SIPA

SMALL INVESTOR PROTECTION ASSOCIATION

A Voice for Small Investors
Seeking Truth and Justice

Investor Protection and IIROC Governance

A SIPA Report

By the SIPA Advisory Committee

October 2016

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> "*The Investment Industry Regulatory Organization of Canada is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.*"
> – IIROC Statement from website

In this report we examine The Investment Industry Regulatory Organization of Canada's (IIROC) governance and its impact on investor protection. We highlight a number of serious IIROC operational issues that have remained unattended. These issues directly impair investor protection. We conclude by providing a set of recommendations we believe will make IIROC a better, more responsive regulator.

IIROC is a national regulator with a mission to protect investors and support healthy Canadian capital markets and to act in the public interest .IIROC was established as a non-profit corporation on June 1, 2008 through the consolidation of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS). IIROC carries out its regulatory responsibilities under Recognition Orders from the provincial securities commissions that make up the Canadian Securities Administrators (CSA).IIROC operates on a cost-recovery basis, charging dealer firms an annual fee based on the firm's capital, number of registrants, trading activity and revenues. IIROC is subject to oversight and regular operational reviews by CSA members. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

IIROC regulates over 28,000 approved Persons who provide investment services and advice for investors. IIROC was unable to provide information of the number of retail investors or the amount invested with IIROC dealer Members. We estimate the amount of mutual fund investments at IIROC firms as not less than $600 billion. If one adds in stock, bond, ETF, preferred's and derivatives, **Canadians have well over a trillion dollars invested under IIROC's investor protection mandate**. In a very real sense IIROC is **the** national regulator for retail investors, so its governance is a critical matter.

The process that the IIROC Corporate Governance Committee follows to nominate Directors is set out in the Committee's Charter:
http://www.iiroc.ca/about/Documents/CorporateGovernanceCharter_en.pdf

The Board is composed of 15 directors including the President and CEO, with an even number of independent and non-independent Directors:
· Five individuals representing Dealer Members;
· Two individuals representing the Marketplace Members;
· **Seven independent Directors**; and
· The President and CEO.

The criteria for an Independent Director is set out in the definition of that term in Section 1.1 of IIROC's General By-law:
http://www.iiroc.ca/about/Documents/IIROCGeneralByLaw1_en.pdf

With seven clearly representing the industry, it is doubly important that those who are called "independent" truly be independent of the industry for there to be a balance on the Board.

There are thousands of qualified 100% industry- independent-knowledgeable people to choose from and these few Independent Director slots should be reserved for them. That would increase the depth of the board by bringing non- industry experienced voices to the board table. After all, the primary mission of IIROC is investor protection, so why not have a few directors that are deeply engaged with the protection of retail investors? If this were done, so many of the serious deficiencies in IIROC regulation that have been identified by investor advocates and others over the years would be avoided. There would not be a need for a CSA Consultation trying to clean up these well-known deficiencies. The current CSA consultation on reforms and Best interests is a frank admission of the failure of regulators, including IIROC, to protect Main Street.

SIPA feel that all the Independent Director positions should be filled with directors wholly unrelated to the investment industry currently or in the past.

Despite IIROC's recognition that it is problematic to appoint former industry people to fill the Independent Director places on the Board, IIROC has seen fit to fill these places with as many ex-industry people as possible. It should instead ensure that the Independent slots are filled with individuals that have not been influenced by an investment industry past.

The implementation of a cooling off period was discussed in the 2014 Governance Report at page 8: http://www.iiroc.ca/about/Documents/2014GovernanceReviewReport_en.pdf SIPA does not think a cooling-off period is sufficient to ensure that persons who have been actively involved in the investment industry are able to bring an unbiased view to the Board. Fresh thinking from the investor's perspective would make IIROC a better, more trusted entity.

As noted in the Governance Report, the Corporate Governance Committee Charter requires that the Committee consider, for each potential Independent director, "whether the candidate would have met the test to be an Independent Director (as defined in the By-law) for a period of at least one year prior to commencement of the candidate's term of office." See numbered paragraph 1(v) under "Specific Responsibilities".

