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To: Member Regulation Policy
Cc: CIRO-Reporting; TradingandMarkets@osc.ca
Subject: Rule amendments relating to the proposed adoption of an Incorporated Approved Person compensation option
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[EXTERNAL EMAIL / COURRIEL EXTERNE]

Hello,

I'm providing comments on the proposed harmonized advisor compensation rules in writing, delivered by November 6, 2026 (120 days from the publication date of Bulletin) and my comments are noted in blue below:

Regarding the proposed changes and amendment related to full incorporation of advisor practices. Honestly, this is long overdue, and many advisory Teams in particular would benefit from this. This is one of the only businesses in Canada who cannot incorporate to control or manage their income, regardless of if they are an individual advisor practice or a practice who manages multiple advisors or advisory teams. Often, advisors have a challenging time doing their own income planning, and as the industry changes, many practices are working in large teams building big practices with many owners and employees. With the current set-up, advisors find it challenging to structure their compensation agreements with partners, and employees because all of the income is generally attributed to the lead advisor – making it increasingly challenging to manage the business, the structure, their personal finances, and taxes along with structuring a viable succession plan. Allowing advisors to incorporate fully their investment business would assist them in building their practice, and team, and allow them to have some business continuance with success planning. Additionally it would help them manage their overhead more efficiently as a business, because they are taking significant loss due to personal taxation (up to 50+%) – paying for expenses with corporate dollars could give advisor practices more ability and room to grow their business, and give back to their employees (and clients). Currently there is no ability to do this for most advisors, and from an estate planning point of view this could be incredibly beneficial. This would also allow continuance of name-sake for the business, smooth client experiences when transitioning/retiring advisor, and making easier for the managing dealer or firm.

Regarding the proposed changed.

Currently, certain client-facing Approved Persons sponsored by mutual fund dealers or firms registered as both an investment dealer and a mutual fund dealer are permitted to utilize an approach whereby the compensation they have earned through the performance of activities for their sponsoring Dealer Member is paid to a party other than themselves1. The remaining client-facing Approved Persons, are not permitted to use such an approach.

To respond to Dealer Member and advisor requests for the Canadian Investment Regulatory Organization's (CIRO's) rules to give all advisors the ability to be compensated in a manner similar to other professionals and to address a Canadian Securities Administrators (CSA) request for CIRO to harmonize its advisor compensation rules, CIRO has developed a proposed harmonized approach to client-facing Approved Person compensation.

The proposed harmonized advisor compensation rules that CIRO has developed are comprised of:

- *retaining the current options for advisors to be an employee or agent of their sponsoring dealer,*
- *repealing the directed commission arrangement option currently available to certain client-facing Approved Persons, and*
- *introducing an option for all client-facing Approved Persons2 to enter into an incorporated advisor arrangement with their sponsoring Dealer Member.*

CIRO is publishing for comment proposed rule amendments that are designed to harmonize its rule requirements relating to advisor compensation.

How to Submit Comments

…to:

- *recognize that the provision of investment advisory services is a profession and, like other professions, many individuals within this profession wish to be compensated in a manner that is more consistent with how they perform advisory activities for the Dealer Member (i.e. as a self-employed worker business separate from the business of their sponsoring Dealer Member), and*
- *promote greater investor access to regulated advice, by permitting a compensation approach that makes it more financially viable for more individual Approved Persons to enter into or stay in the investment advice profession.7*

3.2 Recommended new incorporated advisor compensation option

To determine the recommended new advisor compensation option to propose (in addition to the existing employee and agent options), the following was considered:

- *the pros and cons of the options outlined within the CIRO Position Paper,*
- *the comments received on the CIRO Position Paper options,*
- *the need to develop a proposed option that:*
  - *facilitates the efficient carrying out of advisor activities for their sponsoring Dealer Member*
    maintains existing investor protections

- *does not introduce arbitrage opportunities in terms of the activities/compensation that are subject to the option*
- *is in substance a self-employed worker arrangement, and*
- *can accommodate the approach or approaches used by the CSA to amend securities legislation to facilitate use of the option.*

Taking these matters into consideration, we have decided to:

- *propose an incorporated advisor compensation option*
- *phase out the existing directed commission option over a period commencing on the date the incorporated advisor compensation option becomes available*

We believe the phasing out of the existing directed commission option is necessary as there are increasing tax compliance risks associated with the use of this option and variations from one firm to the next as to the portion of advisor compensation that is being directed to the advisor's corporation.

