

December 4, 2014

## **IIROC Response**

The Canadian Securities Administrators (CSA) plays an important oversight role and we appreciate receiving this valuable feedback and analysis of our operations. We are pleased with the finding that IIROC, overall, is in compliance with the terms and conditions of the Recognition Orders, and we intend to fully address any outstanding findings in order to enhance our regulatory effectiveness.

This review spans 3 ½ years and during that period the capital markets have evolved significantly. IIROC has worked diligently, together with our regulatory partners, to enhance our regulatory effectiveness while adapting to this quickly changing environment. We are committed to ensuring our regulatory processes remain efficient, consistent and fair and continue to strengthen our internal capabilities to protect investors and promote a culture of compliance within the industry.

### **IIROC is committed to strengthening information management and security**

The protection of confidential information has and continues to be a high priority for IIROC. We continue to align our information management and security framework to the International Organization for Standardization (ISO) 27001 security standard. In addition, we have strengthened our security environment and protocols, including enhancing staff capabilities through greater security awareness training and implementing more robust controls, as well as identifying and implementing new risk mitigation strategies.

### **IIROC Enforcement actively pursues those engaging in unfair, misleading and abusive practices**

Enforcement is a key part of our mandate and we continue to focus on market and member cases which have a serious impact on market integrity and result in significant harm to investors and the capital markets. Our investigative procedures are robust and comprehensive, and we continue to make improvements to strengthen the process. In closing files, we do not work toward any expected or standardized closure rate. Instead our decisions are governed by a rigorous case selection process (adopted in 2011) and the quality of the evidence obtained.

### **IIROC works closely with the industry to ensure that firms have robust compliance and risk control programs in place**

We continue to enhance our compliance program to reflect changes in market structure, business risks, investment products, demographics and corporate priorities. We use a risk-based methodology in our regulatory operations and in assessing the financial condition, business conduct and trading conduct of those we regulate. This risk-based regulatory

approach enables IIROC to allocate regulatory resources to firms and issues that have a higher potential to cause risk to the public, and helps firms identify areas where they should be devoting more of their supervision, compliance and risk management efforts.

We also recognize that there may be different ways to implement an effective supervision, compliance and risk management framework to monitor and comply with IIROC rules and applicable securities laws, and adopt industry best practices. IIROC uses a top/down approach that involves staff assessment of firm policies and procedures, and related controls. This makes on-site exams more focused and streamlined, i.e. there's more work upfront to determine the nature and extent of testing required. We've also found that the field work by senior examination staff encourages meaningful dialogue on potential compliance deficiency findings and helps to resolve issues as early as possible.

IIROC's regulatory priorities remain firmly focused on protecting investors, promoting compliance and effective risk management, and fostering fair, efficient and competitive markets across Canada.