INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Financial Services Regulatory Authority of Ontario (FSRA)
130 Adelaide Street West, Suite 800
Toronto ON M5H 3P5

Dear Sir/Madam:

**Re: Proposed FSRA Priorities – Consultation Document**

The Investment Industry Association of Canada ("IIAC or the Association") appreciates the ability to comment on the Proposed FSRA Priorities. The IIAC is the national association representing 120 investment dealer firms on securities regulation and public policy. Our members are the key intermediaries in Canadian capital markets, accounting for the vast majority of financial advisory services for individual investors, and securities trading and underwriting in public and private markets for governments and corporations. Many of our members are dually licensed in the insurance area, and as such, are keenly interested in the new regulatory body.

The IIAC is supportive of FSRA's stated intention to use principles-based regulatory approaches and focus on burden reduction and regulatory effectiveness. We believe the FSRA's objective to "regulate differently by using greater expertise, rule-making and other regulatory tools and improved processes to reduce burden and increase regulatory effectiveness while keeping costs as low as reasonably possible" is a model that serves both the industry and consumer, and should be adopted by other regulators in the financial industry.

In order to ensure FSRA's mandate to increase regulatory effectiveness while reducing the burden is fully realized, there are several key issues that should be considered.

Using principles based, rather than prescriptive regulation provides firms with flexibility in the way in which they meet regulatory objectives, taking into account their specific business models. In order to ensure that firms benefit from this approach, it is critical that the compliance/audit function of the FSRA develop audit practices that are consistent with this means of regulation. Examination staff should have sufficient expertise, and receive training on how to audit on an outcomes basis, understanding that firms will undertake different strategies to achieve the desired regulatory result. If staff reverts to auditing to specific process requirements rather than outcomes, the benefits of principles-based regulation will be lost as firms will seek prescribed means of satisfying auditors, rather than conducting their business in an optimized manner.

In developing new regulations, whether principles based or prescriptive, it is critical that the FSRA undertake a regulatory impact assessment, which considers the need for the rule, possible options, the means of measuring success, and a cost /benefit analysis.   Periodic reviews of existing rules for their ongoing relevance and unintended consequences should also be implemented.

FSRA should also work to collaborate and coordinate their approaches with other provincial insurance regulators to harmonize applicable regulation across Canada.   Different standards and requirements create regulatory inefficiencies on businesses operating interprovincially.

In addition, FSRA should collaborate and coordinate their efforts with SROs providing oversight in similar industries where there are dual registrants and shared clientele.  For instance, many IIROC dealers are also licensed to sell insurance products.   Although the products may be similar, or complementary, and the advisor may be serving the same client with products and services from both the insurance and IIROC platform, the silo'd nature of regulation creates a number of inefficiencies that impair the service to the client, and create additional cost and time burdens for the advisor.

For example, existing IIROC and insurance regulations do not permit systems that would facilitate information and documentation sharing to be shared between platforms.  This makes it difficult to work with clients on a holistic basis, and also leads to a duplication of effort by clients and advisors in respect of providing and managing information and documentation.   The separation of systems mean clients are unable to receive consolidated statements showing their combined securities and insurance accounts.    In addition, the insurance business must be conducted through a separate corporate entity with separate signage.  In addition to the issues detailed above, this separation has led to questions on cost allocation for shared premises by the regulators.

In order to better serve clients, and promote industry efficiency, we recommend that the FSRA work with other SROs to remove or mitigate these barriers.  In addition, it would be helpful for SROs to coordinate audits relating to Know Your Client and Suitability  for dually-licensed advisors, so that clients' accounts are appropriately viewed on a portfolio basis.  Advisors' decisions to recommend certain investments are made in respect of the whole portfolio, which includes products from various platforms.  As such, examinations should take this into account in order not to incorrectly deem investments suitable or unsuitable, without considering the larger investment context.

On a technology front, the current licensing process is not sufficiently automated, requiring significant manual input.   This leads to delays in approvals, impeding efficient business operations and client service.   We recommend significant investment into appropriate information technology that would increase efficiency for advisors and the regulator.

Thank you for considering our comments. If you have any questions, please don't hesitate to contact me.

Yours sincerely,

Susan Copland