

June 2022

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Chair Summary

Canadian Advocacy Council

Cristina Lopez, CFA
Chair, Canadian
Advocacy Council

During the month of June, the CAC submitted two comment letters, one in response to IIROC's re-publication of the proposed derivatives rule modernization and a second on application for recognition and related constating documents for the New SRO, intended to combine the authorities and operations of IIROC and the MFDA as of the end of this year. In July, we expect to submit our comment letters on Access Equals Delivery for Non-Investment Funds and the CSA and CCIR's joint proposed amendments relating to Total Cost Reporting. Expect to hear more about these letters in next month's update.

This is my final newsletter as Chair for the Canadian Advocacy Council. It has been an honour to serve as Chair over the past year and I look forward to continuing on as a member of the CAC as Barb Bauer, CFA moves into the Chair role. I want to thank all of the members of the CAC for their support over the past year as we tackled over 20 comment letters, refreshed our vision and mission statement and started to lay down the framework for our strategic direction for the next three years. With the summer months now upon us, I wish all our members a safe and restful summer season.

Published Comment Letters

Canadian Advocacy Council

IIROC Re-publication of Proposed Derivatives Rule Modernization, Stage 1

About the notice

The purpose of the amendments to the IIROC rules is to set up a harmonized framework for securities and derivatives, whether they are listed or traded OTC. The republication does not alter many of the amendments as first proposed in November, 2019, but has made further amendments to accord with updated IIROC rules (such as the CFRs) and in response to comments (including from the CAC). One amendment changes the definition of "security" so that it more clearly excludes derivatives, so it is clear which rules apply to each of the respective asset classes. There is a new proposed requirement for dealers with institutional clients or hedgers to have records relating to the dealer's assessment of those qualifications. In response specifically to the CAC's comment, IIROC is proposing to amend the provisions regarding a dealer's BCP such that it will no longer be invoked automatically if there is a significant disruption in business, but instead the dealer would be required to notify IIROC with the prescribed information included in the notice. The derivatives risk disclosure statement has also been amended in response to the CAC's comments to include specific common risks and not just general risks of utilizing derivatives. A new requirement would also require disclosure of the percentage of accounts that were profitable for clients for each of the 4 most recent quarters of dealer members offering OTC derivatives to retail clients when offered through CEO accounts.

Overview of the Council's Comments

The CAC supports the revised proposals, which will better harmonize the application of the IIROC rules to securities and derivatives-related activities.

The CAC appreciates that many of the revisions to the proposals reflect prior CAC comments. These include the removal of the requirement for hedging positions to have a high degree of negative correlation with the underlying interest or position (as noted in the CAC's previous comments, correlations change over time), and the addition of new guidance confirming that it is possible to hedge only part of an underlying interest or position and still have the transaction regarded as a hedge.

The CAC is particularly supportive of IIROC's proposed definition of a "hedger", including the exclusion of individuals from this potential classification, which will address potential mis-selling and suitability concerns. IIROC should, however, consider making technical revisions to make clear that the definition includes non-individuals who engage in qualifying hedging activities with respect to *some*, but not necessarily *all*, of the risks to which they are exposed. Guidance also would be appreciated on what it means for a hedger to "materially" offset market value changes in the interest or position being hedged.

The CAC suggests IIROC undertake further policy research to assess whether options or similar derivative contracts ought to be made subject to the current derivatives-specific business conduct requirements (under the revised proposals, they are excluded from these requirements). And it would be helpful for the proposed Derivatives Risk Disclosure Statement to specifically inform derivatives clients about the concept of counterparty risk and clients' potential exposure to the creditworthiness of their dealer and any OTC counterparties.

CSA Staff Notice and Request for Comment 25-304 Application for Recognition of New Self-Regulatory Organization

About the notice

The application for approval is further to the recommendations in the CAC Position Paper 25-404 to amalgamate the two existing SROs, IIROC and the MFDA, into a single self regulatory organization (New SRO) under the *Canada Not-for-profit Corporations Act*. Initially, the New SRO will have two classes of members, Dealer Members (comprised of investment dealers and/or mutual fund dealers) and Marketplace Members (recognized exchanges, quotation and trade reporting systems and others that facilitate trading of securities or derivatives in Canada in the enumerated circumstances).

