

June 25, 2025

Submitted via E-Mail

Attention:

Canadian Investment Regulatory Organization
2600-40 Temperance Street
Toronto, Ontario M5H 0B4
E-mail: memberpolicymailbox@ciro.ca

Dear Sirs/Mesdames:

RE: CIRO – RULE CONSOLIDATION PROJECT – PHASE 5

The Canadian Forum for Financial Markets – formerly the Investment Industry Association of Canada – writes in response to CIRO’s request for comments (the “**Request for Comments**”) on Phase 5 of CIRO’s Rule Consolidation Project (the proposed “**DC Rules**”).

OVERVIEW

We appreciate CIRO’s ongoing efforts in the Rule Consolidation Project and understand that this is a significant undertaking. As discussed below, our comments are primarily focused on the following:

- **Rule 2400 – Acceptable Back Office Service Arrangements:** Introducing/Carrying Broker arrangements (“**IB/CB Arrangements**”) have proven a pivotal role in allowing smaller dealers to compete amongst increasing consolidation and concentration of larger dealers. CIRO’s Rule Consolidation Project should be an opportunity to refresh these rules – which have changed relatively little since inception – to reflect today’s market realities and CIRO’s supporting role on matters within its jurisdiction. The categorization of IB/CB Arrangements by type could be streamlined to create general rules with more specified expectations left to dealers to negotiate in their own contractual terms based on their business models. Although we have provided some recommendations in this letter, this ruleset should be further and separately considered before finalization. CFFiM would be happy to participate in that process.
- **Rule 3700 – Reporting and Handling of Complaints:** As drafted, this ruleset includes rules that are intended to apply to *employees*, which are outside of CIRO’s jurisdiction, and includes overly broad and unnecessary reporting obligations that are not found in the *Investment Dealer and Partially Consolidated Rules* (“**IDPC Rules**”) or the *Mutual Fund Dealer Rules* (“**MFD Rules**”). In addition, this ruleset includes shorter deadlines and rules on internal complaint handling

processes, which do not support substantive, merit-based reviews, encourage the escalation of disputes, and raise jurisdictional concerns.

- **Investment Products:** As with Phase 4 of the Rule Consolidation Project, Phase 5 includes numerous references to “investment products” in place of the term “securities, derivatives, and precious metals bullion”. These and other references in the Proposed DC Rules are strongly opposed as being outside CIRO’s jurisdiction.
- **Financial Reporting:** Although proposed DC Form 1 may serve the goal of consolidating the investment dealer and mutual fund dealer reporting forms, Phase 5 of the Rule Consolidation Project is not a productive or practical forum to consider substantive improvements. DC Form 1 should be subject to a separate review and outreach process to seek practical feedback from those who are directly responsible for financial reporting to CIRO.

Blacklined copies of the proposed DC Rules incorporating our proposed revisions are included at Schedules, A, B, C, and D. Responses to the consultation questions are included at Schedule E.

RULE 2400 – ACCEPTABLE BACK OFFICE AND SERVICE ARRANGEMENTS

The categorization of IB/CB Arrangements into Types 1 to 4 and Type 5 for mutual fund dealers could be streamlined to create general rules for Dealer Members with contractual terms left to dealers to negotiate in IB/CB arrangements based on their business models. The additional restrictions on IB/CB Arrangements found in DC Rules 2404, 2405, 2406 and 2407 and elsewhere should be revisited. Also, the requirement in DC Rule 2409 could be simplified to require dealers to enter into a written agreement in a form acceptable to CIRO but without the need for CIRO approval in advance of the contract coming into effect.

In the interim, pending a more fulsome review of this ruleset, comments are provided on the following:

1. The proposed rules related to third-party arrangements that are not IB/CB Arrangements and are not related to securities; and
2. The proposed rules related to CIRO’s exemptive powers.

A blacklined copy of the DC Rules with proposed revisions to this ruleset is attached at **Schedule “A”**.

Rule 2401: Introduction

Proposed DC Rule 2401(1) originates from IDPC Rule 2401(1) and includes an introductory statement on the permissibility of entering into IB/CB Arrangements. CIRO proposes to amend IDPC Rule 2401(1) by adding the following text: “[...] Dealer Members may also enter into outsourcing arrangements for business functions, processes and other services that are not part of their securities and derivatives related business.”

CIRO does not have jurisdiction over third-party arrangements that are unrelated to securities, and, in any event, this statement is unnecessary. CIRO does not need to grant permission to Dealer Members to enter outsourcing arrangements that are not part of their securities and derivatives business. The above noted text should be removed from Rule 2401(1).

Rule 2402 and 2490: Acceptable Service Arrangements and Definitions

Proposed DC Rule 2402 introduces the concept of a “service arrangement” (“**Service Agreements**”) between a dealer and any another party (including a non-member) that is not related to securities. DC Rule 2490 goes on to impose certain restrictions on Service Arrangements. Although these rules are based on existing MFD Rule 1.1.3, they should not be included in the DC Rules.

CIRO does not have jurisdiction over these arrangements, and, in any event, it is unnecessary to restrict compensation arrangements between dealers and service providers that are not providing securities-related services to a dealer. For example, there is no reasonable basis for CIRO to require that payments for Service Agreements can only be made to the “person” performing the services and not an operating company. These rules should be deleted.

Rule 2408: Introducing/Carrying Broker Agreement Exemption

Proposed DC Rule 2408 requires several revisions:

- Proposed DC Rule 2408(1) states: “Where the Dealer Member provides a reasonable business case, the Corporation *may* grant the Dealer Member an exemption from one or more of the requirements in sections 2403 through 2407.” Rule 2408(2) goes on to state that CIRO *will* grant an exemption provided that doing so “would not prejudice the interests of the Dealer Member’s clients, the public or the Dealer Member.” This discrepancy creates uncertainty with respect to CIRO’s discretionary powers.
- In addition, whereas proposed DC Rule 2408(1) requires a dealer to demonstrate a “reasonable business case”, DC Rules 2406(1)(ii) and 2407(1)(ii) include more narrow exemptions that require a dealer to demonstrate a “business case”. It is not clear whether Rule 2408 is intended to create a new or different standard from Rules 2406(1)(ii) and 2407(1)(ii). The terms “business case” and “reasonable business case” are inconsistent and ambiguous. These terms should be replaced with “reasonable grounds” as an objective standard.
- Additionally, proposed DC Rule 2408 provides CIRO with the power to grant exemptions from the *requirements* in sections 2403 through 2407. As a technical matter, sections 2403 through 2407 refer to both positive *requirements* and negative *prohibitions* such as prohibitions against entering into certain types of IB/CB Arrangements.
- Finally, it is not CIRO’s role to second guess the business judgment of dealers with respect to their own “interests”, when determining whether the dealer has shown a reasonable grounds to enter an IB/CB Relationship. This language in Rule 2408(2) should be deleted from the DC Rules.

