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Re: CIRO's Rule Consolidation Project - Proposed CIRO Rules (26-0039), issued on February 12, 2026

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to CIRO regarding Phase 6 of its Rule Consolidation Project (the **Proposal**).

The Canadian Independent Finance and Innovation Counsel represents over 40 national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CIRO-regulated Investment Dealers in the Canadian securities industry.

Support for the Consolidation Project

The Proposal states the following:

> The primary objectives of this consolidation work have been:
>
> - to achieve greater rule harmonization to:
> - ensure like dealer activities will be regulated in a like manner,
> - minimize regulatory arbitrage between Investment Dealers and Mutual Fund Dealers,
> - where practical and appropriate, adopt less prescriptive, more principles-based rule requirements to facilitate rules that are scalable and proportionate to the different types and sizes of Dealer Members and their respective business models, and
> - improve access to and clarity of the rules applicable to all CIRO Dealer Members.

The Investment Dealers we represent agree with the above.

Purpose of the Consolidation Project versus Extending the Scope

CIRO is seeking to unify the existing mutual fund dealer (MFD) and Investment Dealer Partially Consolidated (IDPC) rules by adopting common requirements. The Investment Dealers we represent support the harmonization goal of the consolidation project. However, we are concerned about an expansion of scope to non-registrants in some sections. Unifying the rules by extending the application of the most stringent rules is required to protect the industry, but there should not be an extension of the scope of these existing rules to include new categories of employees that are not currently covered (non-registrants).

Once the consolidated rulebook is finalized, CIRO firms will be faced with the significant task of updating their policies and procedures, operational processes, and reporting frameworks to align with the new requirements, including the need to educate their employees about the changes.

Introducing entirely new employee groups into the scope of this project adds an additional layer of operational complexity, which would require CIRO firms to simultaneously develop and implement new processes across recordkeeping, reporting, oversight, and other operational functions.

The Investment Dealers we represent believe that any contemplation of expanding the scope of existing regulation to include non-registrants should be addressed through a separate, future initiative, and considered outside the scope of the current consolidation project.

Rule 1100 – Application and Interpretation

1104. Delegation; and 1105. Automation

Although we welcome the redrafting of the delegation and automation section in two separate sections (1104 and 1105), we are concerned about the overly broad scope of the proposed automation rule, which states the following:

> (1) If a CIRO requirement requires an individual at a Dealer Member to perform a function, the Dealer Member may automate tasks or activities that assist in the individual's performance of the function, subject to subsection 2246(2).
> (2) An individual for whom the Dealer Member automates tasks or activities under subsection 1105(1) must:
> (i) understand how the automated tasks and activities work, and
> (ii) ensure proper performance of the related function.
> (3) A Dealer Member that automates tasks or activities must establish a system of supervision and compliance controls sufficient to provide reasonable assurance the automated tasks, activities, and the function are properly performed.

The proposed rule appears, in its current form, to be unduly expansive. Given the pervasive role of automation in modern operations, it could be interpreted as requiring Dealers to establish extensive supervisory controls across virtually all automated processes, irrespective of their risk profile or regulatory significance.

In our view, this represents a substantive policy development that would be more appropriately addressed outside the context of rule consolidation. At a minimum, the rule should incorporate a clear materiality threshold and explicitly limit its application to the automation of registrable functions that present material risk, such as those that deal with investor protection and market integrity. This would much better align with other artificial intelligence (AI)-related regulatory activity, which focuses on potential harm to investors.

We believe CIRO must recognize that while supervisors may comprehend the principles behind an automated task, they may not possess the expertise to replicate the intricate technological functions that underpin it.

1201. Definitions

The Investment Dealers we represent believe CIRO should closely examine its terms to ensure clarity and uniform application. For example, terms such as "substantial harm" and "material

impact" in relation to a cybersecurity incident may cause confusion given their vagueness and interpretability.

We also have concerns with the definition of the terms "non-client account" or "non-client orders," those in which the *Dealer Member* or an *Approved Person* has a "direct or indirect interest other than the commission charged." We note that the terms "direct" and "indirect" are not defined within the CIRO Rulebook, which can lead to an overly broad interpretation, inconsistent application, and a loss of focus on the underlying risk.

We believe that at a minimum, "direct" should be clearly defined in simple, plain language, for example, "trading authority" or "power of attorney". Consideration should also be given to whether the inclusion of "indirect" remains meaningful, particularly in situations where an individual has no trading authority or power of attorney over an account, including for a household member, and what level of indirect influence, if any, should reasonably be captured.

Additionally, the Investment Dealers we represent have expressed concerns that the proposed definition of "client communication" expands this concept to include even a single current or prospective client. However, the rationale for this expansion is not clear. The proposed definition is difficult to interpret and does not identify the specific regulatory concern it is intended to address. Additional guidance on the objective of this change, and the issue it is seeking to resolve, would assist us and other stakeholders in assessing its appropriateness and potential impact.

Rule 1500. Managing Significant Areas of Risk

Rule 1500 of the IDPC Rules sets out that Investment Dealers are required to assign executives to manage significant areas of risk within the firm. The Investment Dealers we represent believe that these requirements are appropriate and should also apply to mutual fund dealers. We agree that mutual fund dealers should be required to ensure that all significant areas of risk are managed by an individual whose proficiency and experience has been approved by CIRO and we therefore support rules 1501 and 1502, as included in Phase 6:

1501. Introduction

(1) As a key element of CIRO's regulatory framework, CIRO expects that, for every significant area of risk within a Dealer Member, an appropriate Executive be responsible for managing such area of risk.

1502. Responsibility for Significant Areas of Risk

(1) For each significant area of risk within a Dealer Member, the Dealer Member must assign responsibility to an appropriate Executive. For certain significant areas of risk, CIRO has assigned the responsibility to a specific Executive as set out in the CIRO requirements.

(2) The Dealer Member must document and maintain a list of Executives and the significant areas of risk each Executive is responsible for managing.
(3) Executives are responsible for the review and approval of any policies and procedures relating to their significant area of risk.

The Investment Dealers we represent believe that CIRO must impose the same requirements on Chief Financial Officers (CFOs) across both types of Dealer Members, including the corresponding proficiency requirements, consistent with the Investment Dealers' Approved Person regime.

Aligning these requirements ensures that all CFOs possess the necessary qualifications, expertise, and accountability to uphold high standards of financial oversight and governance across the industry. This harmonization promotes regulatory consistency and clarity while reinforcing the critical role CFOs play in ensuring compliance with financial and operational standards.

By requiring uniform proficiency standards, the proposed approach fosters a level playing field, enhances investor confidence, and strengthens the integrity of the financial system across all Dealer Members.

Rule 2100. Ownership of a Dealer Member's Securities; and Rule 2200. Dealer Member Organization

2206. Related Companies

Cross-Guarantee Requirement

In Phase 3, CIRO asked the following question:

> To ensure a level playing field for Investment Dealers and mutual fund dealers, we have proposed to require cross-guarantees between Dealer Members and their related companies. The term "related company" is exclusively used to explain the relationship between Dealer Members (through at least 20% common ownership of both Dealer Members (directly or indirectly)).
>
> The result of adopting this amended IDPC and MFD rule requirement is that commonly owned Investment Dealers and mutual fund dealers will have to cross-guarantee each other.
>
> Does requiring cross-guarantees between Investment Dealers and mutual fund dealers cause undue burden? If yes, please explain.

We note that the cross-guarantee requirement is still included in Phase 6 of the rulebook consolidation project. As a reminder, most of the Investment Dealers we represent believe requiring cross-guarantees between Investment Dealers and mutual fund dealers causes undue burden for Investment Dealers. Firms would be required to obtain CIRO approval and to enter

into a cross-guarantee agreement before setting up or acquiring interest in a related company or before creating a subsidiary whose principal business is securities- or derivatives-related activities (including a related mutual fund dealer).

Investment Dealers want to protect their clients and their operations. Requiring cross-guarantees would result in increased risk to the Investment Dealers if their related party found itself in a troublesome situation, such as financial distress. Furthermore, Investment Dealers have strict compliance requirements and mitigate their risk accordingly: they should not be impacted by a related company that may not operate in such a stringent manner. Clients of Investment Dealers would also be more at risk because of the activities of a related company, and this should not be the case.

Most of the Investment Dealers we represent also think this would constitute an undue burden because some of their affiliates are not that closely linked to them, and **the Investment Dealers do not have control over the affiliates' operations.** Therefore, it does not seem appropriate for Investment Dealers to take on this increased risk.

One Investment Dealer we represent *is* in favour of requiring cross-guarantees between Member firms under common control. However, they believe 20% common ownership to be unreasonable and recommend this be increased (possibly to around 50%), as requiring cross-guaranteeing when common ownership is only 20% **could expose a Dealer Member to a liability that they are not aware of and cannot control**.

Another Investment Dealer believes that aligning cross-guaranteeing with the beneficial ownership thresholds applicable in the anti-money laundering (AML) space (25%) would be a better approach.

One Investment Dealer agrees that such cross-guaranteeing is a burden; however, they believe it is an *appropriate* burden to be placed on both parties. Without this requirement, the affiliate of a Member that defaulted could operate unaffected while the industry (the Canadian Investor Protection Fund (CIPF)) would bear the burden of any losses. While some affiliates may not operate with the same stringent compliance policies as Investment Dealers formerly regulated by the Investment Industry Regulatory Organization of Canada (IIROC), organizations, to be successful, should ensure adequate reporting and controls for their investments. This Investment Dealer believes the affiliate owners should ensure the safeguarding of their investments and does not believe the industry should stand behind their investments if the affiliate owners themselves are not prepared to do so.

<u>Part C – Notification Requirements</u>

<u>2246. Dealer Member's Notice of Changes to CIRO</u>

During an industry meeting, we previously questioned CIRO regarding Article 2246, which states the following:

(3) …A *Dealer Member* must notify in writing and **receive written approval** [emphasis added] from *CIRO* before:
   (i.) offering *retail clients* any highly-leveraged *securities* or *derivatives*, or
   (ii.) offering *retail clients* previously approved highly-leveraged *securities* or *derivatives* that are to be based on a new underlying interest.

The questions from our Independent Dealers Group at that time were the following:

- Does this mean that CIRO must pre-approve any "highly-leveraged securities or derivatives" offered to clients?
- If so, would this be the case even if the Investment Dealer's product committee had already approved the "highly-leveraged securities or derivatives"?

CIRO's response at that time was the following:

> Yes, although this is not technically part of Phase 3; this portion stems from the derivatives changes proposed by CIRO last year, which will take effect in September. These changes are included in the Phase 3 proposal because they have already been approved. CIRO plans to issue future guidance on this. The changes originated from the derivatives project and were prompted by concerns about complex products sold to retail investors and related enforcement cases. The upcoming guidance will address necessary adjustments identified during this process.

Investment Dealers had more questions and then asked the following:

- Would this pre-approval be required even if the securities or derivatives were publicly listed?

