July 23, 2026

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**Re: Bulletin 26-0150 — Rule amendments relating to the proposed adoption of an Incorporated Approved Person compensation option**

I write in my personal capacity as a consumer-protection advocate. My comments address a single question: what this proposal means for retail investors. I take no position on the industry-facing merits — tax certainty, advisor economics, succession planning or dealer competition. My position is narrower: whatever business model is adopted, it must leave retail investors no worse off. My comments make two preliminary points about how the proposal has been characterized and the evidence supporting it, followed by four consumer-facing tests that the final framework should meet.

**1. This is primarily a compensation-harmonization initiative, not a demonstrated investor-protection reform, and it should be described accordingly.**

The proposal is frequently advanced, including in parts of this bulletin, as an initiative that will promote "greater investor access to regulated advice." The bulletin offers no empirical evidence demonstrating that claim. It rests on a sequence of assumptions: that the incorporated option improves advisor economics, that improved economics retains or attracts advisors, and that additional advisors translate into measurably better access for underserved investors. None of these links is quantified or supported by empirical evidence..

CIRO's own impact assessment is the most candid statement in the document: it rates the impact on clients as neutral in both the near and longer term. Nowhere does it assess that impact as positive. A single footnote allows that the impact could become positive, but only on two assumptions the assessment itself does not make: that incorporation improves advisor viability, and that improved viability produces greater investor access. I ask that the final rule and its accompanying materials describe this initiative accurately — as the harmonization of advisor compensation options in response to a Canadian Securities Administrators (CSA) priority — rather than as an investor-protection or investor-access reform that CIRO's own assessment does not support.

**2. The evidentiary gap regarding directed commissions is a serious deficiency.**

The proposal repeals the directed-commission arrangement and justifies the broader harmonization exercise, in part, by reference to the compensation flexibility available to mutual fund dealing representatives under that model. Yet the bulletin provides no published data on the experience of the model it is removing: no take-up figures, no published complaint or supervisory record, and no comparative analysis of advisor or client costs or service outcomes under the directed-commission arrangement.

To be clear, the omission does not prevent CIRO from assessing the legal architecture of the proposed option. It can compare rule coverage, jurisdiction, supervision and dealer responsibility; indeed, the incorporated model arguably gives CIRO more explicit jurisdiction over the advisor corporation than the directed-commission model it replaces. What the missing data prevents is an assessment of the consumer consequences: whether the existing model produced identifiable investor problems, whether the new model addresses them, how extensive the transition will be, and whether repeal is proportionate to CIRO's stated concerns.

CIRO has advised in response to inquiries that it lacks centralized directed-commission data because the arrangements were maintained at the dealer level. That is an argument for obtaining the data, not for proceeding without it. I ask CIRO to conduct a targeted dealer data call or a representative supervisory review — complaint incidence, suitability findings, and cost and service impacts on retail clients in firms that used the arrangement — before finalizing the repeal, rather than resting on the answer that no centralized record exists.

**3. I support the initiative only if it meets four consumer-facing tests.**

I regard the choice of compensation structure as an internal matter of how dealers organize their advisory businesses, and I am indifferent to it provided the consumer is not made worse off. The four tests are set out below.

*(a) Direct and unconditional dealer accountability.* The proposal preserves the dealer's responsibility for the acts and omissions of its Approved Persons and extends investor-protection obligations to the Incorporated Approved Person and, in some cases, its employees and shareholders. That is the correct architecture. Two conditions must hold. First, the corollary securities-legislation mechanism remains undetermined; an exemption from registration and a new registration category may not produce equivalent regulatory jurisdiction, enforcement powers and private recourse. Before the CIRO rules are finalized, the CSA should identify the legislative model or models to be used in each jurisdiction and demonstrate that they preserve substantively equivalent client remedies, dealer liability and regulatory authority across Canada. Second, clients must retain direct and unconditional recourse against the dealer for all conduct undertaken on the dealer's behalf, without being required first to pursue the advisor or the advisor corporation and without the dealer relying on internal allocation or indemnity arrangements as against the client. The consumer risk is not primarily that the corporation is thinly capitalized; within securities activity the dealer is the backstop. The risk is that the corporate layer is used, formally or informally, to require the client to pursue the corporation first, to dispute whether conduct fell within the dealer's business, or to recharacterize securities misconduct as non-securities activity the dealer disclaims.

