, Alberta was the first province to grant IIROC this protection when its government unanimously passed legislation protecting IIROC from lawsuits when acting in good faith while carrying out its public-interest mandate to protect investors. Two other provinces have also introduced legislation providing IIROC with similar statutory protections: in October 2017, Quebec introduced Bill 141, and in May 2018, Manitoba passed Bill 23.

(3) Powers to strengthen evidence collection

We have taken steps to seek additional powers that would allow IIROC to require cooperation in both our disciplinary investigations and hearings. Under our current rules and jurisdiction, we can require our registrants and Dealers to cooperate with our investigations and prosecutions. But, with few exceptions, we have no ability to require cooperation of individuals and entities that are not regulated by IIROC, even where they have relevant evidence to provide us.

In Alberta and PEI, IIROC has the ability to require cooperation at our disciplinary hearings from individuals and entities not under our jurisdiction. Alberta extended our ability to require cooperation during the investigation phase of our disciplinary activities in the same legislation that granted IIROC statutory immunity in June 2017.



We will continue to work with other CSA jurisdictions and their respective governments to extend these authorities across the country.

(4) Acquire alternative forms of disciplinary action

We are considering alternative forms of disciplinary action to allow for more flexibility and ensure a timely enforcement response that is tailored and proportionate to the circumstances. We completed a review of comparable programs adopted by other regulators (both domestic and foreign) and, in February 2018, published for comment a [proposal](#) for two programs: a Minor Contravention Program and Early Resolution Offers. We also consulted directly with approximately 1,000 Canadian investors from our online pool of 10,000 Canadian investors (as discussed in section 1.5 above) and plan to publish the results of that survey.

In FY19, we intend to respond to the comments we received and, where appropriate, revise the proposals.

3. Market Supervision

3.1 Complete implementation of new surveillance system to support the continued evolution of market supervision

Last year, IIROC completed negotiations with Nasdaq SMARTS to implement an enhanced market surveillance system that builds on our current cross-market, cross-dealer capabilities and will enable us to conduct cross-product, and cross-asset surveillance. The project is well underway and we will complete implementation in the Fall of 2018.

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

4. Information Sharing

4.1 Add government debt to IIROC's Debt Information Processor Service

As the Corporate Debt Information Processor (**IP**) for Canada, we publish all corporate-debt trades executed by all IIROC-regulated firms on our web portal (www.bondtradedata.iiroc.ca).

On May 24, 2018, the CSA proposed that IIROC also become the Government Debt IP for Canada, and that the requirement to report both corporate- and government-debt trades apply to Dealers, marketplaces, inter-dealer bond brokers, and banks listed in Schedule I, II or III of the Bank Act (Canada). Pending the outcome of this consultation, we will prepare to add reported government-debt trades to the data published on our public web portal.



In parallel, as detailed in our [2018 Priorities](#), we continue to explore the possible distribution of downloadable bulk data – including both corporate- and government-debt trades – for a fee, through an Expanded Debt IP Service.

4.2 Continue to enhance data-sharing platform and capabilities

This is a multi-year set of initiatives with the objective of efficiently gathering data from market participants, organizing it, enriching it and making it available to our regulatory partners.

In FY18, we implemented a secure, scalable data-sharing platform, and we worked with our regulatory partners at the CSA to capture their needs in support of their market analytics platform initiative, “MAP”.

In FY19, we will work with the CSA and their chosen solution provider to implement processes and procedures for the regular transfer of data from IIFOC’s data-sharing platform to the CSA data repository.

5. Conduct and Prudential Supervision

5.1 Implement improved Trading (TCC) and Business Conduct Compliance (BCC) risk models

IIFOC is focused on the efficient delivery of regulation through a risk-based and proportionate approach. In FY17, we performed a comprehensive review of our risk models, which inform the frequency and content of our compliance examinations. We use the risk rankings to prioritize our resources – to efficiently manage regulatory costs while focusing appropriately on higher-risk Dealers and activities.

In FY18, we implemented enhancements to the Financial & Operations risk model, which measures the relative risk of a Dealer incurring a capital deficiency. We also began to redesign the TCC and BCC risk models, which measure the relative likelihood of a Dealer failing to uphold market integrity and the relative potential to harm investors, respectively. In FY19, we will test and implement enhancements to those models.

All three models will include an impact factor, which will ensure that we recognize the diversity of IIFOC Dealers, examine them on the appropriate frequency, and focus our compliance teams where it matters most.



5.2 Conduct table-top exercises and second self-assessment to improve Dealers' cybersecurity preparedness

Cybersecurity is a complex issue facing all industries, 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 of them with a cybersecurity “report card”. Throughout FY18 we met with all Dealers that scored as moderate- or high-risk to review their specific business models and systems, and provide them with a follow-up report giving recommendations on the high-priority opportunities we identified to improve their cybersecurity preparedness.

