

Member Information Session

New SRO - Public Comment Materials

Agenda

- Content of Public Comment Materials
- Key solutions proposed in the Recognition Order and Bylaws
- Summary of New SRO Interim Rules
- Summary of New SRO Investor Advisory Panel
- Questions

Public comment materials

CSA issued three packages of public materials on May 12 for a 45-day comment period

CSA & SRO package

- Recognition Order
- Memorandum of Understanding
- Recognition Application
- By-law
- Interim rules
- Investor Advisory Panel – terms of reference

CSA & IPF package

AMF package (Quebec considerations)

CSA Position Paper 25-404 – New SRO Framework

Specific solutions

1

Improving
Governance

2

Strengthening
Proficiency
(Post-close)

3

Enhancing
Investor
Education

4

Increasing
Access to
Advice

5

Reducing
Industry
Costs

6

Fostering
Harmonization
/Efficiencies
(Post-close)

7

Harmonizing
Directed
Commissions
(Post-close)

8

Maintaining
Strong
Market
Surveillance
(Post-close)

9

Leveraging
Ongoing
Projects
(Post-close)

Key solutions included in Recognition Order and Bylaw

Governance solutions

Clear communication of public interest mandate

- Describe public interest impact of materials published for comment and public transparency in enforcement notices
- Link compensation structure of New SRO executives to delivery of mandate
- Train directors, board committee members, senior management and staff on the New SRO's mandate

Board composition and independence Criteria

- Majority of New SRO's directors including the Chair to be independent (including governance/ nominating committees)
 - Independence requirements to be comparable to public company directors including cooling off periods
 - Define "independent directors" to exclude those associated with New SRO member affiliate
- Roles of CEO and Chair to be occupied by separate persons
- Reasonable portion of New SRO directors to have relevant investor protection experience
- Develop diversity and inclusion policies to increase underrepresented groups of the board

Key solutions included in Recognition Order and Bylaw

Governance solutions, cont'd

Formal investor advocacy mechanisms

- Establish investor advisory panel (IAP)
- Create mechanism to formally engage directly with investor groups
- Establish separate prominently positioned investor office

CSA Oversight

- Refer escalated complaints about New SRO by members or others to the CSA
- CSA to have non-objection process for all independent directors and appointment of the CEO
- Solicit CSA comments on member exemptions, annual priorities, strategic and business plans (including budget), significant future publications and communications

Key solutions included in Recognition Order and Bylaw

Other solutions

- Transfer all current IIROC District Council regulatory decision-making functions to the board and staff of New SRO
- Allow mutual fund dealers to introduce to investment dealers
- Enable firms to integrate mutual fund and investment dealer operations within a single legal entity
- Review current SRO fee models:
 - Ensure fees are proportionate to registrant's activities and are not duplicated for dual platform dealers
 - Enable a moratorium on fee increases until proposed changes to fee model are approved
 - Consider impact on profitability of smaller and independent dealers
- Enable means for members to develop and use technological advancements for higher efficiencies
- Promote servicing of clients in different geographic zones

New SRO interim rules

Summary and purpose

- To ensure minimal disruption to members and their employees and Approved Persons, each set of IIROC and MFDA Rules will be adopted by the New SRO and will continue to apply with some key rule changes proposed in the interim to address structural impediments to the industry
- The rule changes that will be incorporated within the interim rules (primarily within the IIROC Rules) are those designed to:
 - eliminate any remaining District Council regulatory approval authorities,
 - permit mutual fund dealers to introduce business to investment dealers, enabling greater mutual fund dealer client access to exchange traded funds, and
 - allow mutual funds only RRs employed by firms registered as both investment dealer and mutual fund dealer (**dual-registered firms**) the option of conducting business primarily within the IIROC Rules on a permanent basis

New SRO interim rules

Topics discussed

- Dual-registered firms
- Introducing Broker/ Carrying Broker arrangements
- New SRO Regional Councils and National Council
- District Hearing Committees
- Registration/Approvals
- Quebec considerations

New SRO interim rules

Dual-registered firms

- Any firm that registers as both an investment dealer and a mutual fund dealer will be eligible to carry out both investment dealer business and mutual fund business (known as a **dual-registered firm**) within the same legal entity without having to upgrade the proficiencies of their mutual funds only licensed staff
- Dual-registered firms and their employees and Approved Persons will be required to comply with:
 - the New SRO Investment Dealer and Partially Consolidated Rules, and
 - the New SRO Mutual Fund Dealer Rules, where there is no corresponding requirement in the New SRO Investment Dealer and Partially Consolidated Rules

New SRO interim rules

Dual-registered firms – compliance considerations

- A dual-registered firm can choose to either integrate its compliance and supervisory systems or operate separate systems for its investment dealer and mutual fund dealer lines of business
- The New SRO business conduct examination approach to a dual-registered firm will depend on the nature of the member's operations, organizational structure, lines of business and degree of integration
- The dual-registered firm should file reports using the COMSET system, including reports related to activity that occurred at the time the member's mutual fund dealer operations were run separately under an MFDA member