*(b) No complication of complaint resolution and redress.* The proposal extends the retail complaint-handling and reporting rules to the Incorporated Approved Person, which I welcome. The test is functional. The insertion of a corporate layer between the client and the dealer must not add steps, delay, or jurisdictional ambiguity to the complaint process, and must not impair the ability of the Ombudsman for Banking Services and Investments (OBSI) to assess responsibility and recommend effective redress, or of an arbitrator to order it. I ask CIRO to confirm that, from the complainant's perspective, the dealer remains the primary counterparty and that the complaint process and available remedies will be no less direct, timely or effective than under the current dealer-and-advisor model.

*(c) No regulatory-halo confusion at the boundary of the corporation's other activities.* This is the proposal's most significant residual consumer risk. The corporation may conduct other regulated financial services, including insurance, that the dealer approves but for which it disclaims responsibility and does not supervise under CIRO's securities standards. Those activities may be offered under the same advisor ownership and potentially a common trade name, alongside the securities business for which the dealer is responsible. A retail client dealing with one person, one office and one brand may reasonably assume that all services are dealer-supervised, governed by the same conflict and best-interest standards, subject to the same complaint route, and backed by the same firm. The proposed account-opening disclosure — listing the business for which the dealer is responsible, disclaiming responsibility for other activities, and stating that continued dealing constitutes acceptance of the dealer's "offer of indemnity" — will not necessarily overcome that unified presentation. The legalistic language itself underscores the need for consumer testing and for disclosure at the point at which the client moves from one regulatory channel to another. Four of CIRO's express questions go directly to this risk, and I answer them:

- On restrictions (Question A4): Other financial services should be permitted within the corporation only where three conditions are met: the regulatory boundary can be made intelligible to the client at the point of recommendation; the resulting material conflicts can be addressed in the client's best interest; and the client has a clear and effective complaint and recovery route. If any of those conditions cannot be met, the service should not be conducted within the corporation.
- On supervision (Question A5): The dealer should identify the securities-related conflicts arising from the other activity — including cross-selling incentives, referral arrangements, use of securities-client information, compensation design, product sequencing and representations about dealer oversight — require those conflicts to be addressed in the client's best interest, and supervise how they are addressed, even where the resulting product is booked through another regulatory channel.
- On conflicts (Question A6): The combination of securities and other financial services within a single advisor-owned corporation creates conflicts that disclosure alone cannot manage — cross-selling incentives, product sequencing, and the use of securities-client information among them. The dealer should not be permitted to disclaim responsibility for securities-related conduct — including the use of dealer branding, the securities advisory relationship, client information or referral arrangements to generate or facilitate an outside recommendation — merely because the resulting product is booked through another regulatory channel.

- On additional employees (Question A8): CIRO should not permit additional financial-services employees operating under different statutory duty-of-care standards within the corporation until it has established how those differing standards, supervision, and complaint jurisdictions will be communicated to clients and enforced.

To make the boundary real, disclosure should be delivered in plain language at the point of recommendation — not only at account opening — identifying, for each service: the legal entity providing it, the regulator responsible, whether the dealer supervises it, which entity is financially responsible, the applicable complaint-resolution route, and whether CIRO oversight and OBSI's complaint-resolution service apply. That disclosure should be consumer-tested. A client's signature or receipt should not be treated as proof that the boundaries were understood. It is at this boundary — the services the dealer does not stand behind — that the capitalization and insurance of the advisor corporation become directly relevant to whether a harmed client can recover, and CIRO should address it.

*(d) No cost or service degradation passed to clients.* The proposal transfers profit-and-loss risk from the dealer to the advisor and permits the advisor to conduct other financial services within the corporation. Both create incentives that bear on consumer outcomes. I do not ask CIRO to prohibit all economic pass-through; that would be neither definable nor consistent with CIRO's own expectation that some advisors will pass savings to clients. I ask instead for a measurable obligation: CIRO should require dealers to identify and supervise any changes in client fees, minimum-account thresholds, product selection, service levels, or cross-selling practices associated with the incorporated arrangement, and should collect post-implementation data sufficient to determine whether clients are bearing higher costs, facing higher account minimums, being steered toward higher-margin or adjacent products, or receiving diminished service.

**Conclusion**

I support the harmonization of advisor compensation options to the extent, and only to the extent, that it leaves the retail investor no worse off in accountability, in redress, in the clarity of who is responsible for what, and in the cost and quality of service. The proposal has been drafted with attention to the first two of those protections, and that is to CIRO's credit. But the initiative should be described for what it is; the directed-commission record should be produced before that model is repealed; the boundary between supervised and unsupervised services must be made intelligible to the client who cannot see it; and the four tests above should be demonstrably met in the final rule rather than asserted.

I appreciate the opportunity to comment and would be pleased to discuss.

Yours truly,

*Harvey Naglie*