Canadian ETF Association

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The Secretary
Ontario Securities Commission
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Email: comments@osc.go.on.ca

- and -

Me Philippe Lebel, Corporate Secretary and Executive Director, Legal Affairs
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Dear Sirs/Mesdames:

RE: CSA Consultation Paper 25-402 - Consultation on the Self-Regulatory Organization Framework (the Consultation SRO Framework)

On behalf of the Canadian Exchange-Traded Fund Association (the **CETFA**) we wanted to submit our comments on the Consultation SRO Framework.

Based in Toronto, Ontario, the CETFA is the only exchange-traded funds association in Canada, and the first of its kind in the world. The CETFA represents approximately 97% of the assets under management in Canada that are invested in exchange-traded funds (**ETFs**), with the mandate to support the growth, sustainability and integrity of Canada's ETF industry.

While the CETFA is not directly regulated by any self-regulatory organization (a **SRO**), the advisors who sell ETFs to the public are typically regulated by either the Investment Industry Regulatory Organization of Canada (the **IIROC**) or the Mutual Fund Dealers Association of Canada (the **MFDA**).

Accordingly, please find set out below our comments on each of the issues raised in the Consultation SRO Framework:

Issue 1: Duplicative Operating Costs for Dual Platform Dealers

As a number of our members have dual platforms (i.e., a member of the IIROC and a member of the MFDA), we believe that it will be beneficial to investors if duplicative costs of being both a member of the IIROC and the MFDA can be reduced and ideally eliminated. Specifically, this will include both operational, administrative and compliance savings by avoiding the need to comply with two different regulatory frameworks, which while similar, are different and involve the need for more capital, insurance and personnel, both from a client servicing capacity and from a compliance oversight perspective. As the IIROC already oversees representatives that only sell mutual funds, it appears that substantial cost savings can be achieved and potentially passed on to investors, including allowing affiliated dealers (i.e., an investment dealer and a mutual fund dealer) to offer investors a more seamless suite of investment products, including ETFs. We respectfully submit that this is what investors want, as initiatives like the Client Relationship Model have been aimed at making investors more aware of the costs they are incurring and the negative impact this can have on the performance of their investment portfolios.

Issue 2: Product-Based Regulation

As noted above, we do believe that regulatory arbitrage can be an issue as the IIROC and the MFDA do not regulate products in exactly the same manner. For example, an advisor at an investment dealer will have no issues selling an ETF which has been approved by his or her dealer. However, an advisor at a mutual fund dealer who wants to sell ETFs to his or her clients as a low cost option, may face significant obstacles in terms of being able to do this, unless his or her dealer has an affiliated investment dealer, which can increase investor costs and reduce investor options. From an investor perspective, if an investor wants to buy an ETF there should be no difference in terms of how the investor buys an ETF from an investment dealer or a mutual fund dealer. How the ETF is purchased by the dealer for the investor may be different in terms of what has to be done from an operational perspective, but the investor experience should be the same, and ideally the cost of buying the ETF should be generally the same in each instance. As this is currently not easy to accomplish, it does create opportunities for regulatory arbitrage, and cost and operational inefficiencies. Regulatory standards should be consistent and product-agnostic in order to protect investors and ensure efficient capital markets.

Issue 3: Regulatory Inefficiencies

As noted above and in the Consultation SRO Framework, mutual fund dealers have had issues selling ETFs to their clients, unless they have an affiliated investment dealer. We believe that combining the IIROC and the MFDA may help alleviate some of these issues and create a more robust platform that will allow more mutual fund dealers to sell ETFs in the future.

In addition, the manner in which the IIROC and the MFDA deal with ETFs is not entirely the same, as they have different proficiency requirements when dealing with ETFs, and different ways of managing product risk, which can in certain instances lead to investor confusion. In addition, the sales practices rules of the IIROC and the MFDA are slightly different, which means investors end up having different experiences depending on what type of advisor they are dealing with when they want to buy an ETF. A dual platform dealer also has to deal with the added compliance cost of dealing with two different regulatory frameworks. This results in increased costs, confusion for investors, regulatory arbitrage and an unlevel playing field between investment dealers and mutual fund dealers.

We respectfully submit that there will be significant advantages if both types of dealers can be regulated by the same SRO. A single SRO might also be better able to respond to changes in the marketplace and to better respond in a more focused and consistent manner.