Investment Dealers thought this new requirement sounded unusual and had not identified it amongst the proposed changes in 2023. They believed the requirement should be removed for the reasons listed below:

- There is already a process in place for reviewing new products at the firm level.
- This seems to be an unprecedented overreach by CIRO:
  - Investment Dealers do not recall CIRO or its predecessors (IIROC/IDA) approving individual products in the past. The regulators have traditionally approved the *trading of certain products*, but <u>not</u> the products themselves.
  - Investment Dealers note it is highly unusual that CIRO would need to pre-approve a product before it could be released into a client portfolio.
- The definition of products considered "highly leveraged" is vague, as "leveraged" is a range in any instrument.

    - For example, would the definition include highly-leveraged exchange-traded funds (ETFs) that are publicly listed?
- The term "derivatives" is broad and can include a very wide range of securities, such as structured notes issued by major banks; options; warrants; convertible debentures; and American Depositary Receipts (ADRs) traded in New York for shares of companies like Shell and Nestle.
- Do-It-Yourself (DIY) investors often trade highly-leveraged ETFs and such an additional requirement could seriously impede their trading.

Highly-Leveraged Products: Our Recommendations – As Previously Submitted

Even highly-leveraged products, as per our Independent Dealers Group's definition, should not require regulator pre-approval or approval, as this would hinder portfolio management and trading. Requiring such pre-approvals or approvals would impose significant burden on Investment Dealers and introduce operational complexity.

Moreover, obtaining pre-approval from CIRO to add securities to an Investment Dealer's product shelf constitutes a regulatory overreach. This unprecedented and unnecessary intrusion hampers the efficient operation of Investment Dealers and may also overlap with existing Know-Your-Product (KYP) and suitability requirements.

While we appreciate CIRO's objective of enhancing investor protection, the proposal to require prior regulatory approval for all highly-leveraged products raises a number of practical and policy concerns. Such an approach risks introducing significant delays to the market, reducing investor choice, and potentially placing Canadian dealers at a competitive disadvantage relative to other jurisdictions.

It may also be challenging, in practice, for the regulator to maintain the specialized, product-specific expertise required to fully assess the evolving range of complex and innovative instruments as effectively as market participants who develop, structure, and manage these products on an ongoing basis. In our view, **a principles-based framework focused on robust internal product governance, clear suitability obligations, and strong supervisory controls would achieve the intended investor protection outcomes without creating an unduly burdensome pre-approval regime.**

We ask CIRO, once again, to reassess this requirement.

Part D – Trade Names and Disclosures

2285. CIRO Membership Disclosure Requirements for Dealer Members

We agree with the removal of CIRO decals in the updated proposal as it created operational and cost burdens and added no benefit for investors.

We also welcome the removal of the requirement of including a link to the CIRO website on account statements. Such a minor change would have had significant cost implications for Investment Dealers as the service providers who implement such changes charge considerable fees for their services.

We additionally welcome the removal of the shared office signage requirement moving forward, as this will eliminate client confusion.

We also support the amendment to the required notice period for material business change notification from 20 days to 30 days in order to align with other required notifications.

Rule 2400 – Acceptable Back Office and Service Arrangements

Part A – Arrangements Between Two Dealer Members

Part A.1 – General Requirements

2408. Introducing/Carrying Broker Arrangement Exemption

With respect to the current carve-out for futures trading, we must reiterate the following:

The Investment Dealers we represent believe that asking for an exemption for situations that are currently accepted by CIRO is a net new regulatory burden that does not provide any added value to the Investment Dealer, the regulator, or the investor. CIRO should provide the exemption to the Investment Dealers that currently have a secondary arrangement without requiring new exemption requests from these Investment Dealers.

Furthermore, in light of CIRO's statement on page 82 of Appendix 9 (Summary of Comments) that "affected Dealer Members will receive exemptions promptly upon request," this requirement serves no practical purpose and is an unnecessary regulatory burden.

Part E – Service Arrangements

2490. Acceptable Service Arrangements

The Investment Dealers we represent do not oppose this proposal, provided the expectations regarding outsourcing arrangements/service arrangements are not expanded.

Rule 2500 – Dealer Member Directors and Executives, and Approval of Individuals

2505. Chief Financial Officer

(2) The *Chief Financial Officer* need not be actively engaged in the business of the *Dealer Member* on a full-time basis if appropriate for the *Dealer Member's* business.

Applying CFO Requirements to Mutual Fund Dealers

The Investment Dealers we represent strongly believe that mutual fund dealers, regardless of their size, must adhere to the same rules as Investment Dealers in order to protect the investing public. Having a CFO accountable for a Dealer's financial statements fosters strong governance and sound financial practices.

Rule 2700 – Continuing Education Requirements for Approved Persons

The Investment Dealers we represent agree with CIRO's proposal to adopt and maintain the existing, separate continuing education regimes as an interim measure.

Harmonizing the Approved Person Regime and Corresponding Proficiency Requirements (originally in CIRO's Phase 4 Rule Consolidation Proposal)

The industry agrees with the following excerpt from CIRO's Phase 4 notice regarding the Approved Person regime:

> We acknowledge that these proposed changes are likely to have a significant impact on mutual fund dealers. However, one of the primary objectives of the Rule Consolidation Project is to ensure that like activities of Dealers are regulated in a like manner. Standardizing the Approved Person regime and proficiency requirements will ensure that the clients of mutual fund dealers can be confident that their advisers, and the oversight of those advisers, are subject to the same standards as are afforded to clients of investment dealers. Each of these Approved Person categories are responsible in some way for regulated responsibilities. Allowing mutual fund dealers' Approved Persons categories who are not subject to registration requirements under securities legislation to avoid any review process by a securities regulatory authority, while their investment dealer counterparts are subject to a CIRO approval process, results in too stark of a difference in the protections provided to their respective clients.

The Investment Dealers we represent fully agree that Canadian investors must be protected whether they are investing through an Investment Dealer or a mutual fund dealer. Strict and standardized rules and regulations are necessary to maintain the public's confidence in our industry. It is also our view that mutual fund dealers need to be held to a more rigorous and consistently applied compliance standard. As the industry has evolved, the regulatory expectations applicable to Investment Dealers have become increasingly robust, while comparable enhancements for mutual fund dealers have not always kept pace. This has contributed to an uneven regulatory landscape that may undermine both investor protection and competitive fairness. We believe the time has come, through the consolidated rulebook project,

to elevate the compliance framework applicable to mutual fund dealers through strengthened supervisory requirements, clearer accountability, and more consistent enforcement, so that all market participants operate under a suitably high and harmonized standard.

Harmonizing the Approved Person Review Process for Supervisors across Dealer Members

The industry fully supports the following excerpt from CIRO's proposal, originally in Phase 4:

> To ensure investor protection and confidence with respect to these functions, we believe that CIRO must review applicants for Supervisors of mutual fund dealers in the same way that is currently required for their counterparts at investment dealers. This is necessary to ensure that CIRO has confirmed the adequate experience and aptitude of such an applicant prior to that individual being able to act in a Supervisor capacity and is aligned with the primary objective of ensuring that like Dealer Member activities are regulated in a like manner.

The Investment Dealers we represent fully agree with CIRO's view. Canadian investors must be protected whether they are investing through an Investment Dealer or a mutual fund dealer. As mentioned above, strict and standardized rules and regulations are necessary to maintain the public's confidence in our industry.

We also support CIRO's Phase 6 comments stating that they amended their previous proposal and will instead apply the same proficiency requirements to supervisors across Dealer Members:

> Having now reviewed the requirements for Investment Dealer Members' Supervisors as amended by the IDPC Proficiency Model Project, we have determined they are appropriate for Supervisors of Mutual Fund Dealer Members. Furthermore, maintaining different proficiency requirements would hamper the mobility of Supervisors if they wish to move between different types of Dealer Members.

Approved Person Category

item #16, page 9 of Appendix 9 to the Proposal states the following:

> Following industry feedback, we are now proposing to also apply the same proficiency requirements to any MFD Approved Person category that is not subject to substantive educational or experience proficiency requirements under securities legislation. Specifically, this will include the following categories of Approved Persons for MFD:
>
> - Director,
> - Executive,
> - Chief Financial Officer,
> - Ultimate Designated Person, and
> - Supervisor (currently referred to as "Branch Managers" under the MFD Rules).

> To allow for these different approval requirements depending on the type of Dealer Member and Approved Person category, the Phase 4 Proposed CIRO Rules bifurcate the definition of "Approved Person" according to the type of Dealer Member. The definition that applies to ID remains materially unchanged.

We agree that these categories must apply to mutual fund dealers and we support the aim of eliminating any possible confusion regarding these categories.

Ultimate Designated Person (UDP)

We also agree with the Phase 6 proposal, revised based on feedback received, to extend the same proficiency requirements to UDPs across both types of Dealer Members. This aligns with the proposal that MFD Members' Executives be subject to the same proficiency requirements as Investment Dealer Members' Executives under the proposed CIRO Rules, which we support, as the UDP of a Dealer Member is also an executive and thus should be required to complete the same exam.

General Requirements for Chief Financial Officers across Dealer Members

The Investment Dealers we represent agree with the proposed adoption of the IDPC Rule provisions relating to the general requirements for CFOs across Dealer Members, as this aligns with the objectives of consistency, efficiency, and adaptability in financial oversight.

Requiring a consistent level of financial subject matter expertise across both types of Dealer Members ensures that all Dealer Members meet a high standard of financial governance and compliance, fostering greater confidence in the regulatory framework.

Consolidating the regulatory financial filing forms into a single Form 1 is a logical step forward, as it reduces duplication and complexity while maintaining the explicit responsibilities and obligations for CFOs within that document, thus enhancing the uniformity and clarity of financial reporting requirements.

Additionally, the flexibility to allow CFOs to engage with the Dealer Member's business on a non-full-time basis, where appropriate, is a pragmatic and balanced approach that accommodates the diverse operational models of Dealer Members without compromising the robustness of financial oversight. This flexibility also mitigates potential resourcing challenges and reflects an understanding of the varying needs and capacities of Dealer Members, making the proposed changes both equitable and practical.

However, the wording in Rule 2505 below may need to be amended as it seems to imply that any Dealer could assess themselves as not requiring a full-time Chief Financial Officer:

> (2) The Chief Financial Officer need not be actively engaged in the business of the Dealer Member on a full-time basis if appropriate for the Dealer Member's business.

Rule 3100 – Dealing with Clients

Rule 3105. Conflict of Interest

CIRO proposes an amendment to clause 3105(1)(ii) to specify that Dealer Members must take reasonable steps to identify conflicts of interest between clients and persons, rather than only Approved Persons, acting on the Dealer Members' behalf. CIRO continues by saying that it is important that such conflicts of interest are identified so that they can be addressed accordingly in the client's best interests.

The Investment Dealers we represent reiterate their significant concerns regarding CIRO's proposal to extend the scope of existing rules to include new categories of employees that are not currently covered (non-registrants). The Investment Dealers we represent believe that any contemplation of expanding the scope of existing regulation to include non-registrants should be addressed through a separate, future initiative, and considered outside the scope of the current consolidation project. We believe this proposed change would introduce a significant operational burden for dealers who would be required to update their policies and procedures; re-train staff; and overhaul their oversight controls.