More generally, the Governance Committee must also "ensure that the Board, as a whole, reflects the skills, experience, expertise and judgment necessary to effectively oversee the regulatory and other operations of IIROC" and "consider all relevant factors in nominating directors to ensure that the composition of the Board: (a) complies with the requirements of IIROC's by-laws, (b) otherwise reflects, in the judgment of the Committee, the appropriate balance of interests and perspectives of IIROC's Members and stakeholders, and (c) addresses, in the judgment of the Committee, all potential conflicts of interest."

On September 13, 2016 IIROC issued a News Release where they state **"As the Board for a pan-Canadian organization, it is important that Directors represent IIROC's diverse stakeholders and can provide different regional perspectives.** http://www.iiroc.ca/Documents/2016/50e98987-7e73-429f-8d1b-f5622fe790d4_en.pdf

On the website it is stated **"Investors are a key IIROC stakeholder** and **investor protection is at the centre of our regulatory mandate**. Investor confidence starts with fair rules and an industry-wide culture of compliance."
http://www.iiroc.ca/investors/Pages/default.aspx

The "Independent" Directors

A central element in the present governance structure is the definition of "independence". In the case of public companies, "independence" means independence from management and no conflicts-of-interest. In the case of IIROC, "independence" has a dual meaning – both independence from management and from the investment dealers that IIROC regulates and the marketplaces for which it provides regulation services. Section 1.1 of IIROC's By-law No. 1 defines "Independent Director" as a director who is not:

(a) an officer (other than the Chair or any Vice-Chair) or an employee of the Corporation;
(b) a person who qualifies as a Dealer Director or a Marketplace Director; or
(c) an Associate of a partner, director, officer, employee or person acting in a similar capacity of, or the holder of a Significant Interest in, a Dealer Member or Marketplace Member.

We note that the definition does not include people associated with an affiliate or subsidiary, immediate family members or individuals associated with major service providers to the financial services industry.

The CSA Recognition Orders provide that IIROC's governance structure and arrangements must ensure:
(i) effective oversight of the entity; (ii) fair, meaningful and diverse representation on the governing body (Board) and any committees of the Board, including a reasonable proportion of independent directors; (iii) a proper balance among the interests of the different persons or companies subject to regulation by IIROC; and (iv) that each director or officer is a fit and proper person.

The independent directors are:

Marianne Harris, Chair M. Marianne Harris is a Corporate Director. Ms. Harris was Managing Director at the Bank of America Merrill Lynch Canada and President, Corporate and Investment Banking, Merrill Lynch Canada Inc. until 2013.Ms. Harris brings extensive corporate and investment banking experience gained from more than 29 years of advisory work in the U.S. and Canada including her leadership roles at Merrill Lynch. Before joining Merrill Lynch, Ms. Harris was Head of the Financial Institutions Group at RBC Capital Markets.

Mike Gagné Vice Chair Mike Gagné was President and CEO of Winnipeg Commodity Exchange (WCE) from June 2001 until his retirement in August 2007. As President, he was responsible for, among other things, developing and implementing both short-term and long-term strategy, for efficient and effective business operations and for enhancing

and protecting the integrity of the exchange through strict monitoring and adherence to all legislation, regulations and recognition orders. Mr. Gagné served as Director of Finance for WCE from January 1992 to May 2001 and was responsible for all financial, treasury, accounting and general administration functions. From 1983 until 1991, he worked as Chief Financial Officer for Manitoba Crop Insurance Corporation. Prior to that, he worked six years for a large exploration and mining development corporation and two years for a large oil and gas company. Mr. Gagné has extensive expertise in the futures and securities industry. He brings exchange and SRO experience gained through his leadership role at the WCE and is also on the board of one not-for-profit organization. Mr. Gagné is Vice-Chair of IIROC's Board of Directors and Chair of the Finance, Audit and Risk Committee.

Brian Heidecker Mr. Heidecker served as Chair of the University of Alberta Board of Governors from 2006 to 2011. He was first appointed to the Board in 2000 and served as Vice-Chair from 2004 to 2006. Mr. Heidecker has served, and continues to serve, on many boards and councils. He served on the Board of Alberta Treasury Branch (ATB) Financial and for 11 years served on the Bank of Canada Board for nine years. He has also served terms on the Alberta Securities Commission, the Access to the Future Fund Regulation Advisory Committee, and the boards of the Canada Council on Learning, the Northern Alberta Jubilee Auditorium and Cardiometabolics Inc.