New SRO interim rules

Introducing/carrying arrangements

- The interim rules have been amended to permit mutual fund dealers to introduce to investment dealers
- Where:
 - an insignificant portion of the mutual fund dealer member's business is carried by an investment dealer member, the mutual fund dealer member will be subject to Mutual Fund Dealer Rules
 - a significant portion of the mutual fund dealer member's business is carried by an investment dealer member, the mutual fund dealer member will be subject to Investment Dealer Rules

New SRO interim rules

Regional Councils and National Council

- The 10 IIROC District Councils and 4 MFDA Regional Councils will be replaced by 7 Regional Councils comprised of Dealer Members from the following regions: Atlantic, Quebec, Ontario, Manitoba (including Nunavut), Saskatchewan, Alberta (including Northwest Territories) and Pacific (British Columbia and Yukon Territory).
- The **Regional Councils** will have an advisory role and
 - provide regional perspectives and recommendations on regulatory policy matters to staff of the New SRO
 - advise the New SRO on industry trends and issues to ensure that the New SRO is proactive in dealing with emerging issues.
- The **National Council** will be comprised of the Chairs and Vice-Chairs of each Regional Council and will act as a forum for cooperation and consultation among the Regional Councils and provide recommendations on regulatory policy matters

New SRO interim rules

District hearing committees

- The New SRO will have 10 District Hearing Committees (which will replace the current MFDA Regional Councils and IIROC District Hearing Committees) from which hearing panel members will be selected.
- To ensure continuity of enforcement proceedings, elected or appointed members of a MFDA Regional Council or an IIROC District Hearing Committee prior to December 31, 2022 will automatically be deemed to be a member of the New SRO Hearing Committee for the relevant district
- There will be a New SRO Appointments Committee which will:
 - assume functions currently residing within IIROC District Councils relating to hearing committee nominations, and MFDA Regional Councils with respect to members sitting as hearing panel members
 - appoint members to District Hearing Committees
 - be composed of 7 New SRO Board of Directors including the President and CEO

New SRO interim rules

Registration/Approval

- There are **no changes to delegation of registration functions**
 - The CSA will continue to register all individuals seeking registration as “*dealing representative, mutual fund dealer*”
 - The New SRO will continue to register investment dealer dealing representatives in accordance with the current CSA delegations to IIROC
- An Individual approved as a *Registered Representative dealing in mutual funds only who is an employee of a firm registered as an investment dealer* **will still be required to upgrade within 270 days** . This includes
 - completing the Canadian Securities Course (CSC) and Conduct and Practices Handbook Course (CPH) within 270 days of initial approval
 - completing either the 90-day training program and upgrading to Registered Representative, or the 30 day training program and upgrading to Investment Representative, within 18 months of initial approval.
- The requirements for **Continuing Education will remain unchanged** from the current requirements.

New SRO interim rules

Quebec considerations

Mutual Fund Dealers registered only in Québec

- will not need to apply for membership with the New SRO
- For a transitional period :
 - Firms will continue to be subject to NI 31-103
 - Firms will continue to be subject to examinations by the AMF, and enforcement proceedings by the AMF for dealers and their executives
 - RRs will continue to be subject to the Chambre de la sécurité financière (CSF) for enforcement proceedings

Mutual fund dealers registered in Québec and other provinces

- For activities within Québec
 - NI 31-103 will continue to apply
 - The AMF will lead the examinations and continue to be in charge of enforcement proceedings for the dealers and their executives
 - For RRs, the CSF will continue to be in charge of enforcement proceedings
- For activities outside of Québec
 - New SRO interim rules will apply
 - The AMF will work cooperatively with the New SRO for examinations
 - New SRO will oversee enforcement proceedings for dealers, their executives, and registered representatives

New SRO Investor Advisory Panel

Mandate

- To advise New SRO staff on regulatory and policy matters and convey investor concerns to the New SRO
- To provide input and advice on other investor protection initiatives

Membership

- Will consist of 5-11 members, representing diverse and varied backgrounds and expertise from across Canada
- Public call for applications, with selection by the New SRO's Governance committee (independent directors)
- Panel members will receive an honorarium for their participation

Meetings and Accountability

- New SRO IAP will meet at least quarterly, and will publish an annual report on its activities
- Meeting agendas will also be made public

Role of New SRO

- A new Investor Office will be created and will act as the liaison between the New SRO IAP and staff
- New SRO IAP will have its own budget, funded by the New SRO
- New SRO will provide research and administrative support to support New SRO IAP operations and initiatives

For detailed information...

- CSA public comment materials
 - Recognition order ([BC](#), [AB](#), [SK](#), [MB](#), [ON](#), [QC](#), [NB](#), [NS](#))
 - [MOU](#)
 - [Recognition Application](#)
 - [Bylaw](#)
 - Interim Rules – [Investment Dealer](#), [MFDA](#), [UMIR](#)
 - [IAP terms of reference](#)
- [FAQs – interim rules](#)
- [FAQs – IAP](#)



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Questions?