3110. Personal Financial Dealings

Application to Employees

The Investment Dealers we represent note that by extending the prohibition to include all employees of Dealer Members (where the current MFD rules only apply to Approved Persons and not to their employees), the Proposal seems to address potential conflicts of interest that could arise from personal financial dealings and effectively harmonize the regimes.

Most of the Investment Dealers we represent support these provisions but also believe it is **essential for them to have some discretion to approve such dealings on a case-by-case basis when needed.** Such approvals would require thorough analyses to ensure the investors remained fully protected and were not adversely affected by any personal financial arrangements.

Some Investment Dealers hold a different perspective, asserting that such matters should not be formally enshrined in regulation. Instead, they argue that these principles, primarily concerning conflicts of interest, should be carefully assessed and managed by each firm individually. These Investment Dealers believe it is incumbent upon Investment Dealers themselves to establish and enforce robust policies and procedures to ensure effective oversight in this critical area.

As per the new proposed rules:

> (2) Personal financial dealings include, but are not limited to, the following types of dealings:
> …

(v) Control or authority

(a) Acting as a Power of Attorney, trustee, executor, or otherwise having full or partial control or authority over the financial affairs of a client, unless:

(I) the client is a Related Person as defined by the Income Tax Act (Canada) and the existence of such control is addressed in accordance with the *Dealer Member's* policies and procedures, and

(II) in the case of Associate Portfolio Managers, Portfolio Managers, Investment Representatives and Registered Representatives, the arrangement in paragraph 3110(2)(v)(a)(I) is disclosed to and approved in writing by the *Dealer Member*, prior to entering into the arrangement.

(vi) Beneficiary status and estate bequests

(a) For the purposes of 3110(vi)(b), "immediate family" means parents, grandparents, mother-in-law or father-in-law, spouse or domestic partner, brother or sister, brother-in-law or sister-in-law, son-in law or daughter-in-law, children, grandchildren, cousin, aunt or uncle, or niece or nephew, and any other person who resides in the same household as the Approved Person or employee and the Approved Person or employee financially supports, directly or indirectly, to a material extent. The term includes step and adoptive relationships.

(b) Accepting the status of a beneficiary of a client's estate or receiving a bequest from a client's estate upon learning of such status, unless:

(I) the client is a member of the employee's or Approved Person's immediate family; and

(II) in the case of Associate Portfolio Managers, Portfolio Managers, Investment Representatives and Registered Representatives, the proposed status or bequest is disclosed to and approved in writing by the Dealer Member, prior to accepting such status or bequest.

(3) CIRO may grant an employee or Approved Person of a Dealer Member an exemption from the applicable requirements regarding personal financial dealings with clients 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.

The Investment Dealers we represent generally believe that, in theory and under normal circumstances, an Approved Person or an employee should be prohibited from accepting a position of power of attorney, trustee, executor or otherwise having full or partial control of the affairs of a client.

However, we believe there are circumstances in which accepting such a position is justified. For instance, an Approved Person managing a discretionary account for an investor may be considered to hold a power of attorney, as they control the client's account.

Some Dealers we represent therefore support these provisions but also believe it is essential for them to have the discretion to approve such activities on a case-by-case basis when needed. This approval would require thorough analysis to ensure the investor remained fully protected and was not adversely affected.

Other Investment Dealers we represent believe that such matters should not be formally enshrined in regulation. Instead, they argue that these principles, primarily concerning conflicts of interest, should be carefully assessed and managed by each firm individually, and that it is incumbent upon Investment Dealers themselves to establish and enforce robust policies and procedures to ensure effective oversight in this critical area. These Investment Dealers who are seeking flexibility, do not believe the definition of "immediate family" is required in the rulebook.

We note that a Dealer may also wish to set up an affiliate to provide trust services. Such trust services often expand power of attorney or trustee-type roles to many executive members, meaning the Investment Dealer could have executives who do not have client interactions but who are subject to Business Conduct Rules that are intended to protect clients. The Investment Dealers we represent are seeking clarification from CIRO in regard to this.

The Investment Dealers we represent generally agree with the restriction prohibiting Approved Persons and employees from accepting beneficiary status or bequests from a client's estate, except where the client is an immediate family member, and with the additional requirements of a disclosure and written approval by the Dealer Member in the case of Associate Portfolio Managers, Portfolio Managers, Investment Representatives, and Registered Representatives.

However, we recognize that the Ontario Securities Commission (OSC) recently lost a case against a former representative who was named as a beneficiary by a client to whom they had no familial relation, setting a precedent at odds with the Proposal. As previously stated, some of the Investment Dealers we represent support these provisions but strongly believe they should have the discretion to grant approvals on a case-by-case basis when an Approved Person or employee is named as a beneficiary, as certain circumstances may justify such consideration. For instance, a client may wish to name a close friend or a relative who does not fall under the definition of "immediate family."

As previously stated, the Investment Dealers we represent support these provisions but emphasize the importance of Dealers maintaining the discretion to grant approvals on a case-by-case basis when an Approved Person or employee is named as a beneficiary, recognizing that certain situations may warrant such consideration. For example, when the individual has been named as beneficiary by a good friend or a relative that is not considered "immediate family."

As previously mentioned, some Investment Dealers hold a different perspective, asserting that such matters should not be formally enshrined in regulation. Instead, they argue that these principles, primarily concerning conflicts of interest, should be carefully assessed and managed by each firm individually. These Dealers believe it is incumbent upon the firms themselves to

establish and enforce robust policies and procedures to ensure effective oversight in this critical area.

We understand that questions may arise as to whether a beneficiary's status was secured through undue influence. However, as noted above, some of the Investment Dealers we represent firmly believe that such matters should not fall within the purview of regulatory bodies as imposing regulatory restrictions in such cases risks undermining the client's genuine final wishes. Instead, any concerns regarding potential undue influence by an employee or Approved Person should be addressed by the executor, other beneficiaries, or the deceased's relatives through the courts.

Implementation for Existing (Unregistered) Approved Persons of Mutual Fund Dealer Members

The Investment Dealers we represent strongly believe that mutual fund dealer directors should be subject to a CIRO approval process and net-new proficiency requirements. A reasonable timeframe must be provided for these directors to complete the proficiency requirements. We believe that any director unable to complete the requirements within a reasonable timeframe would not be fit to keep such a title.

We also believe that allowing existing directors of mutual fund dealers into the Approved Person regime without being subject to a CIRO approval process could undermine investor confidence, especially in light of the lack of rigorous proficiency requirements for mutual fund dealer directors under the current MFD Rules.

Transition Period for Approved Person Categories Where New Requirements Have Been Introduced or Existing Requirements Have Been Materially Changed

The Investment Dealers we represent strongly believe, as proposed in Phase 4, that mutual fund dealer "Approved Persons" should be subject to the new proficiency requirements. A reasonable timeframe must be provided for these future Approved Persons to complete the proficiency requirements, and we believe any "Approved Person" who is unable to complete them within a reasonable timeframe would not be fit to keep such a title or be approved by the regulators.

We also believe that allowing current "Approved Persons" of mutual fund dealers to be considered "Approved Persons" under the new regime without being subject to an approval process could undermine investor confidence, especially in light of the lack of rigorous proficiency requirements for Approved Persons under the MFD Rules, as mentioned above, and, as such, we would not support an exemption for these individuals.

Rule 3200 – Know-Your-Client and Client Accounts

3203. Identifying Partnerships or Trusts; and 3204. Identifying Corporations

We agree with the proposal to adopt the IDPC approach to disclosure, which requires that in the case of a trust, the names and addresses of all trustees, known beneficiaries, and settlors of the

trust be disclosed, as well as the provision requiring the names of all directors of a corporation to be disclosed within 30 days of opening the account.

This heightened standard enhances transparency and accountability by ensuring that all relevant parties with a significant interest or role in the trust or corporation are identified early in the relationship. The broader disclosure requirements are essential for mitigating potential risks, such as conflicts of interest, fraud, or money laundering, by providing a clear and comprehensive understanding of the parties involved.

Furthermore, aligning these standards across all Dealer Members ensures consistency and fairness while bolstering the integrity of the financial system. These measures underscore the importance of robust due diligence and align with best practices for fostering trust and protecting the interests of all stakeholders in the investment industry.

3213. Account Opening Policies and Procedures

We agree with the proposal to adopt the IDPC provisions that clearly outline the required elements for Dealer Members' policies and procedures related to account opening.

3214. Opening New Client Accounts

The Investment Dealers we represent also support the adoption of a modified rule limiting account activity in cases where a supervisor does not approve a new account after the initial trade, to the following: liquidating trades; paying out funds; or delivering investment product positions to the client. Some of the Investment Dealers we represent will not be impacted, as they do not allow any activity until the account has been approved to be opened.

Consolidating related regulatory requirements into a single provision enhances clarity, reduces ambiguity, and promotes regulatory certainty, which benefits Dealer Members by streamlining compliance efforts and ensuring consistency across the industry. Additionally, the modified rule offers a balanced and practical approach. This ensures that client interests are prioritized and helps safeguard against unauthorized or unapproved account activities.

By harmonizing and improving upon existing rules, these changes demonstrate a commitment to clear, efficient, and client-focused regulatory standards, bolstering confidence in the compliance framework and fostering a robust investment environment.

3251. Accepting a Derivatives Account; 3273. Accepting a Discretionary Account; and 3277. Accepting a Managed Account

CIRO's proposal in Phase 4 stated the following with respect to provisions relating to the acceptance of specific account types:

> We propose to adopt a modified version of the IDPC Rule provisions relating to the acceptance of specific account types that can be offered by investment dealers, namely derivatives accounts, discretionary accounts, and managed accounts. These changes are meant to clarify the current IDPC Rule drafting, and we expect that they will not impose an additional burden on investment dealers.

The Investment Dealers we represent do not object to the amendments proposed in regard to specific accounts for their types of business. As previously mentioned, we believe that mutual fund dealers should not be allowed to open margin accounts until a CFO can oversee margin requirement calculations.

Rule 3400 - Suitability Determination

3402. Retail Client Suitability Determination Requirements; and 3403. Institutional Client Suitability Determination Requirements

The Investment Dealers we represent agree with the proposal, originally in Phase 4, that all Dealer Members should have the option to categorize clients as "institutional" or "retail." This choice does indeed enable flexibility. We therefore support the proposal to retain the IDPC Rule suitability-determination provisions that distinguish between both types of clients (retail and institutional).

Retail Client Suitability Determination Requirements

CIRO's proposal, originally in Phase 4, stated the following with respect to retail client suitability determination requirements:

> We propose to retain the IDPC Rule provision which requires that a Dealer Member must determine whether it is suitable for a retail client to continue having an account with the Dealer Member. This determination is a key element of ongoing suitability responsibilities. We also propose to include the IDPC Rule provision which requires that the scope of products, services and account relationships to which the retail client has access to within the account, are suitable for the retail client.
>
> In addition, we propose to adopt the approach in the IDPC Rules, which requires Dealer Members to respond to specific events or changes in the client's account within a "reasonable time".

