

May 29, 2014

BY EMAIL

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Dear Sirs/Mesdames:

**Re: OSC Notice 11-769 – Statement of Priorities – Request for Comments
Regarding the Statement of Priorities for Financial Year to End March 31,
2015 (the “Notice”)**

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on the Notice and wishes to provide the following general comments on the Ontario Securities Commission’s draft Statement of Priorities.

We recognize that the OSC has a number of important initiatives underway and limited resources with which to implement such initiatives, and we support a number of the proposals included in the list of priorities for the upcoming fiscal year. As a general comment, we were disappointed that a number of proposals appear to require a lengthy period of time prior to their republication, and would have preferred to see status reports and/or republications of proposed rules by the third quarter of 2014, rather than December or early 2015, particularly with respect to the proposals noted below.

We are of the view that the OSC should continue to review as a high priority its analysis of implementing a best interest standard on advisers and dealers, as well as its review of mutual fund fees and the potential conflicts that may be raised by the use of trailing commissions, as discussed in more detail below.

¹The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC’s website at <http://www.cfasociety.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

² CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has more than 119,000 members in 147 countries and territories, including 112,000 CFA charterholders, and 143 member societies. For more information, visit www.cfainstitute.org.

The Notice acknowledges the importance of setting standards to ensure that the reliance by investors on their advisers is well placed. As CFA charterholders, we have agreed to uphold the Code of Ethics, which requires us to put the best interest of our clients ahead of our own. We support the OSC's research efforts, including the use of its current mystery shop research sweep of advisers, however, as it relates to its analysis of the best interests standard, the "mystery shop" may not provide the data needed to support its decision making. The questions posed of advisers may help answer the question of whether or not a particular product being sold is suitable for a particular client and help shed some light on how advisers and their potential clients interact with one another, whether or not advisers are using best practices, as well as help the OSC in its enforcement efforts with respect to advisers who do not comply with existing rules. However, it is unclear to us how staff will determine whether or not the adviser is always placing the interests of his or her clients ahead of their own interests. It would be helpful if the OSC could publish the criteria it is using during these sweeps (without compromising the purpose of the inquiries) in order for market participants to determine which issues are in fact being addressed. In addition, with respect to the best interest standard, there does not appear to be a set time limit for either completion of the research or proposed publication of the OSC's preliminary findings, nor is there any mention of potential publication of any proposed rules. We believe that a specific deadline should be set and we would welcome action to move this initiative forward as quickly as possible.

We understand that staff's review of the best interest standard is tied to the CSA's review of embedded fees in mutual funds, and that an RFP is underway for third party research to determine to what extent, if any, perceived conflicts of interest associated with compensation structures influence advisers. While we are highly supportive of empirical data to support regulatory initiatives, we are concerned about the potential delays that may occur from the initial publication of the CSA Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees*, which was published over a year ago, to the completion of the research. The Notice suggests that a staff notice will be published setting out key findings by "early 2015". Given the importance of the issues raised by both the best interest standard and the mutual fund fees analysis to the investment industry, we urge the OSC to try to work with its counterparts in other jurisdictions to complete their analysis as soon as possible such that new rules, if any, can also be published as early as possible in 2015.

The Notice indicates that the OSC supports the efforts currently in progress to implement a cooperative securities regulator. We wish to emphasize the importance for both issuers and investors for the regulator in each province and territory to harmonize the content and application of securities rules across the country. The increasing complexity and expense of compliance with a myriad of different rules in each jurisdiction is an impediment to participation in our capital markets. The recent proposals published by the OSC and other jurisdictions with respect to proposed new or amended prospectus exemptions is a recent case where despite prior emphasis on harmonization, it appears as though the various Canadian regulators are moving further apart on capital raising initiatives than ever before.

We are also of the view that the OSC should prioritize and expand its efforts with respect to the transparency of the corporate bond market in Canada. While the Notice specifies the development of a proposal to increase post trade information available to the market, there are no specifics provided other than a reference to a proposal for publication by March, 2015.

There are a number of urgent issues with respect to the current functioning of our proxy voting system, and we share concerns raised by others on the reliability and accuracy of the proxy voting infrastructure. While we are pleased that stakeholder input will be sought and a progress report will be published in 2014, we would also like to see concrete deadlines set for the next steps in the rule making process.

It would be helpful for market participants if there was a clear, published methodology and criteria for measuring the success of a particular new rule or guidance, beginning with an open forum for consistent feedback subsequent to its implementation. If the success of a new rule is measurable and monitored, consideration of any necessary amendments can take place in a timely manner. It would also be informative to include concrete information regarding the expected impact of a rule on those issuers or registrants most closely impacted when a rule is first published, and then the impact can specifically be addressed by marketplace participants in the comment letter process and by the OSC when later monitoring the effectiveness and practical consequences (including cost) of the rules once implemented. The conclusions with respect to the impact of the new rules should be published within a pre determined time frame as well. To the extent possible, such impact analysis could be co-ordinated with other regulators, such as SROs, to help give a comprehensive picture of the full impact of regulatory initiatives.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *Ada Litvinov*

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Chair, Canadian Advocacy Council