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Via email

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**Client Focused Reforms – Proposed Rule Amendments for Public Comment
20-0238 November 19, 2020 https://www.iiroc.ca/Documents/2020/0212672e-b195-40d7-a9a9-e1c045b7b223_en.pdf**

I appreciate the opportunity to comment on the proposed amendments to IIROC rules. This is an important consultation.

I have no doubt that IIROC staff have faithfully embedded the Client Focused Reforms (CFR) requirements into its rule book. But is that enough to generate the improved client outcomes contemplated by CFR designers?

Let's be honest. The CFR requirements are a deeply watered down version of the original CSA proposals. In effect, the CSA have given IIROC a weak set of cards to play with. The unstoppable force paradox, also called the irresistible force paradox, is a classic paradox often formulated as "What happens when an unstoppable force meets an immovable object?" In CFR's case we have a set of rules that must function in the face of enticing conflicts-of-interest, sometimes limited product shelves, no overarching best interests conduct standard and a financial ombudsman service that cannot make binding compensation decisions .

The CFR rules don't outlaw sales quotas at brokerage firms, which generally incent salespersons to sell high-commission products via a commission grid system.

CSA officials have acknowledged that brokers don't have the responsibility to recommend the lowest-cost investment options, which sends a mixed signal.

Use of the term "best interest" is a dangerous precedent. Retail investors may falsely believe the advice they get is akin to the fiduciary standard among financial advisers, yet CSA officials have publicly acknowledged the rule doesn't rise to that fiduciary level.

CFR doesn't directly address client complaint handling at all. According to various reports, Firms treat investor complaints badly:

- Firms are dismissive , blame the investor
- Knowingly employ flawed know-your-client (KYC) as the basis for denying compensation
- Base client risk tolerance on unproven risk profiling practices
- Loss capacity is rarely assessed or calculated before making recommendations
- Use a loss compensation model (book loss) that does not make the complainant whole
- Use signed investor documents as a shield for denying compensation (most signed in a rush created by salespersons who do not explain the importance or relevance of KYC)
- Falsely claim the complainant is an experienced investor and knew the risks involved with the recommendations
- Make low complaint settlement offers to close the case, knowing that investors have little recourse

In a nutshell, the complaint handling system is broken –the Consultation is providing an opportunity for IIROC to fix it .I recommend an overhaul of IIROC rules regarding Dealer complaint handling. Tighten up your rules, make brokerages follow best practices in loss calculations such as those utilized by OBSI .Making victims whole will do a lot to improve confidence in the wealth management industry and its regulators. If it is not amended, existing IIROC complaint handling rules would not mesh gears with CFR.

Additionally, I would like to suggest that IIROC include a requirement for Firms to prescribe the KYC process not just the form. The results of the process, including the results of risk questionnaires, should be documented. In the event a complaint or investigation arises, the reviewers would then be able to deduce how the salesperson determined the responses to the entries on the KYC form. Under no conditions should IIROC rules permit individuals to dream up their own questionnaires and process. In reviewing IIROC enforcement reports it is apparent that improvements in the underlying process will result in better tailored portfolio construction and reduced client complaints.

Despite the noted deficiencies of CFR, IIROC can still improve investor protection under its Public interests mandate

Here are some ideas for your consideration:

Require the KYC form to be explicit in explaining the purposes for which the information provided will be used including in the resolution of complaints. This simple act could dramatically lead to more robust KYC information capture.

Hold brokerages responsible, not just the salespersons. Prioritize investor compensation over fines. Hold Firms accountable when their representatives fail to pay

finer. Treat Dealer breaches of KYC rules with the most severe of sanctions. After all, the KYC and suitability obligations are among the most fundamental obligations owed by registrants to their clients and are cornerstones of the investor protection regime.

Launch an investigation each time a brokerage low-balls a client complaint or outright refuses to accept an OBSI compensation recommendation.

Require salespersons to use their actual registration nomenclature in their interactions with clients and on business cards and stationary. Any professional designations used should be from recognized credentialing bodies.

Clearly provide examples in the rules of practices that are consistent with CFR. For example, state the generic characteristics of how brokerages should conduct a risk profile, assess investor knowledge, open a fee-based account or manage accounts of vulnerable investors.

Publicly articulate in plain language what IIROC expects of its registrants operating under CFR and examples of what it means to resolve issues in the *best interests* of clients. Publish educational material so that investors know what they can expect from their brokerages and what can be done when those expectations are not met.

Focus compliance resources on systemic issues related to brokerages to eliminate root causes of industry misbehaviour. Such an emphasis would have prevented the infamous industry-wide double billing scandal that cost Canadians hundreds of millions of dollars over the course of a decade. It was left to the OSC to clean up the mess.

Make AdvisorReport easier to access and include information on any restrictions imposed on the salesperson by IIROC with explanation. Disclose any outside business activities that brokerages have approved.

Provide or mandate a training course for salesmen/ saleswomen that provide them the necessary proficiency to convert KYC information into a portfolio with the appropriate risk-return characteristics.

If IIROC takes some basic investor-centric actions, it can extract some value from CFR, improve corporate compliance culture and enhance the retirement income security for Canadians. This will require real leadership, well beyond mirroring CFR requirements into the existing rulebook.

Sincerely,

Art Ross