Gerry O'Mahoney Principal and Founder of Tralee Capital Markets Ltd. through which he provides strategic and operational advice on all aspects of brokerage, investment management, wealth management, industry infrastructure and regulatory issues.
He has extensive experience in the industry having served in various roles with TD Bank Financial Group since 1982. This includes 10 years as Chief Operating Officer of TD Waterhouse Canada (from 1999-2009).

James Donegan James Donegan is Co-Founder and Managing Partner of AGAWA Partners. AGAWA is an investment management company focused on providing solutions for institutional investors. Prior to founding AGAWA, Mr. Donegan spent 21 years investing in public markets at the Ontario Municipal Employees Retirement System (OMERS).

Edward IacobucciMr. Iacobucci is currently a member of the Board of Directors for the Empire Life Insurance Co. of Canada, and serves on the Audit Committee, Human Resources Committee and as Chair of the Conduct Review Committee. He was also previously a board member for ACS Media Income Fund, where he was Chair of the Compensation and Corporate Governance Committee, and the Dominion of Canada General Insurance Co., where he was Chair of the Conduct Review Committee.

Catherine Smith From 1977 to 2001, she held various roles at CIBC in Tokyo, New York, and Toronto, in retail, wholesale banking and trading, discount brokerage and wealth management. From 1999 to 2001, Ms. Smith was Executive Vice-President responsible for Online Brokerage and Fixed Term Investments, Wealth Management.
She has worked with various regulatory regimes. Ms. Smith was on the boards of four of CIBC's subsidiary entities from 1999 to 2001 (CIBC Trust Inc., CIBC Securities Inc., CIBC Financial Planning Inc., and CIBC Securities Inc.) and has also served on the boards of Groome Capital Inc. (Montreal), Intria Items Inc. (a CIBC/Fiserv joint venture).

Andrew J. Kriegler CEO Mr. Kriegler previously held the position of Deputy Superintendent of the Office of the Superintendent of Financial Institutions (OSFI), with responsibility for the supervision of more than 400 federally regulated financial institutions. He joined OSFI in February 2013 as the Assistant Superintendent, Supervision Sector. Prior to OSFI, Andrew was Senior Vice President & Treasurer of CIBC, a post he held from November 2008 through August 2012. He joined CIBC in the bank's risk management group earlier in 2008 from Moody's Corporation, parent of the credit rating agency Moody's Investors Service, in New York. At Moody's, Andrew was Senior Vice President & Chief Human Resources Officer and a member of the executive management committee. He joined the executive team after having been the Canadian Country Managing Director for Moody's Investors Service for a number of years.
Prior to joining Moody's in 2000, Andrew was responsible for liquidity risk management and funds transfer pricing at Canada Trust and for developing the firm's wholesale funding and securitization programs. He directed the institution's credit market access and represented the company to institutional investors as well as to government and regulators in matters concerning liquidity risk and asset securitization.

From 1993 through 1997, Andrew was an investment banker with the securitization and debt capital markets groups at BMO Nesbitt Burns. Andrew came to a predecessor of BMO Nesbitt Burns from CIBC's Wholesale Banking group where he specialized in structured finance after having traded mortgage and asset-backed securities for two years. Andrew currently serves on the Board of the Canada Deposit Insurance Corporation, the federal corporation that insures eligible deposits by Canadians with member institutions in case of failure by those institutions. He holds an MBA from the Richard Ivey School of Business at Western University and a B.Sc. in Computer Science and Economics from Trinity College in the University of Toronto.

SUNNMMATION: It is very clear from these backgrounders the "Independent Directors" are not as independent from industry as they could or should be. It looks like the governance rules are specifically designed to keep IIROC a closed club. SIPA believes IIROC can best embrace its role as a protector of investors by ensuring that its Board of Directors includes more public directors sufficiently experienced in and knowledgeable about the concerns of retail investors that they can articulate those concerns in board level discussions.