We agree with maintaining the IDPC Rules with respect to the suitability obligations outlined above for all CIRO Dealer Members.

Unsuitable Investments in a Retail Client Account

CIRO's Rule 3402 states the following:

(5) If after performing a suitability determination pursuant to subsection 3402(1) a Dealer Member has determined that an action taken for a retail client does not satisfy subsection 3402(1), the Dealer Member must:

(i) advise the retail client,
(ii) make recommendations to address any inconsistencies, and
(iii) maintain evidence of such recommendations.

The proposal, initially in Phase 4, stated the following with respect to Dealers' advice and recordkeeping obligations when making suitability determinations:

> We propose to adopt a modified version of the MFD Rule provision which specifies that if, after performing a suitability determination, a *Dealer Member* has determined that an action taken for a client does not meet the suitability determination requirements, the *Dealer Member* must advise the client, make recommendations to address any inconsistencies, and maintain evidence of such recommendations. This provision addresses situations where the unsuitable investment may have not arisen from the action of the *Dealer Member* or *Approved Person*, such as the transfer-in of investment products. We expect that this represents existing practice and will not impose an additional burden on investment dealers.

We confirm that this does indeed represent existing practice at the *non*-Order-Execution-Only (OEO) Investment Dealers we represent, and we do not oppose the provision.

However, we note this would create an additional burden for Investment Dealers and they would need time to adapt their policies and procedures accordingly.

We also suggest clarifying in the Rules the sections that do *not* apply to OEO Dealers, beyond Rule 3240, "Rules applicable to order execution only accounts" and Rule 3241, "Order execution only account services," currently in the rules, as no net-new requirements for OEO Dealers should be included in the consolidation project.

Rule 3600 – Communications with the Public

3602. Advertisements, Sales Communications and Client Communications

The Investment Dealers we represent support the proposal to adopt the IDPC Rule's approach towards review and approval of advertisements, sales communications, and client communications, as well as the retention period and documentation to be retained. However, we do not believe that the additional requirement ("an image such as a photograph, sketch, logo or graph which conveys a misleading impression") is needed as it is already included in the non-misleading advertisement and communication requirement that Investment Dealers comply with. Therefore, this would not be an additional requirement for Investment Dealers, but they

would still incur an increased burden in having to amend their policies and procedures without any corresponding additional protection or value being provided to investors.

Rule 3700 - Reporting and Handling of Complaints, Internal Investigations and Other Reportable Matters

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

CIRO is proposing to add certain reportable matters contained in MFD Rule 600 (4)-(6) (Appendix 6 of the Phase 5 proposal). CIRO is proposing changes to the reporting requirements, which include the following:

- the introduction of the defined term "serious misconduct," as described above [in Appendix 6], and the corresponding requirement to report instances and complaints alleging such conduct; and
- extending the Reporting Requirements, which previously applied only to Approved Persons, to employees of the Dealer Member.

As a result, Dealer Members will be required to establish policies and procedures that require employees to report to the Dealer Member the matters set out in Proposed DC Rule subsection 3710(2), specifically in respect of such matters occurring while they were engaging in Dealer Member related activities, while employed by the Dealer Member. Dealer Members will also be required to report such matters to CIRO, as specified in proposed DC Rule clause 3711(1)(v)).

The Investment Dealers we represent do not support extending regulatory purview to non-registrants and note such an extension could unintentionally create opportunities for regulatory arbitrage with employment and labour legislation. We note that the proposal introduces a number of new requirements that, in our view, fall outside the intended scope of the current Proposal. Such an expansion is inconsistent with the stated objective of the consolidation project. If CIRO intends to explore the idea of including non-registrants within its regulatory framework, this should be pursued through a separate consultation process and not embedded within the present, already substantial initiative.

Furthermore, the Investment Dealers we represent believe such an expansion is not responsive to the current regulatory landscape, and is potentially duplicative, as mechanisms are already in place and firms are well equipped to address misconduct by such employees. These include comprehensive Investment Dealer policies and procedures, internal training, and disciplinary frameworks, as well as recourse through civil litigation and enforcement actions by provincial securities commissions.

Furthermore, the proposed definition of "serious misconduct," including the revised "(ii) [A]ny other instance of material non-compliance with *CIRO requirements, securities laws*, or any *applicable laws* that create a reasonable risk of material harm to a client, former client, or the

public interest," continues to cast an exceptionally wide net and raises the risk of over-reporting minor or technical infractions that have no meaningful consequence for clients or the integrity of the capital markets. We respectfully recommend refining it to more clearly specify the types of breaches that would warrant reporting.

As previously mentioned in our Phase 5 comment letter, the Investment Dealers we represent do not support extending regulatory purview to non-registrants. We reiterate that the rule introduces a number of new requirements that, in our view, clearly fall outside the intended scope of the current Proposal. Such an expansion is inconsistent with the stated objective of the consolidation project. If CIRO intends to explore the idea of including non-registrants within its regulatory framework, this should be pursued through a separate consultation process and not embedded within the present initiative.

3711. Reporting by a Dealer Member to CIRO

As per above, the Investment Dealers we represent do not support extending the regulatory scope to non-registrants. We again note that this rule introduces a number of new requirements that, in our view, fall outside the intended scope of the current Proposal. Such an expansion is inconsistent with the stated objective of the consolidation project. If CIRO intends to explore the idea of including non-registrants within its regulatory framework, this should be pursued through a separate consultation process and not embedded within the present initiative.

3723. Exceptions to Reporting Requirements

The Investment Dealers we represent support the proposal that to prevent duplicative reporting, the reporting requirements under Rule 3700 do not apply for any matter reported to CIRO under Universal Market Integrity Rules 10.16, 10.17, and 10.18.

PART C – Settlements and Confidentiality Restrictions

3731. Restrictions

As per the Proposal:

> (1) A *Dealer Member* or an *Approved Person* must not, enter into any form of agreement or understanding with a client or otherwise, which imposes confidentiality or similar restrictions preventing a client from:
> (i) initiating a *complaint* to the *securities regulatory authorities, SROs* or other enforcement authorities,
> (ii) continuing with any pending *complaint* in progress,
> (iii) participating in any further proceedings by such authorities, or
> (iv) communicating or sharing information with the *securities regulatory authorities, SROs* or other enforcement authorities.

The Investment Dealers we represent are concerned that prohibiting the use of confidentiality agreements could inadvertently encourage unfounded claims, prompting clients to pursue monetary settlements without legitimate grounds. This would not only result in a significant administrative burden for Investment Dealers, but also divert resources away from more substantive matters. For these reasons, we believe that confidentiality agreements should continue to be permitted, as they serve an important role in facilitating fair and efficient complaint resolution. Confidentiality agreements should remain permissible provided they expressly preserve the client's right to communicate with CIRO, securities regulators, OBSI and law enforcement authorities.

3740. Complaint Policies and Procedures

Institutional Clients

The Investment Dealers we represent do not oppose this proposal with respect to policies and procedures relating to complaints for institutional clients. However, we must reiterate that the proposed definition of "serious misconduct," and particularly the inclusion of "any other instance of material non-compliance with CIRO requirements, securities laws, or any applicable laws […]" casts an exceptionally wide net. As currently framed, this language could encompass virtually any breach of securities law, regardless of its nature, materiality, or impact. This raises the risk of over-reporting minor or technical infractions that have no meaningful consequence for clients or the integrity of the capital markets. We respectfully recommended either removing this broad, catch-all provision or refining it to more clearly specify the types of breaches that would warrant reporting, for example, those involving client harm, systemic risk, or intentional misconduct, which CIRO has done.

3751. Retail Client Complaints

Regarding the requirement to provide a written response to written retail client complaints and any retail client complaints alleging "serious misconduct," we must reiterate that the proposed definition of "serious misconduct," and particularly the inclusion of "any other instance of material non-compliance with CIRO requirements, securities laws, or any applicable laws […]" casts an exceptionally wide net. As currently framed, this language could encompass virtually any breach of securities law, regardless of its nature, materiality, or impact. This raises the risk of over-reporting minor or technical infractions that have no meaningful consequence for clients or the integrity of the capital markets. As previously mentioned, we respectfully recommend either removing this broad, catch-all provision or refining it to more clearly specify the types of breaches that would warrant reporting, for example, those involving client harm, systemic risk, or intentional misconduct.

3753. Handling Client Complaints

The Investment Dealers we represent have also pointed out that the related complaint handling Rule 3753 which states, "The *Dealer Member* must provide *complaint* drafting assistance to any

complainant who expresses a need for it," is very vague, especially with respect to the term "complaint drafting assistance" and what CIRO's expectations might be in this regard. Does this imply that CIRO Dealer Members would be required to offer this service to their clients? Would they be required to develop a prescribed template and new mechanisms to submit complaints (either online or paper based)?

The stated objective of the consolidation project is to harmonize the existing mutual fund dealer and Investment Dealer rules by adopting common requirements. Introducing the above point as a new requirement should be considered outside the intended scope of this project. Once the new CIRO rules have been implemented, the industry could then more fully assess whether this item should be introduced as a formal rule, including why it is necessary and what issue it is intended to address.

Complaints - Time Limit to Provide a Substantive Response Letter

The Investment Dealers we represent strongly believe that the 90-day time limit for providing a substantive response letter should be preserved. We understand that the Autorité des marchés financiers (AMF) has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per the Companion Policy to National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*).

Furthermore, when the AMF was asked about its decision to reduce the timeframe to 60 days, the rationale provided was a desire to **harmonize** complaint-handling rules **within Quebec**. However, in doing so, the AMF inadvertently created regulatory misalignment at the national level. This change has resulted in a fragmented framework for Investment Dealers, who must now navigate inconsistent complaint-handling processes across jurisdictions in Canada, thereby undermining harmonization efforts by both the CSA and CIRO.

We believe that a 90-day period is appropriate to allow for a thorough assessment and the delivery of high-quality service to clients, and we respectfully urge the AMF to revisit this rule change and reinstate the 90-day timeframe to support genuine regulatory consistency across the Canadian landscape.

Rule 3800 – Recordkeeping and Client Reporting

3851. Client Account Statements

We must reiterate that the Investment Dealers we represent oppose the proposal to allow mutual fund dealers to offer margin accounts due to the increased risk to retail investors.

Beginning Total Market Value in Client Statements

Some of the Investment Dealers we represent did not support the proposed inclusion of the **beginning** total market value of all cash and investment products on client statements. We thank

CIRO for revising its proposal in former 3851.(4)(vi), as this change would have imposed additional costs on these Investment Dealers due to systems modifications, without delivering any meaningful benefit to investors who already have this information in their prior statements.

Client Reporting

The Investment Dealers we represent believe the related and connected transaction-specific disclosures on client account statements should remain and mutual fund dealers should be subject to these. A general conflict disclosure at account opening is simply not a sufficient means of protecting investors.

