Wednesday, June 25, 2025

By email: memberpolicymailbox@ciro.ca; tradingandMarkets@osc.gov.on.ca; CMRdistributionofSROdocuments@bcsc.bc.ca

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4

Trading and Markets
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West Toronto, Ontario M5H 3S8

Capital Markets Regulation
B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2

Re: CIRO's Rule Consolidation Project - Phase 5 Proposed Dealer and Consolidated (DC) Rules (25-0080) issued on March 27, 2025

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to CIRO regarding Phase 5 of its Rule Consolidation Project (the **Proposal**).

The Canadian Independent Finance and Innovation Counsel represents 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.

Purpose of the Consolidation Project versus Extending the Scope

CIRO's executive summary states the following:

> The Rule Consolidation Project will bring together the two member regulation rule sets currently applicable to investment dealers and to mutual fund dealers into one set of member regulation rules applicable to both categories of CIRO Dealer Members.
>
> The objective of Phase 5 of the Rule Consolidation Project (Phase 5 Proposed DC Rules) is to adopt requirements that are common to the IDPC and MFD Rules and have been assessed as having differences deemed to be significant with potential material impacts on stakeholders.

Based on the above and our review of the Phase 5 notice, the Investment Dealers we represent have the following comments:

CIRO is seeking to unify the existing mutual fund dealer (MFD) and Investment Dealer rules by adopting common requirements rather than extending the scope of existing rules to include new categories of employees that are not currently covered (non-registrants). We note an expansion of scope to non-registrants in many sections of the Proposal, namely, in section 2.5.

Once the consolidated rulebook is finalized, CIRO firms will face 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 to the scope of this project adds an additional layer of operational complexity. This 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.

Phase 5 - Overview of Proposed Changes

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

As described in the Phase 4 proposal, it has been decided that CIRO will proceed with the 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 do not support 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. Investment Dealers operated under IIROC (now CIRO), which enforced strict capital adequacy and liquidity requirements 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.

2.3 Acceptable Back-Office and Service Arrangements (DC Rule 2400)

The Proposal states the following in regard to Type 5 IB/CB arrangements between two mutual fund dealers:

> In harmonizing the insurance requirements for introducing brokers in the DC Rules, for Type 5 IB/CB arrangements we require both the introducing broker and carrying broker to include the accounts introduced to the carrying broker in determining insurance requirements.

The Investment Dealers we represent support this proposal.

2.3.1.3 Exemptions to IB/CB Arrangement Requirements

The Proposal states the following with respect to the current carve-out for futures trading:

> While the carve-out for futures trading was specified in the IDPC Rules, we recognize that there may be other situations beyond futures trading that justify multiple IB/CB arrangements. Consequently, to ensure adequate rule responsiveness, we have not included the specific carve-out for futures business within the DC Rules. Dealers currently engaged in futures business under a secondary arrangement will be required to obtain an exemption under the new DC Rule requirements. (DC Rule section 2408)

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.

2.3.3 Service Arrangements

CIRO proposes adopting the requirements for service arrangements that are currently in MFD Rule 1.1.3. These service arrangement requirements "apply regardless of whether the Dealer Member (or Approved Person) is providing or receiving the service," as per DC Rule section 2490:

> There are no equivalent requirements for service arrangements in the IDPC Rules for investment dealers, but CIRO has published a guidance note on outsourcing arrangements for investment dealers (Outsourcing arrangements GN-2300-21-003), which includes similar expectations to the requirements proposed in DC Rule 2400.

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

2.4 Continuing Education Requirements for Approved Persons (DC Rule 2700)

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

2.5 Reporting and Handling of Complaints, Internal Investigations and Other Reportable Matters (DC Rule 3700)

CIRO is proposing to add certain reportable matters contained in MFD Rule 600 (4)-(6) (Appendix 6 of the 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 Section 2.5 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 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," 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 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.

2.5.2.1 Reporting to the Dealer Member (DC Rule section 3710)

The Proposal states the following with respect to reportable matters pertaining to Approved Persons and employees:

> In addition to requiring the reporting of serious misconduct, we also propose to adopt the requirements set out in the MFD Rules which state that Approved Persons (and now also employees, given that this requirement has been extended to employees under section 3711 of the Proposed DC Rules) must report certain matters pertaining to said individual, including:
>
> - cancellation, suspension, or the addition of terms and conditions to a registration or license by any regulatory organization, SRO, professional licensing, credentialling or registration body,
> - declaration of bankruptcy, suspension of payments of debts generally or the making of an arrangement with creditors or making an assignment or being deemed insolvent, or
> - outstanding garnishments rendered against the individual. (DC Rule clauses 3710(1)(v) and 3711(1)(iv))

As previously mentioned, the Investment Dealers we represent do not support extending regulatory purview to non-registrants. We reiterate that Section 2.5 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.

2.5.2.2 Reporting by a Dealer Member to CIRO (DC Rule section 3711)

CIRO also proposes a new requirement:

> …for Dealer Members to report any substantial compensation paid to a client. We expect Dealer Members will use their professional judgment in determining what substantial compensation means, considering their business practices and the client's circumstances. This new requirement replaces, and takes a less prescriptive approach than, the existing

> requirements under the MFD Rules and IDPC Rules that set specific dollar amount thresholds for reporting. (DC Rule clause 3711(1)(iii))

The Investment Dealers we represent do not oppose this proposal.

The Proposal continues:

> We propose to update the reporting requirements to remove the dollar thresholds for reporting internal disciplinary actions, and require Dealer Members report to CIRO, any disciplinary action they take against an Approved Person or employee involving allegations of serious misconduct. (DC Rule clause 3711(3)(ii))
>
> We propose to adopt MFD Rule 600 (7.1) that requires Dealer Members to report the outcomes of client complaints alleging serious misconduct. There is no specific provision in the IDPC Rules requiring Dealer Members to report client complaint outcomes. We believe such reporting provides important information related to investor protection, compliance tracking and governance. (DC Rule clause 3711(3)(iii))
>
> We propose to adopt the existing requirement under the IDPC Rules that Dealer Members report any cybersecurity incident to CIRO. There is no current MFD Rule that deals with cybersecurity reporting. (DC Rule subsection 3712(1))
>
> We propose to add a provision similar to the MFD Rules which require Dealer Members to report any material breach of client information. Given that breaches of personal information can have significant negative consequences for investors, and frequently occur outside the context of a reportable cybersecurity incident, we believe a distinct reporting requirement is necessary to ensure such issues are tracked and addressed. To manage regulatory burden, we propose to only require reporting to CIRO for incidents that are reportable under applicable privacy legislation, in the form and in compliance with the timelines required by such legislation. (DC Rule subsection 3712(2))

The Investment Dealers we represent do not support extending the regulatory scope to non-registrants. We again note that Section 2.5 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.