This year, we will continue to work with Dealers on improving their cybersecurity preparedness by:

- conducting two table-top exercises with Juno Risk Solutions for small and medium-sized Dealers (in Toronto and Calgary), to simulate scenarios in which the common vulnerabilities they face are exploited, and to provide best-practice guidance on how to:
 - protect critical assets
 - detect cyber threats
 - respond to/recover from cyber incidents
- conducting a second self-assessment of all Dealers, issuing updated “report cards” and following up with meetings and recommendations
- alerting Dealers on emerging security threats, to facilitate timely mitigation
- finalizing a rule requiring Dealers to report cybersecurity incidents, which we [published for comment](#) in April 2018.

In addition to the benefits gained from the table-top exercises, self-assessment and alerts, we expect Dealers will benefit from the prompt reporting of cybersecurity incidents. When IIROC receives notice of an incident, we can move quickly to assist the affected Dealer(s) and, when necessary, inform others of current cyber threats, thereby helping to manage the impact on both Dealers and investors.

6. Support Industry Transformation

This is a new strategy this year, focused on exploring emerging issues and trends that have a transformational impact on markets, investors, Dealers and overall industry infrastructure.

6.1 Prepare to regulate blockchain applications and digital assets

The potential application of blockchain technology is poised to dramatically alter the very ecosystem that underpins the capital markets. Digital assets such as cryptocurrencies are examples of blockchain applications that have already begun to impact the capital markets in significant ways, as potential direct or indirect investments, or in the form of initial coin offerings, cryptocurrency exchanges, etc.



To help us keep pace with this fast-evolving area, we have formed a working group that will build on IIROC's knowledge and recommend a potential regulatory response. The impact of this phenomenon cuts across all boundaries, so the working group will liaise closely with other Canadian regulators and stakeholders, to ensure we are aligned and consistent.

6.2 Complete industry consultation on evolution of advice and identify opportunities for improvement

IIROC is committed to interpreting our current rules as flexibly as possible, or changing them if necessary, to accommodate new service offerings where appropriate, without compromising investor protection or choice. Our goal is to facilitate innovation and accommodate changes in business models to meet investor needs.

In FY18, we committed to 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, with the goal to ensure that our core regulatory obligations 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.

Having completed the foundational analysis, we are collaborating with leading global professional services company Accenture to conduct a focused consultation with a select cross-section of industry participants, to get a better understanding of the regulatory issues relating to innovation, technology and changing client demands. This study is focused on:

- developing a better understanding of perceived regulatory barriers to innovation
- facilitating open dialogue with Dealers about their ideas and what they are seeing on the horizon
- identifying how regulation may need to change to accommodate innovation
- looking at how other regulators/jurisdictions have adapted to this evolution.

At the same time, we have streamlined our reviews and approvals to provide a faster, more efficient response to Dealers that want to change their business models, and we encourage firms that are considering changes to address evolving investor needs to engage with IIROC as early as possible in the process.



7. Value Delivery

7.1 Continue working with other regulators to reduce regulatory arbitrage and increase information sharing

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. Our Value Delivery strategy aims to reduce fragmentation, burden and arbitrage across regulatory platforms. To that end, we continue to work with the CSA to address the issues arising from our review last year, which identified areas where the same activity is subject to different standards.

In FY18, we announced that we had established information-sharing arrangements with the Financial Consumer Agency of Canada and the Life Insurance Council of Saskatchewan. We continue to see investor-protection benefits from our 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 we receive.

8. Investor Awareness

8.1 Continue to rebuild our corporate website to improve user experience

Building on preliminary work conducted last year, we continue to prepare the current website content for the eventual migration to a newly designed website, expected to be in place in FY20. Our goal is to provide an optimal user experience for all stakeholders with plain-language content, and update the functionality and design (including improved accessibility and mobile access) so users can easily and intuitively find the information they need.

For much of FY19, our work will focus on selecting an appropriate vendor to help us choose the appropriate technology, and redesign and begin rebuilding the website in English and French. The selected vendor will work with IIROC to consult with internal and external stakeholders, and to perform pre-launch user testing.

9. Technology Capabilities

9.1 Transition IT infrastructure and information-security operations to a new, secure, hybrid-cloud platform

In FY19, we will consolidate our currently multi-vendor-sourced IT infrastructure and information-security contracts under one service provider and move our business applications to their data centres and/or managed cloud services. Through this initiative, we will leverage:



- the service provider's pan-Canadian presence and scale to consistently deliver IT services to our staff across the country
- a hybrid cloud-based architecture for cost-effective, consumption-based service delivery
- the service provider's 24 x 7 x 365 security monitoring and response capabilities and information-security best practices to further protect our data.

10. People & Organizational Culture

10.1 Improve employee experience

IIROC remains very committed to enhancing employee engagement and improving productivity. To that end, we are:

- continuing to monitor the success of our national work-from-home program following its roll-out last year
- beginning a multi-year initiative to replace our Human Resources Management system with a new system that is designed to manage our resources more effectively and improve the employee experience
- implementing a new web- and video-based conferencing solution to replace several existing systems and enable IIROC staff to collaborate more effectively, with each other and with external organizations, regardless of where they are.

We also remain focused on attracting and retaining key talent, fostering individual development and planning for succession.