RULE 3700 – REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS

This ruleset of the proposed DC Rules includes unnecessary and concerning rule changes. The below comments on this ruleset center on the following issues:

1. The definitions of “serious misconduct” and “non-reportable complaint”;
2. The expansion of reporting obligations to “employees”;

3. The inclusion of overly broad and burdensome reporting obligations for Approved Persons and Dealer Members including privacy reporting;
4. The requirement to conduct internal investigations with compliance reviews;
5. The requirements that apply when responding to client complaints; and
6. The deadlines to complete internal complaint handling processes.

A blacklined copy of the DC Rules with proposed revisions to this ruleset is attached at **Schedule "B"**.

Rule 3710: Definitions

The stated purpose of adopting "complaint" and "serious misconduct" as defined terms is to clearly define the type of misconduct that must be reported. These definitions do not accomplish that goal:

- **Complaint:** The proposed definition for "complaint" is too broad and includes any expression of dissatisfaction from a client or a former client in respect of "a service or product by a Dealer Member". This definition captures service-related complaints that are outside CIRO's jurisdiction. This definition should be revised in the attached form.
- **Serious Misconduct:** The preamble and concluding paragraph of this definition are overly broad and redundant. These provisions require reporting on: (a) "any activity which creates a reasonable risk of material harm to a client, former client or the capital markets"; and/or (b) "any other instance of material non-compliance with Corporation requirements, securities laws or any applicable laws that are applicable to the Dealer Member related activities".

In addition, the non-exclusive list of activities that are included in this definition includes vague and undefined activities that are not included in the existing IDPC Rules or MFD Rules. For example, this list includes: (a) "excessive or improper trading", which is vague and redundant of "unauthorized trading" which is separately identified; (b) "engaging in Dealer Member related activities outside the Dealer Member", which is unnecessary and redundant of "engaging in activities outside the Dealer Member", which is separately identified; and (c) a "breach of client confidentiality", which is undefined and vague.

The primary recommendation would be to revert to the existing IDPC Rules. In the alternative, CIRO should adopt a revised definition in the attached form.

Rule 3710: Reporting by Approved Persons to Dealer Members

Proposed DC Rule 3710 requires significant revisions:

- The Request for Comments states that the proposed DC Rules are intended to expand reporting obligations to include all *employees* of Dealer Members. CIRO seeks to accomplish that goal through DC Rule 3710(2), which imposes obligations on Dealer Members to maintain policies that will ensure employee reporting.

CIRO does not have jurisdiction to impose reporting obligations directly on employees that are not Approved Persons. This proposed amendment is an attempt by CIRO to indirectly expand its jurisdiction over employees by imposing additional obligations on Dealer Members. This

proposal is improper and outside the proper bounds of CIRO's Rule Consultation Project. Further, CIRO has not provided any data or analysis to support the conclusion that requiring employees to report is necessary. All proposed references to employee reporting obligations should be removed from the DC Rules.

- DC Rule 3710(1)(iii) contemplates that Approved Persons will be required to report to Dealer Members when they are subject to a client complaint including a *non-reportable complaint*. The obligation to report "non-reportable complaints" is not logical. In our review of Phase 5, this is the only instance in which the term "non-reportable complaint" appears in proposed DC Rules. The definition for this term does not accomplish CIRO's stated goal of clarifying Dealer Member reporting obligations and should be deleted.
- In addition, Rule 3710(1)(v)(c) requires reporting when an Approved Person is subject to any "proceeding, disciplinary action or investigation alleging contravention of the requirements or policies of any regulatory organization or SRO, professional licensing, credentialing or registration body." This requirement should be limited to securities regulators.
- Finally, Rule 3710(1)(v)(g) requires reporting of any pending legal actions against the Approved Person, including a *civil claim or arbitration notice* alleging serious misconduct. This reference to civil claim or arbitration is redundant and should be revised.

Rule 3711: Reporting by a Dealer Member to the Corporation

Proposed DC Rule 3711 requires the following revisions:

- Proposed DC Rules 3711(1)(i) to (iv) include proposed reporting obligations not found in the IDPC Rules or MFD Rules. It unnecessary to require Dealer Members to report potential misconduct before any internal investigation has occurred. These rules should be deleted.
- DC Rule 3711(1)(iii)(v)(c) requires Dealer Members to report to CIRO when an Approved Person is "named as a defendant or respondent in, or is the subject of any proceeding, or disciplinary action alleging contravention of the requirements or policies of any regulatory organization or SRO, professional licensing, credentialing or registration body." This requirement is overly broad and should be narrowed to securities regulators.
- DC Rule 3711(1)(vi) requires Dealer Members to report to CIRO when any *employee* is, charged with a criminal offence or named as a defendant or respondent in civil proceedings related to "serious misconduct". Similarly, DC Rule 3711(2)(ii) requires to Dealer Members to report on complaints against employees related to "serious misconduct". CIRO does not have jurisdiction over employees that are not Approved Persons and there is no basis for CIRO to require this level of reporting. These rules should be deleted.
- DC Rule 3711(1)(vii) requires Dealer Members to report to CIRO when any "internal disciplinary action" is taken by a Dealer Member against an Approved person or *employee* as a result of, for example, a client complaint or civil claim related to serious misconduct. There is no supportable basis for CIRO to require members to report on the "internal disciplinary action" against employees and, as such, this requirement should be deleted.

