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FAIR Focus: Client Focused Reforms and new SRO rules

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Canada's securities regulators and the self-regulatory organizations IIROC and MFDA are implementing reforms to the rules that govern the relationship between the industry and investors that take effect in June and December 2021. These new regulations are intended to better align the interests of clients and their investment advisors. Known as Client Focused Reforms, the regulations require that dealers and dealer representatives address conflicts of interest between themselves and clients in the best interest of clients. They also require that dealers and dealer representatives put the client's interest first to ensure investments are suitable for clients when a client purchases or sells a security or when they provide investment advice to a client. Many investors will be surprised to learn that these are new regulatory requirements and that their investment advisors have until now not been required to put their client's interest first. IIROC and the MFDA are in the process of amending their rules to conform to these new minimum standards established by the regulators. FAIR Canada encourages these SROs to consider how their rules could and should go beyond mere minimum standards. We strongly urge the SROs to look at the Client Focused Reforms from the perspective of the average investor's expectations of how they should be treated when dealing with an investment dealer, mutual fund dealer and their representatives.



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OSC Statement of Priorities

FAIR Canada responded to the OSC's [request for comments](#) regarding the OSC priorities to March 2022. We strongly support the driving principle that investor protection should always be the top priority of the OSC. Strong, effective investor protection promotes confidence in fair and efficient markets that supports economic growth and reduces the cost of capital necessary to grow businesses.

We encourage the OSC to guard against the desire by some to focus on regulatory costs as a key determinant in policymaking. Regulation is required because the interests of industry and investors do not naturally align. Such focus overlooks the numerous conflicts of interest at play and ignores the significant power and information imbalance between the industry and most retail investors. The real aim of modernization and burden reduction should not be on costs per se, but rather on optimizing effective regulation to achieve fair and efficient markets.

We renew our urging of the OSC to carry out efforts to minimize harm to investors, particularly retail investors, from the ongoing economic shocks caused by the COVID-19 pandemic.

We also urge the OSC to formulate and articulate specific actions to address concerns arising from the challenges to investors, particularly seniors who depend upon safe fixed income investments for retirement, that arise from current low interest rates.

Please see our comment [letter to the OSC](#) of December 16, 2020 for further details on our submissions on the OSC's strategic goals and priorities.

Prospectus Exemption for Self-Certified Investors

FAIR Canada responded to the [request for comments](#) by the Alberta Securities Commission and Financial and Consumer Affairs Authority of Saskatchewan on the proposed prospectus exemption in Alberta and Saskatchewan to permit businesses to sell securities to investors without a prospectus

if the investor signs a self-certification regarding their education or experience and an acknowledgement of risks.

The proposed exemption is intended to facilitate capital raising efforts by businesses in those provinces. FAIR Canada raised the following concerns:

The proposed exemption does not require a concurrent distribution under the Accredited Investor exemption. Therefore, a business could sell securities to investors under the self-certification exemption without having to provide any information about the securities.

In addition, the self-certification exemption should be limited to reporting issuers. Otherwise, investors could be sold securities by a business that provides no information to investors about the business operations or its financial condition.

While the self-certification exemption as proposed limits its use to investors with certain education and financial or investment experience, we question the appropriateness of the proposed education or experience requirements. We suggest that the exemption should be limited to investors who are certified financial planners, or those who are licensed to work in the industry as dealer or adviser representatives. The criteria should be more closely aligned to actual investment experience.

We also expressed surprise that part of the rationale for justifying this exemption is based on the ability of an investor to withstand the loss of their entire investment. While the proposal caps the total amount of investments in a 12-month period that could be made relying on the self-certification exemption, it does not include any other factor to suggest why losing the total amount of the investments would be bearable for this class of investor.

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FAIR Canada calls on all Canadians who value investor protections, shareholders rights, fairness and integrity of the capital markets to express their support for FAIR Canada and its mission, to show your support by subscribing to this newsletter and to help us reach more Canadians by asking your friends and colleagues to [subscribe](#).

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