4. Proposals

4.1 Elements of proposed new incorporated advisor compensation option

Important elements of the proposed new incorporated advisor compensation option are as follows:

- *the corporation carrying out activities on behalf of the sponsoring Dealer Member must be:*
  - *registered in the appropriate registration category in those provinces and territories in Canada in which it operates that require the corporation to be registered*
  - *exempt from registration in those other provinces and territories in Canada in which it operates, and*
  - *approved by CIRO as an "Incorporated Approved Person"*
- *the individual agent associated with the corporation must be a client-facing individual Approved Person of the sponsoring Dealer Member*[8]
- *the activities that may be carried out within the corporation, in addition to those activities performed on the sponsoring Dealer Member's behalf, are limited to those activities that:*
  - *are determined by CIRO to be:*
    - *ancillary to the activities performed within the corporation on the sponsoring Dealer Member's behalf, or*
    - *regulated Canadian financial services sector activities, provided the agent:*
      - *is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and*
      - *is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed,*
  - *are not contrary to securities laws, and*
  - *do not bring the securities industry into disrepute, and*
  - *have been approved in advance by the sponsoring Dealer Member.*
- *the voting shareholder of the corporation is limited to the individual agent sponsored by the Dealer Member*
- *the non-voting shareholders of the corporation must be limited to:*
  - *the individual agent sponsored by the Dealer Member who provides services through the corporation, and*
  - *family members of the individual agent who qualify as a "related person" under the Income Tax Act (Canada).*
- *the voting and non-voting shareholders of the corporation and corporation employees must not include individual Approved Persons who are sponsored by another Dealer Member or persons subject to a relevant sanction during the period of the sanction*
- *a written agreement must be executed between the Dealer Member, the corporation and the individual agent acting on their behalf detailing each party's obligations, including the requirements:*
  - *to comply with all applicable laws, securities laws and CIRO requirements,*
  - *that the agent conduct all securities and derivatives related business it conducts for the Dealer Member through the agent's corporation,*
  - *for the Dealer Member to be responsible for supervision of the agent's and the agent's corporation activities that are conducted for the Dealer Member,*
  - *to disclose to impacted clients the nature of the Incorporated Approved Person relationship, and*
  - *for the corporation to obtain Dealer Member approval before engaging in activities other than those conducted on behalf of the Dealer Member.*

Of note, the proposal has been structured to be workable in the event there are differences in the legislative approaches used by different CSA jurisdictions to enable the carrying out of "securities and derivatives related business" within the agent's corporation.

Also, we have tried to place sufficient restrictions on who can be a corporation shareholder, without unduly limiting the ability of individual Approved Persons to utilize standard business ownership approaches that enable the smooth transition of corporation ownership from one family generation or advisor voting owner to the next

9. Questions

While comments are requested on all aspects of the proposed harmonized advisor compensation rule amendments, comments are also specifically requested on the following questions:

Part A - Questions relating to allowable other business activities within an advisor-owned corporation

Relevant background proposal information

For client-facing Approved Persons wanting to provide financial services to clients from within a corporation they own, the proposed amendments restrict the financial *services that may be provided to those determined by CIRO to be:*

- *ancillary to the activities they perform on the sponsoring Dealer Member's behalf, or*
- *regulated Canadian financial services sector activities, provided the client-facing Approved Person:*
  - *is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and*
  - *is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed.*

Questions

A1. Should the proposals restrict the financial services that may be offered from within an advisor-owned corporation to the above detailed financial services?

Should be restricted d to solely the business/income generated form the advisor practice. Any outside business activity should be listed and income held in a separate operating or holding company to avoid any conflict of interest. There should be restrictions on ownership and related companies.

A2. Please detail any impact of prohibiting the client-facing Approved Person from providing services other than those detailed above within their corporation on existing activities or legal structures currently used by dealing representatives.

see above

A3. What types of financial services other than those listed above should be permitted to be conducted within a corporation by its client-facing Approved Person owner?

Investment, Insurance, mortgage, banking, referral fees for lending, banking estate planning, tax and legal services and other advice related to financial planning services for the client

A4. Should there be any restrictions on the other financial services that may be offered through a corporation owned by a client-facing Approved Person owner that are performed by the same client-facing Approved Person?

Services outside of the scope of planning, ie: Trustee fees, private investments, shared investments, or related parties should require some disclosure. As the could contain conflicts of interests and should be excluded or separate with disclosure

A5. What level of supervision or oversight over the other financial services related activities conducted by the client-facing Approved Person within their corporation should be performed by the sponsoring Dealer Member?

Compliance should be involved, regular annual audit as part of E&O, whether by the dealing firm, or regulator as part of licensing renewals

A6. Are there conflicts of interest that can arise by allowing the client-facing Approved Person to conduct other regulated financial services within their corporation? If there Conflicts, could potentially arise if there are multiple shareholders in a business – which is why it should be restricted to the main advisor owning and controlling majority shares, and if there are multiple advisors who wish to be partners or shareholders, a shareholder agreement should be in place to avoid ongoing issues for continuance of the practice to maintain client confidence. There should also be restrictions on shareholder loans, as to avoid insolvency or back-tax issues making the corporation non-compliant with CRA.