2.5.3 Internal Investigations and Internal Discipline

CIRO proposes to base the trigger for an internal investigation on the concept of “serious misconduct” and proposes to extend this section to the conduct of employees.

As previously mentioned, the Investment Dealers we represent do not support extending regulatory purview to non-registrants. We note once more that Section 2.5 introduces a number of new requirements that, in our view, fall outside the intended scope of the current Proposal and reiterate that such an expansion is inconsistent with the stated objective of the consolidation project. If CIRO intends to explore broadening its oversight to include requirements relating to non-registrants, this should be pursued through a separate consultation process and not embedded within the present, already substantial initiative.

2.5.3.2 Records of Internal Investigation (DC Rule section 3721)

The Proposal states the following with respect to maintaining records of internal investigations:

> We propose to adopt the existing requirement under the IDPC Rules that Dealer Members must maintain records of an internal investigation, including certain contents that are not currently explicitly required. Such records are not required in the MFD Rules.

Given the trigger for an internal investigation involves "serious misconduct," it is important to ensure the documentation evidencing such investigation forms a complete record for review and compliance purposes. The Investment Dealers we represent therefore agree with CIRO on this point.

2.5.3.3 Exceptions to Reporting Requirements (DC Rule section 3723)

> To prevent duplicative reporting, we propose to introduce a new exception so that the reporting requirements under Rule 3700 do not apply for any matter reported to the CIRO under Universal Market Integrity Rules 10.16, 10.17 and 10.18. (DC Rule section 3723)

The Investment Dealers we represent support this proposal.

2.5.4 Settlements and Confidentiality Restrictions – Restrictions/Release

As per the Proposal, a ''Dealer Member must not impose confidentiality or similar restrictions on a client pursuant to a release entered into between the Dealer Member and client, or otherwise. This is intended to ensure that such restrictions are not imposed even in circumstances that do not involve a release."

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.

CIRO also proposes to introduce "a provision to prohibit Dealer Members from preventing clients, via a release agreement or otherwise, from communicating or sharing information with securities regulatory authorities or other enforcement authorities. (DC Rule section 3731)."

The Investment Dealers we represent do not oppose this proposal.

2.5.5 Client Complaints – Institutional Clients (DC Rule subsection 3740)

The Proposal states the following regarding distinguishing between retail and institutional clients:

> The current MFD Rules do not distinguish between retail clients and institutional clients. As such we propose to adopt the IDPC Rule regime, which sets out different standards for institutional client and retail client complaint handling.

The Investment Dealers we represent support this proposal.

2.5.5.1 Complaint Policies and Procedures (DC Rule subsection 3740)

The Proposal states the following with respect to the policies and procedures relating to complaints for institutional clients:

> We propose to adopt the existing IDPC Rule, which outlines the policies and procedures relating to complaints for institutional clients. Consistent with the proposed DC Rules set out above, we also propose to use the proposed term serious client-related misconduct as the threshold for requiring a Dealer Member to acknowledge, in writing, a complaint by an institutional client.
>
> We propose that Dealer Members should only be required to acknowledge verbal complaints alleging serious client-related misconduct where a preliminary investigation suggests the allegation may have merit. This differs from the existing requirement, which mandates acknowledgement of all verbal complaints alleging serious client-related misconduct can be handled at the Dealer Member's discretion. Dealer Members are required to investigate to determine if the complaint has merit, and if it does, they must acknowledge the complaint accordingly.

The Investment Dealers we represent do not oppose this proposal, but 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 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.

2.5.6 Client Complaints – Retail Clients (DC Rule sections 3750- 3759)

2.5.6.1 Retail Client Complaints (DC Rule 3750)

The Proposal states the following with respect to the requirement to provide a written response to written retail client complaints and any retail client complaints alleging serious misconduct:

> The definition of complaint under the proposed DC Rules removes the distinction between verbal and written complaints. Therefore, in contrast to the existing regimes, we propose to require that Dealer Members provide a written response to any written retail client complaint, and any retail client complaint alleging serious misconduct. We believe this appropriately addresses the types of complaints that raise regulatory concern, while permitting Dealer Members to manage verbal complaints that do not allege serious misconduct in a more expeditious manner.

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 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.

The Investment Dealers we represent have also pointed out that the related complaint handling Rule 3752 (5), which states, "The *Dealer Member* must provide *complaint* drafting assistance to any complainant who expresses a need for it," lacks clarity, 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? Further guidance would be appreciated to ensure consistent interpretation and implementation of this Rule.

2.5.6.2 Complaint Policies and Procedures (DC Rule section 3753 and 3740(3))

The Proposal states the following with respect to handling client complaints:

> We propose to remove the requirement in the IDPC Rules that Dealer Members must handle complaints in a balanced manner considering the interests of the client, Dealer Member, Approved Person and employee. We determined that this is inconsistent with the Dealer Member's and Approved Person's obligation to put the client's interests first when managing conflicts of interest. (DC Rule sections 3106-3107 described in Phase 4 of the current Rule Consolidation Project)

The Investment Dealers we represent do not oppose the amendment.

2.5.6.3 Response to Client Complaints (DC Rule 3756)

The Proposal states the following with respect to responding to client complaints:

> As set out above, the IDPC Rules and the MFD Rules require that Dealer Members provide a substantive response letter to complainants. We propose to introduce a requirement regarding the information Dealer Members must disclose in that letter; specifically, the response must indicate that clients may report suspected serious misconduct to CIRO, and that CIRO will assess whether any disciplinary action is warranted. (DC Rule clause 3756(3)(v))
>
> We propose to adopt the IDPC Rules requirement that Dealer Members provide a substantive response to a client complaint within 90 days. While the MFD Rules do not prescribe a timeline for the substantive response, Companion Policy Registration Requirements, Exemptions and Ongoing Registrant Obligations, which applies to securities dealers, recommends that complaints be resolved within 90 days. Therefore, the impact of this change upon Dealer Members should be minimal as the 90-day period is already consistent with best practice and regulatory expectations across the industry.
>
> We note that the Autorité des marchés financiers has adopted a 60-day (+ 30-day flex period) timeline for entities under their jurisdiction to provide a substantive response to a complaint. However, given that the balance of the CSA members recommend a 90-day period as per Companion Policy 31-103, we are proposing to adopt an approach in the proposed DC Rules that is consistent with the general industry practice. In this regard, we have asked a question later in this Bulletin seeking public comment on whether a 90-day time limit to provide a substantive response letter to a complainant is appropriate. We also propose to introduce a limit on a Dealer Member's internal dispute resolution process. The current IDPC Rule does not place a limit on how long a Dealer Member's internal dispute resolution service can take to respond to a client complaint. Effectively, this may allow the complaint resolution process to drag on indefinitely. To ensure that a complaint is resolved within a reasonable time frame, we propose to limit this to a maximum of:

- 90 days from the date the internal dispute resolution service received the complaint, where no substantive response letter has been issued, provided that no more than 120 days has elapsed from the date the Dealer Member initially received the complaint, or
- 30 days from the date the internal dispute resolution service received the complaint, where the internal dispute resolution service received the complaint after the issuance of the substantive response letter.

