

ALBERTA SECURITIES COMMISSION

APPROVAL ORDER

Citation: Re IIROC/OCRCVM, 2022 ABASC 143

Date: 20221027

Investment Industry Regulatory Organization of Canada/L'Organisme Canadien de Réglementation du Commerce des Valeurs Mobilières

Background

1. Section 64(1) of the *Securities Act* (Alberta) (the **Act**) provides the Alberta Securities Commission (**Commission**) with the power to recognize, on application, a self-regulatory organization if the Commission is satisfied that to do so would be in the public interest.
2. The Commission recognized the Investment Industry Regulatory Organization of Canada/L'Organisme canadien de réglementation du commerce des valeurs mobilières (OCRCVM) (**IIROC**) as a self-regulatory organization pursuant to a Commission order cited as *Re Investment Industry Regulatory Organization of Canada*, 2008 ABASC 301, as varied pursuant to Commission orders cited as *Re Investment Industry Regulatory Organization of Canada*, 2010 ABASC 290, 2018 ABASC 54 and 2021 ABASC 31 (collectively, the **IIROC Recognition Order**).
3. On August 3, 2021, the Canadian Securities Administrators (the **CSA**) published the [CSA Position Paper 25-404 New Self-Regulatory Organization Framework](#) (the **CSA Position Paper**) describing the plan to establish a new single enhanced self-regulatory organization that will consolidate the functions of IIROC and the Mutual Fund Dealers Association of Canada (**MFDA**); and the MFDA and IIROC commenced the process of amalgamation to create a new single self-regulatory organization (**New SRO**).
4. On August 10, 2022, the Commission received a request from IIROC (**Application**) seeking to use unallocated monies from the IIROC Restricted Fund, as defined in Schedule 1, to pay for external advisor costs incurred by IIROC related to the creation of the New SRO (the **New SRO Integration Costs** described in Appendix A of Schedule 1 of this **Order**) in accordance with subparagraph 8(a)(iv) of Appendix A of the IIROC Recognition Order¹.

¹ Section 8 of Appendix A - Terms and Conditions of the Recognition Order states that "All fines collected by IIROC and all payments made under settlement agreements entered into with the IIROC may be used only as follows:

- (a) as approved by the Board's corporate governance committee,,
 - (i) for the development of systems or other expenditures that are necessary to address emerging regulatory issues and are directly related to protecting investors or the integrity of the capital markets, provided that any such use does not constitute normal course operating expenses;
 - (ii) for education or research projects that are directly relevant to the investment industry, are in the public interest, and which benefit the public or the capital markets;
 - (iii) to contribute to non-profit, tax-exempt organization, the purposes of which include protection of investors, or those described in paragraph (a)(ii);
 - (iv) for such other purposes as may be subsequently approved by the Commission; or
- (b) for reasonable costs associated with the administration of the IIROC's hearing panels.

5. IIROC has submitted that:
 - (a) It has incurred, and continues to incur, the New SRO Integration Costs for the following services:
 - (i) legal and regulatory advisors to advise on all aspects of the integration of IIROC into the New SRO;
 - (ii) consultants to advise on the integration of IIROC into the New SRO, including advice related to corporate structure, organizational design and change management;
 - (iii) consultants to conduct an executive search for the CEO and members of the board of directors for the New SRO;
 - (iv) accounting support to produce pro forma financial statements for the New SRO; and
 - (v) compensation and benefits structure alignment advisors;
 - (b) The New SRO Integration Costs directly arise from the creation of the New SRO, mandated by the CSA;
 - (c) As the CSA Position Paper describes the creation of the New SRO as an initiative with a clear public interest mandate which will enhance investor protection, IIROC is of the view that disbursements from the IIROC Restricted Fund to cover such costs would be appropriate and consistent with the underlying intent in section 8 of Appendix A of the IIROC Recognition Order that fine and settlement monies be used for public interest and investor protection purposes; and
 - (d) The use of the funds from the IIROC Restricted Fund towards the New SRO Integration Costs will not impact the availability of the funds for other expenses contemplated by subparagraphs 8(a)(i) to (iii) and paragraph 8(b) of Appendix A of the IIROC Recognition Order.
6. The CSA staff created a dedicated working group (the **CSA Working Group**) that conducted a thorough review of the Application and the above submissions.
7. The CSA Working Group recommends that IIROC be permitted to access, on a limited basis, funds for costs up to \$4.29 million, as described in Appendix A of Schedule 1, for the following reasons:
 - (a) The IIROC Restricted Fund is restricted to expenses that are not considered operating in nature. Any costs directly associated with IIROC integrating into the New SRO are not ordinary operating costs;

