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VIA EMAIL ONLY

June 25, 2025

Re: Response to CIRO Consultation Rule Consolidation Phase 5

The Federation of Independent Dealers - Fédération des Courtiers Indépendants (Federation) has been, since 1996, a dedicated voice for dealers. We currently represent firms with hundreds of billions in assets under administration and tens of thousands of licensed advisors that provide service to millions of Canadians nationwide. As such we have a keen interest in all that impacts the dealer community and its advisors.

We gratefully acknowledge the amendments made in response to the feedback received during the previous phases of the Rule Consolidation project and include our comments below for Rule Consolidation Phase 5.

Regarding the concept of a 'selected services model', the Federation supports a framework that increases rather than decreases the availability of financial advice and service offerings to Canadians through scalable, fit-for-purpose regulation. A future-ready model would establish a base set of standards for all dealerships (ID, MFD, SPD, EMD, PM) with optional additional functionality available from a 'menu' of services, each carrying corresponding responsibilities and requirements that dealers can choose to enable for their investors.

This need for modular approach becomes evident when considering that standards being applied to MFD firms today will extend onto Scholarship Plan Dealers, Exempt Market Dealers, and retail-facing Portfolio Management firms during Phase 2 of the SRO Merger. All new rulemaking related to continuing education, reserve capital, executives, CFO requirements, documentation, compliance and complaint handling, et cetera must be applicable, scalable, and cost-efficient to preserve the vibrancy and diversity of Canada's distribution models. Without this flexibility, regulatory costs will become the primary determinant of market survival, further entrenching an oligopoly of the wealthiest integrated firms.

The current trajectory risks forcing all dealers into ID-equivalent structures, imposing onerous compliance costs on specialized businesses and further concentrating market power. This approach particularly disadvantages firms that supported the SRO merger in good faith, expecting balanced regulation rather than a swath of requirements designed for more complex operations. With the approaching Phase 2 of the SRO Merger; if a relief from these requirements is considered for the new dealer categories, it would compound the inequity, forcing current MFD merger participants to bear a disproportionate burden of compliance complexity to mirror an ID firm, only to see fit-for-purpose requirements enabled for future entrants.

A selected services approach that allows dealers to choose their offerings and scale their regulatory obligations will slow industry consolidation and create a dynamic ecosystem essential for serving divergent investor demands. This approach preserves choice for both dealers and investors while ensuring that regulatory requirements remain proportionate to complexity and risk. It would create genuine regulatory symmetry across all dealer categories, where each firm's obligations match their chosen business activities rather than one broad registration category. It proposes customization. Simple business models don't require a CFO with a CFA designation and panel auditors, those requirements are more suitable to integrated service providers with highly complex balance sheets.

General comments:

Dealer activities should be regulated in a fit-for-purpose but equivalent manner. Regulatory arbitrage between Investment Dealers (IDs) and Mutual Fund Dealers (MFDs) should be minimized by permitting equivalent functionality across dealer categories where such functions rely primarily on head office and compliance oversight and expertise. They should have the flexibility to choose which services to offer and assume responsibility for meeting the associated requirements. This approach would see enablement of MFDs to provide services such as:

- Margin accounts
- Free credit balances
- Managed account services
- In-sourced portfolio management

We recommend that our SRO and regulators establish clear criteria for when MFDs can offer each traditionally ID-exclusive service, provided the MFD firm demonstrates adequate head office compliance infrastructure and oversight capabilities. This would promote competition while preserving investor protection and harmonizing services available to them. It would also facilitate service integration for dual platform firms. A modular 'selected services' framework should operate bidirectionally, allowing Investment Dealers (IDs) to scale down their operations and regulatory obligations just as MFD and other future dealer types can scale up.

MFDs that elect not to expand their service offerings to include newly enabled options should be permitted to continue operating their existing businesses without facing substantial additional regulatory burden, an original commitment of the SRO Merger. These dealers provide valuable advice and investment access to Canadian investors and should not be penalized for maintaining their current scope of services. For example, consider the proposed MFD CFO Proficiency Standard; If CIRO is mandating a single CFO course for MFD CFOs to meet the ID standard, provide them with ample lead time to comply. Implement grandfathering for seasoned and experienced MFD CFOs whose firms are not implementing any changes.