The CSA has published an application for recognition of the New SRO, which includes a draft by-law, draft interim rules, draft terms of reference for the New SRO investor advisory panel, and new requirements for Quebec. The application also includes a draft recognition order and draft MOU among regulators regarding oversight of the New SRO.

The application and draft approval order sets out the proposed governance structure for the New SRO, including a requirement for the board and committees to be composed of a majority of independent directors and independent chairs, with the governance committee composed of all independent directors. It is proposed the initial board will consist of 15 members, six of which will represent the Members and 8 of which will be independent, plus the President and the CEO of the New SRO. The New SRO will also have policies and procedures to manage actual, potential or perceived conflicts of interest of its officers, employees and members of its disciplinary panels.

The current IIROC Distribution Councils will turn into Regional Councils, which will have an advisory role to staff of the New SRO on regional regulatory policy matters. It is proposed that there be a National Council and seven Regional Councils, comprised of Dealer Members from each region (as defined). A new Appointments Committee will have responsibility for appointing members of the District Hearing Committees.

In addition, the new SRO will have new formal investor engagement mechanisms, including an investor advisory panel and investor office.

The New SRO continues its planning to develop an appropriate fee model. On an interim basis, the existing fee structures and models of IIROC and the MFDA will initially be maintained by the New SRO, as will the existing criteria for access to membership and the provision of regulation services.

With respect to rules, the New SRO will initially adopt interim rules which incorporate the regulatory requirements in the rules of IIROC and the MFDA, which include UMIR. The interim Rules include proposals to (i) amend the current IIROC proficiency requirements to allow dual registered firms to employ mutual fund only licensed persons without having to upgrade their proficiencies to those required of a securities licensed person, and (ii) permit introducing/carrying broker arrangements between mutual fund dealers and investment dealers.

The SRO will work toward harmonizing CE programs, but for now the existing CE requirements will continue to apply.

In Quebec, the New SRO rules will provide that the power to make decisions relating to the supervision of the SRO's activities in Quebec will be exercised mainly by person residing in Quebec, and complaints will be referred to staff of the New SRO in Montreal or to the AMF. Members of the hearing panels of the New SRO in respect of Quebec residents will themselves be Quebec residents. While firms registered as mutual fund dealers in Quebec will join the new SRO, there will be a transition period for their activities in Quebec and their fees will be prorated to the services offered to them by the New SRO.

Overview of the Council's Comments

The Council is supportive of the creation of the New Self-Regulatory Organization (SRO). We were pleased to see that many of our comments have been considered and that the proposed structure, mandate, and processes for the New SRO will represent a positive step in Canadian securities regulation toward increased investor protection, accountability to the public interest, and transparency.

Our key comments are summarized below:

- We applaud the new governance structure requiring a clear majority of independent directors and independent chairs of both the Board and key committees.
- We also applaud the new measures to provide transparency throughout the New SRO's decision-making processes, particularly the removal of the regulatory decision-making mandate of regional councils and replacement with an advisory-only role.
- We endorse the proposed creation of a strong investor advisory panel and investor office.
- We believe it will be critical early work of the Board (working with staff) to identify guiding principles and KPIs by which successful execution against mandates can be monitored and then reported upon regularly for transparency.
- We continue to be of the view that registrants should be strongly encouraged (and potentially mandated if or when properly grounded in related research and policy development) to pursue a higher standard of minimum competency, continuing skills development, professionalism, and the delivery of ethically-centered advice to clients.
- We believe it in the public interest to maintain responsibility for the market surveillance function with the New SRO.