> Consistent with our proposed complaint handling standards, this will ensure that complaints are resolved more expeditiously. (DC Rule subsection 3756(5)).

The Investment Dealers we represent do not oppose the proposal.

2.5.6.4 Communication of Dispute Resolution Service Options (DC Rule section 3759)

The Proposal states the following with respect to disclosing dispute resolution service options to clients and prohibiting the use of misleading terms relating to internal dispute resolution services:

> We propose to introduce a provision that addresses the concerns articulated in CIRO Guidance Note GN-3700-21-003. This guidance lists acceptable practices for the communication of internal dispute resolution services and OBSI services from Dealer Members to clients. We propose to include certain acceptable practices for communicating internal dispute resolution services and OBSI services into the proposed DC Rules to clarify and standardize disclosure to clients regarding dispute resolution service options.
>
> In addition, consistent with this guidance, we propose prohibiting the use of any misleading terms, including "ombudsman" or similar terms, in referring to a Dealer Member's, or its affiliate's, internal dispute resolution service.

The Investment Dealers we represent do not oppose prohibiting the use of ''ombudsman'' or other misleading terms in reference to any internal dispute resolution services dealers or affiliates may offer and are supportive of the inclusion of best practices for communicating internal and external dispute resolution services to clients.

2.6 Recordkeeping and client reporting (DC Rule 3800)

2.6.1 Scope and Approach to Rule 3800

The Proposal states the following with respect to recordkeeping and client reporting expectations:

> In terms of impact, the proposed DC Rules generally represent existing expectations about recordkeeping and client reporting as outlined in various sections of the current rules and guidance notes. Where we propose extending existing rule carveouts from one dealer category to another, we anticipate a reduced burden on the affected Dealer category. In limited instances where we propose bringing a Dealer category to the higher standard of another, the affected Dealer category, or a subset thereof, may have to incur the burden of systems upgrades or enhancements in supervision and compliance.

The Investment Dealers we represent do not oppose CIRO's view above. However, some do not support the proposed inclusion of the **beginning** total market value of all cash and investment products on client statements, as outlined in section 3851(4)(vi). This change would introduce additional costs to these Investment Dealers due to the changes needed to their systems.

2.6.4.2 Client Account Statements and Outside Holding Reports (DC Rule sections 3851 and 3852)

The Proposal states the following with respect to reporting frequency:

> - Reporting frequency: Investment dealers will continue to be subject to the daily, monthly and quarterly reporting requirements, under the DC Rules. Similarly, we propose upholding mutual fund dealers, who offer margin accounts, to the same monthly and quarterly reporting requirements as investment dealers (DC Rule subsections 3851(2). Similarly, we propose upholding mutual fund dealers, who offer margin accounts, to the same monthly and quarterly reporting requirements as investment dealers. (DC Rule subsections 3851(2))

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.

The Proposal states the following with respect to the content dealers are required to provide to their clients:

- **Content of reporting:** Dealers must provide clients with:
  - the opening and closing cash balance in the client account **(*DC Rule clause 3851(4)(i)*)**. This is an existing requirement for Investment Dealers, whereas Mutual Fund Dealers will have to ensure they are disclosing the opening in addition to the closing cash balance, if they are not already doing so.
  - transaction information ***(DC Rule clause 3851(4)(ii))***. This is an existing requirement for Mutual Fund Dealers, whereas it may be an enhanced requirement for those Investment Dealers who need to adjust their transaction disclosures to conform with the required transaction details.
  - the total market value of all cash and investment positions in the client account with the Dealer (i.e. positions in Dealer control), and the total market value of all outside holding positions, at the beginning and the end of the reporting period ***(DC Rule clauses 3851(4)(vi) and 3852(2)(v))***. This is an existing requirement for Mutual Fund Dealers, whereas Investment Dealers will have to ensure they are disclosing the total values at the start in addition to the end of reporting period, if they are not already doing so.
  - the *position cost* for each product position presented "on an average cost per unit, or share basis, or on an aggregate basis" **(*DC Rule paragraph 3851(4)(v)(a)(I)* and *subclause 3852(2)(iii)(a)*)**. We propose to adopt the MFD Rule which is clearer than the corresponding language in the IDPC Rules and more aligned with National Instrument 31-103.
  - the applicable Investor Protection Fund coverage, or any other investor protection coverage approved or recognized under securities laws, and where applicable, the lack of such coverage with regards to client holdings ***(DC Rule clause 3851(4)(viii) and subsection 3852(4))***. While both Dealer categories already report the IPF coverage, they need to assess whether enhancements to their current disclosures

are needed to conform with the proposal (e.g. whether they are already disclosing any other applicable investor protection coverage beyond the IPF, or whether they are adequately disclosing the applicable coverage (or lack of) in connection to the eligible accounts/assets and the coverage policy).

We also propose removing the requirement, currently unique to the IDPC Rules, for a Dealer to report non-arm's length transactions in the account statements to clients, therefore aligning with the MFD Rules and National Instrument 31-103. This conflict of interest provision predates the Client Focused Reforms, which enhanced the Dealer responsibility of not only disclosing any material conflicts of interests to the client in a timely manner, but also addressing such a conflict in the client's best interest. Furthermore, a Dealer continues to be subject to the existing requirement for disclosing any non-arm's length transactions in both the relationship disclosure package and the trade confirmation. We believe that the enhanced conflicts of interest requirements combined with the Dealer responsibility for disclosing the conflicts of interest in a timely manner, including at account opening and transaction execution, offers a more balanced, yet impactful, approach for addressing conflicts of interest.

The Investment Dealers we represent believe the proposal above is contrary to the Client Focused Reforms (CFRs) and that there must be a focus on conflicts of interest by all regulators. Not requiring the reporting of a transaction-related conflict of interest (e.g., related and/or connected issuer) to a managed-account client does not seem appropriate and is a confusing message from CIRO. The related and connected transaction-specific disclosures on client account statements should remain, and mutual fund dealers should also be subject to these. A general conflict of interest disclosure at account opening is simply not a sufficient means of protecting investors.

