March 25, 2024

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- and -

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Re: CIRO Position Paper – Policy Options for Leveling the Advisor Compensation Playing Field

Worldsource Financial Management Inc. and Worldsource Securities Inc. (together, "Worldsource") thanks the Canadian Investment Regulatory Organization ("CIRO") for the opportunity to provide comments on the CIRO position paper relating to changes to advisor compensation and commends CIRO for soliciting feedback in respect of the proposed amendments.

<u>Overview</u>

Worldsource currently operates an Investment Dealer and Mutual Fund Dealer, both of which are regulated by CIRO. As of the date of this letter, approximately 750 individuals are registered as dealing representatives and approximately 80 individuals are registered as registered representatives through Worldsource.

Worldsource operates through independent advisors as well as partnerships with incorporated branch structures. Given the variety in Worldsource's business model, Worldsource believes that it is well positioned to provide information to CIRO which will detail the benefits and drawbacks of the proposed approaches contained within the position paper on both the independent advisor business model, the corporate advisor business model and the corporate branch business model.

Worldsource recommends that CIRO allow for the interim adoption of the enhanced directed commission approach while pursuing the incorporated Approved Person approach over the medium-term. Worldsource recommends this approach strictly under the assumption that registerable activity will be able to be conducted through the incorporated Approved Person corporation after amendments to securities legislation are implemented by all applicable securities commissions. However, Worldsource recommends that the proposed ownership restrictions for corporations under the incorporated Approved Person approach be lifted.

In particular, Worldsource believes that the incorporated Approved Person approach, which should be implemented in a similar manner to the form currently used by the CIRO Mutual Fund Division, provides the most flexible approach which provides the greatest benefit to registrants, while simultaneously allowing CIRO to have the greatest level of oversight over registrants, including incorporated Approved Person corporations. Worldsource believes the incorporated Approved Person approach strikes the right balance between potential benefits to the industry and effective regulation of registered entities. Worldsource submits that this option will provide benefits to the greatest number of registered persons and entities, which makes the additional time spent by CIRO and the securities commissions to implement rules which allow registered activity to be conducted through the incorporated Approved Person corporation well worth the effort.

Consultation Question 1: *Which of the following rulemaking options do you prefer that CIRO pursue and why: (1) pure adoption of an Incorporated Approved Person approach, (2) pure adoption of a registered corporation approach, or (3) interim allowed use of an enhanced directed commission approach while pursuing over the medium-term the adoption of either: (a) an Incorporated Approved Person approach or (b) a registered corporation approach.*

As discussed previously, Worldsource recommends that CIRO allow for the interim adoption of the enhanced directed commission approach while pursuing the incorporated Approved Person approach over the medium-term.

Worldsource submits that the incorporated Approved Person approach allows for the greatest number of CIRO registrants to receive the maximum cumulative benefits, thereby making the incorporated Approved Person approach the most utilitarian form of proposed regulation.

In particular, the incorporated Approved Person approach proposed by Worldsource above will eventually allow for *all* CIRO registrants to conduct securities related business through a corporation, thereby "evening the playing field" for all CIRO registrants, which is CIRO's stated goal. Worldsource acknowledges that the purpose of the CIRO working paper and regulatory changes are to provide the same benefits to investment dealer registrants as to mutual fund registrants. Worldsource further notes that the differences between the categories of registration have been considerably burdensome on the investment dealer industry for a long time and are increasingly untenable now that these categories of registration are regulated by the same regulatory body, CIRO.

Worldsource submits that, if the purpose of this working paper is to discuss providing the same benefits to investment dealer registrants as to mutual fund registrants, that widening the scope of rights afforded to investment dealer registrants is the best course of action, as opposed to decreasing the rights already available to mutual fund registrants. Impeding the rights of mutual fund registrants would create corporate and taxation issues for a significant number of existing registrants. It should not be part of the CIRO scope to create regulation that is detrimental to thousands of registrants that have been allowed to direct their commissions to corporations for decades.

Worldsource believes that the incorporated Approved Person approach (with eventual approval of incorporated Approved Person corporations conducting registerable activity) allows all registered individuals to be paid directly in respect of the registered or non-registerable activity conducted through the corporation. Payment directly to an incorporated Approved Person corporation allows advisors who hold larger books of business, and therefore receive larger commission payments, to reduce their tax burden with the Canada Revenue Agency ("CRA").

Worldsource agrees with the CIROs statement that compliance with tax laws remains the responsibility of the registrant and the Dealer Member. Yet, Worldsource is of the belief that federal tax laws allow direct commission payment to be considered income of the corporation rather than the individual. Given the current CRA tax structure, Worldsource believes that any income which accrues to a corporation rather than an individual becomes more tax efficient once income from the corporation meets or exceeds certain income thresholds. It is imperative that CIRO consider the tax implications which could flow from an 'small business' write-offs where an advisor is allowed to flow income through an incorporated Approved Person or registered Corporation.