Response Drafting in Progress

Canadian Advocacy Council

CSA Notice and Request for Comment - Proposed Amendments to Implement an Access Equals Delivery Model for Non-Investment Fund Reporting Issuers (Due July 6, 2022)

About the notice

The CSA has proposed amendments and changes to various national instruments in order to implement an access equals delivery model for most types of prospectuses, annual & interim financial statements and related MD&A for non-investment fund reporting issuers. Delivery will generally be deemed to have occurred (or in BC, an exemption will be available) when an issuer provides access to the document through SEDAR and notifies investors that the document is available there through a press release. The press release would need to indicate that the document is available electronically and that a paper copy can be obtained on request. No press release would be required in connection with the delivery of a preliminary prospectus. The model is intended to be more cost-effective for issuers and dealers, particularly with respect to the requirement to deliver paper copies of prospectuses. The proposals would not apply to rights offerings by way of prospectus or MTN programs (or investment funds). The two day right to withdraw from an agreement to purchase securities would be amended to reference the later of the date that access to the final prospectus (or amendment) has been provided and the date the purchaser has agreed to purchase the securities. With respect to delivery of financial statements and MD&A, the proposals include references to the current process of obtaining standing instructions from beneficial owners and the interaction of those instructions with an access equals delivery model.

CSA Proposed Amendments to NI 31-103 and to 31-103CP and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds (Due July 27, 2022)

About the notice

The amendments for securities relate to enhanced cost disclosure reporting requirements, the purpose of which is to enhance investor protection by improving awareness of ongoing embedded fees for investment funds such as MERs and trading expense ratios. Currently, there is no requirement to provide ongoing reporting of such costs after the initial sale in a form that is specific to an individual investor's holdings. In the securities sphere, the amendments would impact the account reporting requirements for registered dealers and advisers and would place obligations on registered investment fund managers to provide dealers and advisers with the required information. The proposed insurance guidance would apply to all insurers offering segregated fund contracts and is intended to add new cost and performance reporting requirements for individual variable insurance contracts. The changes to the insurance guidance also seeks to improve awareness of the rights of policyholders to guarantees and how their actions might affect their guarantees.

The changes to NI 31-103 would require those providing account statements to include information on embedded fees as a percentage (i.e. the newly-coined "fund expense ratio") for each fund held on the monthly/quarterly account statement. In addition, information would be required to be included on the annual cost and compensation report which shows the aggregate dollar amount of fund expenses for all investment funds and the aggregate dollar amount of any direct investment fund charges (e.g. redemption fees or short term trading fees) held in the account during the year. The disclosure would apply in respect of all investment funds, including foreign funds and prospectus exempt funds.

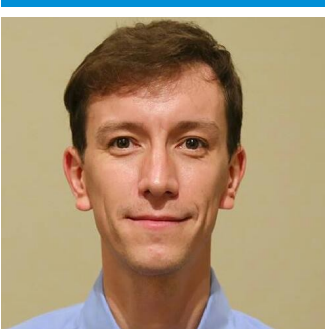
Existing exemptions for non-individual permitted clients would continue to apply. IFMs could rely on publicly available information in fund facts, prospectuses, or MRFPs to provide information for those reports, unless that information is outdated. If advisors or dealers did not believe the information received is reliable, there would be an obligation to make reasonable efforts to obtain the information by other means. It is proposed that final amendments would come into effect in Sept 2024, meaning the new first quarterly account statements would be required for the period ending Dec 2024, and the new annual reports for the period ending Dec 2025.

****If you would like to participate or provide comments to ongoing initiatives, please contact**

cac@cfacanada.org

Volunteer Spotlight

Canadian Investment Performance Council



Emil Vassenine, CIPM

Emil has served on the CIPC since June 2019.

Emil is the Principal and President of EVIV Group Inc., Canada's largest GIPS consulting and verification firm. His firm's strength lies in its unique custom approach to each client's circumstances and its commitment to resolve challenges to client success.

Emil has over 14 years of industry experience. Before founding EVIV Group in 2012, he worked as a Performance and GIPS Specialist at Sionna Investment Managers. Emil has a Master's Degree in Economics & Management, has also earned a Certificate in Investment Performance Measurement (CIPM) from the CFA Institute and the Chartered Investment Manager (CIM) designation from the Canadian Securities Institute.