As previously mentioned, some of the Investment Dealers we represent do not support the proposed inclusion of the **beginning** total market value of all cash and investment products on client statements, as outlined in section 3851(4)(vi). This change would introduce additional costs to these Investment Dealers due to the changes needed to their systems.

2.6.4.7 Delivery of Documents to Clients (DC Rule section 3857)

In addition to the above, we also propose introducing the requirement for dealers to prepare and deliver the documents required under Rule 3800 to clients in electronic format (e-delivery), in accordance with applicable laws, unless the client requests to receive such document in paper format (DC Rule subsections 3857(1)). In essence, the proposed change makes e-delivery the default format of communications with clients, with the client having the right to opt for paper delivery.

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 above.

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.

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

2.7 General Dealer Member Financial Standards – Minimum Capital, Early Warning, Financial Reports and Auditors (DC Rule 4100)

2.7.1 Minimum Capital Levels and Related Requirements

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. (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 support this proposal.

2.7.2.1 Early Warning Tests and Levels

> 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 support this proposal.

2.7.2.3 Reimbursing CIRO for Costs

> The IDPC Rules allow CIRO to charge a Dealer for costs associated with the administration of early warning situations. The MFD Rules on the other hand are broader and allow CIRO to impose an assessment if the Dealer's financial condition or business issues demanded excessive regulatory attention. We are proposing to adopt the IDPC Rule approach. ***(DC Rule subsection 4133(1) – Reimbursing the Corporation for costs)***

The Investment Dealers we represent support this proposal.

2.7.4 Appointment of Auditors and Audit Requirements

> 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 support this proposal.

> By adopting the IDPC criteria for auditors of all Dealer Members, the mutual fund dealer auditors may need to enhance their knowledge or mutual fund dealers may need to switch to an auditor that meets the required criteria. Based on our analysis there are approximately 24 auditors of mutual fund dealers that are not currently on the IDPC panel

auditor list and therefore will need to seek panel auditor approval. The majority of these auditors perform audits solely for level 1 to 3 mutual fund dealers. In the questions section we have requested commenters to provide feedback on whether a transitionary period is needed for mutual fund dealer auditors to upgrade their education and proficiencies.

We propose to further harmonize the requirements for auditors by:

- adopting the MFD Rule requirement for informing CIRO of any changes in auditors or audit partners ***(DC Rule subsection 4172(2))***,
- aligning the prescribed audit procedures for confirmation, reconciliations and other tests ***(DC Rule sections 4173 to 4192)***,
- adopting existing filing requirements for the agreed-upon procedures report and clarifying the applicable report for mutual fund dealers that offer margin lending ***(DC Rule section 4190)***, and
- aligning the audit workpaper record retention requirements with the general Dealer Member record retention requirements. ***(DC Rule section 4191)***

The Investment Dealers we represent do not oppose the new requirement to notify CIRO of any changes in their auditor, and for the auditor to retain workpapers for 7 years instead of 6 years.

2.8 General dealer member financial standards - disclosure, internal controls, calculations of prices and professional opinions (DC Rule 4200)

2.8.1 Financial disclosure to clients (DC Rule 4202-4209)

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.

2.8.2 Pricing internal control requirements (DC Rule 4240-4244)

We propose 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.

2.9 Client asset use and custody (DC Rule 4300, 4400)

2.9.1 Segregation and related internal controls

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.

2.9.1.1 Investment products requiring segregation

The Investment Dealers we represent do not oppose the introduction of the term "investment product" into the segregation requirements to clarify that the scope of the segregation requirements extends beyond securities and precious metals bullion. Following this approach, CIRO would not need to amend the rules in every instance where a new product, similar to a security or commodity, may be recognized by the CIRO Board as an investment product.

2.9.2 Custody and related internal controls

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

2.9.3 Client free credit balances

We also propose 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:

- $250,000 minimum capital requirement ***(DC Rule clause 4382(2)(i))***, and
- client free credit balance usage limits and excess free credit balance segregation requirements ***(DC Rule clause 4382(2)(ii))***

The Investment Dealers we represent 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.

2.9.3.1 Client Free Credit Segregation Deficiency Capital Charge

The IDPC Rules do not require capital charges for client free credit segregation deficiencies and allow investment dealers up to five business days to correct any deficiency. MFD Rule 3.3.2(c) requires immediate action to correct a cash segregation deficiency and requires a capital charge for any unresolved deficiency amount.

For all Dealers, we propose to adopt a capital charge for any client free credit segregation deficiency that exists for more than one business day ***(DC Rule subsection 4386(3))***. We added a reporting line on Statement B of the DC Form 1 for dealers to report this charge in the risk adjusted capital calculation.

The Investment Dealers we represent strongly oppose the proposed change above, as it fails to account for the distinct operational complexities between Investment Dealers and mutual fund dealers. Historically, there have been no material issues related to the segregation of clients' free credit balances by Investment Dealers. This proposal would impose additional regulatory burden on Investment Dealers without delivering any corresponding benefit to investors. We recommend 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.

2.9.3.2 Notice to Institution – Designated Trust Account

For all Dealers, we propose to adopt the written designated trust notification requirements set out in MFD Rule 3.3.2. ***(DC Rule section 4387)***

The Investment Dealers we represent did not provide comments on the proposed amendment above.

2.9.4 Safekeeping, Safeguarding and Related Internal Controls

2.9.4.1 Safeguarding Cash

CIRO's Proposal states the following with respect to cash requirements:

We propose to adopt the MFD Rule provisions regarding the safeguarding of cash. MFD Rule 400, ICRS 4 includes safeguarding cash requirements not covered in the IDPC Rules, regarding

- general cash requirements (safeguarding of blank cheques ***(DC Rule subsection 4433(7))*** and limits on the number of authorized employees permitted to withdraw funds from bank accounts. ***(DC Rule subsection 4433 (11))***, and
- trust accounts for client funds. ***(DC Rule section 4434)***

We propose to adopt the general cash requirements for all dealers. For mutual fund dealers that do not use client free credit balances within their business only, we propose to adopt the MFD Rule trust account provisions regarding:

- recording and depositing of client cheques ***(DC Rule subsection 4434(1))***
- daily balancing of deposits ***(DC Rule subsection 4434(2)),*** and
- segregation of interest received payable to clients. ***(DC Rule subsection 4434(3))***

We propose the MFD Rule trust account provision requiring a dealer that pays interest to clients to maintain adequate records of amounts owing and paid to each client (MFD Rule 400 - ICRS 4, Trust Account for Client Funds, 4) to be a general records requirement that should apply to all dealers. Accordingly, we have included the requirement to maintain records of interest owing and paid to the client. ***(DC Rule clause 3810(1)(ii))***

The Investment Dealers we represent believe that CIRO should reconsider its proposal in light of the already robust and stringent processes in place for safeguarding client cash at the Investment Dealer level. A reassessment would help ensure that any new requirements are aligned with existing industry practices and do not impose unnecessary duplication or regulatory burden without any added benefit to investors.

