Response to CIRO Request for Comments: Proposed Incorporated Approved Person Compensation Option

November 5, 2026

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November 5, 2026

Submitted via e-mail

Member Regulation Policy
Canadian Investment Regulatory Organization
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Toronto, Ontario M5H 0B4

Dear Sirs/Mesdames:

The Canadian Forum for Financial Markets/Forum Canadien des Marchés Financiers (the "**CFFiM**") is a values-driven, purposeful, and reform-minded organization, which is dedicated to advancing initiatives that improve the health and competitiveness of Canada's financial markets for the greater good.

We write in response to the Canadian Investment Regulatory Organization's request for comments on its proposed rule amendments (the "**Proposed Amendments**") related to the adoption of an incorporated approved person compensation option.

EXECUTIVE SUMMARY

We generally support CIRO's efforts to introduce rule amendments that would permit approved persons to make use of corporations to provide advisory services and receive related commissions. Permitting advisors to incorporate would allow for the introduction of competitive and efficient business structures, which will not only benefit CIRO advisors, but will encourage increased access to regulated investment advice, which is beneficial to Canadian investors and securities markets.

The restrictions that are placed on CIRO's dealer-members and their approved persons have been the source of long-standing reform efforts. Despite the benefits of incorporation, its widespread use in other professions, and the absence of any countervailing investor protection or other *bona fide* policy concerns, this issue has gone unresolved for more than 25 years. The continued failure of the Canadian Securities Administrators ("**CSA**") to acknowledge and address this issue illustrates a clear preference for incumbent business structures and a reluctance to allow competing models to develop.

CIRO's Proposed Amendments are significant insofar as they eliminate the 'blocks' to incorporation that exist in CIRO's dealer-member rules. However, this proposal also suffers from significant deficiencies. As discussed below, the contemplated limitations on corporate structure, and proposed elimination of the directed commission model are unnecessary and undermine the utility of this proposal. These limitations do not support CIRO's goal of providing advisors with flexibility in their compensation and business structures and making investment advice more widely available.

More significantly, CIRO indicates that its proposal will be inoperable in one or more provinces/territories pending amendments to securities law. Coupled with the CSA's ongoing and conspicuous silence, this qualification creates considerable uncertainty as to whether CIRO's proposal will ever be implemented. This dynamic reflects poorly on Canada's system of securities regulation.

This letter includes recommendations to improve CIRO's Proposed Amendments and to resolve the long-standing issue of advisor incorporation.

INTRODUCTION

In order to assess CIRO's proposal and its prospects for success, it is necessary to highlight the context in which this proposal has been developed. For decades, registered advisors acting on behalf of investment dealers and mutual fund dealers have been arbitrarily restricted in their ability to incorporate for the purpose of providing advisory services and receiving commissions. These limitations are rooted in CIRO's dealer-member rules but are emblematic of larger deficiencies in Canada's system of securities regulation.

Despite over 25 years of reform efforts, Canada's securities regulators have stubbornly refused to permit CIRO advisors to incorporate despite the clear benefits that this model would offer to the securities advisory profession and despite the absence of any *bona fide* policy grounds for opposing this model. Proposals to allow for advisor incorporation have been rejected by the CSA on spurious grounds and removed from proposed securities legislation at the cabinet level without explanation.

The prohibition against advisor incorporation and the failed efforts that have been made to fix this problem demonstrate a regulatory preference towards incumbent business structures, and a reluctance to permit advisors to adopt business and compensation structures that depart from the siloed "registration" and "approval" categories that have been established by Canada's securities regulators. This approach is anti-competitive and contrary to the public interest.

The Unlevel Playing Field

As both the CSA and CIRO have acknowledged, CIRO's existing dealer-member rules create an uneven playing field for approved persons with respect to their ability to make use of corporate business structures. Under CIRO's rules, approved persons representing investment dealer are prohibited from providing advisory services or receiving compensation through a corporation.[1] In contrast, approved persons representing mutual fund dealer are permitted to make use of corporations but only for the limited purpose of receiving commission for non-registerable business activity (an approach referred to as "**Directed Commission**").[2]

As a result, approved persons are subject to inconsistent rules and are unable to take advantage of the benefits offered by incorporation, which include enhanced tax, business, and succession planning efficiencies. This differs from other regulated professions, which do not impose the same limitations on the business structures that are available to their members. This includes, among other professions, doctors, dentists, lawyers, and accountants, which are free to make use of corporate structures. Within the financial services industry, this includes insurance agents and brokers, and individuals providing advisory services as registered portfolio managers under direct provincial oversight.

CIRO's prohibitive rules are particularly problematic for approved persons who are separately licenced to sell insurance products or provide other financial advisory services. These individuals are free to use a corporate structure for part of their business but are unable to adopt a harmonized corporate structure that includes their securities-related business.

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[1] Canadian Investment Regulatory Organization, *Investment Dealer and Partially Consolidated Rules* (August 11, 2026) at s. 2302(2) and 2551(7). CIRO, *Position Paper: Policy Options for Leveling the Advisor Compensation Playing Field* (January 25, 2024) [the **CIRO Position Paper**"] at pp. 2-4.

[2] Canadian Investment Regulatory Organization, *Mutual Fund Dealer Rules* (April 1, 2026) at s. 2.4.1(b); and CIRO Position Paper, *supra* at pp. 2-4.

