

# PRIORITIES PROGRESS REPORT

2016 – 2017 marked the first full year of IIROC's Strategic Plan, originally published in May 2016. IIROC's 2017 priorities focused on significant activities and initiatives that were to be completed in support of the Strategic Plan.

In keeping with IIROC's commitment of transparency and accountability to our stakeholders, we are pleased to present a report on our progress on those activities and initiatives. We will continue to measure and report on our progress each year. This work complements our day-to-day work of regulation with diligence and with respect for those we regulate and for all who participate in Canada's capital markets. You can read more in the CEO's message and Key Facts section of this report.

## KEY

■ Achieved – completed

■ In progress – work is ongoing

## GOALS / PROJECTS

## DETAILS / MILESTONES

### MARKET SUPERVISION

**Hold roundtables to discuss specific market structure issues affecting small-cap issuers.**

IIROC published a summary of the comments it received at a roundtable discussion of market structure issues affecting small-cap issuers and outlined next steps based on stakeholder input in October 2016. IIROC remains committed to working with our partners to strengthen this market and foster confidence in its fairness and integrity.

**Restructure the Trading Conduct Compliance (TCC) program to support multiple asset classes, non-equity execution venues and non-Participant Dealer Member reviews.**

The restructuring was completed in February 2017. TCC now conducts reviews of all Dealer firms engaged in trading. By expanding the depth and breadth of TCC reviews, we will include firms that trade listed equities through another dealer, as well as firms that trade other asset classes directly. This restructuring aligns IIROC expertise with the activity under review making the delivery of securities regulation in Canada significantly more efficient.

**Provide Canadian Securities Administrators (CSA) with access to interactive tool for market data metrics.**

As part of our commitment to being seen as a trusted and valued partner to our stakeholders, IIROC completed this initiative in October 2016 by providing the CSA with a self-service tool to analyze our equity data.

**Complete implementation of the Debt Trade Reporting Requirements for all remaining Dealer Members.**

As of November 2016, IIROC is receiving reports of debt transactions from all Dealer firms that trade debt. This has expanded IIROC's monitoring beyond Government Securities Distributors (GSDs) to all Dealer firms and strengthened our ability to enforce compliance to enhance investor protection and market integrity.

**Complete vendor selection for an enhanced Market Surveillance System.**

While we had originally anticipated having the vendor selection completed in March 2017, our Request for Proposals resulted in a number of strong and comprehensive submissions and as a result, the analysis and negotiation process took longer. At the time of publication of this report, we had selected a vendor and begun the implementation phase.

Implement a new Integrated Case Management System.

While this project was originally targeted for completion in July 2017, an increased complexity to the implementation has resulted in a delay. At the time of publication of this report, the project is on track to be completed in the winter of 2018.

## CONDUCT AND PRUDENTIAL

Conduct a comprehensive survey of Dealer Member practices in addressing compensation-related conflicts of interest.

IIROC conducted a targeted review of firms' policies and procedures for meeting the regulator's "best interest" requirements and published high-level results in December 2016. The review was conducted among a cross-section of 20 IIROC-regulated investment firms representing various sizes, business models and products. Final detailed findings, together with new guidance, were published in April 2017. While we identified some best practices, we identified three significant areas of concern:

- reliance on disclosure without first addressing the conflict, and poor quality of disclosure
- a lack of comprehensive oversight of compensation programs and their associated conflicts by investment firms
- a shift to fee-based and managed accounts without appropriate supervision and monitoring of the unique risks associated with these account offerings.

Enhance Business Conduct Compliance (BCC) examination test procedures in the areas of "Know Your Client" (KYC) and suitability and deliver a webcast to inform Dealer Members about ways to enhance the collection of KYC information.

IIROC's BCC exam modules have been enhanced and new test procedures were implemented in early 2016. We made available to firms a webcast in July 2016 which included tips on how to improve the KYC process. It outlined what IIROC looks for when examining KYC procedures and made recommendations for enhancing the KYC collection process.

Conduct dealer self-assessment survey to determine level of dealer and industry cybersecurity preparedness. Report to firms their risk ranking by peer group, gaps and recommended actions.

Recognizing the importance of cybersecurity preparedness, IIROC engaged Deloitte Canada to assist with the development of an extensive survey tool and the creation of report cards for all IIROC-regulated firms. As part of the assessment, we measured firms' responses against a National Institute of Standards and Technology (NIST) cybersecurity framework. The information collected from these surveys provided IIROC with a better understanding of the adequacy of each firm's governance structure, policies and systems for cybersecurity risk management.