A selection of new requirements being applied to unchanged MFD firms in Phase 5 *alone* include;

- MFD auditors to now require approval by CIRO as panel auditors.
- Rule 4000 prescriptive CFO requirements, creating significant new day-to-day burden on the much simpler dealer model that includes:
    - New early warning tests for level 4 MFDs.
    - New profitability tests, for level 4 MFDs and the enhanced 6-month profitability test for level 1-3 MFDs.
    - Risk Adjusted Capital calculations and testing
- Proposed changes to Form 1, and the attached proposed significant financial impacts, alongside new consolidated reporting requirements.
- 2.8.1 Additional reporting to clients on the dealer financial position and list of current executives and directors.
- 2.8.2 Verification of the Dealer Member's pricing sources against independent sources.
- Et cetera.

The Dealer Consolidated (DC) Rules should establish a principles-based framework that is scalable, proportionate, and fit-for-purpose. This framework must recognize Canada's diverse dealer landscape—spanning different types, sizes, and business models—and provide regulatory flexibility that respects these distinctions while maintaining consistent investor protection outcomes. The rules should empower dealers to serve their chosen spectrum of the evolving market niches across Canada, while recognizing that only a flexible and modular regulatory approach can service all dealer models effectively.

Given this rapidly evolving investment landscape, we recommend that CIRO embed periodic rule reviews into the DC framework, ensuring it remains responsive to market developments, technological advances, and evolving investor expectations. This will preserve the framework's ongoing relevance in serving Canadian investors' changing needs.

2.11.1 Net allowable assets

We object to this change to the RAC calculation component of the capital formula and excluding non-current liabilities from RAC. No reason has been stated for such a significant change to ~11 of the level 4 MFD firms.

"We anticipate the RAC for approximately 13% of mutual fund dealers will be negatively impacted, with a decrease of at least 5%, by switching from the MFD to the IDPC capital formula. These are mainly Level 4 mutual fund dealers" and "By adopting the IDPC formula, we realize there will be a significant impact to certain mutual fund dealers that have these non-current liabilities, so we are proposing a phase in approach"

2.11.3.5 Provider of capital exposure risk

We object to this change to adopting the current IDPC Form 1 provider of capital concentration charge schedule into the DC Form 1 as a schedule applicable to both mutual fund dealers and investment dealers. (DC Form 1 Schedule 14). No reason has been stated for such a significant change to so many MFD firms.

As noted: "We anticipate approximately 13% of mutual fund dealers will have a potentially significant provider of capital charge because they hold a significant portion of cash at a parent bank or financial institution that would trigger a provider of capital charge."

2.11.4.4 New schedule related to assets under administration

We would like to understand the need for continuing to require the new schedule for assets under administration given that "The assets under administration schedule was added to assist CIRO in determining fees and assessments. (DC Form 1 Schedule 19)".

Does CIRO intend to further modify the fee schedule, and if so, what changes are being considered based upon the division between client and nominee name?

2.6.2 Definitions (DC Rule section 3802)

We strongly disagree with the proposed expansion of the definition of "outside holdings" as a means towards the elimination of the concepts of nominee accounts and client name assets. We believe that this change will both confuse mutual fund dealer clients and cause these clients to be unnecessarily

concerned. The phrase “outside holdings”, to mutual fund dealer clients, who have traditionally held assets in client name, and are used to this important ownership concept and what it means, may very likely introduce to the client a perception of non-existent risk, by suggesting that such holdings are not in the care and control of the dealer. This perception is, of course, false. The term Dealer Control implies a level of control that isn’t necessarily there – it is an illusion of control.

Book-based securities, such as mutual funds, are managed and administered by investment fund managers, who:

- Are registered under applicable securities legislation,
- Must follow and comply with an extensive array of national and local instruments, policies, rules and guidance,
- Are required to identify, assess and report conflicts of interest to mandated Independent Review Committees, and
- Are subject to regulatory oversight by CSA securities regulatory authorities.