Evidence that the IIROC governance needs major improvement

SIPA has been complaining about the use of misleading advisor titles for over a decade. In 2011, IIROC opted to take a closer look at business titles and financial designations. In 2012, it also conducted investor focus groups and one-on-one interviews with investor representatives .The survey found a wide array of business titles used by licensed representatives across firms and in some cases, within the same firm. Many of these business titles do not, on their own provide a meaningful description of the type of services and/or investment products that a licensed representative can offer to a client. In January 2013, IIROC launched a Consultation regarding the use of titles and financial designations. . In March 2014, IIROC issued a 3 page Guidance Note on the use of titles and designations .In September, 2015 the OSC, IIROC and MFDA published the results of a "mystery shop" of registrants across Ontario between July and November 2014, found, among other things, that the variety of business titles used by representatives **(48 different titles were used**

across all platforms) creates confusion concerning proficiency and representatives' status and responsibilities within their firms. In April 2016, the CSA issued CANADIAN SECURITIES ADMINISTRATORS CONSULTATION PAPER 33- 404 stating that **"Limited regulation on client-facing titles has allowed proliferation of dozens of confusing and competing titles** "We expect the Board could not have been happy with this determination.

The OSC sent out an enforcement notice based on its decision in June 2015 that ordered an advisor to receive a two-year ban in addition to the fines previously assessed by the IIROC Hearing Panel on March 6, 2014.The OSC found that the fines were far too lenient given the specific details involved in the case. "*The Panel erred in law and proceeded on an incorrect principle in determining that a suspension was not required in all of the circumstances,"* wrote Commissioner Christopher Portner in his decision dated June 22, 2015. "*In addition, the Panel's approach to determining the appropriate sanctions for Lukic's misconduct illustrates that* ***the Panel's perception of the public interest is inconsistent with that of the Commission.***" [In SIPA's opinion there is a need for a re-evaluation of the limits of tolerance for misconduct i.e. what types of violation can properly be dealt with through warnings fines or suspensions and what types must be treated as indicative of a lack of integrity incompatible with continued inclusion in the profession and IIROC membership.]

The 2014 OSC IIROC Oversight report http://www.osc.gov.on.ca/documents/en/Marketplaces/sro-iiroc_20141204_oversight-rev-rptinvestment.pdf has found numerous deficiencies in how IIROC investigates complaints." Effectiveness of Investigations Staff have concerns that in some cases, IIROC investigation staff decided not to proceed with allegations of unsuitable investments or unauthorized trading investigations because of: ☐ the lack of detailed notes in the file concerning conversations between the registered representative (advisor) and clients ☐ an incomplete assessment by investigation staff to determine if the firm effectively supervised its advisors (i.e. provided guidance on risk levels of products, reviewing if client risk tolerance was raised to match new holdings) ☐ reliance on the receipt of a formal complaint to assess the severity of an alleged misconduct as potentially serious " (this in light of unsuitable investments being the #1 cause of investor complaints). The report also cites a governance issue. For example, "Nevertheless, during the review period, the Board Chair ended her industry affiliation. **With the full support of the Board, she stepped down as an industry director and immediately became an independent director without an interim period being observed**... resulting in IIROC facing a medium priority finding by the Oversight team involving cooling off periods of Board members. "]

On November 12, 2015, the OSC Investor Advisory Panel published a report entitled *Current Practices for Risk Profiling in Canada and Review of Global Best Practices*. This report was prepared by PlanPlus Inc., an independent research firm engaged to perform research into the current practices in the Canadian marketplace to determine a client's risk profile and to evaluate these practices compared to best practices globally. For purposes of the report, risk profiling was defined as a complex, multi-dimensional process that combines many factors, both subjective and objective, to try and arrive at an overall assessment of the most appropriate level of risk for a consumer, called a 'risk profile'. The report made a number of findings, including: (a) there are verified techniques that improve the measurement of some subjective or emotional factors like risk tolerance or loss

aversion, but they are rarely used by the industry; (b) over 53% of respondents to a survey indicated that between 76% and 100% of clients had completed a risk questionnaire, creating a strong dependency on the fitness of these tools; (c) only 11% of firms could confirm that their questionnaires (where they had one) were 'validated' in some manner; (d) **only 16.7% of questionnaires reviewed would be considered 'fit for purpose'** -- they have too few questions, poorly worded or confusing questions, arbitrary scoring models or outright poor scoring models; and (e) there is overwhelming evidence that the issue of assessing a client's risk profile and recommending suitable solutions is a primary area of concern in the industry.

