Friday, November 14, 2025

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Re: Republication of CIRO's Proposed Amendments – Fully Paid Lending and Financing Arrangements (25-0277), issued on October 16, 2025

The **Canadian Independent Finance and Innovation Counsel (CIFIC)** appreciates the opportunity to provide comments to the Canadian Investment Regulatory Organization (CIRO) regarding the republication of its proposed framework for fully paid lending (FPL) and financing arrangements (the "Proposal").

The Canadian Independent Finance and Innovation Counsel represents more than 40 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.

Industry Views

We are supportive of the intent behind this initiative, and particularly the potential benefits it could bring to investors, including those holding securities in registered plan accounts. The ability for clients to earn incremental revenue from otherwise idle securities aligns with broader goals of market efficiency and investor empowerment.

Areas of Concern

The Investment Dealers we represent have identified several areas of concern, primarily related to timing, legal certainty, and operational consistency, which we believe warrant careful consideration before implementation proceeds.

1. Premature Implementation Ahead of Legislative Clarity

   Several Investment Dealers have expressed concern that CIRO's work on the FPL framework appears to have preceded necessary legislative amendments under the Income Tax Act (ITA) and related regulations; specifically, there is a concern that securities lending within registered plan accounts could inadvertently result in those accounts being classified as holding Non-Qualified Investments (NQI) or engaging in activities inconsistent with the tax-exempt status of the plan.

   Some registered retirement savings plan (RRSP) trustees have clearly indicated that they will not permit Dealers, acting as agents, to engage in fully paid lending until the ITA amendments are enacted and the regulatory/tax implications are fully resolved. This cautious position is understandable given that trustees bear legal responsibility for ensuring plan compliance.

   We are also aware that other trustees interpret the current framework differently, creating a lack of uniformity in how Dealers and clients are treated. This inconsistency is problematic and results in uneven access for investors and competitive imbalance across the industry, with some firms able to pilot or promote programs which others cannot.

2. Tax and Legal Risks Remain Unresolved

   Until the relevant sections of the Income Tax Act are amended, all participants in FPL arrangements face material uncertainty. The tax status of a securities loan, the characterization of collateral, and the implications for the RRSP trust are all unresolved

issues.

If the FPL framework is implemented and Canada Revenue Agency (CRA) later determines that securities lent under an FPL arrangement within an RRSP constitute NQIs, plan holders could be subject to significant tax penalties, and furthermore, Dealers and trustees could face reputational and operational risks for facilitating a structure later deemed to be non-compliant. This would undermine investor confidence in both the regulatory framework and the industry's governance practices.

Given these uncertainties, we believe proceeding with implementation before legislative and interpretative clarity is achieved does not serve the best interests of investors or the integrity of the regulatory system.

3. Need for Coordination Between CIRO, Finance Canada, and CRA

We urge CIRO to work closely with the Department of Finance and the CRA to ensure alignment between the regulatory framework and the underlying tax legislation. A synchronized approach would:

- avoid the risk of conflicting or premature requirements;
- provide clarity and comfort to trustees, Dealers, and investors; and
- ensure that operational investments made by firms to support FPL programs are not rendered obsolete by later legislative changes.

Until the ITA amendments are finalized and the CRA has confirmed the tax treatment of FPL transactions within registered plans, any implementation of the CIRO framework could in effect be irrelevant from a compliance standpoint.

4. Debt Securities as Collateral

Some of the Investment Dealers we represent have expressed a preference for using debt securities as collateral in place of cash. Given that the current wording of the Proposal appears to permit this only on an exceptional or exemptive basis by CIRO, we suggest that the language be revised in future proposals to allow greater flexibility for the use of such collateral without the need to seek an exemption.

5. Limits – Order-Execution-Only Dealers

We would encourage CIRO to reconsider the proposed requirement for customers to set a limit on the total amount they are willing to lend. While we appreciate the objective of enhancing risk controls, the practical implications differ meaningfully across business models. In particular, Order-Execution-Only (OEO) Dealers are not mandated to conduct suitability assessments and therefore should not be expected to monitor or enforce a client-specified lending limit. Imposing such an obligation would blur the clear regulatory

distinction between advisory and OEO channels and would introduce operational burdens without a corresponding investor-protection benefit. We respectfully suggest that CIRO tailor the risk-limit requirement so that it applies only where firms have a regulatory responsibility to assess and supervise client suitability.

Recommended Next Steps

To ensure the success of this initiative, we recommend that CIRO take the following steps:

1. Defer final approval or mandatory implementation of the FPL framework until Finance Canada's legislative amendments have been enacted and publicly clarified.
2. Facilitate a joint communication (CIRO, Finance, CRA, and major trustees) to outline the tax and compliance implications once finalized.
3. Develop industry guidance to ensure consistent interpretation and implementation across trustees and Dealers.
4. Provide a sufficient transition period following legislative clarity to allow Dealers and trustees to update systems, agreements, and client disclosures.

Conclusion

We commend CIRO for its commitment to innovation that benefits investors, including initiatives like Fully Paid Lending. However, without the necessary legislative certainty and harmonization among trustees, the industry risks advancing an uneven and potentially non-compliant framework. We therefore encourage CIRO to align its timelines and implementation plans with the legislative process to ensure the credibility, fairness, and sustainability of the program.

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

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