Further, registered dealers who facilitate client name transactions, such as mutual fund dealers, are required, under MFD Rules, to maintain a full book of record of all client transactions and positions, including those transacted and recorded in client name, and to report to clients on these transactions and positions through trade confirmations and account statements. Again, as with investment fund managers, these dealers must follow and comply with detailed rules and guidance and are subject to regulatory examinations to verify compliance. Eliminating the concept and use of the phrase client name, in favor of “outside holdings”, minimizes the benefits of this regulatory structure and suggests to clients that their holdings are not subject to this established level of investor protection.

We also challenge the position that the continued use and expansion of the definition of “outside holdings” is consistent with National Instrument 31-103 (NI 31-103). The only reference in NI 31-103 to outside holdings is in Appendix G, where IIROC firms are exempt from the additional statement requirement of section 14.14.1 of NI 31-103, by virtue of complying with what was IIROC Dealer Member Rule 200.2(e). Suggesting that this change is consistent with NI 31-103, when the Instrument only includes this single, oblique reference to outside holdings is, in our view, an invalid conclusion.

We acknowledge that the definition of “outside holdings” has existed in the investment dealer lexicon for many years. We also acknowledge that most investment dealers conduct client wealth management activities with various forms of nominee account structures and nominee ownership of assets, that are under the care and control of the investment dealer, through rules and guidance that mandates this. However, many mutual fund dealers, including our member firms, have often believed that identifying client name assets as outside holdings, as the former IIROC and its predecessor, the IDA have done, led to the client confusion and concern that we are identifying here. In other words, these concerns are not new. However, by now proposing to extend this same misleading definition to mutual fund dealers, for the reason of consistency, only exacerbates our concerns.

Investors may be made aware of a difference that CIRO is seeking to highlight by requiring a specific narrative disclosure on each account and/or plan type[1] on the client statement(s). This can allow the Outside Holdings term to distinguish between 81-102 and other products that do not fall within all the regulatory restrictions and requirements that apply to 81-102 mutual funds.

Parsing the complex business model issues and evaluating any benefits attaching to a requirement of client assets being held within a dealer nominee platform is of significant concern to Federation members and should be broken out into a separate consultation, if not rejected immediately.

2.6.4.2 Client account statements and outside holding reports (DC Rule sections 3851 and 3852)

Following our comments above, we remark that the Client Name holdings are on the IFM book of record as client holdings with an indicated Dealer of Record. They are therefore within dealer control, and should both:

- Remain within the consolidated reporting group of client assets and,
- Not be notionally separated as ‘Outside Holdings’.

Reporting changes and redesigning statements to facilitate legacy IIROC terminology and driving towards Dealer hosted nominee or introducing/carrying agreements are a costly and time-consuming obligation that we do not see as responding to an urgent client protection concern.

2.6.4.5. Transaction confirmations (DC Rule 3855)

We agree with the change to trade confirmations clarifying the term ‘Principal’. As this change will incur both cost and systems changes, we request a transition period of 24 months from rule implementation.

2.6.4.7 Delivery of documents to clients (DC Rule section 3857)

We reiterate our comments that classifying intermediary or client name positions as outside holdings is problematic, as under this first proposed change to statements firms using client name are required to segregate those client positions that are not housed within dealer nominee accounts as ‘outside holdings’.

The client name structure is common and widely used for a variety of valid reasons. We reiterate that these significant proposed changes to the client name/intermediary language and reporting regime should be brought forward in a separate consultation or discarded.

[1] To distinguish; Account meaning all investments held by an individual investor. Plan meaning tax level holdings such as RRSP, TFSA, LIRA, etc.

We agree with the proposed change to make e-delivery the default format of communications with clients, with the client having the right to opt for paper delivery.

2.6.4.8 Exempt Market Dealers and Scholarship Plan Dealers (DC Rule section 3860)

We agree with adoption of MFD Rule 5.3.6 for all CIRO firms to harmonize requirements. MFD firms also registered as either exempt market dealers or scholarship plan dealers are subject to some of the reporting requirements of National Instrument 31-103 in addition to CIRO requirements.

2.7.1 Minimum capital levels and related requirements

We object to level 1,2, and 3 mutual fund dealers being required to double the amount of RAC calculations (to twice per month) as unnecessary due to the simultaneously proposed requirement to report early warning test failures to CIRO. We bear in mind the need to harmonize these additional requirements with SRO Phase 2 categories of firms.

We agree with the proposed change requiring notification to CIRO if any of the early warning tests are triggered.