The April, 2016 CSA Consultation Paper http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20160428_33-404_proposals-enhance-obligations-advisers-dealers-representatives.htm noted :" **Clients are not getting the value or returns they could reasonably expect from investing:** At least part of the reason for this is the wording of the existing suitability requirement. Failure of registrants to consider all relevant factors, including product costs and investment strategies (such as the use of leverage or choosing active over passive management of assets) in their suitability analysis may prevent clients from meeting the goals of their investment activity. It also concluded that "Clients **are not getting outcomes that the regulatory system is designed to give them:** There are a number of potential causes of this concern, including opaqueness in the suitability assessment, existing requirements that require more clarity to assist in effective enforcement, barriers to obtaining redress for a registrant breach, and lack of effective compliance and enforcement in certain cases. Investor advocates have been pointing this out for years. These conclusions should give the IIROC board pause as to its effectiveness.

According to the latest OBSI independent reviewer's report, **in 2015, nearly one in five (18%) of non-backlog complainants who OBSI considered should receive compensation received less than OBSI recommended (on average $41,927 less); including 3.5% who were at risk of receiving nothing.** When OBSI is not involved and retail investors are on their own, the figures must be frightening This is one more persuasive piece of evidence as to why the present regulatory system is not providing clients the anticipated regulatory outcomes. Fair and timely complaint investigation and resolution is a critical dealer obligation to clients and the IIROC board should ask itself how this investor abuse was permitted to happen.

In July 2016, SIPA issued a report on the state of the KYC process in use in Canada today. **It would not be an understatement to state that the KYC process is broken and unreliable.** IIROC has neither acknowledged nor demonstrated any public response to the revelations in the SIPA report. We would have expected the IIROC Board to have reacted quickly to the serious investor protection issues raised in the report. http://www.sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20-%20KYC%20Process%20Needs%20Overhaul%20-%20201607.pdf Since KYC is central to professional advice giving, these findings should shock the board into prompt remedial action.

In early August,2016 the OSC Investor Advisory Panel (IAP) issued a letter to the *Investment Industry Regulatory Organization of Canada* responding to IIROC's latest strategic plan, It also criticized IIROC's commitment to standing up for the interests of

retail investors and condemns the self-regulatory organization's (SRO) effort to involve retail investors in its governance and policy development process. The letter states **"We believe that unless IIROC, under the direction of its Canadian Securities Administrators (CSA) overseers, reforms its culture and governance, it will continue to fail in its mandate to protect investors"**.
http://www.investmentexecutive.com/-/battle-over-best-interest?redirect=%2Fsearch This was a clear " All is not well" message that we hope the IIROC board heard.

Some questions for the Board of Directors

Is the Board confident its ideas of the Public Interest are aligned with the OSC/CSA?

Are IIROC priorities aligned with investor protection needs and CSA priorities? [Has IIROC consulted with investor protection groups? If so, which groups, when and what changes resulted?]

Why has there never been a prosecution for breaches of NI81-105 Mutual Fund Sales Practices since its inception in 1998?

Are Staff and Hearing Panel investigations /decisions/sanctions unduly ignoring or downplaying the negligence of dealer supervision and compliance? [How many investigations of supervisors/management have occurred in the past 5 years? Outcomes?]

Is the Board satisfied with the results of its Whistleblowing and Arbitration programs?

Is the board satisfied that IIROC rules and processes adequately protect investors when approved persons conduct Outside Business Activities?

Has the Board benchmarked IIROC rules/ policies vs. developments in other countries?

Why has IIROC allowed a plethora of titles and financial designations over an extended period of time, many of which mislead investors?

Is the current approach to "advisor "proficiency congruent with the movement of the industry away from the trading transaction to financial advice giving?