Worldsource also notes that the proposed incorporated Approved Person approach allows succession planning for independent advisors. One of the primary concerns of independent advisors relates to their ability to sell their book of business upon retirement. This concern is amplified by the current demographics of the investment industry and the trend towards older advisors retiring and selling their books of business to younger advisors.

In addition, Worldsource submits that the incorporated Approved Person approach allows for greater participation of corporations which form corporate branch affiliates of dealer members. Worldsource first notes that corporate branch affiliates form a large proportion of the independent advisor network for many dealer members. These branches service many subsections of the investor population. Many of these corporate branches serve specific cultural groups or regional centres and provide important investment services which include: mutual fund sales, portfolio management services and financial advice.

The incorporated Approved Person approach allows these corporate branch affiliates to continue to provide registerable financial services to investors while allowing the revenues of these branches to flow through a corporation. Given the size of the assets managed by many corporate branch affiliates, this would be a substantial benefit to the owners of these corporations. Again, this submission is predicated upon the assumption that the required securities commissions approve incorporated Approved Person corporations conducting registerable activity within the corporation.

Worldsource acknowledges the potential drawbacks related to the incorporated Approved Person approach. In particular, Worldsource understands that CIRO has concerns over the likelihood of all provinces allowing registered activity to be conducted within an incorporated Approved Person corporation, as well as the timeliness of adoption by each province. Worldsource therefore understands that implementing the incorporated Approved Person approach may take longer than some of the other proposed approaches. However, Worldsource believes that the Canadian Securities Administrators and each respective securities commission will be able to properly identify the benefits associated with incorporated Approved Person corporations conducting registerable activity and believes that, upon hearing these benefits, each province will duly accept this recommendation. We remind the CIRO that the Mutual Fund Dealers Association, as it previously existed, was successful in implementing a similar approach in most Canadian provinces.

In the interim while each province implements the required legislation for the incorporated Approved Person approach, Worldsource recommends the implementation of the interim enhanced direct commission approach. The interim enhanced commission approach allows CIRO to meet its overall objective of "levelling the playing field" for mutual fund registrants and investment dealer registrants while ensuring that the industry, regulator and registrants have sufficient time to adjust to the implementation of the incorporated Approved Person approach.

Worldsource further submits that there is no benefit to maintaining a system of uneven rights afforded to registrants in the interim, especially given the amalgamation of the Mutual Fund Dealers Association and Investment Industry Regulatory Organization of Canada into CIRO. Mutual fund registrants and investment dealer registrants are now regulated by the same entity and it is manifestly unfair to one group of registrants to not be afforded the same rights as others under the same regulatory body, especially when there is no principled reason for the distinction in the registrants' rights.

Given the fundamental unfairness of the current regime for investment dealer registrants, as well as the ability of CIRO to create interim rules which oversee the conduct of registrants, Worldsource submits that an interim enhanced direct commission approach affords the greatest fairness to the industry and meets the CIRO goal of "levelling the playing field" for all registrants while also meeting the CIRO goal of greater oversight into corporations in the interim.

Worldsource further submits that the incorporated Approved Person approach (with eventual approval of incorporated Approved Person corporations conducting registerable activity) provides CIRO with the greatest oversight powers for corporations which provides greater protection to the industry, while still allowing registrants to have the largest personal benefit of incorporation and meeting CIRO's regulatory priorities for all registrants.

__Consultation Question 2:__ *Are there other requirements not discussed in this paper that CIRO should include within any rule amendments it proposes relating to acceptable compensation approaches?*

CIRO has proposed that, should the incorporated Approved Person approach or the registered corporation approach be implemented, CIRO would restrict ownership of the corporation to 100% ownership by: (1) the registrant; (2) the registrant's immediate family; or (3) a trust held by the registrant's immediate family. Worldsource submits that the corporation ownership rules imposed by CIRO should be removed and there should be no prescribed ownership requirements by the registrant, the registrant's immediate family or a trust held by the registrant's immediate family.

As will be discussed in response to *Consultation Question 3* below, Worldsource believes that the ownership structure requirement for the individuals or entities proposed by CIRO in the working paper will provide a benefit to independent advisors who manage books of business, but does not adequately reflect the realities of the investment industry, including corporate branch structures and instances where the book of business is owned by the dealer member or a corporate branch, rather than the individual advisor.

Worldsource notes that, in many instances, corporate branches are not directly owned by the advisors who are employed by the branch. If these corporate branches are not allowed to be paid directly to their corporation in the same way that independent advisors would be allowed to be paid in the proposed CIRO approaches, this would create an imbalance in advisor compensation structures which would cause advisors to turn away from the corporate branch model and would result in manifest unfairness to registrants and the investment industry. In effect, to impose these ownership structures would harm the existing corporate branch structure and corporate advisor structure within the industry.

Further to this, many dealerships, including Worldsource, have books of business that are owned by the dealer. The dealer itself is not an entity owned by an advisor, their spouse or a family trust. In most cases, dealerships are owned by shareholders that are not registrants. CIRO's proposal would put all dealerships in violation of this proposed rule.

CIROs proposal to limit an incorporated Approved Person corporation's shareholders would also limit the pool of individuals that would have the financial resources to purchase a book of business. It would further strain the ability of the registrant to seek top dollar for their book of business, given the limited number of individuals that would be allowed to purchase that book of business.

