



# IIROC Strategic Plan

2010 - 2012

# **IIROC 2010 – 2012 Strategic Plan**

## **January 2011**

### **IIROC Mandate**

We set and enforce high quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.

### **IIROC Vision**

We will be known for our integrity, our transparency and our fair and balanced solutions. We aim for excellence and regulatory best practices. Our actions are driven by sound deliberation, analysis and consultation.

### **IIROC Values**

- *Act with Integrity* – We conduct ourselves in an ethical manner in accordance with the highest degree of fairness and professionalism.
- *Be Accountable* – We act in a timely, diligent and responsive manner.
- *Be Proactive* – We are open to new ideas as we anticipate and collaborate to meet the challenges of a constantly changing environment.

## **Challenges**

Our stakeholders are our dealer and marketplace members, investors, our employees and other regulators. In addressing the challenges described below and fulfilling our mandate, we must be aware of and balance the interests of each of our stakeholder groups while acting with integrity, transparency and fairness. By successfully meeting these challenges through the pursuit of strategies designed to achieve our goals, we will demonstrate our value to our stakeholders and promote the fairness, efficiency and integrity of Canada's capital markets.

### ***1. Industry Compliance***

If the industry and markets we oversee operate in accordance with high standards of fairness and integrity, the confidence of investors and other market participants is enhanced. Accordingly, a strong culture of compliance and the highest standards of integrity benefit investors, the industry and the capital markets overall.

We recognize that Canadian market structure is undergoing significant change and evolution. Our members and those subject to our jurisdiction must adjust to these changes and we need to encourage their continued focus on compliance.

In this environment, effective risk-management and monitoring, as well as robust internal controls, are more critical than ever. Our members must adopt and maintain policies and procedures designed to identify, evaluate, assess, document and control the full range of credit, market, operational, legal and reputational risks associated with their business model and activities.

We need to promote an effective partnership with our dealer and marketplace members and other industry representatives to ensure that we consult and engage them in regulatory initiatives in a timely and meaningful way. This will help to ensure balanced, practical regulation while simultaneously promoting a compliance focus within the industry.

Because our members have diverse business models, structures and risk profiles, we must adopt flexible, risk-based and diverse regulatory approaches to reflect the nature of the industry and the markets we oversee.

Effective principles-based regulation and effective oversight of registrants and market participants requires a strong and continual emphasis on promoting a culture of compliance among regulated entities.

## **2. The Quality of IIROC Regulation**

We must maintain a continual focus on the quality and relevance of our regulation in order to deliver effective, efficient and expert regulation. Our actions should demonstrate the value of self-regulation in developing and enforcing high quality industry and regulatory standards that enhance investor protection, fair markets and integrity.

We must bring to bear all of the expertise within IIROC, ensuring that know-how through all levels of the organization is shared, and that we effectively mine the available information and intelligence. We must also focus on developing the specialized knowledge and expertise necessary to respond to new issues and refine our approach to ongoing issues.

We must encourage proactive approaches to emerging issues by ensuring that our internal processes, practices and staff training promote staff judgement and critical thought, within an appropriate accountability framework.

Higher volumes, faster trading, new strategies and products, more complex technologies and greater volatility are challenging regulators, investors and industry participants alike. The advent of algorithmic trading programs and high frequency trading has caused a dramatic increase in the volume of daily messages along with a sharp increase in order-to-trade ratios. These increases have challenged our resources. We must ensure that we have up-to-date and robust surveillance technology to monitor trading across multiple marketplaces.

We need to be aware of domestic and international developments that impact the markets and the industry we regulate. Coordination with other regulators (domestic and foreign) will have an impact on our effectiveness in an increasingly global environment. We will continue to be an active participant in the Intermarket Surveillance Group, sharing regulatory information and coordinating and developing programs and procedures with other market regulators around the world to identify possible fraudulent and manipulative activities across markets. We will also continue to develop our relationship with FINRA and other North American regulators to promote a comprehensive view of cross-border market activity.

We must strive to develop policy and carry out our regulatory operations in an efficient manner while addressing the priorities and concerns of our recognizing regulators. We will continue to collaborate with CSA members on discussion papers, regulatory studies and other significant policy initiatives.