Is the board comfortable with the fact that only a small fraction of investor complaints are investigated?

What documented criteria does IIROC have to ensure the transformation to fee-based business models are suitable and in the best interests of clients?

Why have discount brokers been allowed to collect advisory fees from mutual fund manufacturers when they do not (and cannot) provide that advice?

Is the prevailing NAAF, KYC and risk profiling approach satisfactorily doing its intended job?

Does the Board feel that staff investigations get to the root cause(s) of complaints? [in our view the vast majority of issues are management controllable and hence accountability should rest with management NOT "advisors"]

Has the board self-assessed its approach to deterrence? [against the IOSCO Credible Deterrence report:
http://www.iosco.org/library/pubdocs/pdf/IOSCOPD490.pdf]

Does the Board appreciate the unrest and issues its consultation proposal of allowing stockbrokers to act as Executors has caused?

Will the recently amended Sanction Guidelines without any dollar minimum or range will lead to inconsistent, negotiated settlements that are not likely to be in the best interests of the investing public?

Did the Board effect an independent assessment of OSC findings of deficiency in complaint handling and Governance?

Are IIROC Member firms complying with the spirit and intent of IIROC complaint handling rules and are the rules effective?

Is IIROC doing all that is necessary to ensure OBSI functions as an effective, credible Ombudsman service?

Is the board reacting to the growing regulatory arbitrage issue?

Does the board fully understand the very poor collection of fines issue and the actions needed to improve the deterrent value of fines?

Are investor privacy and data security adequately protected both at IIROC and at the regulated Members?

What metrics does the Board use to track IIROC effectiveness re its mission and compliance with the Recognition Order?

IIROC has been delegated a very important role by the CSA to protect investors from the actions of the nearly 200 investment firms under its domain. It is critical that IIROC's strategic initiatives and action plans make it worthy of that delegated power. With a background of high Government and personal debt levels, reduced access to DB plans, increased longevity and threats to Medicare/CPP and the prospect of higher inflation, continued deterioration of personal savings /investments could lead to social disorder. Directors that are intimately familiar with prevailing professional advice standards, investor protection issues , behavioural finance, and the challenges seniors and other vulnerable investors face could make a big difference to the IIIROC Board agenda and priorities Never before have Canadians depended more on IIROC to deliver responsive and responsible regulation of the financial services industry to finance their retirement .

Conclusion and Recommendations

There have been sweeping changes to the business environment in which investment dealers operate, in the way product innovation and technology are impacting the overall market structure and the nature of services promoted to clients, and in the evolution of the client-Representative relationship. Changing investor demographics, needs and expectations are indeed posing new issues and challenges for IIROC and the broader

financial services industry generally. To date, the embracing of change has moved at glacial speed.

IIROC needs a much broader representation on its Board with members of different skills, backgrounds and experiences. This will allow for a greater range of perspectives, to raise challenging questions and to debate more vigorously, which is what a healthy board needs. IIROC has long been seen by investors as being out of touch with the retail investor experiences and perspectives. With true independents on the board a multiple-perspective analysis of problems could change the boardroom dynamics and enhance IIROC's effectiveness and improve its image with the public. IIROC needs board members who have experience and knowledge about other business models from other industries. A complete paradigm shift will be required if IIROC is seriously committed to excellence in board governance.

Creativity is also fostered when different perspectives are brought to the table. Directors need to understand diverse stakeholders and the consumer is a major stakeholder who appears at this time to be left out of the discussions. A balanced board needs representation of investors to make informed judgments. IIROC needs to tap into the under-utilized talent pool through greater board diversity.

IIROC will need to fundamentally alter its governance structure and culture so that it is increasingly aware of, sensitive to and responsive to the needs of its most important stakeholder- the investing public. IIROC must recognize they are now regulators of financial advice not just of transactions.

While the advantages of self-regulation are generally understood by governments and the professions, the downside of this form of regulation is often complicated by the nature of the interests at play. These interests can be dealt with by effective and strong board governance. Hence our focus on a diversified independent board.