Worldsource submits that removing the ownership requirement would allow individuals who are currently not registered with a securities commission to continue in their current ownership structure without considerable disruption to the industry. Allowing non-registrants to own the corporation provides the same benefits to independent advisors and corporate branch advisors without disrupting the already established models of ownership within the industry and thereby prevents disruption to clients.

Worldsource would support interim rules which restrict or limit the forms of corporate ownership and require registrants to provide attestations to the regulator or the dealer member in respect of the conduct undertaken by or through an incorporated Approved Person corporation. CIRO and dealer members can conduct interim audits of these corporations during their auditing of registrants (as is currently available with mutual fund registrants) and, in the event that conduct which is not allowable under CIRO rules has occurred, the registrant could be penalized by CIRO for both the underlying conduct as well as false attestations to the dealer member or CIRO. These enhanced rules and penalties will ensure greater interim compliance by registrants until the incorporated Approved Person approach is implemented.

Despite this suggestion, Worldsource acknowledges that CIRO wishes to have greater oversight over the individuals involved with corporations. Worldsource submits that CIRO could implement restrictions on which non-registrants could own the corporation, the structure of the ownership, the ability of the owners to participate in business decisions, as well as required background checks or approvals related to the ownership structure. In fact, many of these requirements for proposed owners could be taken from the existing CIRO working paper which proposes that the sponsoring dealer would be responsible for vetting and approving the corporation's ownership structure.

Worldsource submits that the current mutual fund dealer rule provides the framework to allow non-registrants to own the corporation, and CIRO's rulemaking authority allows CIRO to draft proposed rules which address and prevent non-compliance by non-registrant owners.

Therefore, Worldsource submits that the proposed ownership requirements under the incorporated Approved Person approach should be removed and non-registrants should be allowed to remain owners of corporations with limits on their ability to provide securities related business to clients.

<u>Consultation Question 3:</u> *Are there other matters not discussed in this paper that CIRO should consider when assessing which policy option to pursue?*

As stated previously, Worldsource submits that CIRO should evaluate the business models used within the investment industry when determining which proposed compensation approach to choose. Worldsource submits that the proposed compensation approaches, as they currently exist, do not adequately address each business model and, in certain cases, unintentionally harm advisors, branches and dealer members who use these business models.

Worldsource notes that, in the investment dealer industry, several business models are used to partner with advisors who are registered to provide investment services to clients. Worldsource notes that three of the primary business models used within the investment industry are: (1) the corporate advisor model; (2) the independent advisor model; and (3) the corporate branch model. Worldsource uses each of these structures as part of its business model and will address the effect of the proposed compensation approaches on these business models.

Worldsource notes that the independent advisor model, the corporate advisor model and the corporate branch model can vary considerably from each other with respect to ownership and employment structures. Therefore, Worldsource submits that it is incumbent on CIRO to find a compensation approach which addresses these separate and distinct business models without creating unfair advantages to one business model over another.

In the independent advisor model, registrants personally own their book of business and conduct securities related business through a dealer member with which they have a contractual and business relationship. The corporate branch model allows independent advisors to own and operate their book of business, but allows unregistered corporations to provide certain advertising and administrative services on behalf of these advisors. In the corporate advisor model, the dealer member or corporation owns the book of business and the registrants are employees of the dealer member or corporation who are paid a salary to provide securities related business to clients.

The proposed incorporated Approved Person and registered corporation approaches provide the greatest number of benefits to the independent advisor while still meeting CIRO's regulatory goals of investor protection and "levelling the playing field". However, none of the currently proposed CIRO approaches provide for the corporate branch model or corporate advisor model to succeed, because none of the proposed approaches allow direct payment to corporations which are not 100% owned by: (1) the registrant; (2) the registrant's immediate family; or (3) a trust held by the registrant's immediate family.

Worldsource submits that implementing the incorporated Approved Person approach without an advisor ownership requirement allows each of the three primary business models within the investment industry to succeed. This option increases parity for registered representatives and dealing representatives by allowing independent advisors to take advantage of tax, career and succession planning advantages but without disadvantaging dealer members who use the corporate advisor or corporate branch business model.

Worldsource submits that CIRO should closely evaluate the different ownership models through which books of business are held and which are prevalent in the investment industry. In particular, Worldsource implores CIRO to implement a proposed approach which provides the same benefits to independent advisors, but which does not create a detrimental effect to corporate branch business models or corporate advisor business models. If CIRO implements a proposed approach which does not allow for the existing structure of corporate branch business models or corporate advisor business models to continue, the investment industry would see an immediate and considerable shift in the operations of many dealer members which would, in turn, cause chaos in the investment industry which would impact the handling of client accounts. This is an unanticipated outcome which must be avoided at nearly all costs.

Worldsource would like to thank CIRO for the opportunity and forum to comment on the proposals within the referenced position paper and would request the ability to review and comment on any proposed rule amendments that may be considered by CIRO after public comments have been reviewed.

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