The securities regulatory agenda has never been more complex or broader in scope and potential impact, not just domestically, but on a global basis. We

must successfully balance made-in-Canada approaches and solutions to regulatory issues against maintaining broad consistency with global approaches. For example, differences in market structure between Canada and the U.S. require an ongoing assessment of the best regulatory approach for Canada with respect to matters such as circuit breakers, short sales regulation and dark pools.

### **3. Confidence in Financial Markets**

Canadians increasingly rely on investments, as opposed to traditional pension plans, to provide for their retirement and many place considerable reliance on their financial advisors to ensure adequate retirement income. At the same time, the participation of Canadian pension funds in the equity and fixed income markets we regulate means that almost every Canadian is a stakeholder in a well-run industry and in IIROC's regulatory effectiveness.

The increased sophistication of financial markets presents investors with enormous choice among increasingly complex financial instruments. New and complex product innovation has presented challenges for regulators, investors and the industry as a whole. We must assist Dealer Members in implementing the processes needed to meet our regulatory expectations regarding due diligence for new and complex products.

Our regulatory approaches must also reflect a greater focus within the dealer environment on wealth management and a related emphasis on advice-based advisor/client relationships. Faced with an increasingly complex marketplace and a vast array of advisors, products and services to choose from, investors require access to accurate information and sound, unbiased advice.

Demographic trends indicate that there are an increasing number of seniors who are in retirement or approaching retirement. Our regulatory approach and activities should reflect a greater focus on this group of investors, and the responsibility of Dealer Members in areas such as suitability and marketing when dealing with seniors.

The events of May 6 demonstrated that aberrant or volatile trading on one market can easily and very quickly spread to other markets. The reliability of markets under stress may affect market integrity and investor confidence. Regulators must therefore take a multi-faceted approach to addressing volatility and instability. This is only one of the challenges of regulating multiple marketplaces.

The rapid pace of structural change in capital markets has greatly increased the complexity of our task. We must actively monitor market structure

developments and market-related events to ensure that market integrity is maintained and investor protection is strengthened.

In the aftermath of the global credit crisis, policy makers and regulators have been considering how to address regulatory, oversight and risk management gaps that potentially expose markets and investors to systemic risk. These discussions have focussed principally on redefining the perimeters of regulation, including how to define and effectively oversee significant market sectors, activities and practices which have grown in scope and importance, and unregulated or under-regulated products.

We are focusing more of our resources on the Canadian fixed income market. Recent statistics indicate that this market is approximately four times larger than the equity market, and is no longer principally institutional in nature. We intend to collect trade related data from our member firms so that we can conduct more effective surveillance of Dealer Member conduct in the fixed income market. The increased focus on transparency in over-the-counter markets, including the fixed income market, should result in a robust dialogue in Canada as well.

Industry pillars have been dismantled in Canada for decades allowing firms to adopt integrated business models. The Canadian regulatory framework, however, continues to be structured along distinct functional lines. We therefore need to coordinate with other regulators to ensure that regulatory fragmentation does not reduce efficiency, increase costs or impair the delivery of effective consumer protection across the financial services industry. We must also contribute to the efforts by governments, central banks and other regulators to reduce systemic risk.

We need to be aware of the potential for migration of business from investment dealers to separate legal entities outside of our jurisdiction (for example, to exempt market dealers) to adversely affect our ability to monitor the business activities of these firms. We will work with other regulators to ensure that any migration of business does not give rise to regulatory gaps or result in reduced investor protection.

Different participants within the investment industry are subject to different standards depending upon the activities and services that they provide. Industry observers and participants have been engaged in an ongoing dialogue with respect to the application of a uniform standard across these platforms and whether such a standard should be a fiduciary one. We will continue to play a role in this dialogue. In the context of these discussions, we refined the Client Relationship Model proposals to clarify the duties and responsibilities that IIROC firms and representatives have when providing financial services by enhancing

current suitability requirements and clarifying and giving more definition to existing conflict management standards.

We must continue to develop and refine robust measures of our regulatory effectiveness. We must do our part to earn and maintain confidence in the fairness and integrity of the financial markets.

#### **4. Cost-Effectiveness**

Economic pressures impacting industry profitability, IIROC's not-for-profit status and the importance of being accountable for cost-effective operations drive the need for increased productivity within our organization. IIROC must continuously strive to manage costs through the strategic utilization of resources and effective planning and execution of priority initiatives.