Use of Free Credit Client Cash

As discussed in our previous comment letters, the Investment Dealers we represent do not believe that mutual fund dealers should use free credit client cash.

3857. Delivery of Documents to Clients

While some of the Investment Dealers we represent anticipate incurring costs as well as significant operational challenges associated with the transition to a default e-delivery format, there is overall support for the proposal.

Some Investment Dealers believe that the majority of their clients prefer to continue receiving paper-based communications. In light of this, they would encourage CIRO to consider granting firm-level exemptions where justified, to ensure that client preferences are respected and operational burdens minimized. Many Dealers believe the choice of delivery format should be left up to firms and their clients rather than being prescribed in the rules, as any value in mandating a preference would be negligible as compared with the benefit of allowing clients and Dealers to make this choice.

The Investment Dealers we represent believe that the additional information in Phase 6 regarding electronic delivery, that documentation required under Rule 3800 must be delivered electronically to clients unless the client requests paper delivery, may generate confusion. The fact that non-digital clients must request paper delivery should be clarified, and it should be clarified that an in-person or phone conversation should constitute sufficient documentation (as these are non-digital clients who may not have access to a computer to provide an electronic written request).

The Investment Dealers we represent do not believe that “at no cost” should be codified in a CIRO rule and believe instead that Dealers should be permitted the flexibility to exercise reasonable judgment in situations where it may be appropriate to apply a cost to such requests.

Additionally, we note that several Dealers have expressed an interest in the option to adopt the rule ahead of its formal implementation (early adoption).

Rule 3900 – Supervision

Part A – General Supervision Requirements

3907. Delegation and Automation of Supervisory Tasks

The Investment Dealers we represent agree with CIRO's proposal to adopt the IDPC Rule approach to delegation, which permits delegation with specific prohibited exceptions, itemized throughout the rules.

We do not oppose the provision regarding automated tasks. However, we reiterate that CIRO must recognize that while supervisors may comprehend the principles behind an automated task, they may not possess the expertise to replicate the intricate technological functions that underpin it.

3916. Governance Document

The Proposal includes the following:

> (1) A Dealer Member must file with CIRO:
>
> (i) a copy of a current governance document that sets out the organizational structure and reporting relationships required under Rule 3900, and
>
> (ii) notice of any material changes to the organizational structure and reporting relationships set out in the governance document.

We agree that mutual fund dealers should adopt the IDPC Rule requirement to file the material changes made to a Dealer Member's governance document with CIRO.

CIRO must be provided with the most up-to-date information regarding the organizational structures and reporting relationships of Dealer Members in order to protect the investing public.

3855. Trade Confirmation

We appreciate the withdrawal of the initial proposal to replace the concept of ''trade confirmation" with a ''transaction confirmation." We do believe this will avoid a broader interpretation, as intended.

New Disclosures

With respect to the proposed new disclosures and information requirements in client-facing documents (including trade confirmations and account statements), as well as reportable events and the delivery of client documents, several questions and concerns have emerged across the industry.

The Investment Dealers we represent are not convinced that all of the proposed disclosure elements for trade confirmations will meaningfully enhance client transparency or investor understanding. While we appreciate the intent behind the proposed changes, certain information may be more appropriately and effectively presented within the account statement, where similar information is already, or will be, provided in a more comprehensive and contextual manner.

Rule 4100. General Dealer Member Financial Standards – Minimum Capital, Early Warning, Financial Reports and Auditors

Part A – Minimum Capital Levels and Related Requirements

4111. Minimum Capital Levels

CIRO's Proposal includes a minimum capital of $250,000 for a mutual fund dealer designated as a Level 4 Dealer that uses client free credit cash balances within their operations or offers margin accounts to clients.

We must reiterate, on behalf of the Investment Dealers we represent, as previously expressed in our comment letters, that mutual fund dealers should not be allowed at this point, to use client free credit balances or to offer margin accounts to clients. We have the same comments in relation to Rule 4382 of the Proposal.

Section 2.7.1 of CIRO's Phase 5 proposal states the following:

> IDPC Rules require investment dealers to notify CIRO if RAC falls below zero or if any of the early warning tests are triggered. MFD Rules only require notification to CIRO if RAC is below zero. We propose aligning the requirements to apply for both Dealer types by adopting the IDPC Rule requirements in the proposed consolidated rules. (Dealer Consolidated (DC) Rules section 4113)
>
> Under the existing IDPC Rules, investment dealers are required to calculate their RAC and complete the early warning tests on a weekly basis at a minimum. Under the existing MFD Rules, mutual fund dealers are required to calculate RAC on a monthly basis at a minimum. As explained in section 2.7.2 of this Bulletin, we propose that Level 4 mutual fund dealers be subject to the same early warning tests as investment dealers. To align with the early warning requirements, we also propose that Level 4 mutual fund dealers calculate RAC and complete the early warning tests on the same frequency as investment dealers. We are also proposing to increase the frequency of the RAC calculations for Level 1 to 3 mutual fund dealers from monthly to twice monthly and we propose that early warning tests be completed on the same frequency. The requirement to complete the early warning tests in addition to the RAC calculation will be a new requirement for mutual fund dealers.

We propose adopting the following IDPC Rule provisions, in the absence of equivalent provisions in the MFD Rules, with applicability on both mutual fund dealers and investment dealers:

- option for well capitalized Dealer Members to apply more stringent capital calculations, **(DC Rule section 4119)**
- requirement that guarantees be a fixed or determinable value. **(DC Rule section 4120)**

The Investment Dealers we represent continue to support this Phase 5 proposal in the current proposal.

Part B – Early Warning Tests and Related Requirements

As per 2.7.2.1 "Early Warning Tests and Levels" of the Phase 5 proposal:

> We propose to retain the IDPC Form 1 early warning framework for investment dealers and bring Level 4 mutual fund dealers to the same standards. We propose aligning the early warning tests, early warning levels and sanctions for both these dealer types since they hold client securities in nominee name which results in a similar risk to clients in the event of insolvency. (DC Rule subsection 4132(1))

The Investment Dealers we represent continue to support this Phase 5 proposal in the current proposal.

Part D. Appointment of Auditors and Audit Requirements

As per 2.7.4 "Appointment of Auditors and Audit Requirements" of the Phase 5 proposal:

> The most significant difference in audit requirements between the IDPC Rules and MFD Rules is the criteria for qualifying as an auditor to perform the audit of the Dealer Member's year-end regulatory financial report. Under the IDPC Rules, the auditor must be on the approved list of panel auditors. The criteria for this list are not prescriptively outlined in the IDPC Rules but the criteria is set by CIRO and published on our website. The existing IDPC criteria for qualification of a panel auditor is more stringent than the existing MFD criteria. For example, the MFD Rules require that the audit partner acknowledge they have familiarity with the MFD rules whereas the IDPC criteria requires the audit partner to have five years experience and attend the in-depth brokers and investment dealers course at CPA Canada. Given that we are proposing one Form 1, we believe all auditors performing an audit of the Form 1 should have the same educational standards and meet the same approval criteria. We propose to adopt the IDPC Rule requirements and related auditor criteria which will continue to allow CIRO to have the flexibility to update the criteria for approving auditors for both mutual fund and investment dealers. ***(DC Rule section 4171)***

The Investment Dealers we represent continue to support this Phase 5 proposal in the current proposal.

Regarding the transition period for mutual fund dealers' auditor approval, the Investment Dealers we represent do not believe that an extended transition period should be made available in order to protect investors.

Rule 4200. General Dealer Member Financial Standards - Disclosure, Internal Controls, Calculations of Prices and Professional Opinions

Part A – Financial Disclosure to Clients (4202 to 4209)

The Investment Dealers we represent agree that a mutual fund dealer should, upon client request, provide the client with a summary statement of its financial position and a list of its current executives and directors. Mutual fund dealers should also notify clients through client disclosures that this information is available upon request.

Part C - Pricing Internal Control Requirements (4240 to 4244)

CIRO proposes to adopt the IDPC rules for pricing internal control requirements. This includes requirements to ensure consistent and accurate pricing of investment products and verification of the Dealer Member's pricing sources against independent sources.

The Investment Dealers we represent support this proposal. However, we may want to revisit the rule with CIRO outside of this consolidation project, specifically for introducing brokers and the controls they must put in place.

Rule 4300. Protection of Client Assets – Segregation, Custody and Client Free Credit Balances

Part A - Segregation and Related Internal Control Requirements (4310 to 4332)

The Investment Dealers we represent do not oppose a modified version of the IDPC Rule's segregation requirements that integrates and maintains the core requirements applicable to the Investment Dealer margin-lending model and the mutual fund dealer full-segregation model.

Part A.3 - Investment Products Requiring Segregation; Usage Restrictions and Correcting Segregation Deficiencies (4320 to 4326)

The Investment Dealers we represent do not oppose the introduction of the term "investment products" into the segregation requirements to clarify the scope of the segregation requirements.

Part B - Custody and Related Internal Control Requirements (4340 to 4368)

We do not oppose the proposed adoption of the IDPC Rules on custody and related internal controls for mutual fund dealers.

Part C - Client Free Credit Balance Requirements (4380 to 4387)

Additional Account Services CIRO is Proposing to Allow Mutual Fund Dealers to Offer

4382 – Mutual Fund Dealer Member's Use of Client Credit Free Balances; and 5112 – Advancing Redemption Proceeds and Client Margin Lending by Mutual Fund Dealer Members

CIRO is proceeding with the proposal (initially described in the Phase 4 proposal) to allow mutual fund dealers the ability to do the following:

- offer margin accounts to clients in some scenarios, provided that certain conditions are met; and
- use client free credit cash balances within their operations.

The Investment Dealers we represent continue to object to this proposal. Margin accounts allow investors to leverage their holdings, increasing their purchasing power and enhancing liquidity in the financial markets. By using borrowed funds to invest in stocks, bonds, derivatives, and other products, investors can participate in opportunities without having to liquidate their existing positions. This is particularly useful for active traders, institutional investors, and high-net-worth individuals who require capital efficiency to optimize their portfolio strategies.

Allowing mutual fund dealers to offer margin accounts to their clients poses significant risks to investor protection and market stability. Unlike Investment Dealers, who operate under a more robust regulatory framework with capital markets expertise, mutual fund dealers primarily cater to retail investors who may lack the financial sophistication required to manage leveraged investments effectively. Introducing margin accounts to this segment would expose unsophisticated investors to amplified losses, potentially leading to financial distress, and undermining their confidence in the investment industry.

Mutual funds are designed to be long-term investment vehicles with a focus on diversification and risk management. By allowing margin accounts, regulators would be enabling leverage on products that were never intended for such risk-taking. The very nature of margin trading (borrowing funds to invest) introduces a level of volatility and risk that is fundamentally at odds with the traditional objectives of mutual fund investing. This could lead to an increase in margin calls during market downturns, forcing investors to sell their holdings at a loss, exacerbating downward price pressures, and creating systemic risks in the market.