Long Unresolved Policy Issue

CIRO's prohibitive rules on advisor incorporation emanate from a CSA position paper published in 1999, which declared that, in the absence of legislation "that allows a salesperson to render registerable activity through a corporation" salespersons would not be allowed to incorporate.[3]

In response to this direction, CIRO's predecessors – the Investment Dealers Association ("**IDA**") and the Mutual Fund Dealers Association ("**MFDA**") – adopted rules to prohibit advisor incorporation. Those rules were criticized by segments of the industry that had already adopted corporate business models, which led to decades of debate and reform efforts. Although the MFDA successfully amended its rules to permit use of the Directed Commission Model[4], the IDA's proposed amendments were rejected by the CSA[5], resulting in the strict prohibition found in the CIRO's existing rules for investment dealers.

In 2010, a provincial/territorial government working group was formed to consider options for advisor incorporation and published a consultation paper seeking input from provincial regulators, self-regulatory organizations, and industry stakeholders on two legislative solutions.[6] Among the core themes that were identified by the working group in this consultation was the importance of "*moving forward with an incorporation proposal to resolve this long-standing issue in a timely manner as the discussion and debate on this issue have been exhaustive and it is now time to act*." [emphasis added][7]

Despite the fact that the "overwhelming majority" of commentators strongly supported incorporation, this consultation did not result in a consolidated response.[8] In 2012, the government of Saskatchewan introduced amendments to permit advisor incorporation and in 2014 the government of Alberta followed suit.[9] Although both pieces of legislation received royal assent, neither were proclaimed into force. These reform efforts appear to have stalled at the cabinet level for reasons that were not publicly disclosed.

In 2021, the debate on advisor incorporation was revitalized following the release of a CSA position paper, which recommended harmonizing the compensation options that are available to advisors sponsored by mutual fund and investment dealers, and announced the formation of a working group to identify solutions including the possibility of adopting a "true" advisor incorporation model.[10] After CIRO commenced operations, the CSA working group transferred its responsibilities to CIRO, which proceeded to develop its proposal for an incorporated approved person model under the CSA's direct oversight.[11]

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[3] CSA Notice 33-304, *CSA Distribution Structure Committee Position Paper* (August 27, 1999) at p. 31.
[4] In 2001, the MFDA's rules were approved as part of its recognition but its draft prohibition on advisor incorporation was repeatedly suspended. Mutual Fund Dealers Association Recognition Order, 24 OSCB (Supp) 6 (2001). In 2010 the CSA approved amendments to the MFDA rules to permit Directed Commission. Ontario Securities Commission, Notice of Commission Approval – Amendments to MFDA Rule 2.4.1 (March 26, 2010).
[5] In 2006, the IDA's board approved by-laws to permit incorporation for its members, but that proposal was rejected by the CSA. As a legacy, CIRO's investment dealer rules continue to prohibit incorporation.
[6] Provincial/ Territorial Working Group, *Consultation on Possible Options for the Incorporation of Individual Representatives of Registered Dealers and Advisers in Canada* (December 20, 2010).
[7] Provincial/ Territorial Working Group, *Consultation on Possible Options for the Incorporation of Individual Representatives of Registered Dealers and Advisers in Canada – Summary of Consultation Responses* (June 2011).
[8] *Ibid*.
[9] Bill No. 14, *Securities Amendment Act, 2012*, S.S. 2012, c. 32 (assented to on May 16, 2012); and Bill No. 5, *Securities Amendment Act, 2014*, S.A, 2014, c. 17 (assented to on December 17, 2014).
[10] CSA Position Paper 25-404, *New Self-Regulatory Organization Framework* (August 3, 2021).
[11] CIRO Position Paper, *supra*; CIRO Bulletin No. 25-0297 (October 29, 2025); and CSA Market Update (October 29, 2025).

No Policy Basis to Oppose Incorporation

The concept of advisor incorporation has been the subject of substantial analysis and consultation for over 25 years. During that time, some commentators have raised concerns with respect to investor protection, tax certainty, and the imposition of business models on dealer members. Some commentators have repeated these concerns in the present consultation. As discussed below, these issues have needlessly obscured the debate on advisor incorporation and obstructed reform.

(a) Investor Protection

As many commentators have noted, allowing advisors to incorporate must not come at the expense of investor protection. However, the means of accomplishing that goal are well established and do not present a substantive obstacle to advisor incorporation. Corporate structures are already in use by other regulated professions and, as confirmed in CIRO's proposal, existing investor protections can be maintained through dealer-member rules and contractual terms. Advisor incorporation will not shield advisors from liability or have any negative impacts on the client-advisor relationship.

Rather than giving rise to insurmountable investor protection concerns, providing CIRO advisors with the ability to incorporate could provide incentives and benefits that will encourage approved persons to enter and stay in the investment advice profession, which will increase access to regulated financial advice. We agree with CIRO's observation that, building investor trust not only involves maintaining and enforcing rules on dealer and advisor conduct and safeguarding client assets, but it also involves "maintaining rules that help ensure that the financial advisory profession remains vibrant and that financial advice remains readily available to Canadian investors into the future".[12]

(b) Tax Consequences

As with past proposals, some commentators have suggested that amending CIRO's rules to permit advisor incorporation would introduce tax uncertainties, and that CIRO's efforts should be delayed indefinitely pending some form of advanced tax ruling by the Canada Revenue Agency. This contention is misguided and has only served to delay and complicate the issue of advisor incorporation.

The issue of advisor incorporation has gone unresolved for decades and CIRO has exhausted its efforts to obtain certainty from the CRA. The CRA has not produced a blanket ruling or advanced decision because doing so would be inconsistent with the CRA's case-by-case approach to assessing tax filings. The determination of whether compensation is generated from activities conducted within a corporation and, by extension, may be reported as a corporate revenue, is a fact-specific determination.