Based on the evidence, IIROC's governance has not been effective in ensuring that retail investors are protected. We recommend the following reforms:

1. Establish a Regulatory Issues Committee. The Committee's responsibilities would include (a) the identification and articulation of emerging investor protection / market or strategic issues; (b) the review of any Policy, Rule or By-law amendment proposed to be presented to the Board .The focus of the committee would be investor protection.
2. Revise the definition of " Independent Director" to ensure that all independent director positions are filled with people with no previous background in the financial services industry
3. Establish a funded Investor Advisory Committee along the lines of the OSC Investor Advisory Panel to advise IIROC's board of directors on the needs and expectations of retail investors and to assist IIROC's board and staff in formulating policies that may impact retail investors.
4. Dramatically increase engagement with retail investors
5. Commission research and polls to better understand the needs of the retail investor and make results public
6. Provide a formal complaint system for stakeholders to complain about IIROC policies,

rules, decisions, business practices and behaviours.
7. Conduct an annual stakeholder satisfaction survey and take action to rectify shortfalls.
8. Revise the Strategic plan to reflect more investor input and priorities e.g. enforcement , complaint handling, seniors investor protection , sanction guidelines

We believe these reforms will enhance IIROC effectiveness and increase investor trust.

REFERENCES

1. **Who Watches the Watchmen? The Role of the Self-Regulator** Robert Mysicka Stikeman Elliott LLP October 8, 2014 C.D. Howe Institute Commentary Abstract: In Canada and around the world governments are granting an increasing number of professionals and other occupations in the service sector the right to self-governance and self-regulation or the delegation of authority that the state would normally hold. Self-regulation has become the preferred method of monitoring professional competence, standard setting, certification and the development of ethical codes of practice for a broad range of traditional professionals such as doctors, lawyers, real estate agents, insurance agents, human resource managers and many more. There are numerous advantages to self-regulation for professionals or an occupation aspiring towards professional status.

The mere fact of self-regulation enhances the credibility and standing of an occupation and its members in the eyes of the public. Rulemaking or rule-enforcing powers grant autonomy and self-determination to professionals, cementing their status within society and providing them with influence over public policy and decision-making. Self-regulation can also assist a group in developing rules that are more responsive to the complex issues within a profession such as the avoidance of conflicts and ensuring that the current needs of clients are being adequately addressed. From the perspective of the state, self-regulation has the advantage of reducing the costs of regulation. The delegation ranges from a complete transfer of rulemaking and rule enforcing authority from the state to the self-regulator, or through a partial delegation of regulatory powers, with the government able to provide some oversight. Self-regulation can be a smarter solution when a state organized regulator lacks the financial means or political willpower to regulate in the best interests of the public and at the lowest cost possible. While the advantages of self-regulation are generally understood by governments and the professions, the downside of this form of regulation is less understood and often complicated by the nature of the interests at play. In this Commentary, I examine the role of self-regulators in Canada and some of the issues that can arise when self-regulating organizations take on policy and other decision-making roles traditionally held by governments. This Commentary explores examples of various policy decisions and actions taken by self-regulated organizations that have had or could have an impact on private businesses and the quality of service and representation afforded to the public generally and clients of professional services specifically. I recommend that governments tighten the procedural and substantive rules that affect the operation and scope of powers of self-regulatory and other organizations delegated authority by legislation.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2510112

2. **Self regulation in today's securities markets**: CFA Institute The U.S. Securities and Exchange Commission has questioned the fairness and efficiency of U.S. securities industry self-regulation in light of market developments, new technologies, growing global competition, and additional factors that increase the conflicts inherent in a system of self-regulation. In this paper, the CFA Institute Centre for Financial Market Integrity comments generally on the global convergence of securities markets and regulation and seeks to address whether self-regulation is viable in today's climate. This paper focuses on traits that will strengthen self-regulatory systems by addressing the inherent conflicts and develops a core set of standards generally applicable to most regulatory systems, regardless of jurisdiction or structure. The paper concludes by offering several suggestions for a global oversight framework of securities markets focused on efficiency and investor protection. http://www.cfapubs.org/toc/ccb/2007/2007/7