Furthermore, mutual fund dealers do not have the same level of risk management infrastructure or regulatory oversight as full-service Investment Dealers. IIROC (now CIRO) enforced strict capital adequacy and liquidity requirements on Investment Dealers, to absorb risks associated with

margin lending. Mutual fund dealers, on the other hand, operated under a different regulatory framework that did not have comparable safeguards in place. Allowing margin trading without the necessary institutional expertise and oversight could harm retail investors.

Investor protection should remain a top priority, and allowing mutual fund dealers to offer margin accounts could erode the safeguards that regulators have worked diligently to establish. Retail investors trust their advisors to act in their best interest, and the introduction of margin accounts could create incentives for unscrupulous mutual fund dealers to encourage leverage in pursuit of higher commissions. This misalignment of interests could result in devastating financial consequences for clients who are ill-prepared to manage the risks of margin trading.

The risks of allowing margin accounts within the mutual fund dealer channel far outweigh any potential benefits, and regulators should prioritize stability and investor protection over speculative opportunities.

CIRO proposes to allow a Level 4 mutual fund dealer to use client free credit balances in its business, subject to meeting the same client free credit balance and financial solvency requirements as an investment dealer, including:

- minimum capital requirements in sub-clause 4111(3)(i)(f) [$250,000], and
- client *free credit balance* usage limits and excess *free credit balance* segregation requirements in sections 4383 to 4386 and in Statement F and Schedule 2 of Form 1

The Investment Dealers we represent, as previously explained, do not support the use of client free credit balances by mutual fund dealers at this time. The more rigid regulatory framework is new for mutual fund dealers. We would suggest that CIRO wait a few years before proposing the use of client free credit balances by these dealers.

4386. Daily Compliance Review and Required Action

(3) A *Dealer Member* that uses *client free credit balances* within its business must:
   (i) every day, compare the amount of client *free credit balances* it has segregated to the amount subsection 4384(2) requires to be segregated,
   (ii) identify and correct any deficiency in amounts of *free credit balances* required to be segregated under subsection 4384(2) within five *business days* following the determination of the deficiency.

The Investment Dealers we represent welcome the revised proposal above, as the prior proposal failed to account for the distinct operational complexities between Investment Dealers and mutual fund dealers. As a reminder, historically, there have been no material issues related to the segregation of clients' free credit balances by Investment Dealers. The previous proposal would have imposed additional regulatory burden on Investment Dealers without delivering any corresponding benefit to investors. We thank CIRO for maintaining the current five-business-day deadline for Investment Dealers to resolve segregation deficiencies and continuing to subject

mutual fund dealers, whose processes are less complex, to the "immediate action" requirement for addressing cash deficiencies.

Rule 4400. Protection of Client Assets – Safekeeping Client Assets, Safeguarding Cash and Investment Products, and Insurance

Part C - Insurance Requirements

4465. Notify CIRO of Claims

The Investment Dealers we represent support that a Dealer Member must give written notice to CIRO within two business days of reporting a claim to the insurer or its authorized representative.

Rule 4500. Financing Arrangements – Repurchase Market Trading Practices

The Investment Dealers we represent do not oppose the adoption of IDPC Rule 4500 into the DC Rules without any modifications.

Rule 4600. Financing Arrangements – Cash and Securities Loan, Repurchase Agreement, and Reverse Repurchase Agreement Transactions

The Investment Dealers we represent believe that CIRO should not allow mutual fund dealers to engage in fully paid lending at this time.

Rule 5700 – Margin Requirements for Offset Strategies Involving Derivative Products

General Requirements and Summary Reference Tables

5710. Agreement and Account Requirements

5710.(1)(ii) – Exchange-Traded Option Writing in a Non-Margin Account

The Investment Dealers we represent welcome the amendment to clause 5710(1)(ii) to apply to any account that is fully collateralized, not just registered accounts, as this will allow covered calls and cash-secured puts in cash accounts or registered accounts when a derivatives trading agreement is in place.

Rule 7200 – Transaction Reporting for Debt Securities

The Investment Dealers we represent support mutual fund dealers having reporting obligations when engaging in trading through repurchase agreements or reverse repurchase agreements.

Rule 8200 – Enforcement Proceedings

8209. Sanctions for Dealer Members

CIRO's proposal to increase the maximum fine from $5,000,000 to $10,000,000 could unfairly impact smaller Investment Dealers.

While we understand and agree with the intent behind this measure, of enhancing deterrence and maintaining the integrity of the financial markets, we believe such an increase, from a $5 million to a $10 million fine, would disproportionately and unfairly impact smaller Investment Dealers. A proper model should ensure fairness and equity across the industry.

There are several reasons why this adjustment could be detrimental to smaller firms: firstly, smaller Investment Dealers have fewer financial resources, so a higher fine could disproportionately deplete their capital, potentially threatening their viability. This could be a significant financial risk for smaller firms, whereas larger firms might be able to absorb such a penalty without existential threat.

Additionally, smaller Investment Dealers already face significant compliance costs: a higher potential fine would add to their regulatory burden, requiring even more resources to be diverted to risk management, compliance, and potentially legal defenses – resources better spent on serving their investors and other productive activities. Small Investment Dealers' operational efficiency would thus be diminished, along with overall market competitiveness. Furthermore, the potential for debilitating fines can create an atmosphere of fear and uncertainty among employees, affecting morale and productivity, particularly in smaller firms.

The primary purpose of fines should be to deter misconduct, not to destroy businesses. For smaller firms, a $5,000,000 fine is already a severe deterrent. Increasing this amount could create a competitive disadvantage, as larger firms can much more easily absorb larger fines while continuing their operations, giving them an unfair advantage over smaller Investment Dealers who may struggle to survive a hefty penalty. Furthermore, higher potential fines could lead to increased insurance premiums for errors and omissions coverage, disproportionately affecting smaller firms' operating expenses.

The risk of higher fines could also make it more difficult for smaller firms to attract investors or secure loans, as the potential for large penalties increases their perceived risk. Smaller firms often drive innovation in the industry and support junior capital markets, and a threat of crippling fines could stifle their ability to take calculated risks necessary for such innovation and support. Aspiring new entrants to the industry might also be deterred by the increased financial risks, again reducing competition and the overall dynamism of the investment industry.

We note also that a uniform maximum fine does not take into account the relative size and financial capacity of firms, leading to an inequitable distribution of regulatory penalties. And crucially, the overarching impact of higher fines could lead to market consolidation, reducing the

number of small and mid-sized firms, thus reducing consumer choice and increasing systemic risk in the industry.

Maximum Fines for Dealer Members: Our Recommendations

To make the fine model fairer for smaller Investment Dealers, several adjustments could be incorporated. One suggestion is to **structure fines as a percentage of the firm's annual revenue or profits**, ensuring penalties are scaled according to the financial size of the dealer, making them more equitable.

Similarly, a **tiered system, where smaller firms face lower maximum fines compared to larger firms** could be implemented in which, for example, firms with revenues below a certain threshold might have a maximum fine of $5,000,000, while larger firms might have a much higher maximum fine. Such bands of fines, created based on revenue and capital levels, ensure firms within certain financial brackets face proportionate fines. This banding could be regularly updated to reflect market changes.

Fines could also be calculated based on the **specific risk profile and regulatory history of the firm**, with lower risk activities and a clean compliance history facing lower fines. Establishing a system of **graduated penalties, where the number and severity of the violation(s) and the firm's ability to pay are considered,** could also be beneficial. Minor infractions could incur smaller fines, while major violations would result in higher fines, scaled appropriately. We recommend that CIRO document its considerations of a firm's ability to pay and potential harm to investors or market integrity when assessing penalties, similar to the approach of other regulators.

Implementing **fines based on the profits gained or the loss avoided from misconduct** ensures that penalties are directly linked to the financial benefit received from the infraction, regardless of firm size.

Allowing smaller firms to apply for **hardship provisions that reduce fines based on demonstrated financial distress** would ensure any penalties were not crippling. Mitigating factors such as cooperation with regulators, the extent of harm caused, and remedial measures taken by the firm should be considered when determining fines. **Offering reduced fines for firms that admit fault early and take corrective actions promptly,** encourages swift resolution and mitigates the financial impact on smaller firms. Similarly, setting lower fine caps for first-time offenders or those with a minimal history of violations, and higher caps for repeat offenders, incentivizes maintaining good regulatory standing.

Alternative sanctions such as mandatory compliance training, enhanced oversight, or community service requirements could also be considered for smaller firms. Introducing a system where **firms earn credits for proactive compliance measures** would offset fines and encourage a culture of compliance and responsibility. Such alternatives could be effective without causing financial strain.

We recommend **ensuring the fine structure is transparent and predictable**, with clear guidelines on how fines are calculated, to help smaller firms plan and manage their compliance risks effectively.

As discussed, larger firms are much better equipped to absorb such fines without incurring existential risk, giving them a clear competitive advantage. CIRO's proposed fine increase **adds to the regulatory burden on smaller firms** in particular, requiring them to allocate more resources to risk management and legal defences, and further straining their limited operational budgets.

The goal of regulatory fines should be to deter misconduct, not to destroy businesses. As mentioned, for smaller firms, the existing $5,000,000 fine is already a substantial deterrent, and increasing this amount could lead to unintended consequences, such as market consolidation, reduced competition, and a stifling of innovation, as smaller firms might become overly cautious in their operations. The risk of such high fines could also deter new entrants from joining the market, reducing its overall dynamism and potentially increasing systemic risk.

By adopting a more proportional and nuanced approach to fines, we can ensure that penalties serve their intended purpose without disproportionately harming smaller firms. This will promote a fair and competitive market, encourage compliance, and support the overall health of the financial industry.

8210. Sanctions for Regulated Persons other than Dealer Members

Maximum fine

CIRO still proposes the following in Rule 8210:

(4) A Regulated Person must not employ, hire, retain, or otherwise engage, in any capacity, a person who is sanctioned under clause 8210(1)(ix).
(5) A Regulated Person must not hire, retain, or otherwise engage, in any capacity, a person who is sanctioned under clauses 8210(1)(iv), 8210(1)(vi) or 8210(1)(vii) during the period of the sanction.
(6) A Regulated Person must not pay or credit any remuneration to any person who is sanctioned under clause 8210(1)(ix).
(7) A Regulated Person must not pay or credit to any person who is sanctioned under clauses 8210(1)(iv), 8210(1)(vi) or 8210(1)(vii) any remuneration that the person might accrue during the period of the sanction.
(8) Despite subsections 8210(6) and 8210(7), a Regulated Person may pay or credit to a person who is sanctioned under clauses 8210(1)(iv), 8210(1)(vi), 8210(1)(vii) and 8210(1)(ix) remuneration that is:
    (i) consistent with the scope of activities permitted under the sanction, or
    (ii) pursuant to an insurance or medical plan, an indemnity agreement relating to legal fees or as required by arbitration awards or court judgment.

CIRO's proposed large maximum fine increase (from $5 million to $10 million per offence) to deter Regulated Persons from misconduct, as well as the prohibition to pay or credit any remuneration to any person who is sanctioned are highly problematic. As discussed in detail above, we believe this increase is unfair for Regulated Persons and for smaller Investment Dealers.

