OLYMPIA TRUST COMPANY

WITH US IT'S PERSONAL

Delivered by Email: memberpolicymailbox@ciro.ca

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2000
121 King Street West
Toronto, Ontario M5H 3T9

Dear Sirs and Mesdames:

Re: CIRO Rule Consolidation Project – Phase 5

Olympia Trust Company is pleased to provide the Canadian Investment Regulatory Organization (**CIRO**) with our comments on CIRO Rule Consolidation Project – Phase 5 (Phase 5 Proposals).

ABOUT OLYMPIA TRUST COMPANY

Olympia Trust Company (**Olympia**), a wholly owned subsidiary of Olympia Financial Group Inc. (TSX:OLY), is a non-deposit taking trust company founded in 1996 to offer the business community an alternative to the traditional products and services provided by major trust companies, banks and insurance companies. There are two divisions that operate under the Olympia Trust Company banner: Investment Account Services and Corporate & Shareholder Services.

Under its Investment Account Services division, Olympia administers self-directed registered accounts such as RRSPs and TFSAs that allow clients to hold a multitude of qualified investments in accordance with the *Income Tax Act*. These include Exempt Market Securities (Private Mutual Fund Trust Units / Private Corporate Debt Securities / Private Company Shares – CCPCs / Mortgage Investment Corporation Shares - MICs), Arms-Length Mortgages, Mutual Funds and Publicly Traded Securities. Olympia's role is to act as an unbiased administrator and efficiently manage transactions. We do not offer or promote any investment offerings; investment decisions are left to clients and their advisors. As Olympia is not a registrant under applicable securities laws, nor a member of CIRO, we have limited our discussion of Phase 5 Proposals to matters relating to the holding and segregation of client assets and cash.

SUMMARY

We respectfully submit this comment letter to express our opposition to proposed section 2.11.3.1 of the Phase 5 Rule Consolidation Project which proposes adopting the current IDPC Form 1 definition of "acceptable institution" requiring trust companies to maintain paid-up capital and surplus exceeding $100 million (**Proposed Acceptable Institution Net Worth Requirement**) when providing trustee services to clients of investment dealer and mutual fund dealer members. The proposed amendment is particularly concerning when coupled with the requirement in the notes and instructions found in item (2) of IDPC Form 1, Part I – Statement A, which require that "the trustee for RRSP or other similar accounts must qualify as an acceptable institution".

Under MFDR Form 1, definition 1(a) establishes that any Canadian bank, Quebec savings bank or trust company licensed to do business in Canada or a province thereof meets the definition of an "acceptable institution" in its own right, and presumably on the basis of its regulation external to CIRO. While we take no position on the more expansive list set out in the proposed "acceptable institution" definition of IDPC Form 1, the addition of the Proposed Acceptable Institution Net Worth Requirement is neither appropriate nor necessary. The Phase 5 Proposals do not provide an investor protection rationale for the increased net worth threshold requirements, instead defending their inclusion on the basis that "[CIRO] anticipate[s] the impact to be minimal as a significant majority of the financial institutions that mutual fund dealers deal with will meet the net worth requirements to qualify as an acceptable institution".

CIRO's mission of promoting healthy capital markets by regulating fairly and effectively should require that the consolidated rules materially enhance investor protection without disproportionately impeding growth, innovation and competition in the Canadian investment marketplace. Determining that the Proposed Acceptable Institution Net Worth Requirement is sufficient merely on the basis that "a significant majority" will not be impacted does not account for the need to foster a dynamic and competitive custodial services market, which carries material benefit to Canadian investors.

Instead, we propose that CIRO adopt the MFDR Form 1 net worth requirements for both investment dealers and mutual fund dealers on the basis that:

i. Canadian and provincial financial institution regulators already oversee the capital adequacy and risk requirements of impacted acceptable institutions in a more sophisticated manner to ensure investor protection that is proportionate to the regulated entities' assets, market share and business model;

ii. there is an absence of recent historical data to support the need for an arbitrary $100 million "bright line" net worth requirement among participating Canadian financial institutions beyond the requirements already imposed by their regulators; and

iii. the Proposed Acceptable Institution Net Worth Requirement will inhibit competition within the custodial and trust services market and will harm investors through increased cost, lack of innovation and concentration risk among highly influential and entrenched custodial and trust service providers.

Sufficiency of Existing Regulatory Frameworks for Canadian Financial Institutions

The Canadian banks, Quebec savings banks and trust companies potentially impacted by the Proposed Acceptable Institution Net Worth Requirement are heavily regulated entities not under the delegated authority of CIRO. OSFI regulates federally incorporated trust companies under the *Trust and Loan Companies Act*, while provincial regulators such as the Financial Services Regulatory Authority of Ontario (FSRA), the British Columbia Financial Services Authority (BCFSA), the Autorité des marchés financiers (AMF) and the Alberta Treasury Board oversee provincially licensed trust companies in Ontario, British Columbia, Quebec and Alberta, respectively. These bodies are statutorily tasked with regulating the conduct, activities and risk of trust companies in Canada. They employ risk-based frameworks, with OSFI applying Basel III (adopted in 2013) and provincial regulators aligning with similar standards, ensuring capital adequacy and client asset segregation without arbitrary thresholds.

