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MFDA Bulletin

For Distribution to Relevant Parties within your Firm

SRO Framework Review – Designing an SRO for the Future

In the past two weeks, two significant public consultations have been commenced that are highly relevant to MFDA member firms and the future SRO structure in Canada. These are described below.

1. CSA Consultation

On June 25, 2020, the Canadian Securities Administrators (CSA) published a consultation paper ([CSA Consultation Paper 25-404 - Consultation on the Self-Regulatory Organization Framework](#)) seeking input from all industry representatives and stakeholders, investor advocates, and the public on the current SRO framework. The CSA is asking for general feedback on how innovation and the evolution of the financial services industry has impacted the current regulatory framework, as well as specific comments on the issues and targeted outcomes set out in the CSA Consultation Paper.

The key issues that CSA is focusing on in its consultation are:

1. Duplicative operating costs for dual platform dealers
2. Product-based regulation
3. Regulatory inefficiencies
4. Structural inflexibility
5. Investor confusion
6. Public confidence in the regulatory framework
7. Separation of market surveillance from statutory regulators

Targeted regulatory outcomes that CSA is seeking input on include a regulatory framework that:

- minimizes redundancies;
- minimizes opportunities for regulatory arbitrage and ensures consistent development and application of rules;
- provides consistent access, where appropriate, to similar products and services;
- accommodates innovation and adapts while protecting investors;
- is easily understood by investors and provides investor protection;
- promotes a clear, transparent public interest mandate, with an effective governance structure and robust enforcement and compliance processes; and
- fosters timely, efficient access to market data and effective market surveillance, to ensure appropriate policy development, and management of systemic risk.

The CSA consultation comment period will end on **October 23, 2020**.

2. Ontario Capital Markets Modernization Taskforce Report

On July 9, 2020, Ontario's Capital Markets Modernization Taskforce issued [a consultation report](#) (the Consultation Report), which outlines 47 policy proposals to modernize the province's capital markets.

The Consultation Report sets out specific proposals for improving the current SRO framework in Canada (*Part 2.1 – sections 3 and 4*) and these include:

- enhancing the current oversight framework for SROs through new recognition orders;
- enhancing the current governance framework for SROs;
- moving to a new single SRO that covers all firms distributing products and providing advice to investors (i.e. mutual fund dealers, investment dealers, portfolio managers, exempt market dealers, scholarship plan dealers);
- a two-phased implementation approach with,
 - in the immediate term, the creation of a new single SRO with the enhanced oversight and governance framework that regulates investment dealers and mutual fund dealers, and
 - in the longer term (within 12-18 months), the transfer of regulation (including registration) of all other firms distributing products and providing advice to investors (i.e. exempt market dealers, portfolio managers and scholarship plan dealers) from the OSC to the new SRO.

Written submissions are invited on the proposals and questions in the Consultation Report. Submissions must be received on or prior to **September 7, 2020**.

MFDA Special Report and Next Steps

As part of MFDA's ongoing strategic planning, and with the goal of assisting the CSA, the Ontario Taskforce and all relevant stakeholders in the development of the ideal SRO model for Canada, the MFDA published a "[Special Report on Securities Industry Self-Regulation: A Proposal for a Modern SRO](#)" in February 2020. The MFDA Special Report outlines the path toward a new single public interest SRO which is purpose built for the future and which addresses the needs of the industry while also benefiting investors and the Canadian public at large.

Many of the recommendations in the MFDA Special Report, such as the creation of a new single public interest SRO with enhanced governance and oversight that regulates all firms that distribute products and provide advice to investors, are aligned with the Ontario Taskforce proposals and CSA targeted outcomes described above. Going forward, the MFDA will continue to work with the CSA, the Ontario Taskforce and all relevant stakeholders, with a view to developing a new single modern and forward-looking SRO framework for Canada that benefits all stakeholders and is guided by our public interest mandate.

We encourage all Members and other stakeholders to participate in these important consultations.

If Members or stakeholders have any comments or questions, please contact Ian Strulovitch at 416-943-7425 or istrulovitch@mfd.ca.