With respect, CIRO's public interest mandate and its regulatory obligations do not extend to ensuring that each of CIRO's dealer members and approved persons remain tax compliant. There is, for example, no nexus between an advisor's tax filings and CIRO's investor protection mandate. In any event, we agree with CIRO's assessment that its proposed amendments will help to provide clarity on the tax treatment of income received through a corporation.

[12] Rule amendments relating to the proposed adoption of an Incorporated Approved Person compensation option | Canadian Investment Regulatory Organization. "Further, as CIRO views investor access to regulated advice to be an investor protection issue, if greater investor access to regulated advice is achieved, we believe investor protection would be enhanced by pursuing these amendments." Fn. 7.

(c) No Forced Business Models

Despite suggestions to the contrary, it has never been proposed that all sponsoring dealers will be forced to adopt the incorporated approved person option or incur any related costs. As with past initiatives, CIRO's proposal is focused on providing dealer members and their approved persons with optionality and flexibility, rather than mandating a wholesale shift in compensation models across the industry.

The request for comments makes clear that, under the Proposed Amendments, Dealer Members will not be *required* to adopt the incorporated approved person model for their Approved Persons. Rather, this option will be made available to approved persons at the option of their sponsoring Dealer Members. This is consistent with the current approach under the CIRO's rules, which provide Dealer Members with the option to engage with approved person in an employment or agency relationship.

COMMENTS ON PROPOSED AMENDMENTS

We generally support CIRO's goal of introducing harmonized rules that will provide dealer-members and their approved persons with flexibility in the use of corporations. CIRO has correctly recognized that, like any profession, members of the investment advisory profession want to structure their businesses and receive compensation in a manner that is consistent with how they perform services.

The Proposed Amendments have the potential to expand the business structure and compensation options that are available to CIRO dealer members and their approved persons, while ensuring that existing investor protections are maintained.[13] However, we are concerned that CIRO's Proposed Amendments suffer from core deficiencies, which undermine its utility and create considerable uncertainty as to whether this proposal will finally solve the longstanding issue of advisor incorporation.

Purported Need for Legislative Amendments

The request for comments states that amendments to securities legislation will be required in order for CIRO's proposal to be viable in some or all provinces and territories. This qualification raises serious concerns with respect to the efficacy of CIRO's proposal and the process by which it has been developed.

(a) No Legislative Amendments Needed

CIRO's proposed incorporated approved person approach does not require any legislative amendments. As we have previously advised, there are no prohibitions against advisor incorporation in provincial or territorial securities law. Rather, the inability of CIRO advisors to incorporate is the product of practical and administrative barriers that arise in the process of being "registered" and "approved" to provide advisory services. These obstacles are, in other words, rooted in the nomenclature surrounding the "approved person" and "registration" categories that have been created by Canada's securities regulators as opposed to substantive securities law.

[13] For example, the Proposed Amendments confirm that: CIRO will have jurisdiction over incorporated approved persons; dealers are responsible for oversight of incorporated approved persons; dealer-members obligations also apply to incorporated approved persons where the context is appropriate; the existing requirements for approved persons apply to incorporated approved persons; and the requirements for Incorporated approved persons also apply to the corporation's employees and shareholders where the context is appropriate.

To the extent that any changes are needed to facilitate CIRO's proposal, those changes could be achieved through provincial rule making powers and/or through the issuance of blanket orders, which was the path taken by many regulators to permit use of the Directed Commission model. Either option could be accomplished quickly and without any legislative reform.

(b) The CSA's Failure

Through its amendments, CIRO is attempting to address the longstanding and unresolved issue of advisor incorporation by proposing rules that – according to CIRO – will be legally inoperative in one or more province/territory pending amendments being made by the regulatory authorities for those provinces and territories. In the face of this proposal and ongoing public consultation, the CSA's members have failed to provide the public with any confirmation of their support for CIRO's initiative and/or any details on the amendments that they intend to undertake to facilitate this initiative. This is an absurd result given the context in which this proposal has been developed.

As noted above, CIRO's restrictive rules emanate from the CSA's own declaration that advisors will not be allowed to incorporate pending legislation to permit this approach. Moreover, CIRO developed its incorporated approved person proposal in response to the CSA's direction and under the CSA's direct oversight.[14] As part of its responsibilities for reviewing and approving CIRO rule changes, the CSA is expressly required to consider whether any proposed rule changes will conflict with provincial/territorial securities law.[15] Further, the CSA has established a working group on advisor incorporation[16] and some of its members have developed legislative solutions in explicit support of incorporation[17]. As such, the CSA's members are well-aware of the steps that may be needed to implement this model.

In this context, the CSA's continued silence is baffling and has effectively undermined CIRO's consultation. The public is being asked to provide comments on an approach to incorporation that is all but hypothetical in the absence of any commitment from Canada's provincial/territorial securities regulators and policy makers. This silence is particularly problematic given that Canada's securities regulators and policy makers have demonstrated a reluctance to take ownership of this policy issue despite its benefits.

The CFFiM has made several efforts to obtain information from the CSA in aid of CIRO's proposal. In addition to our correspondence with the CSA, the CFFiM has commenced an application naming the Ontario Securities Commission as a respondent and delivered an information request to the OSC under the Ontario *Freedom of Information and Protection of Privacy Act*, 1990, c. F.31. The OSC has failed to provide the CFFiM with its position on whether advisor incorporation is permitted under Ontario securities law and has refused to produce any documents that may provide clarity to the public on the OSC's stance on advisor incorporation. This avoidance does not support the public interest and reflects poorly on Canada's system of securities regulation.

