IIAC ACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

# LETTER FROM THE PRESIDENT

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**HIGHLIGHTS:**

Recent reforms to the banking system and the regulatory framework have enabled security markets to work effectively during the crisis.

Government measures, including the timely and effective Bank of Canada interventions, have enabled the effective functioning of capital markets during the crisis.

Business and governments are now starting to think about the trajectory of recovery, which will be a slow and gradual resumption of business. Infrastructure investment and a strong resurgence in small and mid-sized enterprise are likely to be critical to economic growth and recovery.

## What's next for securities regulators?

The Canadian investment industry has managed through the unprecedented COVID-19 crisis. March was the most difficult month so far, as dealers coped with business disruptions in retail, investment banking and trading, caused by the sudden and steep collapse of debt and equity markets. At the same time, the industry took on the challenges to convert to remote-based operations for retail and institutional clients and to shift trading to various contingency locations to continue operations and keep capital markets open to facilitate capital-raising and trading activities. Being declared an essential service, the industry and the IIAC engaged with regulators to consult on interim adjustments to regulations and practices to accommodate the changed business environment. As financial markets rebounded from their nadir in late March, the challenges continued, but the volume of retail and corporate business picked up considerably as clients positioned to benefit from higher asset prices and the expectation of even higher prices.

While quarantines and business lockdowns continue, investors, business and governments are starting to think about the trajectory of recovery. The consensus is for a gradual resumption of business as the incidence of infection wanes and social distancing and lockdowns are lifted. Public pressure may intensify to open up the economy and put people back to work.

The International Organization of Securities Commissions (IOSCO) is coordinating with securities regulators across the globe to ensure the continued functioning of equity, credit and funding markets. The focus of securities regulators is on:

- the operational and financial resilience of market infrastructure,
- the operational capability of market users,
- the continued flow of information to these markets, and
- providing the appropriate regulatory flexibility to help market participants address the challenges posed by COVID-19 while ensuring that market integrity and investor protection principles are maintained.

IOSCO is also coordinating with other Standard Setting bodies (for example, the Basel Committee on Banking Supervision, and the Committee on Payments and Market Infrastructures) and the Financial Stability Board (FSB). Banking and securities regulators are also cooperating across jurisdictions to ensure adequate liquidity and funding.

As the crisis winds down, regulators will move quickly to the next steps to implement a ratcheting up in additional capital rules, notably the proposed Net Stable Funding Ratio (NSFR) aimed at creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis, and also additional rules for the wholesale trading operations of the banks, the Fundamental Review of the Trading Book (FRTB). It will be important for regulators to calibrate these additional rules to provide better stability without unduly constraining capital markets activity.

In this crisis, the Canadian banks and their dealer affiliates have demonstrated resilience and provided strong support to weakening and volatile credit markets, to manage high levels of federal and provincial government borrowing, and record financings in the corporate sector. The timely and effective Bank of Canada interventions through enhanced repo facilities to bridge and support financial institutions and business enabled the effective functioning of short-term and longer-term credit markets during the crisis.

On the securities regulatory front, reforms implemented in Canada in recent years to improve the disclosure of the investment process and advisor compensation, and new rules to require detailed knowledge of the investor and frequent scrutiny of investment suitability, thereby strengthening the client-advisor relationship, probably calmed retail markets and mitigated panic selling during the COVID-19 crisis. Quick investor response to get back into markets is evidence of advised and confident investors.

The Canadian Securities Administrators (CSA) announced in mid-April that the planned final stage of the Client Focused Reforms will be deferred—until June 30, 2021—to implement the conflicts of interest provisions. The relationship disclosure provisions of the Client Focused Reforms will now take effect on December 31, 2021 (instead of December 31, 2020), at the same time as all other remaining changes. There

is now one implementation date for all parts of the Relationship Disclosure Information Provisions, as requested by the IIAC. While the IIAC requested that these reforms take effect in June 2022, we appreciate the CSA has recognized the enormous and unprecedented challenges member firms are facing as a result of the pandemic and the priority to focus their resources to meet the current needs of clients.

In turn, the Investment Regulatory Organization of Canada (IIROC) will postpone its implementation dates for its Plain Language Rulebook to December 31, 2021 to coincide with the CSA announcement to extend implementation deadlines for the Client Focused Reforms due to the COVID-19 pandemic.

The CSA has advised that it will not publish any new proposals for comment at this time, and will consider whether additional relief for market participants is necessary.

On the public policy front, infrastructure investment will be critical to boost economic growth and enable a solid recovery from the pandemic. An important priority will be to strengthen the functioning and liquidity of the green and sustainable bond markets to attract issuers and investors to finance new sustainable projects in Canada. Transition bonds are particularly important for industries, especially the energy sector, that are not currently viewed as green. Clean transition bond guidelines have recently been drafted that align to the recommendations made by the federal governments appointed Expert Panel on Sustainable Finance. Further, tax incentives will be needed to encourage issuer and investor participation in sustainable investment. For example, one way to promote the development and issuance of transition bonds would be to alleviate high set-up costs that may act as a barrier to issuance by providing temporary fiscal incentives, for example reimbursing first-time issuers for a portion of the set-up costs for issuing a transition bond.

Ultimately, the economic recovery from the COVID crisis will depend on a strong resurgence in small and mid-sized enterprise. While the recent federal wage subsidy and loans have critically helped small business to manage and survive the COVID-19 crisis, the priority is to raise equity capital as the foundation for a growing business. Thus, the first step is to streamline securities regulations for listed issuers to reduce costs and delays from financing efforts and to relieve the cost of continuous disclosure obligations. The CSA has already put forward a range of measures. Further, some of the disclosure relief interim measures for the TSX, TSXV and CSE listed companies in the COVID crisis could be possibly modified and reverted to permanent rules. Finally, the recently formed Ontario Securities Modernization Task Force will likely review existing recommendations and bring forward ideas in the early summer to relieve the regulatory burden of small listed companies and private firms.

The second approach should be to consider a modest and targeted tax incentive to encourage investor participation in the purchase of new offerings of securities in private and public markets. The optimal timing will be the coming federal budget.

The third approach, as the small and mid-sized dealers are critical to the financing, distribution and trading of listed shares of small companies, the regulators should examine areas to mitigate the regulatory burden and costs for small dealers, especially the guidelines for rule compliance and new rules for small and specialized business models. Government and regulators should also examine mechanisms for access to external capital and possible changes to capital rules to increase the availability of capital for small dealers.

Yours sincerely,

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