We agree with the proposal to enhance the framework by adding a 6-month profitability test for level 1-3 mutual fund dealers (DC Rule subsection 4132(2)).

Although it is burdensome, we reservedly agree with the proposed change requiring MFD level 4 dealers to perform RAC and early warning tests weekly and the required actions such as filing weekly capital reports and early filing of the monthly financial report if an early warning level 2 designation is triggered.

We agree with the proposal to extend the ability for mutual fund dealers to request a hearing panel review for early warning test violation-related restrictions imposed by CIRO.

2.7.2.3 Reimbursing CIRO for costs

We agree with the adoption of the IDPC Rules that allow CIRO to charge a Dealer for costs associated with the administration of early warning situations if the broader MFD Rules that allow CIRO to impose an assessment if the Dealer's financial condition or business issues demanded excessive regulatory attention are discarded.

2.9.2 Custody and related internal controls

The Federation strongly supports and encourages the adoption the IDPC list of acceptable securities locations for MFD firms.

4. Alternatives to rule consolidation considered

Given the significant financial changes and impacts to MFD firms that have been proposed in this Phase 5 of the rule consolidation project, particularly in regard to the consolidation of Form 1, we wish to express our clear preference for the maintenance of separate and tailored financial solvency reports. This will again become an area where the Phase 2 of the SRO Merger will show the need for retaining some degree of channel specificity for the long-term health of the ecosystem.

Previous expressions of interest in a consolidated form were exactly that, a preference for a consolidated form, and not for the imposition of ID requirements, changing non-current charges to being excluded from RAC, and imposition of concentration charges, etc.

“We considered maintaining separate financial solvency reports for mutual fund dealers and investment dealers as an alternative to a consolidated Form 1. We chose to propose a consolidated financial report to ensure consistency in measuring and monitoring the financial solvency of dealers, while maintain flexibility to introduce customized schedules and reporting lines for each dealer type. Based on feedback from public commenters and advisory committees, stakeholders generally support our approach.”

Responses to CIRO questions

Question #1 - Definition of “complaint”

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?

The Federation opposes expanding the definition of "complaint" to include prospective clients. This expansion is unwarranted, as prospective clients are not clients, and dealers have no regulatory obligations toward non-clients.

We recommend that CIRO incorporate a limitation period to define "former client" that aligns with existing regulatory record retention requirements. This would provide clarity and consistency with established compliance frameworks.

The Federation strongly recommends that CIRO withdraw its proposal to include "employee" in the definition of complaint. There is no definition put forward for the term and CIRO lacks jurisdiction over employment matters, making this inclusion inappropriate. Furthermore, any consideration of increasing the regulatory scope to indicate the staff and employees of MFD channel independent registrants are employees of the MFD firms themselves is extremely problematic, significantly disruptive, unwanted by members and unnecessary.

Question #2 - Definition of “serious misconduct”

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?

The Federation opposes the inclusion of "any other instance of material non-compliance with CIRO requirements, securities laws, or any applicable laws" within this definition. This catch-all provision is overly broad and may lead to inconsistent interpretation and application. We are concerned about unnecessary administrative burden and the risk of conflict with privacy legislation involved with the duplicate reporting of non-CIRO matters to CIRO.

Additionally, processing non-serious matters under serious misconduct protocols would divert resources from genuinely serious matters. We recommend removing this provision and with the noted exception support the proposed definition of Serious Misconduct.

Question #3 - Definition of “non-reportable complaints”
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?

The Federation is concerned the definition of “non-reportable complaints” is overly broad and lacks needed clarity to ensure Dealers can identify non-reportable complaints correctly and consistently, potentially leading to over-reporting by Approved Persons of immaterial risks to clients, capital markets, or instances of non-compliance.

If non-reportable complaints are intended to replicate the IIROC concept of Service Complaints, the proposed text for Non-reportable Complaints should match.

Question #4 - Time limit to provide a substantive response letter
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 Federation supports the majority position of the CSA members in maintaining the current 90-day timeframe for proving substantive responses. Shortening the period risks degrading the response unnecessarily.

Question #5 - Time limit applicable to internal dispute resolution

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?