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[14] CSA Position Paper 25-404, *New Self-Regulatory Organization Framework* (August 3, 2021); CIRO, *Position Paper: Policy Options for Leveling the Advisor Compensation Playing Field* (January 25, 2024); CIRO Bulletin No. 25-0297, Update on the Project to Develop Rule Amendments Relating to the Proposed Adoption of an Incorporated Advisor Compensation Option (October 29, 2025); and CSA Market Update (October 29, 2025).

[15] Memorandum of Understanding Regarding Oversight of the Canadian Investment Regulatory Organization among Recognizing Regulators, (2023), 46 OSCB 4680 (June 1, 2023) at Appendix A, Non-Objection Process, s. 2(c), and Appendix C, Joint Rule Review Protocol, ss. 3(c)(vi) and 4(c).

[16] CSA Position Paper 25-404, *New Self-Regulatory Organization Framework* (August 3, 2021).

[17] Bill No. 14, *Securities Amendment Act, 2012*, S.S. 2012, c. 32 (assented to on May 16, 2012); and Bill No. 5, *Securities Amendment Act, 2014*, S.A, 2014, c. 17 (assented to on December 17, 2014).

Need to Maintain Directed Commission Model

The request for comments states that it is necessary to eliminate the directed commission option because of the "lack of tax certainty" and "tax compliance risks" associated with this option. It is unclear why CIRO has reached this determination despite the fact that the Directed Commission model has been in use in the mutual fund industry for over 25 years. This will require dealers that are already making use of this model to modify their business structures without a clear policy rationale.

As noted above, it is not CIRO's responsibility to ensure that all of its approved persons are in compliance with Canadian tax law. It is impractical and unreasonable for CIRO to prohibit an entire profession from making use of a business structure on the basis that some members of the profession may incorrectly direct commission to a corporation and incur related tax liabilities.

Eliminating this option is particularly problematic given that, as discussed above, CIRO anticipates that its incorporated approved person model will be inoperable under provincial/territorial securities law. The net result is that, pending further amendments, dealers will be prevented from making use of both the Directed Commission model and the incorporated approved person model and, therefore, will be restricted to individual employee and agent relationships. This result is contrary to CIRO's goal of "leveling the playing field" for CIRO advisors and effectively puts CIRO dealer members and their approved persons in the same position they were in following the CSA's decision to prohibit incorporation in 1999.

Need to Expand Corporate Structure

CIRO's proposal stipulates that investment services must be provided to clients from within an approved corporation by a single "client-facing approved person" and that the voting shares of the corporation must be limited to a single client-facing approved person. These limitations are unnecessarily restrictive and undermine the utility of CIRO's proposal.

CIRO acknowledges that it is common for teams of advisors to provide a range of financial services within a common structure. CIRO also acknowledges that, like any profession, financial advisors want to be compensated in a manner that is consistent with how they provide their advisory services. Consistent with these observations, CIRO's advisory committee has stressed the importance of allowing multiple approved persons and other qualified individuals to participate in ownership and operate within of a single corporation. This would align with existing and desired business structures, allow for the orderly transfer of businesses, and avoid creating a distinction between equity and non-equity approved persons.

CIRO has not provided any policy rationale for limiting its proposal in this manner. The prospect of allowing multiple approved persons and other qualified individuals to provide services through a single corporation does not create any novel investor-protection or other regulatory concerns.

RECOMMENDATIONS

The viability of CIRO's Proposed Amendments turns on the question of whether Canada's 13 provincial/territorial securities regulators and policy makers support advisor incorporation and are committed to implementing CIRO's proposal. Given that the CSA's members are responsible for administering provincial/territorial securities law, overseeing CIRO's rule development processes, and approving CIRO rule changes, it is inexcusable for the CSA to remain silent in this public consultation. The CSA's regulatory obligations and public interest mandate call for its members to provide the public with clarity on whether this initiative is supported and what steps will be taken to allow this model to function.

We make the following additional recommendations to improve CIRO's Proposed Amendments:

1. The Proposed Amendments should be revised to retain the Directed Commission model. Alternatively, CIRO should adopt 'grandfathering' rules for dealers that are already making use of this model or postpone the elimination of this model to align with the future implementation of the directed commission model to avoid creating a gap in available compensation options.

2. The Proposed Amendments should be expanded to allow:
    a. All types of approved persons to make use of the incorporated approved person option;
    b. Multiple individual approved persons to operate within and hold shares of an incorporated approved person; and
    c. One or more approved persons and other qualified individuals to operate within and hold shares of an incorporated approved person.

Our answers to CIRO's consultation questions are attached at **Appendix "A"** and our recommended changes to the Proposed Amendments, blacklined to the proposed CIRO rules, are attached at **Appendix "B"**. It is long past time to resolve the issue of advisor incorporation.

Respectfully submitted,

Canadian Forum for Financial Markets

cc.

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APPENDIX "A"
ANSWERS TO CONSULTATION QUESTIONS

A1. Should the proposals restrict the financial services that may be offered from within an advisor-owned corporation to the above detailed financial services?

- **CFFiM Answer:** We generally support these restrictions provided that CIRO accepts our recommendation to allow one or more approved persons to operate within an incorporated approved person along with other professionals who are not approved by CIRO but provide services that are ancillary to the corporation or are regulated financial services activities. To accommodate this model, we recommend that the definition of "qualified individual financial service advisor" be slightly expanded. Please see our comments in Appendix "B".

  If, on the other hand, CIRO restricts its proposal to only allow one approved person to provide services within an incorporated approved person, the noted limitations should be amended to align with existing outside business activity rules. There is no principled basis to distinguish between outside business activities carried out by an approved person in their individual capacity and outside business activities carried out by the same approved person through an approved corporation.

