



A Path Towards a Modern SRO

Over the past several years, the financial services sector in Canada has been reshaped in response to a dynamic and rapidly evolving external environment. New technologies, business models and players have driven transformation and innovation in the marketplace like never before. Simply put, the world around us has changed.

This new world requires fresh perspectives and constructive inputs on the best way forward for the regulatory framework of Canada's investment sector. There is broad agreement that the current multi-regulatory model is unnecessarily burdensome, costly, inefficient and susceptible to risk. While it remains unclear exactly what form future change might take, there is no doubt that a rethink of the existing structure is due. The recently announced SRO framework review by the CSA recognizes that such a review is in order.

This process demands a critical reconsideration of the role that SROs will play in whatever structure might emerge from this review. Stakeholders recognize the need for this reconsideration and that the solution is broader than a simple, status quo merger.

The Mutual Fund Dealers Association of Canada ("MFDA") is pleased to offer the following report: "A Proposal for a Modern SRO" for consideration. When we refer to a "modern SRO," we mean one which is suited to the changes of the past decade, which improves on the existing model and which is adaptable to the dynamic nature of securities regulation in Canada. We believe that a renewed SRO model provides an opportunity to improve the current system and ensure that Canada's investment sector is nimble, secure and competitive in the 21st century.

The model we have arrived at, which we have dubbed "NewCo," has its grounding in several key principles. Firstly, we believe a successful model is one which addresses concerns about the current SRO framework while maintaining the historically successful and beneficial attributes of SROs. Second, an effective, modern SRO is founded on the principle that "like conduct should be subject to like regulation." Third, NewCo achieves regulatory burden reduction without compromising investor protection. The final and paramount principle guiding the way forward is that the model is truly investor-focused and beneficial to all Canadians.

Guided by these principles, as well as a tacit understanding that any modern SRO framework must be adaptable to evolving changes in provincial and territorial securities legislation including the Capital Markets Regulatory Authority initiative, the NewCo model has been designed with four essential benefits in mind.

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1. Real change in the public interest

By designing a new SRO from the ground up, rather than simply patching together existing structures, there is an opportunity to pursue meaningful change which will create real and lasting benefit for Canadians.

Of course, action “in the public interest,” means different things to many different stakeholders — the job of any regulatory body is to balance these different interests. This is what NewCo is designed to do, through an investor-centric approach which ensures that Canadians who engage with similar products and services will have similar protections, regardless of their dealer’s registration category.

2. A scalable, flexible and forward-looking model

Given the practical reality of impending change in Canada’s securities regulation, the NewCo model is designed with the current and future needs of Canadian capital markets in mind. The model is also scalable, with mandate, membership and regulation activities open to modification by CSA statutory regulators as they see fit.

3. An empowered CSA and a renewed SRO

The NewCo model would provide the CSA with greater SRO oversight capacity, registrant and market conduct visibility and regulatory expertise. This arrangement will bolster public confidence in a renewed SRO and foster a stronger relationship between NewCo and the CSA.

4. Collaborative, rather than competitive reform

In order to overcome certain obstacles which have historically stood in the way of effective and comprehensive reform of Canada’s securities regulation, the MFDA has approached the design of NewCo as a highly collaborative process. Under the proposal outlined here, if implemented, the MFDA would no longer exist as a separate SRO, allowing for the establishment of an “ideal” SRO, based on meaningful cooperation with CSA members, SROs, industry and public stakeholders.

A long-term solution for Canada

Canada’s securities regulatory evolution has often been characterized by an ad hoc approach that has been reactive to situational developments, without the benefit of thorough policy analysis. We need to do better for Canada.

The MFDA special report represents a considered, balanced approach that has been prepared with this larger public interest objective in mind. Acting on behalf of all Canadians, we need to pursue the overarching goal of “getting it right”. As public interest regulators charged with navigating the future of Canadian securities regulation, we cannot compromise for the sake of expediency. There is simply too much to be gained from a successful outcome to risk missing such a significant opportunity.