In October 2016, each IIROC Dealer received a confidential report card that evaluated how well their cybersecurity practices compared to the industry and to firms of a similar size and business model. The report card also identified areas that should receive priority attention. In January 2017, we began following up with firms that have a cybersecurity maturity level below the expected target for their industry peer group. The goal of these reviews is to confirm the firms' self-assessment responses, and collaborate with and advise firms on how to improve their preparedness for the overall protection of customer data and market integrity.

## GOALS / PROJECTS

## DETAILS / MILESTONES

**Enhance Business Conduct Compliance (BCC) examination test procedures related to the use of social media and deliver a webcast to inform Dealer Members about ways to enhance their social media policies and procedures.**

IIROC's BCC exam modules were enhanced, and we created a webcast in October 2016 which highlighted the use of social media in the investment industry. The webcast addressed several relevant social media topics including:

- how social media is being deployed by Dealer Members
- IIROC rules and guidance related to the use of social media
- results of IIROC's review of social media practices
- risks associated with the use of social media and how they are addressed
- supervision and record retention
- recommended best practices.

**Distribute first, annual suite of complaint and inquiry statistics and trend information to the public and Dealer Members.**

In October 2016, IIROC published a comprehensive report with statistics showing that unsuitable investments continue to be the top investor complaint we receive. In conjunction with publishing statistics for the past two fiscal years, IIROC issued confidential Complaints and Inquiries Statistics Reports to all the firms it regulates showing them firm-specific information and ranking compared to their peers. Sharing this information helps IIROC-regulated firms improve their compliance with our rules and customer service.

**Recalibrate compliance risk models to ensure Dealer Members are appropriately risk-ranked.**

Our risk models are designed to recognize the diversity in business models, structures and profiles among Dealer firms. We use the risk rankings to allocate and prioritize our resources – to efficiently manage regulatory costs while focusing appropriately on higher-risk activities.

IIROC engaged Deloitte to do a comprehensive review of our Business Conduct Compliance (BCC), Trading Conduct Compliance (TCC) and Financial and Operations Compliance (FinOps) firm risk models, and to recommend changes to improve their predictive value. This initiative was completed in March 2017, and three projects (one in each compliance department) are now underway to modify the risk models based on the recalibration recommendations.

We will inform Dealers of any resulting changes to the models or to their rankings as each model is recalibrated.

**Enhance training program for compliance examiners to improve application of risk-based approach.**

Two of three planned BCC training modules have been completed and rolled out. The third is underway with completion expected by December 2017.

**Monitor efforts to implement T+2 settlement in Canada and assess the impact to our Members by participation in Canadian Capital Markets Association (CCMA) Board and committees.**

IIROC staff participated on the CCMA Board, as well as on various T+2 committees and working groups. IIROC published for comment the rule changes necessary to facilitate the transition to T+2.

We have helped to coordinate testing by all Canadian Depository for Securities (CDS) participants, and will review all T+2 readiness certifications filed by CDS Dealer participants and take appropriate regulatory measures to ensure all firms are ready for T+2. This initiative is on track and ongoing.

## ENFORCEMENT

**Finalize and implement Consolidated Enforcement Rules.**

IIROC's new Consolidated Enforcement Rules took effect September 1, 2016. They combine and replace various provisions of IIROC's Dealer Member Rules and Universal Market Integrity Rules into a single set of rules for all enforcement proceedings and a consolidated standard of conduct. They also clarify current rules relating to compliance exams and update rules relating to registration approvals and reviews. Doing so provides all stakeholders with greater clarity and consistency in the application of IIROC's enforcement, examination and registration processes.

## GOALS / PROJECTS

## DETAILS / MILESTONES

Research and evaluate potential alternative forms of disciplinary action and determine next steps.

Research continues to be conducted to consider and evaluate potential alternative forms of disciplinary action, with an extensive consultation to take place in fiscal year 2017-2018. Stakeholders will be invited to comment on various options that will be considered before any final decisions are made.

Continue to pursue expanded legal authority to collect fines.