2.9.5 Insurance Requirements

2.9.5.1 Coverage Requirements

The calculation for determining the minimum amount of insurance coverage differs between the MFD Rules and IDPC Rules. We are proposing to align portions of the calculation that are similar and blend or maintain other portions of the calculation to continue requiring that dealers holding client assets have more insurance coverage than those that do not hold client assets.

The Investment Dealers we represent do not oppose the proposal above.

2.9.5.2 Claim Notification

We propose to adopt the IDPC Rule that requires claims be reported to CIRO within 2 business days. This is a new requirement for mutual fund dealers as there is no equivalent reporting requirement in the MFD Rules. ***(DC Rule section 4465)***

The Investment Dealers we represent support the proposal above.

2.9.5.3 Mail Insurance

The IDPC Rules require an investment dealer to request an exemption from mail insurance if it does not use mail and wishes to exclude mail insurance from its insurance coverage. Under the MFD Rules, a mutual fund dealer is not required to request this exemption or inform CIRO. We propose a hybrid approach where the dealer is not required to maintain mail insurance, if it provides written notice to CIRO that it does not use mail. This approach will reduce the administrative burden of exemption requests for dealers and CIRO. ***(DC Rule section 4455)***

The Investment Dealers we represent do not oppose this proposal.

2.10 Financing Arrangements (DC Rule 4500, 4600)

2.10.1 Repurchase and Reverse 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.

2.10.2 Cash and Securities Loan, Repurchase and Reverse Repurchase Agreement Transactions

> Level 4 mutual fund dealers that offer margin lending may engage in financing activities such as securities lending to finance the margin loans. However, we are not considering allowing mutual fund dealers to engage in fully paid lending at this time. This will be considered at a later date when the FPL amendments are closer to approval. As a result, we have included fully paid lending activities as one of the mutual fund dealer restrictions in DC Rule section 1102. ***(DC Rule 4600)***

We support CIRO's decision not to allow mutual fund dealers to engage in fully paid lending at this time.

2.11 Regulatory Financial Report (DC Form 1)

CIRO proposes 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 that "one Form 1 creates more efficiencies while allowing customization of reporting requirements that may be unique to investment dealers or mutual fund dealers."

The Proposal also states the following:

> The IDPC Rules' formula measures the financial health of the Dealer to ensure there are sufficient assets in the event of a wind-down of the dealer by considering non-current liabilities and additional risk measures that are not considered in the MFD formula.

We believe CIRO should adopt the IDPC Form 1 requirements for the capital formula calculation of the following:

- 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.

2.11.1 Net Allowable Assets

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 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.

2.11.2 Early Warning Excess (EWE) and Early Warning Reserve (EWR)

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.

2.11.2.2 Adjustment for Provider of Capital Charge Related to Other Allowable Assets

CIRO's Proposal states the following:

> In the calculation of early warning reserve, we propose to introduce a new adjustment for other allowable assets that result in a provider of capital charge. There is the possibility of "double counting" capital reductions in the determination of a Dealer Member's early warning reserve when the Dealer Member has a provider of capital charge related to other allowable assets. Since it was never the intent of the provider of capital calculation that "double counting" would occur in the determination of the early warning reserve, an amendment to Statement C is necessary. This issue was identified in an IDPC member regulation notice (MR-0024) but the amendment was not made at the time the provider of capital calculation was introduced and has created unintended early warning consequences for Dealer Members. Since all Dealer Members including mutual fund dealers will be subject to provider of capital concentration requirements, this adjustment to Statement C is required to prevent unintended early warning consequences to those Dealers with a provider of capital charge. ***(DC Form 1, Statement C Line 10)***

The Investment Dealers we represent do not oppose the above proposal.

2.11.3 Margin Required for Risk Exposures

CIRO mentions in its 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.

2.11.3.1 Counterparty Credit Risk

We agree that CIRO should introduce a credit risk framework for the treatment of mutual fund dealers' client debit balances and should adopt the IDPC counterparty definitions within the proposed DC Form 1.

Reporting Non-Transactional Receivables

CIRO's Proposal states the following with respect to non-transactional receivables:

> We propose to adopt the IDPC Form 1 approach to other allowable assets which would limit the other allowable assets to receivables from AIs ***(DC Form 1 Statement A)***… For mutual fund dealers, non-transactional receivables with certain counterparties may no longer be considered other allowable assets under the proposed DC Form 1, resulting in a deduction to risk adjusted capital.

The Investment Dealers we represent agree with this proposal, which better protects investors.

Reporting Trading-Related Balances and Margin Requirements

CIRO's Proposal states the following with respect to trading-related balances and margin requirements:

> To harmonize the counterparty and client reporting and the treatment of client debit balances, while establishing customized and more simplified reporting for mutual fund dealers we propose:
> - maintaining separate Form 1 schedules for mutual fund dealers and investment dealers for reporting client trading balances but expanding the mutual fund dealer schedule to include additional counterparties (AI and AC), credit balances and margin reporting ***(DC Form 1 Schedule 3)***
> - introducing a credit risk framework for mutual fund dealer client debit balances, ***(DC Form 1 Schedule 3)***
> - codifying a harmonized margin treatment for debit balances in registered accounts ***(DC Form 1 Notes and instructions to Schedule 3 and 4)***
> - introducing a broker trading balance schedule for mutual fund dealers ***(DC Form 1 Schedule 6)***
> - adopting the IDPC equity deficiency margin treatment for trading balances with ACs and REs ***(DC Form 1 Notes and instructions to Schedule 3 and 6)***
> - adopting the IDPC Form 1 schedule for reporting the ten largest settlement date trading balances with AIs and ACs ***(DC Form 1 Schedule 5)***

The Investment Dealers we represent support the Proposal in regard to the items listed above.

2.11.3.2 External Custody Risk

CIRO's Proposal states the following with respect to external custody risk:

> We propose to adopt the IDPC custody risk requirements within the IDPC Form 1 for both investment dealers and mutual fund dealers which includes:
> - qualification requirements for custodians to meet the acceptable securities location definition, and
> - margin implications for unreconciled positions or securities held at non-acceptable locations.

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.

2.11.3.3 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 also states 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 Proposal goes on to state 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.

Some of the Investment Dealers we represent expressed concern that the proposed approach to concentration calculations for diversified investment products 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 is intended to be optional. Specifically, it appears 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 to avoid inconsistent application or unnecessary compliance burdens.

2.11.3.4 Foreign Currency Exposure Risk

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.