A2. Please detail any impact of prohibiting the client-facing Approved Person from providing services other than those detailed above within their corporation on existing activities or legal structures currently used by dealing representatives.

- **CFFiM Answer:** See response to A1.

A3. What types of financial services other than those listed above should be permitted to be conducted within a corporation by its client-facing Approved Person owner?

- **CFFiM Answer:** See response to A1.

A4. Should there be any restrictions on the other financial services that may be offered through a corporation owned by a client-facing Approved Person owner that are performed by the same client-facing Approved Person?

- **CFFiM Answer:** No. See response to A1.

A5. What level of supervision or oversight over the other financial services related activities conducted by the client-facing Approved Person within their corporation should be performed by the sponsoring Dealer Member?

- **CFFiM Answer:** Dealer Members are not responsible for directly supervising an approved person in the provision of services where those services are not being provided on behalf of the dealer-member. A Dealer Member is not, for example, responsible for supervising an Approved Person's insurance business, which is separately regulated and subject to oversight by separately regulated entities. Allowing advisors to make use of incorporation would not change this structure and would not impose any additional oversight obligations on Dealer Members.

A6. Are there conflicts of interest that can arise by allowing the client-facing Approved Person to conduct other regulated financial services within their corporation? If there are conflicts, can they be managed in the best interests of their clients?

- **CFFiM Answer:** Allowing an approved person to conduct other regulated financial services within a corporation would not give rise to any inherent conflicts of interest and certainly no conflicts that cannot be managed in the best interests of the client as required under CIRO's existing rules.

A7. Should the proposals be revised to permit an advisor-owned corporation to employ:

1. multiple client-facing Approved Persons sponsored by the same Dealer Member?

2. one or more qualified individual financial services advisors to provide other financial services to clients?

- **CFFiM Answer:** Yes, this is a necessary revision. Please see our above response under "Need to Expand Corporate Structure".

A8. If the proposals are revised to permit an advisor-owned corporation to employ one or more qualified individual financial services advisors to provide other financial services to clients, are there any conflicts, or risks to clients arising from employees being subject to different statutory duty of care standards within the advisor-owned corporation?

- **CFFiM Answer:** The proposal has not identified what, if any, differences exist in the duties of care that are owed by qualified individual financial services advisors. In any event, allowing an advisor-owned corporation to employ one or more qualified individual financial services advisors does not give rise to any inherent or unmanageable conflict of interest.

B1. Should a corporation or family trust be allowed to hold shares of the corporation, if the shareholders/beneficiaries are the client-facing Approved Person or their family members? Should the family trust or holding corporation be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?

- **CFFiM Answer:** Yes, but limited to non-voting shares.

B2. Is the proposed use of the "related person" definition to determine those family members that are allowed to hold non-voting shares of the corporation too restrictive or not restrictive enough? Please provide your rationale.

- **CFFiM Answer:** This definition does not include family trusts. The proposed rules should be revised to permit ownership of non-voting shares for related persons and trusts.

B3. Should "related persons" of the client-facing Approved Person, who are not themselves a client-facing Approved Person of the same sponsoring Dealer Member, be allowed to own shares in the corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?

- **CFFiM Answer:** Yes, but limited to non-voting shares.

B4. Should other client-facing Approved Persons, sponsored by the same Dealer Member, be allowed to do business through, and own shares in the same corporation? Does your answer change if the other client-facing Approved Persons are "related person" family members operating within the corporation?

- **CFFiM Answer:** Yes, this is a crucial amendment. Please see our above comments under "Need to Expand Corporate Structure". Our answer does not change if the other client-facing approved persons are "related persons" operating within the corporation.

B5. Should individuals who qualify as a "qualified individual financial services advisor" (as defined within the proposals), who are not themselves a client-facing Approved Person, be allowed to conduct business within and own shares in the same corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation? Does your answer change if the "qualified individual financial services advisors" are "related persons" of the client-facing Approved Person operating within the corporation?

- **CFFiM Answer:** Yes, qualified individuals, who are not themselves a client-facing approved person, should be allowed to conduct business within and own shares in the same corporation. Please see our above comments under "Need to Expand Corporate Structure". Our answer does not change if one or more qualified individuals are "related persons" of an approved person operating within the same corporation.

B6. Is the proposed requirement that the client-facing Approved Person must be the sole director of the corporation too restrictive? Please provide your rationale.

- **CFFiM Answer:** Yes, this requirement is overly restrictive and risks undermining the utility of this proposal. Please see our above comments under "Need to Expand Corporate Structure".

C1. Do you agree there is a need for an implementation period for these proposals and, if so, what do you think would be an appropriate implementation period and why?

- **CFFiM Answer:** As noted above, we recommend that CIRO maintain the directed commission model or, in the alternative, either permit grandfathering for firms that have already adopted this model or align the elimination of this model with the implementation of the incorporated approved person model at the provincial/territorial level.

C2. Please describe any issues for mutual fund dealing representatives that currently direct commissions to their corporations to transition to the proposed incorporated advisor compensation option. What would be a reasonable transition period to address those issues?

- **CFFiM Answer:** See answer to C1.