Sanctions for Regulated Persons: Our Recommendations

Attracting talent in this industry has proven difficult. Attracting and retaining Regulated Persons may become more difficult if the proposed sanctions for Regulated Persons are implemented. The potential increased sanctions may be perceived by Regulated Persons as far too high a risk in their position.

Additionally, the penalty limit in 8210.(1)(iii)(b), equal to three times the "profit made or loss avoided," could far exceed the proposed $10 million maximum for each contravention. We suggest the fine for individuals should remain at $5 million plus disgorgement of profit made (or loss avoided) by the individual from the illicit activity.

Furthermore, prohibiting Regulated Persons (Dealers and Approved Persons) from hiring or compensating sanctioned individuals may also increase risk for Investment Dealers as firms are required to respect labour laws.

We generally agree that Regulated Persons should be prohibited from engaging an individual who is permanently barred from employment with an Investment Dealer and that activity restrictions on sanctioned individuals should be expanded. However, the Investment Dealers we represent believe there must be some consideration made for labour laws regarding preventing people from gaining employment. For example, if individuals are terminated during a period of restriction, the firm is effectively barring them from finding other employment.

People who are restricted do get terminated at times, and Investment Dealers need to be aware that they may be impacting these individuals' rights to find alternative employment. Some Investment Dealers we represent believe these individuals could be employed in a different capacity within the industry.

CIRO Form 1

Statement B – Statement of Net Allowable Assets and Risk-Adjusted Capital

In Phase 5 (2.11), CIRO proposed to adopt one Form 1 (**DC Form 1**) that does the following:

- introduces separate schedules for requirements that are unique to investment dealers or mutual fund dealers;
- blends and harmonizes the financial statements and similar schedules;
- customizes certain schedules to dealer type; and

- adopts the IDPC schedules where there is no corresponding MFD schedule.

The Investment Dealers we represent agree with CIRO that "one Form 1 creates more efficiencies while allowing customization of reporting requirements that may be unique to investment dealers or mutual fund dealers."

We agree with CIRO's adoption of the proposed IDPC Form 1 requirements for the capital formula calculation, as described in the Phase 5 bulletin, below:

- risk adjusted capital, including:
    - net allowable assets, and
    - margin required for risk exposures (e.g., counterparty risk, custody risk, etc.); and
- early warning excess and early warning reserve.

The Investment Dealers we represent agree that mutual fund dealers should adopt the IDPC capital formula, which is based on net allowable assets calculated with regulatory financial statement capital as the initial capital. The mutual fund dealer risk-adjusted capital formula must be reduced for liabilities such as provisions, deferred tax liabilities, and other non-current liabilities. Adopting the IDPC formula will enable better investor protection.

As such, we agree with CIRO's comments included on page 97 of Appendix 9 in the Proposal, which states the following:

> […] While we recognize that this adjustment may have an impact on a limited subset of MFDs, we believe the resulting consistency, comparability, and prudential soundness across all Dealer Members outweighs these challenges. […]

<u>Statement C – Statement of Early Warning Excess (EWE) and Early Warning Reserve (EWR)</u>

CIRO proposes to adopt the IDPC EWE and EWR calculations with slight modifications to align with the risk-adjusted capital approach.

The Investment Dealers we represent do not oppose this proposal.

<u>Margin Required for Risk Exposures</u>

CIRO mentions in 2.11.3 of its Phase 5 proposal that there are significant differences in the consideration and measurement of certain risks within the risk-adjusted capital calculations, between the existing mutual fund dealer Form 1 and the Investment Dealer Form 1; these include the following:

- counterparty credit risk;
- external custody risk;
- securities concentration risk;

- foreign currency exposure risk; and
- provider of capital exposure risk.

The proposal then states the following regarding CIRO's approach to developing the DC Form 1:

> In developing the DC Form 1, our approach was to ensure common risks have the same regulatory treatment regardless of the dealer type that is taking on that risk. […]

The Investment Dealers we represent agree with this proposal. Mutual fund dealers and Investment Dealers are subject to the same margin requirements for these common risks. In addition to margin requirements, we agree with the proposal that for counterparty and custody risk, mutual fund dealers adopt the IDPC Form 1 classification criteria for counterparties and custodians (such as acceptable institutions, acceptable counterparties, and acceptable securities locations), as the IDPC Form 1 classification criteria are more stringent than the MFD Form 1 criteria.

In item 91 of Appendix 9 of the Proposal, CIRO makes the following remarks:

> Two commenters raised concerns about the proposed adoption of IDPC Form 1 treatment of non-allowable assets and counterparty credit risk measures, noting the potential impact on MFDs, particularly smaller firms. They highlighted that receivables such as commissions and trailer fees might be reclassified as nonallowable, leading to higher capital requirements. While IDs supported the enhanced counterparty definitions and expanded reporting, commenters requested clarification on the rationale for these changes and their implications for MFDs. (CBA, SIMA)
>
> We acknowledge the comment concerning the proposal to adopt IDPC Form 1 provisions on non-allowable assets, particularly with respect to the treatment of "commissions and fees receivable." CIRO's objective in aligning these provisions with the ID requirements is to promote consistency in the application of capital adequacy standards across Dealer Member categories. Harmonizing the rules is essential to ensure a uniform framework and to provide a level playing field for all Dealer Members. We have maintained the reporting of commissions and trailer fees from mutual fund companies as a liquid asset. We recognize that commissions and fees receivable from certain non-acceptable institutions may have an impact on some MFDs, however, we believe based on our analysis of MFD business activities that most commission and fee revenue is receivable from acceptable institutions or mutual fund companies that would not be reclassified as nonallowable receivables.

We support CIRO's decision to maintain rule harmonization and to adopt the IDPC rules for mutual fund dealers. The Investment Dealers we represent agree with the proposal to adopt the more stringent IDPC qualifications, as well as to adopt the IDPC margin requirements.

Securities Concentration Risk

We believe that CIRO should adopt the IDPC securities concentration risk requirements for both Investment Dealers and mutual fund dealers, as any dealers investing in securities or providing client margin on securities are exposed to this risk.

The Proposal, initially included in Phase 5, stated the following:

> […] we are proposing to allow mutual fund dealers to offer margin to clients or calculate margin using the cash account margining approach under certain conditions. Mutual fund dealers that choose to offer margin to clients or use the cash account margining approach would be required to consider the client concentration risk and complete the concentration schedules that include both inventory and client positions. ***(DC Form 1 Schedules 11, 11A and 11B)***

The Investment Dealers we represent would like to reiterate that mutual fund dealers should not be allowed, at this point, to offer margin to clients.

The Phase 5 proposal also stated the following:

> […] We propose to broaden the "look through" approach beyond index products to include other investment products with a diversified basket of underlying investment products (excluding derivatives). We are also seeking feedback on whether we should go further and exclude certain diversified investment products from the concentration exposure calculation completely.

We note that CIRO is now proposing to exclude mutual funds and ETFs that meet the proposed definition of diversified investment products from securities concentration testing.

While some of the Investment Dealers we represent expressed concern (in our Phase 5 comment letter) that the proposed approach to concentration calculations for diversified investment products may be confusing and difficult to operationalize, some Investment Dealers believe that diversified products should still be included as standalone products, without using a "look-through" methodology.

Foreign Currency

CIRO is proposing to adopt the IDPC foreign currency exposure risk requirements for Investment Dealers and mutual fund dealers: the Investment Dealers we represent agree with this proposal.

The Investment Dealers we represent agree with CIRO's proposal to adopt the IDPC provider of capital exposure risk requirements for both Investment Dealers and mutual fund dealers.

Provider of Capital Concentration Charge

The Investment Dealers we represent support CIRO's comments included in item 88 of Appendix 9 of the Proposal, which state the following:

> …we believe this risk should be measured equally among Dealer Members. The purpose of the provider of capital concentration charge is to act as an anti-avoidance rule. Without this concentration charge in place, it would be possible for a Dealer Member to report capital contributions received, that are in turn redeposited back with its provider of capital, as regulatory capital. The proposed transition period approach within the proposed CIRO Form 1 would allow MFDs the time and flexibility to reduce their exposures and adapt to the provider of capital concentration charge requirements. The five-year transition period was established based on a targeted impact analysis and consultation with industry stakeholders.

Concentration for Diversified Investment Products

As previously mentioned, some of the Investment Dealers we represent expressed concern that the proposed approach to concentration calculations for diversified investment products in Phase 5 may be confusing and difficult to operationalize. While CIRO's written guidance was not entirely clear on this point, the discussions held within the Financial and Operations Advisory Section (FOAS) Capital Formula Subcommittee suggest that this provision was intended to be optional. Specifically, it appeared to offer Investment Dealers the flexibility to perform a look-through on mutual fund holdings in order to dilute concentration calculations and avoid breaching reporting thresholds.

If this interpretation is correct, we would recommend that CIRO clarify the optional nature of this measure in its formal guidance to avoid inconsistent application or unnecessary compliance burdens.

Schedule 18 - New Schedule Related to Assets Under Administration

CIRO proposed the introduction of an additional schedule in the Phase 5 proposal:

> We are also proposing to introduce an additional schedule to collect supplementary information on the assets under administration at Dealers. This schedule expands the information currently reported by mutual fund dealers in the mutual fund dealer Form 1 to divide the data between client and nominee name and between assets including Quebec and excluding Quebec. The schedule also requires investment dealers to provide assets under administration information for outside holdings and client assets introduced by a mutual fund dealer. Dual registered dealers are also required to provide assets under administration information on this schedule. The assets under administration schedule

was added to assist CIRO in determining fees and assessments. ***(DC Form 1 Schedule 19) [Now Schedule 18].***

The Investment Dealers we represent may not have ready access to the various categories of information being requested, and obtaining such a detailed breakdown could represent a significant operational burden. They are therefore opposed to the introduction of an additional schedule. Changing the frequency to quarterly reporting (as proposed in Phase 6) does not ease the burden, as the information being requested is not readily accessible.

2.11.4.5 "Audit Reports and Agreed-Upon Procedures" in CIRO's Phase 5 Proposal:

Implementation

Investment Dealers believe that implementation should be done in phases with a generous timeline between the different implementation phases. This will benefit the limited resources of smaller Investment Dealers and provide time for them to properly adjust their operations and compliance as required.

We believe the implementation timeframe needs serious consideration to ensure successful change management for Dealers. We would not support many layered implementation timelines because this could lead to an extended work effort to implement the rulebook, in addition to any future regulatory initiatives.

The Proposal states the following:

> We propose an implementation period of 18 months for the CIRO Rules, except for sections noted in 6.1 and 6.2 below.
>
> Commenters requested a range of implementation periods for various requirements. We propose to establish a timeline that accommodates the various impact areas, minimizing the need for multiple staggered implementation dates that could lead to confusion. We believe 18 months is sufficient for Dealer Members and other stakeholders to make appropriate operational and procedural adjustments to comply with CIRO Rules. This timeline is intended to provide adequate time for transition without significantly delaying implementation. Also, the implementation period of 18 months aligns with the transition period for Quebec Mutual Fund Dealers as proposed by the AMF. Aligning these transition periods allows the CIRO Rules to become effective for all impacted dealers at the same time.