2.11.3.5 Provider of Capital Exposure Risk

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.

2.11.4 Organization of Form 1 Statements and Schedules

CIRO's Proposal states the following with respect to the organization of certain statements and schedules:

> Although we are proposing to adopt the IDPC Form 1 capital formula and general structure, we have reorganized and renamed certain statements and schedules to accommodate the additional mutual fund dealer schedules and provide a more logical and sequential order for similar schedules.

The Investment Dealers we represent do not oppose the reorganization.

2.11.4.1 Blended Statements and Schedules

CIRO's Proposal states the following with respect to the consolidation of the MFD and IDPC Form 1 statements to include appropriate reporting lines:

> We have blended the following statements and schedule to include reporting lines from both the MFD Form 1 statements and the IDPC Form 1 statements to ensure the existing regulatory financial information for each dealer type continues to be reported:
>
> - Statement of financial position ***(DC Form 1 Statement A)***,
> - Statement of risk adjusted capital (and supplemental details of unresolved differences) ***(DC Form 1 Statement B and Statement B supplemental)***,
> - Statement of early warning excess and reserve ***(DC Form 1 Statement C)***,
> - Statement of income and comprehensive income ***(DC Form 1 Statement D)***,
> - Statement of changes in capital and retained earnings ***(DC Form 1 Statement E)***,
> - Securities owned and sold short ***(DC Form 1 Schedule 2)***,
> - Current income tax ***(DC Form 1 Schedule 8)***,
> - Insurance ***(DC Form 1 Schedule 12)***, and
> - Other supplementary information. ***(DC Form 1 Schedule 18)***

The Investment Dealers we represent did not provide comments on the blending of these statements and schedules.

2.11.4.2 IDPC Schedules Adopted Where No Equivalent MFD Schedule

CIRO's Proposal continues as follows:

> We propose to adopt into the DC Form 1 the following IDPC schedules applicable to investment dealers where there is currently no equivalent MFD Schedule:

- Statement of free credit segregation ***(DC Form 1 Statement F)***,
- Analysis of loans, securities borrowed/loaned and resale/repurchase agreements ***(DC Form 1 Schedules 1 and 9)***,
- Cash and securities borrowing and lending arrangements concentration charge ***(DC Form 1 Schedule 9A)***,
- Margin for concentration in underwriting commitments ***(DC Form 1 Schedule 2A)***,
- Underwriting issues margined at less than the normal margin rates ***(DC Form 1 Schedule 2B)***,
- List of ten largest settlement date trading balances with acceptable institutions and acceptable counterparties ***(DC Form 1 Schedule 5)***,
- Tax recoveries ***(DC Form 1 Schedule 8A)***,
- Provider of capital concentration charge ***(DC Form 1 Schedule 14)***, and
- Margin on futures concentration and deposit, ***(DC Form 1 Schedules 15)***

The Investment Dealers we represent do not oppose the schedule adoption proposal above.

2.11.4.3 Schedules Customized to MFDs

CIRO proposes separate schedules specific to mutual fund dealers and Investment Dealers for the following:

- Certificate of UDP and CFO,
- Client trading balances ***(DC Form 1 Schedules 3 and 4)***,
- Broker dealer trading balances ***(DC Form 1 Schedules 6 and 7)***,
- Securities concentration ***(DC Form 1 Schedules 10, 10A, 10B and 11, 11A, 11B)***,
- Foreign exchange margin requirements ***(DC Form 1 Schedules 13, 13A and 13B)***, and
- Early warning tests. ***(DC Form 1 Schedules 16 and 17, 17A)***

The Investment Dealers we represent do not oppose simplified versions of the schedules for broker dealer trading balances; securities concentration; and foreign exchange margin, which would be applicable to mutual fund dealers with simple business activities.

2.11.4.4 New Schedule Related to Assets Under Administration

CIRO is proposing the introduction of an additional schedule:

> 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)***

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.

2.11.4.5 Audit Reports and Agreed-Upon Procedures

Audit Reports

CIRO's Proposal states the following with respect to audit reports:

> We propose to maintain the standard audit report for the financial statements ***(DC Form 1 Statements A, D and E)*** applicable to both mutual fund dealers and investment dealers. We propose to adopt both audit reports for the opinion on additional statements for mutual fund dealers and investment dealers as separate reports in DC Form 1. The audit report applicable to mutual fund dealers should be used by auditors for mutual fund dealers that continue to segregate all client cash in trust. This audit report does not include the statement of free credit segregation amount in the opinion. Where the mutual fund dealer chooses to use free credits in their business, the auditor will be required to complete the audit report that includes an opinion on the statement of free credit segregation amount.

As previously mentioned, the Investment Dealers we represent do not support the use of free credits by mutual fund dealers.

Agreed-Upon Procedures Report

> CIRO proposes to adopt both the agreed-upon procedures report from the MFD Form 1 and the IDPC Form 1 as separate reports in the DC Form 1 to allow auditors to apply the agreed-upon procedures for mutual fund dealers that continue to have a simple business. CIRO also proposes, where the mutual fund dealer chooses to offer margin to clients, that the auditor be required to complete the agreed-upon procedures report that includes the segregation procedures related to a dealer that offers margin.

The Investment Dealers we represent do not support the proposal that mutual fund dealers should be allowed to offer margin to clients.

2.11.5 Other Form 1 Proposals

2.11.5.1 Reporting and Filing

CIRO proposes the following with respect to consolidating the difference in reporting figures:

> One of the reporting differences between the MFD and IDPC Form 1 is that mutual fund dealers report their figures in dollars and investment dealers report figures to the nearest thousand. Amounts less than a thousand are generally immaterial so we are proposing all amounts be reported to the nearest thousand in the DC Form 1.

The Investment Dealers we represent do not oppose this proposal.

CIRO proposes the following regarding changes to the timing of filing requirements:

> On a monthly basis, dealers will only be required to file a subset of schedules from the Form 1. This approach is consistent with the current IDPC monthly filing report requirements. The schedules to be filed by each dealer type are outlined in the DC Form 1 general notes and definitions. Mutual fund dealers will benefit from reduced monthly reporting of certain schedules. For example, the "Analysis of clients trading accounts" schedule ***(DC Form 1 Schedule 3)*** is only required to be submitted on an annual basis. As discussed in section 2.2.2 of this Bulletin we propose a new definition, "monthly financial report" to represent the Form 1 subset that is filed on a monthly basis.

The Investment Dealers we represent do not oppose this proposal.