- DC Rule 3711(4) should be limited to require reporting on internal investigations *that result in a determination that serious misconduct has occurred*. It is unnecessary for Dealer Members to report on the outcome of internal investigations that do not result such a determination.

Rule 3712: Reporting Cybersecurity and Privacy Incidents

DC Rule 3712(2) requires members to report “any material breach of client information that would require reporting under applicable privacy legislation, in the form and in compliance with the timelines required by such legislation.”

This rule is problematic insofar as it contemplates that the regulatory reporting standards that apply under provincial privacy legislation will be incorporated by reference into the DC Rules. This creates a variable reporting obligation for Dealer Members which is unrelated to securities law and should be avoided. In addition, this risks creating duplicative and unnecessary reporting between separate securities and privacy regulators. For these reasons, proposed DC Rule 3712(2) should be deleted.

Rule 3720: Requirement to Commence an Internal Investigation

Proposed DC Rule 3720(1) and (2) require Dealer Members to conduct an “internal investigation, *which includes an internal compliance review*, if it becomes aware that the Dealer Member or a current or former Approved Person while employed by the Dealer Member engaged in or appeared to have engaged in serious misconduct.” The components of an internal investigation ought to vary with the facts.

Rule 3722: Policies related to Employee Compliance

As discussed above, CIRO does not have jurisdiction over employees that are not Approved Persons and, in any event, it is not necessary to expand proposed DC Rule 3722 to included employees.

Rule 3740: Complaint Policies and Procedures

Rule 3740 requires the following revisions:

- For consistency with the DC Rules, proposed DC Rule 3740(2)(iv) should refer to complaints alleging “serious client related misconduct”.
- Proposed DC Rule 3740(3) provides that if a dealer determines that the number or severity of complaints it receives is significant, the dealer must “ascertain the scope and severity of client detriment that might have arisen” and “consider whether it is fair and reasonable for the Dealer Member to undertake proactively a redress or remediation exercise”. This creates an ambiguous trigger, which should be deleted.

Rule 3750: Retail Client Complaints

Proposed DC Rule 3750(1) requires Dealer Members to document and respond to each retail client complaint in a manner that a “reasonable client” would consider effective, fair, and expeditious. This creates an unclear and potentially unfair standard for reporting. The Request for Comments does not provide any explanation or justification for this proposed language, which, on its face, is unnecessary. This language should be removed in favour of an objective standard.

Rule 3752: Handling Client Complaints

Proposed DC Rule 3752(5) provides that Dealer Members “must provide complaint drafting assistance to any complainant who expresses a need for it.” This requirement is vague and problematic. For example, it is unclear whether this standard requires a Dealer Member to provide services to diarize/record a complaint or something more akin to providing advice on how to make a complaint. In either case, this requirement should be deleted from the DC Rules.

Rule 3755: Complaint Acknowledgment Letter

Rule 3755(2) requires Dealer Members to deliver an acknowledgement of a complaint that is written in plain language and “in a format readily accessible and understandable *by the complainant*”. This language creates an unclear and subjective standard for Dealer Member reporting. This language should be deleted to ensure that an objective standard is applied.

Rule 3756: Substantive Response Letter

Rule 3756 requires the following revisions:

- Proposed DC Rule 3756(2) requires Dealer Members to deliver a substantive response letter to complaints that is written in plain language and “in a format readily accessible and understandable *by the complainant*”. This language creates an unclear and unfair standard. This language should be deleted to ensure that an objective standard is applied.
- Proposed Rule 3756(3)(iv)(a) provides that a Dealer Member’s substantive response must contain certain prescribed information including a statement describing “the approved ombudsman service”. The definition of “approved ombudsman” corresponds with the definition included in the CSA’s separate proposal to provide the OBSI with binding decision-making authority. The outcome of that proposal has not been released to the public. This proposed rule is premature and presupposes that the CSA’s proposal will be or has been adopted.
- Proposed DC Rule 3756(5) creates a 30-day and 90-day deadline for Dealer Member dispute resolution services to resolve client disputes. The Request for Comments notes that the IDPC Rules do not include an equivalent deadline, which “may allow the complaint resolution process to drag on indefinitely.” However, the Request for Comments does not provide any analysis or supporting data to support any such concern.

As a result, CIRO has failed to demonstrate why deadlines are needed and how those deadlines will be beneficial. In the absence of such information, we are concerned that resolution deadlines may lead to suboptimal outcomes by reducing the amount of time that internal services have to consider complaints and encouraging the escalation of disputes. Proposed DC Rule 3756(5) does not support the interests of clients or Dealer Members and should be removed.

Rule 3759: Communication of Dispute Resolution Service Options

Rule 3759 requires the following revisions:

- Proposed Rules 3759(1) and (i) refer to affiliates of Dealer Members. CIRO does not have jurisdiction over non-CIRO affiliates, and this language should be deleted.

- Proposed DC Rule 3759(v) should be deleted in accordance with the above comments on proposed DC Rule 3756(5). There is no supportable basis to impose deadlines on Dealer Member dispute resolution services, which are outside CIRO's jurisdiction.
- DC Rule 3759(1)(i) requires Dealer Members to communicate to clients that their internal services are "not an independent dispute resolution service." Similarly, Rule 3759(2) prohibits Dealer Members from describing their internal services to suggest that they are independent. This is misleading and will lead clients to draw the inference that internal services are biased or favour Dealer Members. This will only serve to undermine the effectiveness of internal resolution systems and lead to an escalation of disputes. These requirements should be deleted.
- DC Rule 3759(4)(i) requires dealer disclosures related to the external ombudsman to be "at least as equally prominent as the Dealer Member's disclosure of the internal dispute resolution service". This requirement is entirely unnecessary. This amendment suggests that there is a competition between the OBSI and internal processes, when CIRO's focus ought to be on the effective resolution of disputes. This rule should be deleted.

RULESET 3800 – RECORDKEEPING AND CLIENT REPORTING

There appears to be a conflict between the general document retention periods in proposed DC Rules 3770 and 3805. Whereas proposed DC Rule 3770(1) creates a 2-year retention period for client complaint files, proposed DC Rule 3805(1) creates a general 7-year retention period for all records that a Dealer Member is required to maintain, which would include records of client complaints and resolutions. CIRO can avoid this conflict by removing Rule 3770(1) to create a single 7-year retention period.