APPENDIX "B"
RECOMMENDED REVISIONS – BLACKLINE TO PROPOSED CIRO RULES

1201 Definitions

"Agent"	~~An~~ person ~~individual~~ who is subject to the principal and agent relationship requirements set out in Rule 2300.
"Approved Person"	~~A person who is:~~ (i) an individual approved by CIRO in one or more of the following Investment Dealer Member approval categories: (a) Associate Portfolio Manager, (b) Chief Compliance Officer, (c) Chief Financial Officer, (d) Director, (e) Executive, (f) Investment Representative, (g) Portfolio Manager, (h) Registered Representative, (i) Supervisor, (j) Trader, and (k) Ultimate Designated Person or (ii) an individual approved by CIRO in one or more of the following Mutual Fund Dealer Member approval categories: (a) Chief Compliance Officer (b) Chief Financial Officer, (c) Director, (d) Executive, (e) Registered Representative, (f) Supervisor, and (g) Ultimate Designated Person or (iii) a ~~non-individual~~ corporation approved by CIRO ~~in the following Dealer Member approval category: (a)~~ as an Incorporated Approved Person. • **CFFiM Comment:** Suggest avoiding term "non-individual" which injects uncertainty into definition. Proposal is limited to approved *corporations* and does not include other "non-individual" partnership arrangements.

"Incorporated Approved Person"	A corporation ~~non-individual who~~ that is ~~subject to the requirements set out in Rules 2300 and~~ approved by CIRO pursuant to ~~2500~~ 2561 ~~that are applicable where the activities an agent performs for the Dealer Member are conducted from within a separate corporation that employs the agent~~. • **CFFiM Comment:** This definition is unnecessarily complicated. As noted below, creating a distinction between an approved corporate agent, and the individual agents operating within that corporate structure. As noted below, this layered approach creates unnecessary complexity especially in proposed 2305.
"Qualified Individual Financial Services ~~Advisor~~ Professional" • **CFFiM Comment:** Suggest revision to make clear that qualified individuals may not be client facing advisors.	An individual who: (i) provides financial services in a regulated Canadian financial services sector, and (ii) has the necessary registration, approvals and proficiencies to provide these financial services in Canada.

2302. Permissible arrangements

(1) An individual who conducts securities and derivatives related business on behalf of a Dealer Member must be an employee ~~(which includes an agent) of~~ or an agent the Dealer Member.

(2) Where a Dealer Member plans to conduct securities and derivatives related business or other business through an individual Approved Person agent:

~~(i) under a principal and agent arrangement:~~

~~(a) the Dealer Member and CIRO must enter into a written agreement that complies with the requirements set out in section 2303, and~~

~~(b) the Dealer Member and the agent must enter into a written agreement that complies with the requirements set out in section 2304.~~

~~(ii) from within a separate corporation as an agent of the Dealer Member under an incorporated agent arrangement:~~

~~(a) the Dealer Member and CIRO must enter into a written agreement that complies with the requirements set out in section 2303, and~~

~~(b) the Dealer Member, the agent and the separate corporation must comply with the requirements set out in section 2305.~~

- **CFFiM Comment:** Current drafting risks confusion. It is not necessary to draw a distinction between an agent relationship involving an individual and an agent relationship where the individual conducts business through an incorporated approved person. Both the individual and the corporation are agents of the dealer and subject to existing rule 2303.

2303. Specific requirements involving the Dealer Member and CIRO

(1) Before engaging any agents to conduct securities and derivatives related business or other business on behalf of a Dealer Member under a principal and agent arrangement ~~or under an incorporated agent arrangement~~, the Dealer Member must enter into a written agreement with CIRO.

- **CFFiM Comment:** Again, it is not necessary to draw a distinction between a "principal agent arrangement" and an "incorporated agent arrangements". This only serves to create confusion.

[…]

~~**2305. Specific Dealer Member, agent and agent's corporation requirements under an incorporated agent arrangement**~~

- **CFFiM Comment:** We generally recommend deleting proposed rule 2305. The majority of these proposed rules are already captured by rule 2303. The remaining rules are either unnecessary or are better placed in section

~~(1) Where it is intended that business the agent conducts on behalf of the Dealer Member will be conducted through a separate corporation:~~

~~(i) the corporation must be:~~

~~(a) incorporated under the laws of Canada or a province or territory of Canada,~~

~~(b) registered in the appropriate registration category in those provinces and territories in Canada in which it operates that require the corporation to be registered,~~

~~(c) exempt from registration in those other provinces and territories in Canada in which it operates, and~~

~~(d) approved by CIRO as an Incorporated Approved Person.~~

- **CFFiM Comment:** Rule 2305(1)(i)(b),(c), and (d) are redundant the same provisions already exist under Rule 2561(1). Recommended adding 2305(1)(i)(a) to Rule 2531(1) for consistency.

~~(ii) the activities that may be carried out within the Incorporated Approved Person, in addition to those activities performed on the sponsoring Dealer Member's behalf, are limited to those activities that:~~

~~(a) are determined by CIRO to be:~~

~~(I) ancillary to the activities performed within the Incorporated Approved~~

~~Person on the sponsoring Dealer Member's behalf, or~~

~~(II) regulated Canadian financial services sector activities, provided the agent:~~

~~(A) is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and~~

~~(B) is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed,~~

~~(b) are not contrary to securities laws, and~~

~~(c) do not bring the securities industry into disrepute, and~~

~~(d) have been approved in advance by the sponsoring Dealer Member to be carried out within the Incorporated Approved Person in accordance with the requirements set out in subsection 2555(1).~~

- **CFFiM Comment:** Rule 2305(2)(ii) is unnecessary. These outside business activity limitations are redundant of rules 2554 and 2555, which already placed limitations for outside business activities for all Approved Persons. This rule has been relocated to rule 2561.

~~(iii) the agent sponsored by the Dealer Member must be:~~

~~(a) an individual Approved Person,~~

~~(b) approved in one or more of the following individual Approved Person categories:~~

~~(I) Associate Portfolio Manager,~~

~~(II) Investment Representative,~~

~~(III) Portfolio Manager, or~~

~~(IV) Registered Representative,~~

- **CFFiM Comment:** CIRO has not provided any rational for limiting the Incorporated Approved Persons model to client facing approved persons. This limitation should be removed.