2.11.5.2 Mutual Fund Dealers Structured as Not-For-Profit

CIRO's Proposal states the following with respect to amending certain statements and their corresponding notes and instructions for not-for-profit mutual fund dealers:

> We have modified certain statements and corresponding notes and instructions to accommodate fund balance reporting for those dealers that are structured as a not-for-profit organization. Dealers that are structured as a not-for-profit organization do not have share capital. The base capital for these dealers is the fund balances they receive in donations. We have included the fund balances as capital in the risk adjusted capital calculation but we have proposed an adjustment to deduct any fund balances that are restricted by an external party other than CIRO. If the fund balances have been restricted by an external party, we do not consider these funds as available capital for the dealer. Statements A, B, D and E and the corresponding notes and instructions were amended to consider fund balance reporting for not-for-profit organizations.

We respectfully request additional clarity on the above matters such that we can provide informed comments.

3. Impacts of the Proposed DC Rules

3.2 Specific Impacts of Phase 5 Proposed DC Rules

CIRO mentions the following in its Proposal:

> While there may be some negative impacts to mutual fund dealers, and in more limited instances to investment dealers, many of these impacts are short-term, as they relate to requirements to develop new policies, procedures and internal systems. Once developed, the existence of harmonized industry infrastructure and regulatory expectations will be positive for the industry as a whole.

The Investment Dealers we represent agree that harmonization will be positive for the industry, as well as for the protection of Canadian investors.

Furthermore, CIRO mentions that a complete impact analysis of the Phase 5 Proposed DC Rules is attached as Appendix 8. Please note that the analysis seems to be included as Appendix 7.

Appendix 7 – Impact Analysis of the Phase 5 Proposed DC Rules

As previously mentioned, the Investment Dealers we represent do not support the proposal that employees be included as potential subjects of a complaint in the definition. 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.

Additionally, requiring employees to report certain matters to their Dealer Member and requiring Investment Dealers to add this process into their current policies and procedures would represent a significant burden. We would urge CIRO to be mindful of the fact that the Investment Dealers we represent may have workforces numbering in the hundreds and thousands, significantly amplifying the operational burden associated with monitoring and compliance should the Proposal proceed in its current form. We believe that such a proposal should be made separately from the consolidation project.

We note also the increased regulatory burden of having to report privacy breaches to CIRO. This would be a new requirement that would duplicate the work to be performed and provide no added benefit to investors.

CIRO Questions – Listed in the Proposal

Comments were specifically requested on the following questions:

Question #1 - Definition of "complaint"
The proposed definition of "complaint" includes current and former clients. Should "prospective clients" also be included, as they are in the current MFD Rules? Do "prospective clients" generate a significant number of substantive complaints that present a material regulatory concern, rather than just service issue?

CIFIC response:

The Investment Dealers we represent do not believe that "prospective clients" should also be included.

Question #2 - Definition of "serious misconduct"
Does the proposed definition of "serious misconduct" cover the appropriate elements that should be reported, investigated, and dealt with in respect of complaints?
Note that the proposed definition does not specifically include harm to the Dealer. Should it encompass conduct that harms the Dealer, even where that harm ***does not*** pose a reasonable risk of material harm to clients or the capital markets, nor result in material non-compliance with applicable laws?

CIFIC response:

As outlined at the outset of our comment letter, we are concerned that the current Proposal deviates from the core objective of the Consolidation Project. Specifically, the expansion of the regulatory scope, particularly where non-registrants are brought into consideration, appears misaligned with the project's original intent. Any such expansion should be addressed through a distinct CIRO initiative, rather than being embedded within the framework of the Consolidation Project.

Furthermore, as we previously commented, 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 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.

Question #3 - Definition of "non-reportable complaints"
Is the definition of "non-reportable complaints" appropriate to minimize reporting where there is no material risk of harm to clients or the capital markets, or instances of non-compliance, while still ensuring that material complaints are addressed?

CIFIC response:

The Investment Dealers we represent believe CIRO should continue to use the term "service complaints."

Question #4 - Time limit to provide a substantive response letter
Is the 90-day time limit to provide a substantive response letter to a complainant appropriate, given that the Autorité des marchés financiers has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per Companion Policy 31-103 *Registration Requirement*s, Exemptions *and Ongoing Registrant Obligations*)?

CIFIC response:

The Investment Dealers we represent strongly believe that the 90-day time limit should be preserved.

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 are concerned that the broader impact of this regulatory shift – on Investment Dealers, the CSA, and CIRO – was not fully considered. 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.

Question #5 - Time limit applicable to internal dispute resolution
Is the proposed time limit for internal dispute resolution processes reasonable, considering the need to balance an expedient resolution for clients while still allowing an appropriate amount of time for Dealers to determine an effective and fair resolution?

CIFIC response:

The Investment Dealers we represent do not oppose the proposal to add a time requirement for internal dispute resolution.

Question #6 - Client reporting
Do you agree with our assessment of the areas where the proposed harmonization is consistent with current requirements and Dealer practices and therefore no significant negative impact has been introduced for Dealers and clients as a result? If not, please explain.
Do you agree with our assessment of those areas where the proposed harmonization may impact some Dealers, but that the benefits of such harmonization outweigh the costs to the affected Dealer? If not, please explain.

CIFIC response:

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.

Furthermore, some Investment Dealers do not support the proposed inclusion of the **beginning** total market value of all cash and investment products on client statements, as outlined in section 3851(4)(vi). This change would impose additional costs on these Investment Dealers, as it would require system modifications, without delivering any meaningful benefit to investors.

Question #7 - Use of free credit client cash
Is it appropriate to extend the ability to use free credit client cash to level 3 mutual fund dealers in addition to level 4 mutual fund dealers?

CIFIC response:

As previously explained, the Investment Dealers we represent do not believe that mutual fund dealers should use free credit client cash.

Question #8 - Transition period for Form 1 capital formula and provider of capital charge
Is the phased approach we propose, for mutual fund dealers to adopt the new DC Rules Form 1 capital formula and the provider of capital concentration charge, an appropriate approach and transition period?

CIFIC response:

The Investment Dealers we represent support the above proposal.

Question #9 - Transition period for mutual fund dealers' auditor approval
Should the proposed requirements for approval of mutual fund dealers' auditors as panel auditors be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?

CIFIC response:

In order to protect investors, the Investment Dealers we represent do not believe that an extended transition period should be made available.

Question #10 - Form 1 schedules
Where we have proposed separate schedules for mutual fund dealers and investment dealers in the new DC Rules Form 1 (e.g. client trading accounts, broker trading accounts, FX margin, concentration etc.), are these separate schedules appropriate or should we consider one combined schedule for both mutual fund dealers and investment dealers?

CIFIC response:

The Investment Dealers we represent did not provide comments on separate Form 1 schedules for mutual fund dealers and investment dealers.