A blacklined copy of the DC Rules incorporating revisions to this rule is attached at **Schedule "C"**.

RULESET 4000 – GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY WARNING, FINANCIAL REPORTS AND AUDITORS

Proposed DC Rule 4386(3) is opposed. The Request for Comments does not provide any rationale or supporting data to reduce the amount of time that a Dealer Member has to correct a free credit balance deficiency from five business days to one business day. This proposed amendment will create unnecessary and difficult administration for Dealer Members and, in particular, independent dealers. This amendment should be reversed, and a five-day response period should be maintained.

A blacklined copy of the DC Rules incorporating revisions to this rule is attached at **Schedule "D"**.

INVESTMENT PRODUCTS

The proposed DC Rules include several references to the term "investment products" in place of the term "securities, derivatives, and precious metals bullion". This includes, for example, references in rulesets 3800, 4100, 4200, 4300, and 4400. Objections made to this defined term when it was introduced in Phase 4 of the Rule Consolidation Project are maintained. The definition of "investment products" is overly broad and purports to provide CIRO with the power to unilaterally expand its own jurisdiction by deeming any product to be an "investment product". This amendment is outside the proper bounds of the Rule Consolidation Project. All references to "investment product" should be deleted.

The proposed DC Rules also include several references to securities, precious metals bullion “and other like assets”. In addition, DC Rules 1102(5)(i)(a) and (b) refer to trading in deposit instruments, and business conducted in accordance with the *Bank Act (Canada)*. Again, these sections refer to assets and activities that are outside CIRO’s jurisdiction and should be deleted.

PROPOSED DC FORM 1

Proposed DC Form 1 should be subject to additional, specialized feedback from Chief Financial Officers on how the monthly reporting process can be improved and consolidated to increase efficiencies and reduce reporting costs. DC Form 1 contains extensive revisions to account for the differences that exist in the current MFD and IDPC forms related to, for example the capital formula calculation and the measurement of certain risks. As noted in the Request for Comments, DC Form 1 may have a significant impact on certain mutual fund dealers. It is not practical or productive for CIRO to address this issue in the context of CIRO’s larger Rule Consolidation Project.

Respectfully submitted,

Canadian Forum for Financial Markets

cc.

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SCHEDULE “A”
RULE 2400 – ACCEPTABLE BACK OFFICE AND SERVICE ARRANGEMENTS

2401. Introduction

(1) In order to manage back office expenses, Dealer Members may enter into arrangements that involve back office service sharing with another organization. Services shared may include any combination of: trade execution, trade clearing and settlement, trade financing, trade related cash and security custody and trade related books and records. In some cases, before an arrangement can commence, the parties must agree to specific Corporation arrangement conditions, including obtaining Corporation approval of the arrangement. ~~Dealer Members may also enter into outsourcing arrangements for business functions, processes and other services that are not part of their securities and derivatives related business.~~

2402. Definitions

~~“service arrangement” (accord de service)~~

~~An arrangement entered into between a Dealer Member or Approved Person, and any other person, including another Dealer Member or Approved Person, to provide services that do not:~~

- ~~(i) constitute securities and derivatives related business, or~~
- ~~(ii) include duties or responsibilities that are required to be performed under Corporation requirements or securities laws by the Dealer Member or Approved Person that is receiving the services.~~

2408. Introducing/carrying broker arrangement exemption

(1) Where the Dealer Member provides a reasonable grounds business case and the Corporation is satisfied that to do so would not prejudice the interests of the Dealer Member’s clients, the Corporation shall ~~may~~ grant the Dealer Member an one or more ~~one or more~~ exemptions from ~~one or more of~~ the requirements in sections 2403 through 2407.

(2) ~~The Corporation will grant such exemption if it is satisfied that to do so would not prejudice the interests of the Dealer Member’s clients, the public or the Dealer Member.~~

(3) ~~In granting such an exemption under subsection 2408(1), the Corporation may impose any terms and conditions it considers necessary.~~

2490. Acceptable service arrangements

(1) A Dealer Member or Approved Person may enter into a service arrangement provided:

- ~~(i) both parties enter into a written agreement describing all material terms of the services to be provided,~~
- ~~(ii) a copy of the written service arrangement, along with any changes or notice of termination, must be provided to the Corporation upon request,~~
- ~~(iii) any remuneration or compensation for services provided under the service arrangement is paid directly to the person providing the services, and~~
- ~~(iv) records of the service arrangement payments are maintained in accordance with Corporation requirements.~~

~~(2) — A Dealer Member or Approved Person receiving services under a service arrangement is responsible for compliance with all relevant Corporation requirements, securities laws and applicable laws.~~

~~(3) Any person preparing or maintaining records as a service for a Dealer Member or Approved Person, under a service arrangement, must:~~

~~(i) — comply with the recordkeeping requirements in Rule 3800, and~~

~~(ii) — make the records available for review by the Dealer Member or Approved Person and by the Corporation in accordance with Corporation requirements.~~

~~(4) The Corporation may request that the Dealer Member or Approved Person provide additional information related to a service arrangement.~~

Schedule “B”
RULE 3700 – REPORTING AND HANDLING OF COMPLAINTS, INTERNAL INVESTIGATIONS AND OTHER REPORTABLE MATTERS

1201 Definitions

~~“approved ombudsman service” (service d’ombudsman approuvé)~~

~~An ombudsman service approved by the Board in accordance with subsection 9503(1).~~

3702. Definitions

“complaint” (plainte)

An expression of dissatisfaction from a client, a former client or any person who is acting on behalf of a client, for which a final response is expected in respect of a Dealer Member or Approved Person’s non-compliance with the Corporation requirements or securities law;

- (i) a current or former Dealer Member, Approved Person or employee, or
- (ii) a service or product offered by a Dealer Member.

“internal dispute resolution service” (service interne de règlement des différends)

An internal dispute resolution service offered by the Dealer Member, ~~or an affiliate of the Dealer Member~~, to the Dealer Member’s clients, other than the complaint handling service described in section 3752.