We believe that aligning the transition periods is adequate. It is also understood that all existing MFD Rules and IDPC Rules will be repealed as of the implementation date.

The Proposal continues with the following:

We understand Mutual Fund Dealer Members need additional time for their auditors and certain Approved Persons to meet proficiency requirements, so we have proposed an extended transition period as described in 6.2 below. As explained in the Phase 5 Bulletin (25-0080), we have also proposed including adjustments to the calculation risk adjusted capital within the CIRO Form 1 which allows a transition period for adoption of certain components of the RAC calculation for Mutual Fund Dealer Members.

6.1 Immediate implementation for certain requirements

We propose an immediate implementation of the procedural enforcement rules in Series 8000 upon approval. We believe immediate implementation of these rules is appropriate given the following rationale. There are numerous material inconsistencies between the IDPC Rules and the MFD Rules regarding procedural enforcement requirements. For example, these two sets of rules provide different requirements for the following topics:

- The MFD Rules do not require reasons for a settlement agreement whereas IDPC Rules do
- The MFD Rules have a limitation period of 5 years whereas the IDPC Rules have a limitation period of 6 years
- The IDPC Rules provide for additional sanctions not reflected in the MFD Rules (such as a permanent bar to CIRO approval or employment in any capacity) and a broad category of "any other sanction determined to be appropriate"
- The MFD Rules do not explicitly provide for temporary and protective orders and instead provide for applications in exceptional circumstances, whereas IDPC Rules do
- The MFD Rules allow for one-, two- or three-member hearing panels, whereas the IDPC Rules only allow for one- or three-member hearing panels
- MFD Rules require a witness to testify under oath or affirmation while the IDPC Rules do not

We believe there is significant benefit to aligning the enforcement procedural rules as soon as possible. Firstly, and most importantly, Dealer Members and Approved Persons should be subject to one set of consistent procedural enforcement rules, as this ensures consistent treatment of every person who enters the disciplinary process. For example, there are some Approved Persons and Dealer Members who are currently subject to two different procedural rules. In this instance, a Notice of Hearing has reference to two different sets of procedural rules. This is unduly confusing and burdensome for Dealer Members, Hearing Panels, and Approved Persons alike.

The Investment Dealers we represent agree that this would be confusing.

The Proposal continues by stating the following:

> Secondly, the proposed procedural enforcement framework will be more efficient for Dealer Members, CIRO, investors, and Hearing Panels alike once streamlined across proceedings. This allows resources expended on enforcement procedures to be used more efficiently than toggling between two distinct processes, which is a significant undertaking for Hearing Panel participants.
>
> Lastly, we do not expect any significant operational impacts or costs to Dealer Members despite immediate implementation of the procedural enforcement rules. While Mutual Fund Dealer Members may want to update their policies and procedures to reflect these changes for reference, all of the operational impacts effected by these new rules are borne by CIRO. As such, unlike other proposed rule series where Dealer Members are required to make operational changes and thus require a deferred implementation period, we do not see a need to defer the implementation of these procedural rules.

The Investment Dealers we represent did not provide further comments.

The Proposal continues with the following:

> *6.2 Extended implementation for Mutual Fund Dealer Members' CFOs and auditors, and other proficiency related transitional measures*
>
> Since there is currently no requirement that a Mutual Fund Dealer Member must have a CFO, nor any specific proficiency requirements set out under the MFD Rules nor NI 31-103 for these CFOs, we recognize that Mutual Fund Dealer Members may need additional time to hire appropriate individuals who meet the proficiency requirements and apply for them to be Approved Persons, pursuant to the Proposed CIRO Rules Therefore, we propose that Mutual Fund Dealer Members must have a qualified CFO within a 2-year implementation period from the publication of the approved CIRO Rules.

The Investment Dealers we represent understand the difficulty for mutual fund dealers but would stress that having a CFO will lower the risk for mutual fund dealers. They should therefore be encouraged to hire a CFO as soon as possible to improve investor protection.

> […] We propose to adopt the IDPC Rule provisions relating to the approval of panel auditors, to ensure a consistent level of financial subject matter expertise across Dealer Member auditors given the specialized knowledge required to audit the CIRO Form 1. We acknowledge commenters' feedback supporting an extended transition period for Mutual Fund Dealer auditors to meet the panel auditor requirements. We understand auditors may need additional time to attend the required course and enhance their expertise. We propose that Mutual Fund Dealer Members have an approved panel auditor within 2 years of the publication of the approved CIRO Rules.'

Once again, the Investment Dealers we represent understand the difficulty for mutual fund dealers but would stress that having auditors that meet the panel auditor requirements will lower the risk for mutual fund dealers. They should therefore be encouraged to have their auditors meet the panel auditor requirements as soon as possible to improve investor protection.

Rule Consolidation Should Not Expand Regulatory Scope

The Investment Dealers we represent strongly support CIRO's objective of creating a harmonized rulebook that applies consistently across Dealer Members. We agree that like activities should be regulated in a like manner and that unnecessary differences between the current rulebooks should be eliminated where appropriate.

However, as previously explained, we are concerned that certain aspects of the Proposal extend beyond the stated purpose of rule consolidation. In several instances, the Proposal introduces new obligations, expands existing requirements, or extends regulatory oversight to individuals who are not currently subject to those requirements.

In our view, the Rule Consolidation Project should focus on harmonizing existing requirements, improving clarity, and reducing unnecessary differences between Dealer Members. Significant policy changes or expansions of regulatory scope should be considered through separate consultations, supported by a clear policy rationale and an assessment of the associated costs and benefits.

Accordingly, we encourage CIRO to ensure that the Rule Consolidation Project remains focused on harmonization rather than the introduction of new regulatory requirements.

Appendix 8 – CIRO Rules Impact Analysis

As previously mentioned, the Investment Dealers we represent do not support the proposal that employees be included in the definition as potential subjects of a complaint. This would be a net-new requirement for Investment Dealers and would widen the scope of complaints that would have to be managed by Dealer Members and reportable to CIRO.

Impacts of the Proposed DC Rules

The Investment Dealers we represent agree that harmonization will be positive for the industry, as well as for the protection of Canadian investors. Once developed, the existence of harmonized industry infrastructure and regulatory expectations will be positive for the industry as a whole.

CIRO Advisory Committee Feedback – Phase 6

The following feedback was received in respect of the Advisory Committee feedback in the Proposal:

Positive Feedback Received:

- **Reporting and Handling of Complaints, Internal Investigations and Other Reportable Matters (Rule 3800**) – Some members of the CCLS sub-committees expressed support for the revised scope of the definition of serious misconduct, which has been narrowed since our earlier proposal in Phase 5, given that this definition informs the reporting, investigations, and complaint handling triggers (Proposed CIRO Rule 3702). They also supported our proposal to provide guidance that would clarify a 7-year limitation period on complaints filed by former clients, which aligns with general record retention periods, which will be articulated in Guidance.

  CIFIC: No comments received.

Negative Feedback Received:

- **Shared Office Premises -** An IAP member expressed concern that the proposed removal of the shared office signage requirement (IDPC Rule section 2217) may lead to client confusion. We acknowledge this concern and expect that potential confusion concerns will be addressed by Dealer Members through various disclosure means and clear client communication.

  CIFIC: We agree with CIRO's position.

- **Reporting and Handling of Complaints, Internal Investigations and Other Reportable Matters (Rule 3700) -** IAP members reiterated their view that CIRO should reduce the mandated time in which Dealer Members must provide a substantive response to complainants from 90 to 60 days, to align with recently enacted AMF regulation (Proposed CIRO Rule 3756). However, we believe that our proposal strikes the appropriate balance between clients' interests and providing adequate time for Dealer Members to thoroughly investigate and address a complaint.

  CIFIC: We agree with CIRO's position and do not believe that reducing the mandated timeframe based solely on the AMF regulation is appropriate or well-founded. The AMF's amendments were initially justified on the basis of harmonization; however, they ultimately created disharmony at the national level.

  The Investment Dealers we represent do not believe that a problematic policy decision made by a single provincial securities regulator should automatically be adopted by other jurisdictions in the name of harmonization. In our view, harmonization should indeed be restored, but through amendments to the AMF regulation to reinstate the previous 90-day timeframe. Importantly, there is no evidence that the former 90-day standard resulted in concerns or complaints from Québec investors regarding excessive delays.

- **Proficiency requirements of individuals currently exercising the role of branch managers at Mutual Fund Dealer Members registered in Québec (Rule 2600) –** A CCLS subcommittee member raised concern regarding the grandfathering for individuals who currently act in the role of branch managers in the absence of a requirement to have branch managers under the current regulatory framework in Québec. As described above, we intend to allow for grandfathering under similar conditions as set out in Proposed CIRO Rule subsection 2625(3), and to provide for further measures to minimize additional regulatory burden where these requirements are not met. We will publish more details regarding this process in implementation bulletin for this project.

  CIFIC: No comments received.

- **Electronic delivery of client documentation (Rule 3800) –** FOAS committee members generally recognize the benefits of electronic delivery; however, some raised that the choice of delivery format should be left to Dealer Members and their client rather than mandated in the rules. They also raised concerns about challenges associated with transitioning to the default electronic delivery model, including system and operational enhancements, client resistance and communication barriers, and inconsistencies with other legislation. While we acknowledge these concerns, we believe they are primarily short-term and transitional in nature. To support Dealer Members during implementation, CIRO plans to issue guidance related to transitioning clients to facilitate a smooth transition to default electronic delivery.

  CIFIC: While we believe that electronic delivery is beneficial, some Dealers do believe that the choice of delivery format should be left to Dealer Members and their clients rather than mandated in the rules.

- **Enforcement procedural rules (Rule 8000) -** Some Hearing Committees expressed a preference for the MFD Rules' current requirement for witnesses to testify under oath or affirmation. We acknowledge their concern but reiterate that the Proposed CIRO Rules reflect the current IDPC Rule, which is in line with administrative law principles and legislation. The Proposed CIRO Rules provide Hearing Panels with the required latitude to require oaths or affirmation, where warranted.

  CIFIC: We agree with CIRO's position.

Conclusion

We agree that the public interest has been taken into consideration when developing all the phases of the proposed DC Rules and commend CIRO for this. We believe the Proposal achieves its intended objective of ensuring that like dealer activities will be regulated in a like manner, all while minimizing regulatory arbitrage between Investment Dealers and mutual fund dealers.

We believe that the proposed DC Rules will foster public confidence in the capital markets by ensuring all CIRO Dealer Members will be held to standards of conduct that foster fair, equitable, and ethical business standards and practices. Proposing that mutual fund dealers abide by more stringent rules is certainly in the best interest of investors and is eagerly anticipated by the Investment Dealers we represent.

We commend CIRO for its efforts to harmonize the two sets of rules while maintaining its focus on the protection of the investor.

Thank you for considering our comments on this important proposal.

As always, we are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at annie@cific.co with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

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