To this end, we must meet the challenge of ensuring that our IT resources, particularly those devoted to market surveillance, keep pace with innovation by existing marketplaces, the introduction of new marketplaces and the rapid growth of trading activity. We must adopt a fee model that minimizes cross-subsidization and that ensures cost-recovery in a fair and transparent manner.

We must discharge our responsibilities in a cost-effective manner. In addition, we need to work effectively with other regulators and agencies to avoid unnecessary duplication of effort, reduce the overall costs of regulation and avoid regulatory fragmentation and gaps.

#### **5. IIROC as an Employer**

IIROC's greatest strength is our skilled, professional and engaged staff. We can build on this strength by ensuring that effective internal processes and training discourage "check the box" approaches and promote independent thought, judgement and creativity amongst our staff. We must develop and maintain a confident, well-trained staff with deep and broad knowledge about our members, the markets we oversee and the industry we regulate.

Our goal is to be and be seen as a flexible and dynamic organization. We will provide our employees with competitive compensation and a healthy motivating environment to help us attract and retain staff and keep turnover at desirable levels. We must engage in talent management planning to recognize and develop internal resources and help prepare them for promotional and leadership opportunities as they arise.

## **IIROC Goals and Strategies**

### ***Goal #1: Drive a culture of compliance among those subject to IIROC's jurisdiction.***

To accomplish this goal, we will:

- work in partnership with our members to promote compliance with high industry standards
- provide timely, clear and concise information and guidance to enhance industry compliance through, for example, the issuance of clear and timely guidance notes on key and emerging issues and annual reports on key audit findings that identify those areas that will be the focus of IIROC's regulatory attention
- provide timely and relevant industry education programs
- consult with regulated entities to promote their understanding of and input into regulatory initiatives
- encourage firms to lower the risks that their activities present
- provide compliance examination findings and recommendations to each Dealer Member that are timely, clear and informative and that identify the material regulatory risks for that Dealer Member
- undertake periodic industry-wide compliance audits to assist IIROC and members to understand industry-wide compliance issues

We have undertaken or will undertake the following projects:

- reorganize and reformat our rules in plain language to enhance comprehension, accessibility and compliance and achieve a better balance between principles and prescriptive rules
- provide guidance to Dealer Members to ensure that outsourcing relationships comply with existing obligations and reflect prudent risk management practices

### ***Goal #2: Deliver effective, efficient and expert regulation.***

To accomplish this goal, we will:

- take a risk-based approach to regulation
- strike a balance between prescriptive requirements and a more principles-based approach
- undertake comprehensive consultation in connection with regulatory initiatives to obtain the views of the industry and other stakeholders
- ensure that information is shared appropriately between the departments within IIROC to encourage a collaborative and effective working environment
- continually evaluate the effectiveness of our regulatory approaches
- use the best regulatory tools to address relevant regulatory concerns



- deliver our regulatory programs in a timely fashion
- work with other regulators and agencies to ensure effective regulation
- use research, risk analysis and knowledge management to help us to identify important trends and emerging issues, and develop and expand staff expertise and operational capability to respond to such emerging issues
- ensure that trading rules and market supervision keep pace with market structure developments
- review and refine our regulatory approaches in light of the trend towards wealth management and fee-based client relationship models

We have undertaken or will undertake the following projects:

- complete the implementation and evaluation of a risk-based methodology for Registration
- restructure, update and streamline our compliance examination modules
- implement a new approach to tracking and testing for suitability issues
- monitor Dealer Members' implementation of International Financial Reporting Standards
- enhance the efficiency and effectiveness of our enforcement activities through appropriate integration of the investigation and litigation functions
- enhance our ability to analyze relevant data and information in order to identify emerging enforcement issues and trends
- undertake a holistic review of strategy and portfolio-based margin methodologies in order to inform future policy projects in this area

***Goal #3: Strengthen confidence in the fairness and integrity of Canadian financial markets.***

To accomplish this goal, we will:

- explore more opportunities to consult directly with investors to reflect and address investors' concerns through regulatory activity and priority-setting
- take action to address unfair, fraudulent, misleading and/or abusive practices
- monitor markets to promote fair and orderly trading activity
- ensure that our enforcement program delivers fair, timely and effective results with a focus on improving enforcement timelines and pursuing high-impact cases
- identify regulatory gaps and address situations where there is a potential for regulatory arbitrage between IIROC and other regulators, including by coordinating compliance, registration, policy and enforcement activities with other regulators and agencies as appropriate
- help address gaps in investor education relating to matters within our mandate

- ensure our proficiency standards continue to evolve to meet business needs and regulatory objectives
- enhance our oversight of Dealer Members' activities in the fixed income market

We have undertaken or will undertake the following projects:

- strengthen our complaint intake and resolution process
- implement the client relationship model in order to clarify roles and relationships in order to strengthen the client/advisor relationship, and improve transparency concerning fees, conflicts and account performance
- develop a plan for effective surveillance and oversight of Dealer Members' trading activity and sales practices in the fixed income market
- finalize the fair pricing rule for over-the-counter securities, including debt securities
- focus on issues relating to senior investors, by revising our compliance modules to focus on suitability issues as they specifically relate to senior investors, conducting a survey regarding the use and supervision of titles used by representatives of Dealer Members that connote a specific "seniors" focus, and prioritizing enforcement cases involving senior investors
- review, update and refine our enforcement case selection criteria to enhance our ability to identify cases involving significant harm to individuals and/or market integrity
- assess the scope of electronic and high frequency trading that is occurring on Canadian marketplaces
- implement the recommendations of the report on the events of May 6
- work with the CSA on market structure issues, including dark pools, dark orders, order routing, broker preferencing and direct market access
- work with CSI to continue to strengthen proficiency standards for the industry, including by responding to the feedback received in response to our industry survey
- redesign and rebuild the IROC website to enhance ease of access and use by investors, regulated firms and other stakeholders

**Goal #4: Be a cost-effective organization.**

To accomplish this goal, we will:

- continue to integrate the business processes of the predecessor organizations
- leverage information technology to increase productivity and streamline processes
- develop accurate and timely management information

We have undertaken or will undertake the following projects:

- implement new Dealer and Marketplace Member fee models
- complete the implementation of STEP, a multi-market trading surveillance system
- rationalize our IT data centres
- replace our existing central repository of business information with a more robust and easier to maintain third party application
- consolidate Toronto based staff into a single office location

***Goal #5: Be an accountable, fair and flexible organization.***

To accomplish this goal, we will:

- be an employer of choice, able to attract, develop and lead skilled and engaged staff
- continue to evaluate skill and competency requirements for roles in IIROC
- provide relevant and timely training and development
- continue to provide a rewarding work environment that is competitive with our industry peers
- adopt and implement an effective talent management strategy
- evaluate other means of attracting the necessary expertise to achieve our goals

We have undertaken or will undertake the following projects:

- respond to the results of our employee survey
- review and refine existing benchmarks and key performance indicators
- provide cost-effective job specific and management training programs
- conduct a member survey

## **Our Regulatory Philosophy**

The specific regulatory projects that we undertake to fulfill our goals and execute our strategies will reflect the following regulatory philosophy.

Prior to regulatory intervention, it is important to assess the nature of a perceived problem and the various options available to deal with it. There will be circumstances where regulatory tools other than rules will address the conduct in question more effectively.

Our rules should not reflect a “one-size-fits-all” approach. For example, where appropriate, our rules distinguish between large and small firms, institutional and retail investors, and trading as principal or agent.

We believe that the move towards a more principles-based approach to regulation is desirable. The balance between principles and prescriptive requirements in any particular policy formulation will inevitably depend upon the problem sought to be addressed.

Rules should clearly state principles or desired outcomes so that regulatory expectations are clear to market participants. In order to achieve certain outcomes or regulatory objectives, mandatory or minimum requirements may need to be established. To the extent possible, regulation should allow sufficient flexibility for market participants to assume responsibility for determining how best to comply with clearly stated expectations to achieve the desired outcome in their particular circumstances. Rules should be supported by regulatory guidance notices and education sessions to promote compliance, communicate and share best practices and monitor the impact of regulatory initiatives in actual practice.

We will continue to apply a risk-based approach to dealer and market regulation in order to efficiently allocate internal resources to the most important and highest-risk matters.

## Investment Industry Regulatory Organization of Canada

### Website

[www.iiroc.ca](http://www.iiroc.ca)

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