~~“non-reportable complaint” (plainte à signalement facultatif)~~

~~A complaint where there is:~~

- ~~(i) no material harm (or reasonable risk of material harm) to a client or the capital markets, and no allegations of a breach of Corporation requirements, securities laws or any applicable laws related to the Dealer Member related activities, or~~
- ~~(ii) an action taken by a Dealer Member solely to comply with Corporation requirements, securities laws or any applicable laws, including instances where the client might have incurred financial losses, such as a margin call or an action taken to comply with government imposed sanctions.~~

“serious misconduct” (grave inconduite)

(i) any material non-compliance with Corporation requirements, securities laws or any applicable laws that are applicable to the Dealer Member related activities and any activity which creates a reasonable risk of material harm to a client, former client or the capital markets, including, but not limited to, any:

- (a) theft,
- (b) fraud,
- (c) misappropriation or misuse of funds or securities,
- (d) forgery,
- (e) money laundering,

- (f) insider trading,
- (g) misrepresentation,
- (h) unauthorized trading, ~~including discretionary trading contrary to sub-section 3221(1),~~
- ~~(i) excessive or improper trading,~~
- ~~(j) engaging in Dealer Member related activities outside the Dealer Member,~~
- ~~(k) engaging in activities outside the Dealer Member contrary to section 2554,~~
- ~~(l) addressing conflicts of interest in a manner that is contrary to section 3106 or section 3107,~~
- ~~(m) engaging in personal financial dealings contrary to section 3110, and~~
- ~~(n) material unresolved violations of the suitability determination obligation in Rule 3400,~~
- ~~(o) a breach of client confidentiality, or~~

~~(ii) any other instance of material non-compliance with Corporation requirements, securities laws or any applicable laws that are applicable to the Dealer Member related activities.~~

3710. Reporting by Approved Persons and employees to the Dealer Member

(1) An Approved Person must report to the Dealer Member as soon as possible, but no later than within two business days upon becoming aware of any of the following matters:

- (i) a change in the Approved Person's registration information or Form 33-109F4,
- (ii) a reason to believe that they may have engaged, or are currently engaging, in serious misconduct,
- (iii) being the subject of a client complaint, ~~including a non-reportable complaint,~~
- (iv) a client complaint alleging serious client-related misconduct by another Approved Person or employee, or
- (v) if the Approved Person is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the Dealer Member, or concerning matters that occurred while employed by the Dealer Member:
 - (a) charged with, convicted of, pleading guilty or no contest to any criminal offence,
 - (b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging contravention of any securities laws or applicable laws,
 - (c) named as a defendant or respondent in, or is the subject of any proceeding, disciplinary action or investigation alleging contravention of the requirements or policies of any securities regulator ~~regulatory organization or SRO, professional licensing, credentialing or registration body,~~
 - (d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or SRO, professional licensing, credentialing or registration body,
 - (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
 - (f) outstanding garnishments rendered against the Approved Person, or

(g) any pending legal actions against the Approved Person, including a civil claim or arbitration notice alleging serious misconduct.

~~(2) A Dealer Member must establish and maintain policies and procedures that require an employee report to the Dealer Member any of the following matters as soon as possible, but no later than within two business days upon becoming aware of any of the following matters:~~

~~(i) a reason to believe that they may have engaged or currently be engaging in serious misconduct while engaging in Dealer Member related activities,~~

~~(ii) being the subject of a client complaint alleging serious client related misconduct,~~

~~(iii) a client complaint alleging serious client related misconduct by an Approved Person or another employee, or~~

~~(iv) if the employee is subject to any of the following in any jurisdiction inside or outside of Canada, while the employee was in the employ of the Dealer Member and was engaged in Dealer Member related activities:~~

~~(a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to serious misconduct,~~

~~(b) named as a defendant or respondent in, or is the subject of, any proceeding, disciplinary action or investigation alleging serious misconduct,~~

~~(c) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory or SRO, professional licensing, credentialing or registration body,~~

~~(d) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,~~

~~(e) outstanding garnishments rendered against the employee, or~~

~~(f) any pending legal actions against the employee, including a civil claim or arbitration notice alleging serious misconduct.~~

(3) A Dealer Member must designate an individual or department to receive, and maintain records of, the reports required by subsections 3710(1) and 3710(2).

(4) The reporting requirement under clauses 3710(1)(v)(b) and (c) and clause 3710(2)(iv)(b) do not include disclosure of an investigation if such disclosure is prohibited by securities laws, applicable laws, or requirements or policies of any SRO or regulatory, professional licensing, credentialing or registration body.

3711. Reporting by a Dealer Member to the Corporation

~~(1) A Dealer Member must report to the Corporation as soon as possible, but no later than within five business days upon becoming aware of any of the following matters:~~

~~(i) a reason to believe that it, or an Approved Person, may have engaged or is currently engaging in serious misconduct,~~

~~(ii) a reason to believe that an employee may have engaged or is currently engaging in serious misconduct while performing Dealer Member related activities,~~

~~(iii) the Dealer Member or Approved Person or employee has paid substantial compensation to a client either directly or indirectly, including in furtherance of a settlement,~~

~~(iv) an internal investigation is commenced by the Dealer Member in accordance with section 3720,~~

(v) the Dealer Member, or a current or former Approved Person is subject to any of the following in any jurisdiction inside or outside of Canada, while employed by the Dealer Member or concerning matters that occurred while employed by the Dealer Member:

- (a) charged with, convicted of, plead guilty or no contest to, any criminal offence,
- (b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging contravention of any securities laws or applicable laws related to Dealer Member related activities,
- (c) named as a defendant or respondent in, or is the subject of any proceeding, or disciplinary action alleging contravention of the requirements or policies of any securities regulator ~~regulatory organization or SRO, professional licensing, credentialling or registration body,~~
- (d) denial, cancellation, suspension or addition of terms and conditions to a registration or license by any regulatory organization or SRO, professional licensing, credentialling or registration body,
- (e) declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent,
- (f) outstanding garnishments rendered against the Approved Person, or
- (g) subject to a civil claim or arbitration notice alleging serious misconduct,

~~(vi) the Dealer Member' employee is subject to any of the following in any jurisdiction inside or outside of Canada, while performing Dealer Member related activities while employed by the Dealer Member or concerning matters that occurred while employed by the Dealer Member:~~

- ~~(a) charged with, convicted of, plead guilty or no contest to, any criminal offence relating to serious misconduct,~~
- ~~(b) named as a defendant or respondent in, or is the subject of, any proceeding, or disciplinary action alleging serious misconduct, or~~
- ~~(c) subject to a civil claim or arbitration notice alleging serious misconduct.~~

(vii) any internal disciplinary action that is taken by a Dealer Member against an Approved Person ~~or an employee~~ as a result of:

- (a) a client complaint involving allegations of serious misconduct,
- (b) a civil claim or arbitration notice involving allegations of serious misconduct, or
- (c) an internal investigation involving allegations of serious misconduct.