- (b) According to the CSA Position Paper, creation of the New SRO will contribute to the regulatory framework that has a clear public interest mandate which will enhance investor protection. The underlying intent of section 8 of Appendix A of the IIROC Recognition Order is that fine and settlement monies be used for public interest and investor protection purposes. As such, the specified use of the IIROC Restricted Fund for the payment of external advisory costs associated with the formation of the New SRO is consistent with the intent of the IIROC Recognition Order; and
- (c) Use of the IIROC Restricted Fund will be limited to the New SRO Integration Costs, which can only be accessed in accordance with the specific terms and conditions set out in Schedule 1 of this Order.

8. The Commission has approved a similar request from the MFDA.

Order

9. Pursuant to section 64(6) of the Act, the Commission has determined that it is in the public interest to approve, under subparagraph 8(a)(iv) of Appendix A of the IIROC Recognition Order, IIROC's limited access to the IIROC Restricted Fund to pay for the New SRO Integration Costs set out in Appendix A of Schedule 1 of this Order, provided that IIROC complies with the terms and conditions contained in Schedule 1 of this Order.

This Order was executed on October 6, 2022 and takes effect on October 27, 2022.

For the Commission:

“original signed by”
Tom Cotter
Vice-Chair

“original signed by”
Kari Horn
Vice-Chair

SCHEDULE 1

The Investment Industry Regulatory Organization of Canada Restricted Fund Application: Terms and Conditions

Definition

1. In this Schedule:

"**New SRO Integration Costs**" means external advisory costs related to the implementation of a new self-regulatory organization described in Appendix A.

"**Restricted Fund**" means the funds resulting from all fines collected by IIROC and all payments made under settlement agreements entered into with IIROC.

Quarterly Reporting

2. IIROC must file with the Commission, by delivering to the members of the CSA Oversight Committee, within 30 days after the end of each quarter, starting with the quarter ending September 30, 2022, a report that includes the following information and documents:
 - (a) a summary of New SRO Integration Costs incurred during the previous calendar quarter or, in case of the initial filing, a summary of all New SRO Integration Costs incurred prior to September 30, 2022; and
 - (b) a summary of the New SRO Integration Costs that IIROC reasonably expects to incur during the next calendar quarter (the "**Quarterly Reports**").

Certification

3. The Quarterly Reports shall include a certification by the IIROC Chief Financial Officer, President and the Chair of the Finance, Audit and Risk Committee that:
 - (a) the expenses incurred during the relevant period are not operational in nature and only relate to the New SRO Integration Costs as set out in Appendix A; and
 - (b) after paying the New SRO Integration Costs, sufficient funds remain in IIROC's restricted fund for other expenses contemplated by subparagraphs 8(a)(i) to (iii) and paragraph 8(b) of Appendix A to IIROC's Recognition Order.

Other Conditions

4. IIROC must make an additional application under subparagraph 8(a)(iv) of Appendix A to the IIROC Recognition Order and obtain additional prior approval by the Commission if it will use the Restricted Fund:
 - (a) to pay for any New SRO Integration Cost that exceeds the amounts set out in Appendix A under the Approved IIROC Expenditures; and
 - (b) to pay any cost that is not a New SRO Integration Cost described in Appendix A.

5. IIROC shall not use the Restricted Fund for any New SRO Integration Costs incurred after December 31, 2022

Appendix A
New SRO Integration Costs¹

Nature of Costs	Advisory Mandate	Projected Total Costs²	Approved IROC Expenditures
Legal Fees	Integration Advisory	N/A	\$1.182M
Other External Consultants - Advisory Contract	Integration Management	\$5.525M - \$5.650M	\$2.593M
Executive Search - Fees & Support	New CEO and Board Search	\$966K - \$1.081M	\$483K
Finance - Accounting Support	Proforma Financial Statements	\$60K - \$68K	\$18K
Human Resources - Compensation and Benefits Structure Alignment	Compensation and Benefits Structure Alignment	\$434K - \$566K	\$14K
Total			\$4.290M

Notes:

1. K=1,000 M=1,000,000.
2. Range of projected third-party advisors and consultant costs.