The Federation objects to a 90-day time limit. With the proposed imposition of this timeline, CIRO would create an expectation that dealer internal dispute resolution processes will proceed to completion in all cases faster than the well-resourced national investments ombudsman. OBSI's timeline expectation is as follows:

> *"For investment-related cases, we will complete most cases in less than 90 days, almost all cases in less than 120 days, and all in under 365 days. Some cases may take longer if they are complex or there are delays relating to availability or participation by the firm or consumer."2*

Question #6 - Client reporting

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.

We agree with maintaining the current reporting frequency, including the exception for the requirement to use the IIROC standard on margin reporting.

We agree with the proposed change defaulting document delivery to electronic and would like to see guidance around how this feature is best implemented for existing clients, and whether fees can be applied for clients requesting continuation or initiation of paper statements.

6(b). 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.

Almost all impacts across the harmonization project are imposed upon the MFD firms and each phase, including Phase 5 will impose numerous new costs and burdens outweighing any modest benefits to the overall ecosystem of securities distribution. Harmonization benefits appear to accrue towards easing CIRO's oversight at the cost of additional overhead costs to dealers, particularly MF dealers.

Question #7 - Use of free credit client cash

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?

[2] https://www.obsi.ca/en/case-data-insights/data-cube/timeliness/

We would like to see the ability for level 3 MFDs who have entered an introducing/carrying or level 5 arrangement be able to leverage the ability of the carrier to take advantage of this option. We otherwise agree that free credit client cash should not be extended to level three MFDs.

Question #8 - Transition period for Form 1 capital formula and provider of capital charge

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 comments on Form 1 changes above.

Question #9 - Transition period for mutual fund dealers' auditor approval

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?

Yes, the proposed requirements should be subject to an extended transition period. We recommend that the transition period be extended until all existing auditors currently serving MFD firms have been contacted and provided a reasonable opportunity to fulfill the requirements and transit the new approval process.

The transition period should be milestone-based, concluding only after all existing auditors have been formally notified and given a reasonable period (minimum 120 days from notification) to complete applications, and CIRO has processed all submissions.

Question #10 - Form 1 schedules

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?

Separate schedules are appropriate.

Question #11 – Concentration for diversified investment products

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?

CIRO should exclude fund products from concentration testing based on risk profile. Firms will face increased technology costs to satisfy a factor that should be accounted for within the product risk profile and classification. Firms should be allowed and able to opt-in to this increased level of product scrutiny if their systems support it and client best interest requires it based upon householding portfolio management or a need to service investment policy goals and limits. MFD firms should not be compelled to do underlying securities analysis, when it has already been performed to a high standard by the mutual fund product manufacturer. 'Material Concentrations' can be considered as a new Fund Facts attribute.

Question #12 – Transition period for counterparty margin

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?

Since the ability to offer margin accounts is a new function for MFD operations, we expect firms will adhere to counterparty margin requirements at the time of, or prior to, offering the margin service to clients.

Question #13 – Rule consolidation project

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?

We urge our SRO to continue to approach the DC Rules as a principles-based framework that establishes clear, harmonized investor protection standards while preserving the operational flexibility dealers need to serve their chosen market segments effectively. This approach must embrace regulatory scalability—recognizing that fit-for-purpose regulation allows different dealer categories to flourish under suitable requirements that respect their varied business models; particularly as we approach SRO Merger Phase 2. This will strengthen Canada's investment industry by maintaining its essential ability to adapt to evolving investor needs and market conditions.

Against this backdrop, we reiterate our request that CIRO pursue a scalable framework enabling MFDs to offer discretionary managed accounts, provided they meet equivalent proficiency, governance, and supervisory requirements to those of Investment Dealers and Portfolio Managers. While this request was previously dismissed due to an initial CSA concern, MFDs are simply seeking regulatory scalability that creates a level playing field—the ability to offer equivalent product categories within their licensing scope to the many millions of Canadians they serve across the nation.

The principle is straightforward: fit-for-purpose regulation should ensure that where investor protection outcomes are equivalent, access to investment solutions should be equivalent. This is not

about lowering standards but implementing tools for fair competition and broader investor choice while retaining high standards.

Thank you for considering our input. We are looking forward to continuing engagement and progress on this project.

Sincerely,

Matthew T. Latimer

Executive Director,
Federation of Independent Dealers
Fédération des Courtiers Indépendants