IIROC made significant progress in obtaining new legal authority to strengthen the effectiveness of its enforcement actions. In January 2017, the PEI Office of the Superintendent of Securities issued an authorization order which gave IIROC the authority to collect fines against disciplined individuals directly through the Supreme Court of PEI. The Order also authorized IIROC to compel evidence and summon and enforce the attendance of witnesses at disciplinary hearings. In May 2017, the Ontario Government passed amendments to the securities act to give IIROC the legal authority to pursue the collection of disciplinary fines directly through the courts. In May, the Alberta Government introduced amendments to its securities act to enhance IIROC's ability to collect evidence during investigations and to provide IIROC and its disciplinary tribunals with protection against lawsuits for acting in good faith when carrying out its public interest mandate to protect investors. The Alberta legislation, which became law in June 2017, means that IIROC has the full toolkit of enforcement authority in Alberta that it seeks in other jurisdictions – IIROC already had the authority in Alberta to enforce fines through the courts and the power to compel evidence at the disciplinary hearing stage.

Continue to seek statutory immunity for IIROC and its personnel when acting in the public interest.

IIROC obtained statutory immunity in Alberta as outlined above. We continue to seek this authority in other jurisdictions.

## POLICY DEVELOPMENT

Issue seniors' guidance complemented by a Dealer Member and investor education webcast and investor bulletin.

IIROC issued guidance in June 2016 as part of Seniors' Month to help firms and advisors more effectively work with clients who are seniors. The guidance draws on a number of existing IIROC resources, including rules and guidance, as well as industry best practices that may be particularly relevant to Dealer Members in dealing with senior clients. In addition, there are a number of resources provided by other regulators, governmental agencies and not-for-profit organizations that may be useful to Dealer Members and their representatives, which can be accessed through a dedicated senior client section on IIROC's web site, which can be found at: <http://www.iiroc.ca/investors/Pages/seniors.aspx>.

In tandem, IIROC produced an investor bulletin and webcast that highlighted useful practices and resources that are available to advisors and their clients. To date, 3,321 individuals working for IIROC-regulated firms have viewed this webcast, making it the most viewed webcast over the past year.

Publish updated guidance on Order-Execution-Only (OEO) service offerings.

IIROC published for comment proposed guidance in November 2016 setting out expectations and requirements for all IIROC-regulated firms engaged in OEO activities. We consulted extensively in developing the proposed guidance, including creation of an industry working group and conducting a survey of all IIROC-regulated OEO firms. IIROC also engaged an independent research firm to survey investors who use OEO services to better understand their expectations. The objective was to seek input from a broad range of industry and investor stakeholders before finalizing this guidance. We received over 30 comments and are now reviewing them with the aim of finalizing the guidance.

**GOALS / PROJECTS**

**DETAILS / MILESTONES**

<p><b>Refine our approach to consulting directly with investors through independent research.</b></p>	<p>In order to engage investors directly in our policy development process and to better understand their needs and perceptions, IIROC selected The Strategic Counsel, an independent research firm, in September 2016 to assist in the process and establish an online pool of 10,000 Canadian investors. We intend to use this national pool to conduct research and gather investors' input on various policy issues throughout the current fiscal year.</p>
<p><b>Add checkpoints to our policy-development procedures to verify that proposals are proportionate and enforceable, and materials are in plain language.</b></p>	<p>We added procedures to the Policy and Procedures Manual for the IIROC Member and Market Regulation Policy teams which require staff to review the proportionality, enforceability and plain-language writing of each policy matter at appropriate stages throughout the policy development process. This was completed in September 2016 and is in full use.</p>
<p><b>Assess existing KYC and suitability requirements in the context of evolving service offerings, and determine next steps.</b></p>	<p>Our work in this area continues as we coordinate with the CSA and other stakeholders on related initiatives, such as the 33-404 targeted reforms, which will impact our requirements in these areas.</p>
<p><b>Consider the results of our compensation-related conflicts survey and CSA Consultation Paper 33-404, and determine next steps required to clarify our best interest requirements.</b></p>	<p>IIROC published new guidance in April 2017 to address the findings of our compensation-related conflicts of interest review (as outlined above) and to help clarify the regulatory requirements IIROC already has in place. The notice also laid out our next steps, which include the following:</p> <ul style="list-style-type: none"> <li>• Where we identified significant issues we believe were the result of clear breaches of IIROC rules as part of this review, we are investigating and may pursue enforcement action as appropriate</li> <li>• IIROC's Business Conduct Compliance (BCC) team is taking immediate steps to strengthen our oversight of compensation-related conflicts by significantly enhancing our exam processes</li> <li>• We will work with the CSA to ensure our requirements are materially harmonized and will be implemented on the same schedule. As we collaborate, we will ensure that any amendments to and/or revised guidance on the IIROC Conflicts Rule clarify that:             <ul style="list-style-type: none"> <li>› disclosure alone is not sufficient to address conflicts, particularly compensation-related conflicts</li> <li>› conflicts must be avoided or addressed in another way before disclosure is considered.</li> </ul> </li> </ul>
<p><b>Review and, where necessary, modify advisory committee structure &amp; mandates to optimize stakeholder consultation.</b></p>	<p>In March 2017, we completed a comprehensive review, which identified the need to:</p> <ul style="list-style-type: none"> <li>• bring issues to the advisory committees at an earlier stage in the policy-development process</li> <li>• incorporate feedback from senior business representatives, in addition to compliance and legal representatives, in our consultations with the Compliance and Legal Section (to be renamed the Conduct, Compliance and Legal Section).</li> </ul>
<p><b>Respond to comments on Dealer Member Plain Language Rule Book (PLR) and finalize rules or republish for comment.</b></p>	<p>The complete PLR was published for comment in March 2017 and the comment period closed in May. Pending our response to the comments and CSA approval, IIROC's goal in fiscal year 2018 is to finalize the PLR.</p>
<p><b>Repeal, revise or issue new guidance as appropriate to align with the Plain Language Rule Book.</b></p>	<p>IIROC's policy team has been reviewing all PLR-related guidance and preparing to repeal or publish revised/new guidance concurrent with the implementation of PLR. This work is ongoing.</p>