Question #11 – Concentration for diversified investment products
The current concentration schedule allows Dealers to look through to underlying securities where the concentrated product is a broad based index. Does the proposed change allowing this approach on a broader basis to diversified investment products such as mutual funds that have a basket of underlying investment products (not including derivatives) provide sufficient operational flexibility to Dealers in managing potential concentration exposures? Or, should we consider excluding these types of fund products from concentration testing based on their risk profile?

CIFIC response:

As mentioned, some of the Investment Dealers we represent expressed concern that the proposed approach to concentration calculations for diversified investment products 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 is intended to be optional. Specifically, it appears 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.

Question #12 - Transition period for counterparty margin
To what extent is it appropriate to apply a phase-in approach for mutual dealers to adopt the counterparty margin requirements for acceptable counterparties and regulated entities? What is an appropriate extended transition period?

CIFIC response:

The Investment Dealers we represent did not provide comments on whether a transition period for mutual fund dealers to adopt the counterparty margin requirements would be appropriate, but, as previously commented, we do not believe mutual fund dealers should be allowed to offer margin.

Question #13 – Rule consolidation project
Considering all the phases of this project, are the proposed DC Rules aligned with the objectives of the project? To what extent have the proposed DC Rules introduced excessive regulatory burden?

CIFIC response:

As mentioned at the beginning of our comment letter, we believe the objectives of the Rule Consolidation Project have not been respected by the proposed expansion of regulatory scope. Any proposed expansion to include non-registrants should be discussed in a separate CIRO initiative and not included in the Rule Consolidation Project.

All other sections of the Proposal are aligned with the objectives of the project.

CIRO Advisory Committee Feedback

We will address the four areas of feedback received by CIRO from the CIRO Advisory Committee (IAP) in the sections below.

1. **Free Credit Client Cash:**

CIRO's Proposal states the following with respect to this feedback:

> We have received overall positive feedback regarding the Phase 5 Proposed DC Rules from our advisory committees except for our proposals:

- to extend use of free credit client cash to Level 4 mutual fund dealers as the IAP expressed concerns that this could increase risk to clients, and mutual fund dealers might not compensate clients for this additional risk. We believe that the requirements for mutual fund dealers to comply with the free credit client cash segregation limit and to provide disclosures to clients about the use of their cash are sufficient to mitigate these risks. These requirements were established for investment dealers that use free credit client cash in their operations, and no adverse consequences to clients have been noted from this practice,

We disagree with CIRO and fully agree with the IAP. As previously mentioned, extending the use of free credit client cash to mutual fund dealers, based on their activity and the current regulatory framework, would increase risk to retail clients.

2. <u>Allowing Different Standards:</u>

CIRO's Proposal states the following with respect to the standards that apply to mutual fund dealers that decide to offer margin accounts or use free credit client cash:

> We have received overall positive feedback regarding the Phase 5 Proposed DC Rules from our advisory committees except for our proposals:
>
> - to allow different standards for mutual fund dealers that choose not to offer margin or use free credit client cash. The FOAS capital subcommittee suggested that financial standards should be harmonized across all dealers. They argued that requiring some mutual fund dealers to comply with different standards would create too much complexity and confusion about which rules apply. We chose to give mutual fund dealers the option of offering margin accounts or using free credit client cash, provided they comply with higher standards. We believe this approach avoids unnecessary regulatory burden on mutual fund dealers that prefer to maintain a simple business model without offering margin or using free credits. We believe the provisions introduced in DC Rule subsections 4382(2) and 5112(2) along with the descriptions in the notes and instructions to the statements and schedules in DC Rule Form 1, provide sufficient clarify for mutual fund dealers to identify the applicable requirements if they choose to offer margin accounts or use free credit client cash,

We do not believe that mutual fund dealers should offer margin or use free credits, as the risks to investors are simply too high.

3. <u>Non-Arms-Length Transactions:</u>

CIRO's Proposal states the following with respect to a harmonized approach to the requirement for Dealers to disclose non-arms-length transactions in the account statements to clients:

We have received overall positive feedback regarding the Phase 5 Proposed DC Rules from our advisory committees except for our proposals:

- to remove the requirement for Dealers to disclose non-arms length transactions in the account statements to clients. (see the proposal in section 2.6.4.2 of this Bulletin). The IAP raised concerns that simply relying on such disclosure in the relationship disclosure and trade confirmations alone, can come with net loss for investors. The account statement disclosure requirement is currently unique to investment dealers, and it is not required under the MFD Rules nor National Instrument 31-103. We considered different alternatives under the consolidated rules, including keeping the status quo. Adopting common conflicts of interest requirements with double standards is not advisable, since we are striving for a level playing field. Between the alternative of aligning under the IDPC Rules approach or the MFD Rule/National Instrument 31-103 approach, we believe the second alternative offers a more balanced and impactful solution because such an approach:
    - would also align CIRO's Dealer Members' practices with those of securities registrants that adhere to the National Instrument 31-103 reporting requirements (e.g. Quebec mutual fund dealers, portfolio managers, investment fund managers);
    - does not require mutual fund dealers to change their systems and incur costs associated with modifying their accounts statements to conform with the more onerous disclosure standard; in comparison investment dealers can and may choose to maintain their status quo; and
    - does not necessarily come with a net loss for the investor, in view of the enhanced Dealer obligation, post Client Focused Reforms, to address conflicts of interest in the client's best interest (beyond disclosure) following empirical data suggesting that disclosure alone, or over disclosure, is not always effective.

We respectfully disagree with CIRO's position and maintain that the requirement should continue to apply to Investment Dealers, and likewise be extended to mutual fund dealers, as previously outlined.

4. <u>90-Day Complaint-Handling Period:</u>

CIRO's Proposal states the following with respect to the 90-day timeline for Dealers to provide a substantive response to a complaint:

- to retain a 90-day timeline for Dealer Members to provide a substantive response to a complaint as per Companion Policy 31-103. The IAP expressed a desire to have a shortened complaint handling timeline. We have asked a question in the present Bulletin seeking public comment on whether a 90-day time limit to provide a substantive response letter to a complainant is appropriate.

We believe that a 90-day period is appropriate to allow for a thorough assessment and the delivery of high-quality service to clients. Furthermore, we question whether CIRO has received any complaints from investors indicating that such a timeframe is inadequate or unacceptable.

Conclusion

We agree that the public interest has been taken into consideration when developing the Phase 5 Proposed DC Rules and commend CIRO for this. We also believe the proposals achieve their 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. However, we object to the proposed expansion of the Proposal's scope, as mentioned above.

We agree that the Phase 5 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,

A.Sinigagliese

Annie Sinigagliese, CPA, FCSI
Canadian Independent Finance and Innovation Counsel Inc.
Conseil Indépendant Finance et Innovation du Canada Inc.
www.cific.co