A7. Should the proposals be revised to permit an advisor-owned corporation to employ:

1. *multiple client-facing Approved Persons sponsored by the same Dealer Member? yes*
2. *one of more qualified individual financial services advisors to provide other financial services to clients? yes*

A8. If the proposals are revised to permit an advisor-owned corporation to employ one of more qualified individual financial services advisors to provide other financial services to clients, are there any conflicts, or risks to clients arising from employees being subject to different statutory duty of care standards within the advisor-owned corporation? Regarding this type of set up there should be higher scrutiny and license requirements from a fiduciary perspective as the owner, doesn't necessarily have to be the operator, however the operators should retain fiduciary responsibilities and be licensed individuals in good standing.

Part B - Questions relating to ownership and control of an advisor-owned corporation

Relevant background proposal information

For client-facing Approved Persons wanting to provide financial services to clients from within a corporation they own, the proposed amendments restrict corporation ownership to:

- *a single client-facing Approved Person, who would own the voting shares of the corporation and who may also own non-voting shares of the corporation, and*
- *family members of the client-facing Approved Person who qualify as a "related person" (as defined within the proposals), who may own non-voting shares of the corporation.*

Questions

B1. Should a corporation or family trust be allowed to hold shares of the corporation, if the shareholders/beneficiaries are the client-facing Approved Person or their family members? Should the family trust or holding corporation be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?

Yes – however there should be disclosure – such as if an advisor had an arms length relationship – in the capacity they cannot be the executer/trustee unless fully disclosed.

B2. Is the proposed use of the "related person" definition to determine those family members that are allowed to hold non-voting shares of the corporation too restrictive or not restrictive enough? Please provide your rationale.

I believe it is good for estate planning, but this could easily be solved by use of hold co ownership. Family members could own non-voting shares through a holding company keeping them out of controlling or operating the company. There has to be some due diligence on fiduciary duties to the business/client relationship – as the business continuance needs to be in place. Again definition around owner/operator needs to be specified. Again, S/h agreement or USA could come into play here so that the business could continue to operate/service clients, under a different advisor/operator, but ownership can be maintained for a limited period of time, or something that requires a new co (or existing hold co) to be set up upon death/severance of the voting shareholder to protect the clients best interest.

B3. Should "related persons" of the client-facing Approved Person, who are not themselves a client-facing Approved Person of the same sponsoring Dealer Member, be allowed to own shares in the corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?

Non-voting shares as the lead advisor should retain voting shares/control as to avoid conflict

B4. Should other client-facing Approved Persons, sponsored by the same Dealer Member, be allowed to do business through, and own shares in the same corporation? Does your answer change if the other client-facing Approved Persons are "related person" family members operating within the corporation?

It could – but again, this is where disclosure is required, control and votes, and if related person or not.

B5. Should individuals who qualify as a "qualified individual financial services advisor" (as defined within the proposals), who are not themselves a client-facing Approved Person, be allowed to conduct business within and own shares in the same corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation? Does your answer change if the "qualified individual financial services advisors" are "related persons" of the client-facing Approved Person operating within the corporation?

They should have votes and rights, and many practices are family businesses. TOSI should be considered, and again main advisor should be majority controller shareholder, and special approval would be required by the dealer/firm.

B6. Is the proposed requirement that the client-facing Approved Person must be the sole director of the corporation too restrictive? Please provide your rationale.

Part C - Questions relating to implementation of proposed amendments

Relevant background proposal information

We anticipate there may be significant interest in using the new incorporated advisor compensation option if approved by the CSA. As using this option would involve seeking:

- *registration of the advisor-owned corporation in those CSA jurisdictions requiring corporation registration, and*
- *CIRO approval of the advisor-owned corporation as an "Incorporated Approved Person"*

we are contemplating an implementation period of 12 to 18 months,15 once necessary regulatory and legislative amendments have been effected, to be able to ensure that those immediately interested in using this option can obtain the necessary approvals up front.

Questions

C1. Do you agree there is a need for an implementation period for these proposals and, if so, what do you think would be an appropriate implementation period and why?

Yes. 6-12 months to make sure there are guidelines and rules in place. Much like real estate prof corp, or doctors/lawyers, as professional planners there needs to be good governance, and oversight. A 6-12 month period to review and consider any concerns, or malfeasance, or missed opportunities/abuse that may occur from such a set up. There has to be restrictions and level of disclosure, and it takes time to roll that out, set it up, but I believe if done correctly many advisors would choose to do this. There should generally be a 'best practices' guideline, and restrictions on activity for client protection, as well as ownership/control, but some flexibility on structure and set up.

C2. Please describe any issues for mutual fund dealing representatives that currently direct commissions to their corporations to transition to the proposed incorporated advisor compensation option. What would be a reasonable transition period to address those issues?

this should be standardized across all provinces, if there are existing corps that have insurance or other business incorporated, they should be allowed to continue operating to include investment business as well (without having to open an additional corp the for additional business. It should be allowed to provide all business, commissions, compensation to one corp (instead of having to re-issue or start new ones)

Hope these comments were useful, helpful, and glad to contribute – excited to see what comes of this.

Sincerely,

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