## INFORMATION SHARING

As Information Processor, implement the first phase of a public corporate debt transparency service.

In July 2016, IIROC began publishing corporate bond trade data on a new website, providing all market participants with free information that can help them make better investment decisions. The site is the result of IIROC being selected by the Canadian Securities Administrators (CSA) as the Information Processor (IP) for corporate debt securities, supporting efforts to increase post-trade transparency and enhance debt market regulation. The corporate bond information site demonstrates how we can leverage the information that IIROC collects as a public-interest regulator to increase transparency and improve market integrity, without duplicating efforts or costs. It underscores how all market participants in Canada can benefit from IIROC's pan-Canadian role.

Complete a technology proof of concept to create a shareable trade data repository for our regulatory partners.

As part of the Information Sharing Strategy, IIROC and the CSA worked collaboratively to develop a conceptual deployment architecture – one under which IIROC would provide a data repository of raw and enriched equity and fixed income data that the CSA can access for investigative and analytical purposes. Originally scheduled for December 2016 this phase was completed in June 2017.

## VALUE DELIVERY AND THE CANADIAN MARKETPLACE

Open discussions with the CSA to enhance their reliance on IIROC in Registration matters.

IIROC opened discussions with those commissions that have not delegated to IIROC registration authority for firms, and those discussions are continuing.

Review and respond to the comments we received on our White Paper on Proficiency Upgrade and Directed Commissions.

In October 2016, we published IIROC's response to comments on our November 2015 White Paper. IIROC is committed to making the delivery of securities regulation in Canada more efficient by reducing regulatory gaps and overlaps and harmonizing our requirements and standards with those on other regulatory platforms, while maintaining or enhancing investor protection. With this goal in mind, we sought comment on an illustrative proposal that would allow firms and individuals to conduct, under IIROC's regulatory oversight, a business that is limited to mutual funds and exchange-traded funds. The proposal would achieve a consistent approach to the regulation of the Mutual Fund Dealers Association of Canada and IIROC registrants on two key fronts: proficiency and directed commissions.

In response to the comments on the White Paper, we committed to:

- actively participate in the CSA consultation on enhancing registrant obligations towards clients (which included targeted reforms to enhance proficiency requirements on some platforms)
- seek clarification from federal authorities on the tax rules applicable to directed commissions
- on a case-by-case basis, work with interested firms to help their advisors upgrade to meet IIROC's proficiency requirements as efficiently as possible
- engage our partner regulators, government authorities, investors and other stakeholders in initiatives to reduce fragmentation, burden and arbitrage across regulatory platforms while maintaining or increasing investor protection.

Establish tracking of Key Measures – including investor, Dealer Member and regulatory partner satisfaction – to assess our progress in achieving our Vision.

In March 2017, we finalized the list of Strategic Metrics that we will use to assess our progress toward the vision articulated in our 2017-2019 Strategic Plan and we have put in place mechanisms to track those metrics.

## GOALS / PROJECTS

## DETAILS / MILESTONES

Seek delegated firm and individual Registration authority from the proposed Capital Markets Regulatory Authority (CMRA).

These discussions will take place upon the launch of the CMRA.

Increase cooperation and information sharing with other self-regulatory organizations and regulatory authorities.