(2) A Dealer Member must report to the Corporation as soon as possible, but no later than within 20 business days upon becoming aware of a complaint involving allegations of:

- (i) serious misconduct against the Dealer Member, or any current or former Approved Person, or
- ~~(ii) serious client-related misconduct against an employee while employed by the Dealer Member.~~

(3) A Dealer Member must report to the Corporation as soon as possible, but no later than within five business days, the resolution of:

- (i) any matter set out in clauses 3711(1)(v) and 3711(vi),
- (ii) any internal disciplinary action set out in clause 3711(1)(vii), and
- (iii) any client complaint set out in clause 3711(2).

(4) ~~Where it has been determined that serious misconduct has occurred,~~ A Dealer Member must report to the Corporation as soon as possible, but no later than within 20 business days from the date on which an internal investigation is completed, a detailed description of the internal investigation conducted under section 3720 and its results.

3712. Reporting of Cybersecurity and Privacy Incidents

(1) A Dealer Member must report to the Corporation any cybersecurity incident:

(i) within three calendar days upon becoming aware of a cybersecurity incident, and the report must include the following information:

- (a) a description of the cybersecurity incident,
- (b) the date on which or time period during which the cybersecurity incident occurred and the date when the Dealer Member became aware of it,
- (c) a preliminary assessment of the cybersecurity incident, including the risk of harm to any person and/or impact on the operations of the Dealer Member,
- (d) a description of immediate incident response steps the Dealer Member has taken to mitigate the risk of harm to persons and impact on its operations, and
- (e) the name of and contact information for an individual who can answer, on behalf of the Dealer Member, any of the Corporation's follow-up questions about the cybersecurity incident,

(ii) within 30 calendar days, unless otherwise agreed by the Corporation, upon becoming aware of a cybersecurity incident, and the report must include the following information:

- (a) a description of the cause of the cybersecurity incident,
- (b) an assessment of the scope of the cybersecurity incident, including the number of persons harmed and the impact on the operations of the Dealer Member,
- (c) details of the steps the Dealer Member took to mitigate the risk of harm to persons and impact on its operations,
- (d) details of the steps the Dealer Member took to remediate any harm to any persons, and
- (e) actions the Dealer Member has or will take to improve its cybersecurity incident preparedness.

~~(2) A Dealer Member must report to the Corporation any material breach of client information that would require reporting under applicable privacy legislation, in the form and in compliance with the timelines required by such legislation.~~

3720. Requirement to commence an internal investigation

(1) A Dealer Member must conduct an internal investigation, ~~which includes an internal compliance review~~, if it becomes aware that the Dealer Member or a current or former Approved Person while employed by the Dealer Member engaged in or appeared to have engaged in serious misconduct.

(2) A Dealer Member must conduct an internal investigation, ~~which includes an internal compliance review~~, if it becomes aware that a current or former employee, while performing Dealer Member related activities, engaged in or appeared to have engaged in serious misconduct while employed by the Dealer Member.

3722. Internal discipline

(1) A Dealer Member's policies and procedures must establish procedures to determine the appropriate disciplinary measures, if any, for any breach of the Corporation requirements or securities laws by any Approved Person ~~or employee~~.

3730. Entering into settlements

(1) Approved Persons ~~and employees~~ must obtain the Dealer Member's written consent before entering into any settlements with a client, regardless of the form of the settlement and regardless of whether the settlement is the result of a client complaint or a finding by the Approved Person ~~or the employee~~ or the Dealer Member.

(2) A Dealer Member must keep a record of the prior written consent in accordance with section 3803.

(3) Subsection 3730(1) does not apply to settlements entered into by an Approved Person ~~or employee~~ who is authorized by the Dealer Member to negotiate or enter into settlements in the normal course of their duties and does not arise out of activities involving the Approved Person ~~or employee~~.

3740. Complaint policies and procedures

(1) The Dealer Member's policies and procedures must specifically address dealing effectively with institutional client complaints received.

(2) The Dealer Member's policies and procedures must specifically address the following:

- (i) the Dealer Member must acknowledge all written institutional client complaints alleging serious client-related misconduct,
- (ii) the Dealer Member must acknowledge all verbal institutional client complaints alleging serious client-related misconduct where a preliminary investigation indicates that the allegation may have merit,
- (iii) the Dealer Member must convey the results of its investigation, if any, of a complaint to the institutional client in due course,
- (iv) the Dealer Member must ensure that the Approved Person and their Supervisor is aware of all institutional client complaints filed against the Approved Person alleging serious client-related misconduct,

- (v) the Dealer Member must ensure that all allegations of serious misconduct are reported to an appropriate Executive, and
- (vi) complaints are to be handled by a Supervisor and a copy must be filed with the compliance department/function (or the equivalent) of the Dealer Member.

~~(3) If the Dealer Member determines that the number or severity of complaints is significant, or when a Dealer Member detects frequent and repetitive complaints made with respect to the same or similar matters which may on a cumulative basis indicate a serious problem, then the Dealer Member must:~~

- ~~(i) review its internal policies and procedures,~~
- ~~(ii) ascertain the scope and severity of client detriment that might have arisen,~~
- ~~(iii) consider whether it is fair and reasonable for the Dealer Member to undertake proactively a redress or remediation exercise, and~~
- ~~(iv) ensure recommendations to remedy the problem are submitted to the appropriate management level.~~

3750. Retail client complaints

- (1) A Dealer Member must document and, in a manner that ~~a reasonable retail client would consider is~~ effective, fair and expeditious, respond to each retail client complaint made to the Dealer Member.
- (2) A Dealer Member must establish and maintain policies and procedures to deal effectively, fairly and expeditiously with retail client complaints.
- (3) A Dealer Member must provide a written response to any retail client complaint:
 - (i) submitted in writing, or
 - (ii) alleging serious misconduct.