Issue 4: Structural Inflexibility

ETFs have grown significantly over the last 10 years as investors want to have access to more than mutual funds. This has also been evidenced by the number of mutual fund complexes that now offer

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ETFs as part of their product offerings. This switch by investors from regular mutual funds to ETFs is also demonstrated in the following chart from the Investor Economics ETF and Index Funds Report for Canada, for the second quarter of 2020.

Assets in Mutual Funds per $1 in ETFs*, by Asset Class					
	Dec-09	Dec-13	16-Dec	Dec-19	Jun-20
All Asset Classes	22:1	16:1	11:1	8:1	7:1
Money Market	597:1	161:1	46:1	7:1	6:1
Fixed Income	22:1	13:1	11:1	8:1	7:1
Balanced	593:1	251:1	290:1	209:1	202:1
Equity	14:1	11:1	8:1	6:1	6:1
Equity income	42:1	15:1	9:1	6:1	6:1
Canadian equity	8:1	7:1	6:1	5:1	4:1
US equity	22:1	13:1	6:1	4:1	4:1
International equity	26:1	22:1	15:1	10:1	9:1
Real estate	161:1	109:1	60:1	28:1	18:1

*Excludes portfolios.
Sources: The Investment Funds Institute of Canada (IFIC), Investor Economics and Morningstar Canada.

Mutual fund dealers have not been able to keep up with this demand for ETFs by investors, unless they have an affiliated investment dealer. This has resulted in structural inefficiencies between mutual fund dealers and investment dealers, which will only become more problematic as the Canadian Securities Administrators' (the **CSA**) client focused reforms come into force next year. The robustness of the back office processing systems of investment dealers also gives them a strategic advantage when dealing with ETFs as they can more easily be integrated into a broader and more diversified investment portfolio for a client. The industry needs to be continually innovating if it's going to meet the evolving needs of investors, and that is why we respectfully submit having one SRO instead of two is the preferred solution.

Issue 5: Investor Confusion

Investor confusion is a concern and we have been advised by our members that clients do not always appreciate the differences between an investment dealer and a mutual fund dealer, the different types of products each dealer offers, the different regulatory regimes that each is subject to and this may impact how they make a complaint and seek restitution. As noted above, the CSA's client focused reforms are intended to put a client's interests first, which may be more difficult to achieve, depending on the circumstances, if the regulatory rules to implement this initiative are not the same at both the IIROC and the MFDA, and investors get different answers depending on which type of advisor they are talking to (i.e., one at an investment dealer and one at a mutual fund dealer). Although the product platforms may be different, ideally the rules should be the same, and the recourse available to investors when something goes wrong should be the same. Having one SRO instead of two should make this easier to achieve.

Issue 6: Public Confidence in the Regulatory Framework

For the reasons noted above, we believe that one SRO may better enhance public confidence in how investment dealers and mutual fund dealers are regulated. This may also help avoid investor confusion and help ensure that investors have the same type of experience at either type of dealer, despite the different scope of products being offered by each type of dealer. Having one SRO with one set of rules and one approach will benefit investors, will be simpler to administer, will be more cost efficient, will be easier to oversee from a compliance perspective and will better be able to regulate the Canadian marketplace. We respectfully submit that this will be beneficial to investors and will hopefully create a more harmonized manner in which regulatory reforms can be tackled and better protect investor interests in the future.

Issue 7: Separation of Market Surveillance

Although separating market surveillance from both the IIROC and the MFDA may have merit, we submit that it will be better to have one SRO instead of two, and that once that integration is completed, then the CSA and the SRO will be better able to determine each party's responsibilities in terms of how the markets are monitored, and how the CSA oversees the SRO. Then, if appropriate, the CSA can determine if additional investor governance initiatives need to be considered. Simplifying the current SRO framework will have real benefits and should be one of the initial initiatives the CSA considers in terms of improving Canada's regulatory oversight of investment dealers and mutual fund dealers.

General

Based on the foregoing, we respectfully submit that it will be beneficial to the public to merge the IIROC and the MFDA to reduce regulatory requirements, avoid duplication of efforts, reduce costs and most importantly, result in a better investor experience, both in terms of who they are dealing with, how that person is regulated and the cost savings they should be able to achieve which should lead to improved portfolio performance.

Thank you for giving us this opportunity to comment on the Consultation SRO Framework. If you have any questions about our response, please do not hesitate to contact us.

Yours truly,

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