~~(c) a shareholder of the corporation, and~~

~~(d) the sole director on the corporation's board of directors.~~

~~(iv) subject to the additional applicable shareholder restrictions set out in clause 2305(1)(iv):~~

~~(a) the agent sponsored by the Dealer Member must be the sole voting shareholder of the corporation, and~~

- **CFFiM Comment:** See above comments. It is unnecessary to limit ownership of an incorporated approved person to a single individual approved person.

~~(b) the non-voting shareholders of the corporation are limited to:~~

~~(I) the agent sponsored by the Dealer Member, and~~

~~(II) related persons of the agent sponsored by the Dealer Member.~~

~~(v) voting and non-voting shareholders of the corporation and corporation employees must not include:~~

~~(a) an individual Approved Person who is sponsored by a different Dealer Member or who otherwise does not provide services from within the corporation, or~~

~~(b) any person who is sanctioned under:~~

~~(I) clauses 8210(1)(iv), 8210(1)(vi) or 8210(1)(vii), during the period of the sanction, or~~

~~(II) clause 8210(1)(ix), where the corporation engages in activities that are within the scope of the sanction.~~

- **CFFiM Comment:** Corporate ownership restrictions moved to Rule 2561(1).

~~(iv) a written agreement is entered into between the Dealer Member, the Incorporated Approved Person and the agent that is employed by or is a shareholder of the Incorporated Approved Person.~~

~~(2) The written agreement required in clause 2305(1)(vi) must not contain any terms inconsistent with CIRO requirements or securities laws.~~

~~(3) CIRO must be satisfied with the form of the written agreement that is prepared to comply with the requirement in clause 2305(1)(vi) before the Dealer Member finalizes the agreement with the Incorporated Approved Person and the agent.~~

~~(4) The Dealer Member must certify to CIRO that the written agreement complies with Rule 2300 and any other applicable CIRO requirements and applicable laws.~~

~~(5) CIRO may request that the Dealer Member obtain a legal opinion confirming subsection 2305(4).~~

- ~~CFFiM Comment: It is unnecessary~~

~~(6) The written agreement required in clause 2305(1)(vi) must contain the following minimum terms:~~

~~(i) Compliance with the applicable laws~~

~~The agent, the agent's corporation and the Dealer Member confirm that this agreement does not violate applicable laws.~~

~~(ii) Confirmation of supremacy of CIRO requirements~~

~~The agent, the agent's corporation and the Dealer Member confirm that:~~

~~(a) this agreement is made in compliance with CIRO requirements,~~

~~(b) if there is an inconsistency between this agreement and any applicable CIRO requirements, CIRO requirements will prevail,~~

~~(c) any inconsistent terms will be deemed severed and deleted,~~

~~(d) CIRO has the authority to regulate and enforce the provisions set out in this agreement, and~~

~~(e) this agreement will be interpreted and enforced to give full effect to any applicable CIRO requirements.~~

~~(iii) Compliance by the agent and the agent's corporation with applicable laws, securities laws, and CIRO requirements~~

~~(a) The agent warrants to the Dealer Member that it is appropriately registered or licensed, in good standing and in compliance with all applicable laws, securities laws and CIRO requirements.~~

~~(b) The agent's corporation warrants to the Dealer Member that it is appropriately registered or licensed, in good standing and in compliance with all applicable laws, securities laws and CIRO requirements.~~

~~(c) The agent and the agent's corporation each covenant to comply with all applicable laws, securities laws and CIRO requirements.~~

~~(d) The agent and the agent's corporation each agree to be bound by and comply with the warranties and covenants above throughout the term of the agreement.~~

~~(iv) Conduct of the agent's and the agent's corporation's business~~

~~(a) The agent and the agent's corporation agree to conduct all securities and derivatives related business in the Dealer Member's name, subject to sections 2281 through 2283 relating to the use of trade names.~~

~~(b) The agent and the agent's corporation agree to conduct all securities and derivatives related business through the Dealer Member.~~

~~(v) Supervision of the agent and the agent's corporation by the Dealer Member The Dealer Member agrees to be:~~

> ~~(a) responsible for the supervision of the agent's and the agent's corporation's conduct to provide reasonable assurance of the agent's and the agent's corporation's compliance with CIRO requirements and the requirements of any other securities regulatory authority to which the Dealer Member is subject, and~~
>
> ~~(b) liable to clients (and other third parties) for the agent's and the agent's corporation's conduct relating to activities performed on the Dealer Member's behalf.~~

~~(vi) Written disclosure to clients~~

~~The agent will advise the clients directly:~~

> ~~(a) of the list of securities and derivatives related business activities conducted by the agent and the agent's corporation for which the Dealer Member, the agent and the agent's corporation are responsible, and~~
>
> ~~(b) that the Dealer Member is not responsible for any other business activity conducted by the agent and the agent's corporation.~~

~~The Dealer Member agrees to be responsible for ensuring that the agent has done so.~~

~~(vii) Dealer Member assumes responsibility for clients~~

> ~~(a) In the event that:~~
>
> > ~~(I) CIRO or another securities regulatory authority has advised the Dealer Member that it has started an investigation relating to allegations of misconduct by the agent or the agent's corporation, or~~
> >
> > ~~(II) the Dealer Member has reasonable grounds to believe that the agent or the agent's corporation has contravened or may be contravening one or more CIRO requirements or securities laws,~~
>
> ~~the Dealer Member may immediately and without notice to the agent or the agent's corporation, assume responsibility for the client to the exclusion of the agent and the agent's corporation.~~
>
> ~~(b) The agent and the agent's corporation may not have any dealings or communications with the client as long as the Dealer Member has assumed this responsibility.~~
>
> ~~(c) The Dealer Member may designate another qualified person to provide services to the client, and that person may receive any remuneration that would have been paid to the agent and the agent's corporation.~~