3752. Handling client complaints

- (1) Complaints must be handled by supervisory or compliance staff and a copy of the complaint must be filed with the compliance department or function (or the equivalent) of the Dealer Member.
- (2) The Dealer Member must commit adequate resources, including training and support, to supervisory or compliance staff managing complaints and must establish clear roles and responsibility for the management of complaints.
- (3) The Dealer Member must appoint an individual to act as the designated complaints officer. The individual must have the requisite experience and authority to oversee the complaint-handling process and to act as a liaison with the Corporation.
- (4) An individual who is the subject of a complaint must not handle the complaint.
- ~~(5) The Dealer Member must provide complaint drafting assistance to any complainant who expresses a need for it.~~

3755. Complaint acknowledgement letter

- (1) The Dealer Member must send an acknowledgement letter to the complainant within five business days of receipt of a complaint.
- (2) The acknowledgement letter in subsection 3755(1) must be written in plain language ~~and be in a format readily accessible and understandable by the complainant~~ and include the following:

- (i) the name, job title and contact information of the individual at the Dealer Member handling the complaint,
- (ii) a statement indicating that the client should contact the individual at the Dealer Member handling the complaint if they would like to inquire about the status of the complaint or provide the Dealer Member with any additional information,
- (iii) an explanation of the Dealer Member's internal complaint handling process, including but not limited to the role of the designated complaints officer,
- (iv) a reference to an attached copy of the Corporation approved complaint handling process brochure and a reference to the statutes of limitations contained in the document,
- (v) the 90 day time line to provide a substantive response to complainants, and
- (vi) a statement informing the client that the Dealer Member may request additional information, from time to time, to investigate the complaint.

3756. Response to client complaints

- (1) The Dealer Member must send a substantive response letter to each complainant.
- (2) The substantive response letter must be written in plain language ~~and be in a format readily accessible and understandable by the complainant.~~
- (3) The substantive response letter must include the following information:
 - (i) a summary of the complaint, (ii) the result of the Dealer Member's investigation,
 - (iii) the Dealer Member's final decision on the complaint, including an explanation of the factors that led to the decision,
 - (iv) a statement describing to the client the options available if the client is not satisfied with the Dealer Member's response, including the availability of:
 - ~~(a) the approved ombudsman service, if a request is made within the period prescribed by the approved ombudsman service,~~
 - (a) the ombudsman service, if a request is made within the period required by the ombudsman;
 - (b) arbitration,
 - (c) litigation/civil action, and
 - (d) any other available options,
 - (v) a statement that the client may submit a complaint to the Corporation for an assessment of whether any disciplinary action is warranted, and
 - (vi) if the Dealer Member offers an internal dispute resolution service to its retail clients, a statement describing the availability of an internal dispute resolution service, with an explanation that:
 - (a) the use of the internal dispute resolution service process is voluntary, and
 - (b) the internal dispute resolution service's timeline to provide a letter documenting the Dealer Member's final decision to complainants.
- (4) A Dealer Member must send a substantive response letter to each complainant as soon as possible and not later than 90 days from the date they received the complaint subject to the following:
 - (i) the 90-day time line must include all internal processes of the Dealer Member that are made available to the client, other than the internal dispute resolution service,

- (ii) the Dealer Member must inform the client if the Dealer Member is unable to provide the client with a substantive response letter within the 90-day time line and must include the reasons for the delay and the new estimated time of completion, and
- (iii) the Dealer Member must inform the Corporation if the Dealer Member is unable to meet the 90-day time line and must provide reasons for the delay.

(5) If the Dealer Member offers an internal dispute resolution service to its retail clients, the Dealer Member must establish and maintain policies and procedures that require the internal dispute resolution service to send a letter documenting the Dealer Member's final decision to each complainant ~~as soon as possible and not later than:~~

- ~~(i) 90 days from the date the internal dispute resolution service received the complaint, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the complaint, or~~
- ~~(ii) 30 days from the date the internal dispute resolution service received the complaint, where the internal dispute resolution service received the complaint after the issuance of the substantive response letter.~~

3759. Communication of dispute resolution service options

(1) If the Dealer Member ~~or an affiliate of a Dealer Member~~ offers an internal dispute resolution service, the Dealer Member must clearly indicate in their communications with clients the following:

- ~~(i) the internal dispute resolution service is employed by the Dealer Member or an affiliate of a Dealer Member and is not an independent dispute resolution service,~~
- (ii) a client may submit a complaint to the approved ombudsman service without first submitting a complaint to the internal dispute resolution service if the Dealer Member has not provided the client with a substantive response letter within 90 days as required by subsection 3756(4),
- (iii) a client may submit their complaint to the ~~approved~~ ombudsman service without first submitting a complaint to the internal dispute resolution service if the client is not satisfied with the Dealer Member's substantive response letter,
- (iv) the use of the internal dispute resolution service is voluntary,
- ~~(v) the client is entitled to receive a letter documenting the Dealer Member's final decision to each complainant, not later than:~~
 - ~~(a) 90 days from the date the internal dispute resolution service received the complaint, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the dealer initially received the complaint; or~~
 - ~~(b) 30 days from the date the internal dispute resolution service received the complaint, where the internal dispute resolution service received the complaint after the issuance of the substantive response letter, and~~
- (vi) that the statutory limitation periods continue to run while an internal dispute resolution service reviews a complaint, which may impact a client's ability to commence a civil action.

~~(2) In referring to its internal dispute resolution service or to the persons assigned to its internal dispute resolution service, a Dealer Member may not use any misleading terms, including the term “ombudsman” or any other term with a similar meaning, that suggests that the internal dispute resolution service is independent of the Dealer Member.~~

(3) A Dealer Member must clearly indicate in their communications with clients the following:

- (i) a client has 180 days after receiving the Dealer Member’s substantive response letter referred to in section 3756 to submit their complaint to the ~~approved~~ ombudsman service, and
- (ii) the services of the ~~approved~~ ombudsman service are provided free of charge.

