

Michelle Alexander
Vice-President and Corporate Secretary

April 12, 2016

Mr. Robert Day
Senior Specialist, Business Planning
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario M5H 3S8
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Dear Mr. Day:

Re: Request for Comments Regarding the Statement of Priorities for Financial Year to End March 31, 2017 (the “Priorities”)

We appreciate the opportunity to respond to the request for comments on the OSC Priorities. The Investment Industry Association of Canada (the “IIAC”) advances the position of the Canadian investment industry on regulatory and public policy issues. As the professional association for the industry, the IIAC provides leadership for the Canadian securities industry with a commitment to a vibrant, prosperous investment industry driven by strong and efficient capital markets.

Overview

The IIAC and our members remain supportive of the OSC’s efforts to execute its mandate: providing protection to investors, fostering fair and efficient markets and fostering confidence in the capital markets. The delineation of strategic goals and initiatives is important to better focus efforts on building a more efficient and cost-effective regulatory system.

We are supportive of the identified Priorities for regulation: putting the interests of investors first, increased oversight of the exempt market, improving investor education and delivering responsive regulation. It is important for market participants to understand the specific regulatory problem that gives rise to the specific OSC priority, and have confidence the OSC will find the right remedies to solve the problem and achieve an outcome in the public interest. Each regulatory concern or identified problem should be enumerated and catalogued under the defined priority and the specific objective be articulated. The OSC should outline a detailed strategic plan to achieve that objective.

Furthermore, we believe that that a rigorous cost- benefit exercise of proposed OSC Priorities would help ensure that any new regulatory initiatives produce desired outcomes with the greatest impact, without hindering the competitiveness of Ontario capital markets, especially given today's challenging market conditions.

A responsive and competitive regulatory system for Ontario's capital markets contributes directly to ensuring market efficiencies and investor participation, improving conditions for capital-raising for Ontario businesses, and building financial and economic infrastructure in the province.

Regulatory Burden

We are encouraged that the OSC recognizes the challenges of the increasing regulatory burden for market participants. The IIAC appreciates that the OSC is committed to trying to identify opportunities to avoid or reduce undue burdens and seek opportunities to streamline regulatory measures.

Several years ago, as part of a consultative process with the OSC, we provided a list of rules that were no longer relevant or provided no clear benefit to the market or investors, and recommended that these rules be amended or eliminated. While there has been no progress to date, the IIAC and the investment industry are prepared to re-engage in this exercise in response to the Commission's stated commitment to tackle the regulatory burden. As the regulatory burden continues to become more complex, it is important that the OSC is committed to examining whether existing rules are still effective and determining whether they inhibit or promote high-quality capital markets while maintaining sound investor protection.

However, we are pleased to see that the Priorities contain a commitment to undertake a number of reviews of recently implemented regulatory reforms to assess whether expected results are being achieved and to identify opportunities for potential regulatory changes. Specifically, we agree with the plan for a cost-implementation analysis of the impact of the Client Relationship Model – Phase 2 and Point of Sale amendments.

Order Protection Rule

We commend the plans of the OSC to finalize the Order Protection Rule regulatory framework in the coming year. The IIAC has submitted numerous position papers and analytical reports over the last five years to demonstrate and explain the impact of market data costs and marketplace access charges. These charges have imposed a heavy cost burden on all dealers, particularly the smaller independent firms, a result the opposite of what was intended. While the OSC has regulated pricing as a check on the market power of the major stock exchange in the marketplace, costs still remain excessively high, reflecting the liberal interpretation of a "protective" marketplace. Reform of the Order Protection Rule is long overdue.

Best Interest Standard and Compensation Arrangements

The IIAC supports the OSC's decision to ensure alignment between the interest of investors and their advisors. As such, we believe the research recently undertaken will help inform policy recommendations in the area of the best interest standard and embedded fees in mutual funds to ensure there is a resolution

that meets the needs and interests of the industry and investors. As stated in previous IIAC submissions on these issues, the IIAC supports the principles of advisors putting clients first and ensuring that fees and charges are fully transparent, thereby enabling investors to make the most informed decision possible. However, we maintain our position that the full implementation of CRM2 will achieve these objectives without the need for an extensive regulatory exercise to create a best interest standard.