~~(viii) Outside activities~~

~~(a) The agent agrees not to conduct any outside activity without disclosing to and obtaining the written consent of the Dealer Member.~~

~~(b) If the agent is involved in an outside activity, the Dealer Member agrees to monitor and enforce compliance with the terms of this agreement directly and not through another employer or principal of the agent.~~

~~(c) The agent agrees to ensure that the outside activity will not interfere with the Dealer Member or CIRO monitoring and enforcing compliance by the agent and the agent's corporation with this agreement or CIRO requirements.~~

~~(ix) Other agent activities within the agent's corporation~~

~~(a) The agent and the agent's corporation agree not to conduct any other activity that is not being performed on the behalf of the sponsoring Dealer Member without the agent disclosing to and obtaining the advance written consent of the Dealer Member.~~

~~(b) If the agent is involved in another activity within the agent's corporation, the Dealer Member agrees to monitor and enforce compliance with the terms of this agreement directly and not through another employer or principal of the agent carrying out the proposed other activity.~~

~~(c) The agent and the agent's corporation agree to ensure that the other activity will not interfere with the Dealer Member or CIRO monitoring and enforcing compliance by the agent and the agent's corporation with this agreement or CIRO requirements.~~

~~(x) Access to premises~~

~~The agent and the agent's corporation agree to give the Dealer Member unrestricted access to the premises where the agent and the agent's corporation conduct securities and derivatives related business on the Dealer Member's behalf. (xi) Records The agent and the agent's corporation agree that the books and records kept by the agent and the agent's corporation for the Dealer Member's business:~~

~~(a) will conform to CIRO requirements,~~

~~(b) are the Dealer Member's property,~~

~~(c) are available at all times for review by and delivery to the Dealer Member, and~~

~~(d) shall be delivered to the Dealer Member on termination of the agreement.~~

~~(xii) Insurance~~

~~The Dealer Member agrees to maintain financial institution bond and insurance~~

~~policies that cover the agent's and the agent's corporation's conduct relating to the securities and derivatives related business they conduct for the Dealer Member.~~

~~(xiii) Assignment of agreement~~

~~The agent and the agent's corporation acknowledge that the Dealer Member has the right to assign to CIRO any or all of the Dealer Member's rights to enforce the terms of this agreement that relate to CIRO requirements.~~

- **CFFiM Comment:** These provisions are duplicitous with terms of Rule 2305. Again, there is no need to differentiate between agents acting on behalf of dealer members and agents acting "from within" a corporate agent.

[…]

PART C -APPROVAL OF NON-INDIVIDUALS

2561. Incorporated Approved Person approval

(1) A non-individual is not permitted to act as an Incorporated Approved Person and a Dealer Member is not permitted to allow a non-individual to act as an Incorporated Approved Person unless:

(i) the Dealer Member that is sponsoring the ~~non-individual~~ corporation is registered in the appropriate category under securities laws in each jurisdiction in which clients of the Dealer Member reside or in which the Dealer Member carries on securities and derivatives related business,

(ii) ~~the non-individual,~~ the corporation, if required to do so under securities laws, is registered or exempt from such registration in the appropriate category under securities laws in each jurisdiction in which clients of the non-individual reside or in which the non-individual carries on securities and derivatives related business, ~~and~~

(iii) ~~the non-individual~~ the corporation is approved by CIRO in the Incorporated Approved Person category, before the ~~non-individual~~ corporation begins work on the sponsoring Dealer Member's behalf,

(iv) the corporation is incorporated under the laws of Canada or a province or territory of Canada.

(vi) All individuals providing services to or through the Incorporated Approved Person are:

(a) Approved Persons sponsored by the same Dealer Member; or

(b) Determined by CIRO to be qualified individual financial services professionals or individuals who provide services that are ancillary to services performed within the Incorporated Approved Person on behalf of the sponsoring Dealer Member.

(vii) the voting and non-voting shareholders of the corporation are limited to:

(a) The individuals referenced in 2561(vi); and

(b) Related persons of those individuals referenced in 2561(vi).

(viii) voting shareholders of the corporation must not include individuals who are not Approved Persons or individuals referenced in 2561(vi).

(2) Where the non-individual is wholly owned by an individual Approved Person sponsored by the same Dealer Member, such approval will be automatic upon the date the approval of the individual shareholder to act as an Approved Person in the appropriate individual Approved Person category or categories is completed.

(3) Where the non-individual is partially owned by an individual Approved Person sponsored by the same Dealer Member, such approval will occur upon the later of:

(i) the date the approval of the individual shareholder to act as an Approved Person in the appropriate individual Approved Person category or categories is completed, and

(ii) the date all other individual shareholders are approved by CIRO.

(4) A Dealer Member must ensure that each non-individual Approved Person sponsored by the Dealer Member complies with CIRO requirements applicable to that non-individual's Approved Person category.

(5) All non-individual Approved Persons are subject to CIRO's jurisdiction and must comply with CIRO requirements.

(6) A non-individual Approved Person must not accept, nor allow an associate to accept, directly or indirectly, any remuneration, gratuity, benefit or other consideration from any person other than their sponsoring Dealer Member, its related companies, or affiliates for any activities carried out by the non-individual Approved Person on the sponsoring Dealer Member's behalf.

(7) If an Incorporated Approved Person ceases to be approved, the former Incorporated Approved Person must immediately cease any activity requiring CIRO's approval.