

Intelligence MEMOS



From: Joanne De Laurentiis

To: Canadian Securities Administrators

Date: July 28, 2020

Re: **THE CASE FOR SPEEDY REFORM OF THE SELF-REGULATORY ORGANIZATIONS FUNCTION**

The case for streamlining the stratified, overlapping regulatory bodies overseeing the operations of dealers and advisors providing financial advice to consumers has been proven and accepted by regulators.

In their recent request for [comments](#), the provincial Canadian Securities Administrators (CSA) asked the industry a number of very pointed questions, clearly affirming that the industry and its investors have outgrown the structure currently consisting of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

Significant change is necessary and clearly on its way.

The challenge is whether it will happen fast enough or drag on.

Why is Reform Needed?

Currently, dealers are regulated depending on the type of financial product or service they provide. Full-service investment dealers are required to be members of the IIROC, and mutual fund only dealers to be members of the MFDA, except in Québec where mutual fund dealers are directly regulated by the Autorité des marchés financiers (AMF).

Over the last decade, in particular, dealer operating models have significantly evolved, and no longer fit into the narrow IIROC and MFDA regulatory box.

Investors are the ultimate losers because the current model forces them to engage different advisors for the broad range of financial services and products they need. This may lead them to a narrower product selection than they need, pay higher costs, and potentially get incomplete advice.

Simple order may soon be brought to this state of affairs. Late [last year](#), the CSA said it would undertake a review of IIROC and the MFDA and proceeded with informal discussions with market participants to get a reading on the appetite for reform. Late last month, it issued [a full consultation document](#) with specific questions that indicate it is prepared to merge the Self Regulatory Organizations (SROs).

What does the CSA Propose?

Consultations with the industry, begun last December, are reflected in the most recent report, through a set of seven significant issues that represent deficiencies with the current SRO structure. These seven issues are clustered under three categories: structural inefficiencies, investor confidence, and market surveillance.

The CSA paper asks specific questions on each issue, and it proposes to use the input it receives to reform the SRO structure to achieve seven targeted outcomes, also laid out in the paper.

In the consultation document, the CSA rejects a simple merger of IIROC and the MFDA and opts for a careful redesign that can only be described as a “merger-plus.”

Happily, the reform goes further than outlined in [my report](#) for the C.D. Howe Institute, and confirms that change is necessary. Only reform can remove operational complexity and costs for dealers, streamline and bring greater efficiency to the regulatory oversight process, and give advisers the flexibility to grow and expand their practices.

The outcome will be the creation of a new single regulatory body to govern financial advice to consumers. It will eliminate the overlaps and deficiencies of the current structure to create a more fit-for-purpose regulatory body. It tightens governance by adding non-industry board members, and it enhances oversight by the CSA.

Next Steps: Do Not Delay

There is clarity to the statement of deficiencies and the desired outcomes, and it is unambiguous about the need for an IIROC/MFDA merger.

There is one troubling question in the document, however:

“Is the status quo viable in the shorter (under five years) or longer (five years +) terms?”

By this point, the answer could not be clearer: the status quo is not viable. Change is needed and doing it sooner rather than later has been clearly articulated by the market.

The CSA knows what needs to be done. The framework for a new SRO structure is already set out in its questions. It should proceed to set up a CSA working group to begin the design of the high-level framework and fill in the details once it has received the detailed comments in the fall.

An executive team could be appointed to create a work plan for integration and move as quickly as possible on integrating functions where comments reflect full support. It can also test some initiatives that will benefit dealers, for example, creating an integrated exam team to go into those dealers that have IIROC, MFDA, and AMF regulated units.

Finally, the CSA can give dealers something to look forward to as we emerge from the COVID-19 lockdown. Some regulatory burden relief and a modern oversight structure will allow dealers to focus on becoming more efficient. The target for reform and the beginning of a new combined structure should be by the end of 2021 at the latest. In regulatory terms, this is around the corner. Do not delay.

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