The MFDR Form 1 definition of an "acceptable institution" without net worth requirements creates greater flexibility by allowing dealers to partner with diverse Canadian financial institutions, all of whom are subject to stringent oversight, driving efficiency and innovation that is tailored to their specific business models and activities. For example, OSFI's Basel III framework mandates capital adequacy ratios to ensure that financial institutions maintain a robust capital buffer to absorb losses, enhance financial stability, and protect depositors and investors during economic stress. Provincial regulators rely on comparable risk-based standards, ensuring stability across trust companies of all sizes.

The Proposed Acceptable Institution Net Worth Requirement also lacks proportionality, imposing undue burdens on smaller trust companies and failing to align capital requirements with assets under administration. This can be shown in part by reviewing the list of domestic "acceptable institution" trusts maintained by CIRO. Based on December 31, 2023 financial statement data, the median net worth of a domestic trust meeting the definition of "acceptable institution" was nearly 4 times that of the Proposed Acceptable Institution Net Worth Requirement, and nearly 75% of the trusts listed in this report reported net worths over 50% higher than the Proposed Acceptable Institution Net Worth Requirement. From a risk perspective, a CIRO-imposed $100,000,000 net worth requirement on these externally regulated entities appears to offer minimal investor protection and instead only acts as a barrier-to-entry for new participants seeking to give optionality to Canadian investors.

We agree that CIRO should mandate that "acceptable institutions" be duly regulated by qualified governmental bodies and organizations, however there is no need to micro-regulate on their behalf by creating redundant requirements outside of CIRO's traditional scope and mandate. OSFI and provincial regulators' risk-weighted capital ratios, adjusted for asset scale and custodial risks, provide a more equitable and effective safeguard. In order to foster efficient capital markets, CIRO should instead rely on the regulatory oversight of domestic financial institutions by the appropriate entities.

Absence of Historical Data to Support Proposed Net Worth Requirements

Historical data underscores the redundancy of the $100 million requirement, as the Canada Deposit Insurance Corporation's "History of Failures" indicates that no trust company failures have occurred since 1996, reflecting the strength of OSFI and provincial regulatory oversight over the last 25+ years. CDIC reports 43 member institution failures from 1967 to 1996, with the last being Security Home Mortgage Corporation in 1996, protecting over $800 billion in deposits for 2 million depositors. Earlier failures, such as Confederation Trust in 1994, were resolved through mergers or CDIC intervention without depositor losses. Since 1996, including during the 2008 global financial crisis, no trust company or bank failures have been recorded, and this has since been bolstered through significant global focus on risk-based regulation of financial institutions. Implementing rules on

the basis of investor protection should rely on data-driven decision making to assess the efficacy of existing (and in the case of financial institutions, external regulator body) oversight. The absence of failures since 1996, bolstered by Basel III guidance on stress testing and liquidity coverage ratios, confirms that smaller trust companies, regulated by OSFI (federally), FSRA (Ontario), BCFSA (British Columbia), AMF (Quebec), or Alberta's Treasury Board (Alberta), appear not to pose systemic risk that CIRO should feel compelled to address through the imposition of an arbitrary net worth requirement. The MFDR Form 1 definition allows these institutions to serve dealers, maintaining market access without compromising investor safety.

Impact of Reduced Competition and Choice Harms Canadian Investors

An absence of competition in custodial markets, such as those involving trust companies holding client assets for mutual fund dealers or investment dealers, can harm investors in several ways, impacting cost, quality, access, and risk management. Lack of competition concentrates custodial services among a few large trust companies, reducing price pressure. With fewer providers, these companies will charge higher fees for services like asset safekeeping, transaction processing, or account administration, which dealers ultimately pass on to investors.

Competition also drives custodians to improve service quality and perform the types of innovation where Canada has historically lagged global capital markets (e.g., digital platforms and tailored solutions for niche markets). Without competitive pressure, dominant providers may offer standardized, less responsive services, neglecting investor-specific needs and ultimately harming Canadian investors. Smaller trust companies that do not meet the Proposed Acceptable Institution Net Worth Requirement often serve regional or specialized markets, offering bespoke solutions (e.g., for rural investors or alternative investments). Their exclusion stifles innovation, limiting investors' access to advanced tools or customized custodial arrangements.

Lastly, concentrating custodial services among a few large trust companies heightens systemic risk and may ultimately result in the opposite of its intended result. Although OSFI and provincial financial services regulatory approaches are more equipped to mitigate systemic risk, if CIRO member participation becomes further concentrated in a small number of "acceptable institutions" and one of these entrenched dominant providers fails or faces operational issues (e.g., cyber breaches), the impact on investors could be more widespread and create greater negative consequences for the Canadian capital markets. A competitive market with diverse providers mitigates this risk by distributing assets across multiple trust companies, reducing the potential fallout from a single failure.

-

We appreciate the opportunity to comment on the Phase 5 Proposals and are available to address any items further as may be required.

Sincerely,

Olympia Trust Company
Craig Skauge, President