

## **CAC Member Report to Local Board October 11, 2017**

The CAC met on the phone on October 10th, 2017.

**Since the September report, the CAC provided comments on the following consultations (all letters can be seen on the CAC website, [www.cfaadvocacy.ca](http://www.cfaadvocacy.ca))**

- CSA Notice and Request for Comment Relating to Designated Rating Organizations (filed October 4<sup>th</sup>, 2017)

### *About the proposal*

The proposal discusses changes to a number of national instruments relating to designated rating organizations (DROs). The proposal has two main focuses. The first, updates NI 25-101 to reflect changes in the IOSCO Code and to maintain European Union equivalency status.

- NI 25-101 was originally based off of the previous version of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. The proposal updates 25-101 to include subsequent changes since 2013 (mostly related to conflicts of interest and the independence of credit ratings).
- Maintaining Canada's status as an EU equivalent credit rating regime allows the credit ratings of Canadian DROs to be used for regulatory purposes in the EU.

The second focus addresses the application of Kroll as a new Canadian DRO. The CSA is recommending Kroll be designated a new Canadian DRO, but only for asset back securities (ABS) issuers. Kroll mainly operates in the United States where it is registered as a nationally recognized statistical rating organization. The CSA believes Kroll has sufficient expertise in rating ABS issuers and propose that a Kroll investment grade rating of "BBB" should be eligible for the short-form prospectus exemption (similar to Fitch, DBRS and S&P "BBB" ratings and "Baa" for Moody's).

The CSA is requesting feedback on Kroll's application for DRO status.

### *Overview of the Council's comments*

The council is supportive of Kroll's application to become a Canadian DRO. The Canadian market ought to benefit from a new entrant. Kroll's previous experience rating US ABS issuers will provide investors in Canada with an alternative credit perspective. Survey data collected by CFA Institute Americas cited increased transparency of issuer-paid credit ratings and competition amongst the rating agencies as two factors that would help reduce conflicts of interest and benefit the market.

**The CAC is actively working on a response to the following consultations:**

- AMF Managing Conflict of Interest Risk in Relation to Incentives (due October 15<sup>th</sup>, 2017)

### *About the proposal*

The paper is seeking input on the risks of arising from certain incentives paid to insurance firms, their representatives and other parties. The paper discusses the types of compensation structures used in the insurance industry and their varying potential for conflict of interest risk. The AMF assigns each compensation type a risk factor of high/medium/low. At the end of the paper, there are 17 questions requesting feedback.

**General affairs:**

The CAC was recently mentioned in Investment Executive - [Click here to read the article](#)

The CAC was recently mentioned in FinanceFeeds - [Click here to read the blog](#)

**Reminder:**

All letters can be seen on the CAC website, [www.cfaadvocacy.ca](http://www.cfaadvocacy.ca)

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