We are disappointed the OSC (and CSA) has decided to move forward with a client best interest standard, following the 5-year effort to implement the CRM rule framework. We have argued the IIROC Rulebook that integrates the CRM rules and the Conduct and Practices Handbook obligations, requires advisors to meet the best interests of their clients, particularly in the important area of compensation-related conflicts of interests. We believe the regulatory emphasis should be on the firm's policies and procedures, and guidelines from the industry and the regulators to ensure full compliance with the rules.

If the OSC proceeds with a client best interest standard and additional rules related to advisor obligations, as a first step, we urge the Commission undertake a cost-benefit analysis to assess whether the incremental benefits of the proposed new rules outweighs the costs of implementing and complying with these additional rules, both in terms of an increased compliance burden and costs that would be imposed on registered firms, advisors and clients. We hope that the OSC considers undertaking such an exercise and the IIAC would offer its full support.

Oversight of the Exempt Market

While the introduction of new capital raising exemptions is a positive step for Canadian issuers, we are very concerned about the ability of retail investors to access the exempt market through exempt market dealers. Although the IIAC would like to see the exempt distributions accessible only through investment dealers with robust regulatory standards and IIROC oversight, we support the OSC's recognition of the need to increase vigilance in the oversight of the exempt market. We hope this increased oversight will mitigate the problems with exempt market dealers putting clients at risk by improperly using existing exemptions and failing to adhere to the know-your-client and suitability requirements, as documented by various securities commissions over the past several years.

Investor Education

The IIAC supports the need for improved investor education and has been pleased to work with the Investor Office recently in their efforts to expand and modernize the OSC's new focus on investor engagement, research, education and outreach. We look forward to working closely with the Investor Office in the future.

Oversight of the Fixed Income Market

The IIAC agrees with the OSC's plans to enhance oversight of the fixed income market and we have contributed industry commentary in respect to the CSA's review of transparency in the corporate bond markets. The IIAC continues to believe that efficient functioning of our debt markets requires balancing investor needs for price discovery with the confidence of market makers to extend liquidity and capital in the market. We believe that the CSA proposed framework contained in Staff Notice and Request for

Comment 21-315 *Next Steps in Regulation and Transparency of the Fixed Income Market* fell short of finding that optimal balance. The IIAC would be pleased to further consult with CSA staff on this matter. We also look forward to working constructively with IIROC as they assume the role of Information Processor for corporate debt markets.

OTC Derivatives Regulatory Framework

The IIAC also appreciates the leadership demonstrated by the OSC to develop an over-the-counter (OTC) derivatives regulatory framework in Canada that will meet the G20 commitments and align with international standards. However, as this process has progressed, we have grown increasingly concerned over the alignment and harmonization of OTC derivatives rulemaking across Canadian jurisdictions, both with respect to timing and content of those rules. We understand that given the complexities of derivatives legislation, it may not be possible to develop a national framework; however, regulators must work carefully to ensure provincial regulations are harmonized. We urge the OSC to increase its efforts to harmonize with the other CSA jurisdictions with the goal of reducing confusion and risk for participants, improving overall efficiency, and ensuring that Canada's marketplace remains competitive globally.

Cybersecurity Preparedness

The IIAC supports the enhanced oversight of the industry in respect of cybersecurity preparedness. Given the interdependence between all stakeholders in the financial industry, it is critical that all entities take steps to protect themselves and those with whom they connect from the growing risk of cybercrime. Given its central role in the industry, the OSC plays an essential part in ensuring that no gaps exist in the regulation of the entities it oversees. It is important, however, to recognize the efforts of existing regulators operating within the industry, such as IIROC and the various Privacy Commissions to ensure that any rules or standard imposed by the OSC do not conflict with or impose unnecessary duplication for those subject to such standards. The OSC should also liaise and collaborate with the federal government on the cybersecurity agenda, identifying global cyber threats and assessing the merits of cybersecurity guidelines and best practices in other jurisdictions.

Cooperative Capital Markets Regulatory System

The IIAC was pleased to see the OSC's continued support for the transition to the Cooperative Capital Markets Regulatory System (CCMRS). The IIAC shares the OSC's view that the CCMRS will deliver more effective regulation for Canadian markets and ensure the timely implementation of regulation in response to rapidly changing market developments.

Again, we appreciate the opportunity to comment on the Priorities. Please do not hesitate to contact me to discuss the matters raised in this letter.

Yours sincerely,