1. What would you tell new members about the CIPC?

As a member, you have to keep an open mind and not be afraid to ask questions and to express your opinion. CIPC is a unique group of like-minded individuals who came together to share experience and to learn collectively. Our group's understanding of best practices today leads to the evolution of the GIPS standards and the future of the investment industry globally.

2. Why are you passionate about the GIPS standards/ What aspects of the GIPS standards are you most passionate about?

I've been on both sides of the table, first as the performance analyst working on adoption of GIPS standards for my then employer, and later as a verifier, guiding other firms on how to adopt GIPS standards. My goal is to help others to understand that GIPS Standards represent a set of principles, but are often mistaken for a set of additional requirements to their already heavy compliance burden.

News

Canadian Advocacy Council Leadership Election Results

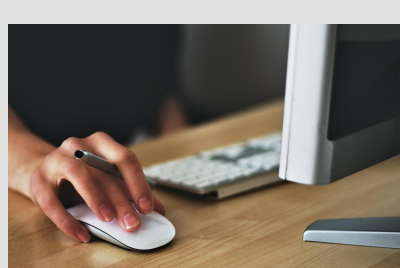
We are pleased to announce the results of the CAC leadership elections for the 2022-2023 year, effective July 1st.

Chair: **Barbara Bauer, CFA** (CFA Society Calgary)

1st Vice Chair: **Kevin Dickinson, CFA** (CFA Society Toronto)

2nd Vice Chair: **Doug Sarro, CFA** (CFA Society Toronto)

Please join us in congratulating them! We look forward to their leadership this year.



CFA Institute GIPS Compliance

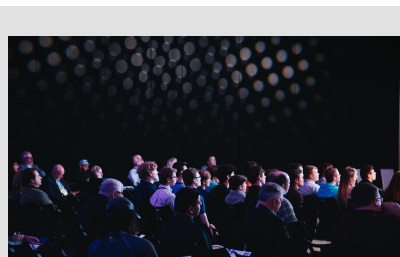
The CFA Institute Annual GIPS Compliance Notification Form deadline is June 30th. Organizations that claim compliance with the GIPS standards are required to notify CFA Institute annually of their claim of compliance by submitting a GIPS Compliance Notification Form.

[Update Form](#)

CFA Institute My Charter Story Podcast

The CFA Institute My Charter Story podcast aims to uncover the inspirational stories that led people across the globe down the path to CFA charterholder.

The sixth episode with **Atilla Köksal, CFA** is now available wherever you listen to podcasts.

[Listen Here](#)

26th Annual GIPS® Standards Conference

Register for the upcoming 26th Annual GIPS® Standards Conference, taking place in Boston, Massachusetts, United States, 25-26 October, 2022.

Early bird registration ends September 23rd, 2022.

[Register Here](#)

CFA Institute Asset Manager Code Notification of Compliance

The CFA Institute Asset Manager Code notification of compliance deadline is June 30th. Complete and submit the Asset Manager Code Compliance Notification Form before claiming compliance for the first time. Organizations must submit a notification form on an annual basis by June 30 of each year, with information as of the most recent December 31.

[Notification Form](#)

Proxy Voting Reminder

Proxy voting for CFA Institute's 2022 Annual General Meeting is open! This year's AGM will take place on July 14th, with proxy voting closing on July 13th. Make your voice heard and submit your proxy through the link below.

[Submit Proxy Here](#)

Andrew J. Kriegler appointed CEO of new SRO

CFA Societies Canada congratulates **Andrew J. Kriegler** on his appointment as Chief Executive Officer of the new self-regulatory organization (SRO) once it is formed. Click the link below to read the news release.

[Read More](#)

The Canadian Advocacy Council, on behalf of CFA Societies Canada, advances investor protection, industry professionalism, market integrity and transparency to the benefit of society.

[Follow us on LinkedIn!](#)

Next CAC Meeting Scheduled: Tuesday, July 12, 2022

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CFA Societies Canada Inc.
120 Adelaide Street West, Suite 2205, Toronto, ON M5H 1T1
T 416.366.3658

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