(4) A Dealer Member’s disclosure of the ~~approved~~ ombudsman service must:

- ~~(i) be at least equally prominent as the Dealer Member’s disclosure of the internal dispute resolution service,~~
- (ii) be clear, transparent and written in plain language, and
- (iii) include the full contact information of the approved ombudsman service.

Schedule "C"
RULESET 3800 – RECORDKEEPING AND CLIENT REPORTING

~~3770. Client complaints~~

~~(1) A Dealer Member must document and maintain a copy of each client complaints file in a central and readily accessible place for a period of two years from the date of receipt of a client complaint.~~

Schedule “D”
**RULESET 4000 – GENERAL DEALER MEMBER FINANCIAL STANDARDS – MINIMUM CAPITAL, EARLY
WARNING, FINANCIAL REPORTS AND AUDITORS**

4386. Daily compliance review and required action

(1) Every day, a Dealer Member that uses client free credit balances within its business must compare the amount of client free credit balances it has segregated to the amount subsection 4384(2) requires to be segregated.

(2) Every day, a Mutual Fund Dealer Member that does not use client free credit balances within its business must determine the amount that must be segregated under subsection 4382(1).

(3) A Dealer Member must identify and correct any deficiency in amounts required to be segregated under subsections 4382(1) or 4384(2) within five business days ~~one business day~~ following the determination of the deficiency. Where the deficiency exists for more than one business day, it must be provided out of the Dealer Member’s capital when calculating its risk adjusted capital.

Schedule “E”
PHASE 5 – CONSULTATION QUESTIONS

Question No. 1:

The proposed definition of “complaint” includes current and former clients. Should “prospective clients” also be included, as they are in the current MFD Rules? Do “prospective clients” generate a significant number of substantive complaints that present a material regulatory concern, rather than just service issue?

It is not prudent to include “prospective clients” in the definition of complainant. A “prospective client” could not have sustainable grounds for a substantive complaint.

Question No. 2

Does the proposed definition of “serious misconduct” cover the appropriate elements that should be reported, investigated, and dealt with in respect of complaints? Note that the proposed definition does not specifically include harm to the Dealer. Should it encompass conduct that harms the Dealer, even where that harm does not pose a reasonable risk of material harm to clients or the capital markets, nor result in material non-compliance with applicable laws?

See above comments on ruleset 3700 on the proposed definition of “serious misconduct”. In addition, it is unnecessary to specifically include harm to a Dealer in this proposed definition. Adding “harm to dealers” to the preamble of this definition is unlikely to capture any additional misconduct given the breadth of activities that are already enumerated or otherwise captured in the proposed definition.

Question No. 3

Is the definition of “non-reportable complaints” appropriate to minimize reporting where there is no material risk of harm to clients or the capital markets, or instances of non-compliance, while still ensuring that material complaints are addressed?

No. See above comments on ruleset 3700 on “non-reportable complaints”.

Question No. 4

Is the 90-day time limit to provide a substantive response letter to a complainant appropriate, given that the Autorité des marchés financiers has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations)?

The 90-day time limit should not be reduced to 60-days as adopted by the *Autorité des Marchés Financiers*. The existing 90 day period provides dealers with minimum time to investigate and substantively respond to complaints. A truncated deadline would not be beneficial to clients or Dealer Members.

Question No. 5

Is the proposed time limit for internal dispute resolution processes reasonable, considering the need to balance an expedient resolution for clients while still allowing an appropriate amount of time for Dealers to determine an effective and fair resolution?

See above comments on DC Rule 3756(5) on the proposed resolution deadlines.

Question No. 6

Do you agree with our assessment of the areas where the proposed harmonization is consistent with current requirements and Dealer practices and therefore no significant negative impact has been introduced for Dealers and clients as a result? If not, please explain.

Do you agree with our assessment of those areas where the proposed harmonization may impact some Dealers, but that the benefits of such harmonization outweigh the costs to the affected Dealer? If not, please explain.

See our above comments with respect to the additional and unnecessary requirements included in Phase 5 of the DC Rules.

Question No. 7

Is it appropriate to extend the ability to use free credit client cash to level 3 mutual fund dealers in addition to level 4 mutual fund dealers?

Yes.

Question No. 8

Is the phased approach we propose, for mutual fund dealers to adopt the new DC Rules Form 1 capital formula and the provider of capital concentration charge, an appropriate approach and transition period?

Please see our above comments on DC Form 1. In addition, any phased-in approach or transition period should apply to all dealer members.

Question No. 9

Should the proposed requirements for approval of mutual fund dealers' auditors as panel auditors be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?

Inquiries should be made directly with impacted mutual fund dealers.

Question No. 10

Where we have proposed separate schedules for mutual fund dealers and investment dealers in the new DC Rules Form 1 (e.g. client trading accounts, broker trading accounts, FX margin, concentration etc.), are these separate schedules appropriate or should we consider one combined schedule for both mutual fund dealers and investment dealers?

See above comments on proposed DC Form 1.

Question No. 11

The current concentration schedule allows Dealers to look through to underlying securities where the concentrated product is a broad based index. Does the proposed change allowing this approach on a broader basis to diversified investment products such as mutual funds that have a basket of underlying investment products (not including derivatives) provide sufficient operational flexibility to Dealers in managing potential concentration exposures? Or, should we consider excluding these types of fund products from concentration testing based on their risk profile?

The value of looking through to the underlying securities of a broad-based index is acknowledged. The funds are better included in concentration testing.

Question No. 12

To what extent is it appropriate to apply a phase-in approach for mutual dealers to adopt the counterparty margin requirements for acceptable counterparties and regulated entities? What is an appropriate extended transition period?

Inquiries should be made directly with impacted mutual fund dealers.

Question No. 13

Considering all the phases of this project, are the proposed DC Rules aligned with the objectives of the project? To what extent have the proposed DC Rules introduced excessive regulatory burden?

This question is overly broad and cannot be answered without a full review of the proposed DC Rules.