Over the past year IIROC has continued to make significant progress in negotiating Memoranda of Understanding/information sharing agreements with other regulators in order to close gaps and increase consumer protection. IIROC signed agreements with the Life Insurance Council of Saskatchewan (June 2017), the Alberta Insurance Council (January 2017) and the Insurance Council of British Columbia (June 2016). IIROC had previously signed agreements with the Financial Services Commission of Ontario (March 2016) and with la Chambre de la sécurité financière in Québec (November 2015). These agreements are designed to prevent individuals who have been disciplined for wrongdoing from avoiding the consequences of their actions by switching their registration to another regulator and carrying on business with unsuspecting consumers who are unaware of their past misdeeds.

The agreements also enable joint investigations when the same individual is under investigation by both regulatory organizations. Negotiations are underway with regulators in other jurisdictions.

Continue to participate in various government consultations to strengthen investor protection and ensure a consistent approach to regulation across regulatory jurisdictions and platforms.

IIROC has continued to participate in government consultations where changes are being considered that impact investor protection and/or those working in the investment industry. For example, IIROC participated in consultations by the Expert Committee to Consider Advisory and Financial Planning Policy Alternatives setting out our support for the regulation of financial planning in Ontario. IIROC agrees that a harmonized regulatory framework for financial planning and financial advice would not only better protect consumers but provide a more streamlined and consistent approach to the regulation of financial planning services in Ontario.

## INVESTOR AWARENESS

Implement rule changes that require Dealer Members to disclose they are regulated by IIROC on client account statements, on their websites and through mandatory distribution of brochures.

In July 2016, IIROC published final rule amendments that require IIROC Dealer firms to disclose that they are regulated by IIROC and link their websites directly to IIROC's searchable database of advisors working for these firms. These rule changes are designed to help investors have a better understanding of the regulatory protections and expectations for IIROC-regulated firms and their representatives. The first phase of the requirements took effect January 1, 2017 and requires firms to display the IIROC logo at each business location, distribute the IIROC official brochure to new retail clients at account opening, and include the IIROC logo and a link to the IIROC website on the home page of their websites. As of July 1, 2018, investment firms will be required to include the IIROC logo on all client account statements.

Develop, refresh and distribute new and existing collateral materials which explain the standards and protections that are in place for investors.

IIROC continues to revise and create new investor materials to raise awareness about the protections in place when working with IIROC-regulated firms. In preparation for the new membership disclosure rules which took effect in January 2017, IIROC created a new official brochure called *How IIROC Protects Investors*, which must be distributed by advisors to new retail clients. IIROC continues to develop and revise other brochures and collateral materials to better inform investors of regulatory protections.

**TECHNOLOGY CAPABILITIES**

Enhance data management and governance practices and refine the enterprise data architecture to anticipate regulatory evolution.

IIROC implemented a new IT Portfolio Management system to enhance and support information governance and management practices. IIROC has compiled a comprehensive inventory of all internal and external data sources across all of its operations, mapped them to the relevant business, technology and application components, and has implemented this information into the IT Portfolio Management System.

Complete implementation of new finance management information system to support financial planning and forecasting.

IIROC implemented a new Corporate Performance Planning System for budgeting and planning accompanied by a revamped Chart of Accounts. The solution was designed to meet IIROC's business needs and allows for a more accurate allocation of costs to fee models. Along with the implementation of the Corporate Performance Planning System, a new Enterprise Resource Management System to meet our core accounting and financial operations requirements was also installed. Together, these systems substantially eliminate the use of end user computing applications, provide a reliable financial platform, support operational efficiencies and will improve the timeliness and quality of reporting and our analytical capabilities.

**PEOPLE & ORGANIZATIONAL CULTURE**

Improve employee experience and realize cost efficiencies through piloting hoteling and work-from-home (WFH) initiatives.

IIROC conducted a pilot on the feasibility of providing our employees with the ability to optionally work from home at certain times on a regular basis. With the success of the pilot, based on positive feedback from both employees and their managers, the program is now being rolled out more broadly. The success of the program will be evaluated in fiscal year 2019. The hotelling initiative, focused primarily on compliance staff whose positions call for significant time away from our premises, has also been implemented successfully and has reduced pressure on our space requirements.

Extend succession planning deeper into the organization and enhance development plans accordingly.

IIROC sees succession planning as an important business practice that ensures stability and continuity in our operations and helps with a smoother transition when there are key personnel changes. Investing in staff helps develop them to their potential, is good for the culture of the organization and is efficient over the long term. Over the past fiscal year, we completed our goal to extend succession planning deeper into the organization throughout senior management ranks. Talent development continues to be an area of focus.