3. **Lack of trust in financial services industry deters investors** "...A widespread lack of trust in the financial services industry may keep Canadians from achieving their long-term financial goals, warns Beth Hamilton-Keen, incoming chair of the CFA Institute board of governors. "Investors who do not trust the industry are unlikely to invest" and may be inclined to save less money, Ms. Hamilton-Keen said at an event Wednesday held by S&P Dow Jones Indices in Toronto. "This will result in people having longer working lives, lower quality of life and inter-generational stress." This lack of trust was evident in a 2013 survey cited by Ms. Hamilton-Keen. According to the CFA Institute & Edelman Investor Trust Study of more than 2,100 retail and institutional investors in Canada, the U.S., Britain, Hong Kong and Australia, financial services sits at the bottom of industries most trusted among clients. When investors were asked which industries they trust to do what is right, only 52 per cent of investors stated they trust the financial services industry. The technology industry was the most trusted, at 67 per cent..." http://www.theglobeandmail.com/globe-investor/investment-ideas/lack-of-trust-in-financial-services-industrydeters-investors/article25102635/

4. Rethinking the Future of Self-Regulation in the Financial Industry: Saule T. Omarova
http://scholarship.law.cornell.edu/facpub/1022/

5. Involving Consumers in Securities Regulation: LSE Professor Julia Black (2006)
http://www.lse.ac.uk/collections/law/staff%20publications%20full%20text/black/Involving%20Consumers%20i n%20Securities%20Regulation%20-%20Taskforce%20report.pdf

6. **Exemptions Granted by IIROC for the Calendar Year 2015**
Summary Each year IIROC's Board of Directors, staff and District Councils consider and, in appropriate cases, grant exemptions from specific Dealer Member Rules or Universal Market Integrity Rules (UMIR). The criteria for granting exemptive relief are specific and rigorously applied in order to ensure that investors are protected and the integrity of the capital markets is maintained. This Administrative Notice provides a summary of the **634 exemptions granted in 2015**, which were comprised of:
• 64 exemptions from specified UMIR provisions, granted by Market Regulation Policy staff to Participants or Access Persons;
• 48 exemptions from specified Dealer Member Rule provisions, granted by the IIROC Board of Directors to Dealer Members;

• 14 exemptions from specified Dealer Member Rule provisions not related to proficiency requirements, granted by IIROC staff to Dealer Members; and
• **508 exemptions from IIROC proficiency requirements, granted to individuals by IIROC staff or by Registration Sub-Committees of IIROC District Councils.**
http://www.iiroc.ca/Documents/2016/db23c851-29be-49e5-8b28-ead636ac8c2f_en.pdf
Investor advocates are concerned that this volume of exemptions may be undermining the system. ex·emp·tion igˈzem (p) SH (ə) n/ *noun* the process of freeing or state of being free from an obligation or liability imposed on others.

7. **Lesson for IIROC from ABCP crisis**
"...The creation of a more robust legal duty may not be enough to push brokers to make changes to adequately protect clients. The cost of seeking legal redress could be daunting to many investors and thus not provide an adequate deterrent. We believe that in addition to considering possible expansion of statutory fiduciary duty, IIROC must play a sustained monitoring role in this area by committing greater resources towards assessing registrants day to-day compliance. For instance, if used fairly and judiciously information gathering practices such as "mystery shopping "(i.e. posing as a potential client to a registrant) could help the organization make more tailored best practices recommendations. Whatever the approach, IIROC must retain staff with sufficient expertise to understand the extent of the asymmetries at play when a complex product such as ABCP come before retail investors. IIROC must do more to ensure that brokers stay attuned to products such as ABCP and be able to explain in plain terms, the circumstances in which a client's profile may warrant diversification or even the avoidance of a particular product altogether..." Source: Back from the Brink: Lessons from the Canadian ABCP crisis- Cakebread. Halpern et al, University of Toronto Press, 2016, ISBN 978-1 4426- 4193-1. Available at Amazon.ca (page 211). [Retail investors who were sold the investments suffered huge financial losses when the ABCP market froze. Most have since had their losses reimbursed following a complicated and lengthy process. These retail owners were very fortunate to regain their savings. However there was no opportunity to obtain compensation for 18 months of work or the personal turmoil, hardship or expenses that this fraudulent savings product caused," a committee of investors said in a release]