November 5, 2026

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RE: Rule amendments relating to the proposed adoption of an Incorporated Approved Person compensation option

1. INTRODUCTION

The Gryphin Advantage, Inc. (**Gryphin**) is pleased to have the opportunity to provide comments to the Canadian Investment Regulatory Organization (**CIRO**) on the consultation relating to the proposed adoption of an Incorporated Approved Person (**IAP**) compensation option (the **Proposed Amendments**).

Any capitalized terms used but not defined in our submission have the meaning ascribed to them in the Proposed Amendments.

2. BRIEF CONCLUSION

Gryphin supports CIRO's efforts to establish a framework for incorporated advisor compensation that achieves CIRO's policy objectives of building investor trust, safeguarding client assets and ensuring that financial advice remains readily available to Canadian investors into the future. Gryphin is aligned with these goals, and we thank and acknowledge CIRO staffs' continued consideration of the complex questions around the appropriate parameters of the advisor compensation structure.

We believe that the final IAP rules should regulate incorporated advisory arrangements according to their substantive risks and safeguards. In our view, the Proposed Amendments would benefit from an approach calibrated to address demonstrated risks while accommodating corporate characteristics that differ from the model contemplated in the proposal, where those characteristics do not, in themselves, impair supervision or investor protection.

The final rules should not inadvertently exclude or disrupt established structures that support independent advisors and Canadian investors without giving rise to an identified market or investor-protection concern. In the context of the material information we have set out in Section 3 of our submission below, we respectfully request that CIRO allow for the continued operation of Gryphin's existing structure under the final IAP framework, whether through express recognition of pre-existing arrangements, appropriately flexible eligibility criteria or a discretionary approval mechanism.

As currently drafted, the Proposed Amendments would exclude Gryphin from availing itself of the new IAP option. Our submission is intended to illustrate how allowing Gryphin's business structure to participate in the final IAP model would directly support CIRO's stated objectives of developing agile, proportionate, and cost-effective regulation that reflects the evolving needs of dealers, advisors, and investors.

Structuring the final IAP rules in a way that does not preclude Gryphin and its advisors from participation would reduce unnecessary structural barriers, promote regulatory consistency, and enable a broader range of legitimate and innovative business models, while preserving the supervision, accountability, and investor-protection safeguards central to CIRO's mandate and which underpin the Proposed Amendments.

As set out more fully in section 3 below, Gryphin is the largest branch/dealer-sponsorship relationship of Worldsource Wealth Management Inc. (**WWM**), and we support the comments being submitted by Worldsource to CIRO on the Proposed Amendments.

Our submission is structured in the following way for ease of reference:

1. Introduction
2. Brief Conclusion
3. Overview of Gryphin's Structure and Role in the Canadian Investment Landscape
4. Key Recommendations
5. Responses to Consultation Questions
6. Conclusion

3. OVERVIEW OF GRYPHIN'S STRUCUTRE AND ROLE IN THE CANADIAN INVESTMENT LANDSCAPE

Gryphin has built its business over approximately 28 years by supporting independent financial advisors and enabling them to serve Canadian families. Today, Gryphin operates a national managing general agency (**MGA**) supporting approximately 2,600 independent advisors across Canada, including Québec. Its services include access to multiple insurers, contracting and application processing, advisor training, compliance, education, and business development. Gryphin's insurance business is subject to the oversight of applicable provincial insurance regulators, including that of the Financial Services Regulatory Authority of Ontario (**FSRA**) in Ontario.

Supporting advisor independence is central to Gryphin's business. Our platform gives independent practices access to expertise, personnel, technology and strong relationships with insurers and other product providers, while allowing advisors to maintain their own businesses and client relationships. These services are not incidental to the delivery of advice. They enhance the quality, continuity and accessibility of the financial services received by Canadian investors. They allow advisors to spend more time advising clients, facilitate continuity when an advisor retires or is temporarily unavailable, and support access to a broader range of investment, insurance, retirement and financial-planning solutions. We believe that these additional services bolster the quality and continuity of regulated advice that clients receive and are aligned with the goals articulated in CIRO's strategic plan for 2025-27, which includes enabling greater access to regulated advice that is responsive to investor needs as well as to reduce unnecessary complexity.

Alongside its insurance operations, Gryphin operates WWM's largest independent corporate branch, supporting advisors with approximately CAD $6 billion in assets under administration (**AUA**). Participating advisors conduct their securities business through their registered dealer.

Gryphin provides branch management and operational support, with branch-level income funding the personnel, systems and resources required to deliver these services. Branch supervision is a substantial component of this role. Under WWM's Compliance Policies and Procedures Manual, designated branch managers perform the primary level of supervision, including account approvals, reviews of trading activity and suitability, complaint reporting, advisor office visits, training and audit support. These responsibilities remain with the designated branch managers, within the dealer's oversight framework and alongside the head office's separate tier two review.

Gryphin recently acquired Boulos Financial Group Inc. (**Boulos**), a Québec-based MGA whose securities business includes approximately CAD $1.6 billion in AUA through an Investia Financial Services Inc. (**Investia**) branch. Gryphin also owns a one-third interest in a multi-advisor corporation. Together, these businesses illustrate the corporate ownership structures and dealer relationships through which Gryphin supports independent financial advice.

Consequently, Gryphin's ownership interests involve distinct dealer relationships: its corporate branch operates through WWM, while Boulos remains a separate company with its own Investia branch relationship and compensation arrangements. Gryphin's advocacy requests do not seek to combine those arrangements or transfer supervisory responsibility from either Dealer Member to Gryphin. Each dealer would retain responsibility for supervising its Approved Persons' securities

activities, and each Approved Person would remain individually accountable under CIRO requirements. Within its WWM corporate branch, Gryphin provides shared personnel, technology, operational and administrative support, advisor training, transition and succession support, and branch management services, including primary supervision by designated, qualified Branch Managers within WWM's supervisory framework. These services help advisors meet their obligations, sustain independent practices and maintain continuity of service for clients.

The features that distinguish Gryphin's structure from the parameters set out in the Proposed Amendments, namely, the way in which we are owned, our team structure and our multiple shareholders and directors, do not undermine the policy goals or the investor protections identified by CIRO. Gryphin's existing model demonstrates our decades-long support for Canadian advisors' access to investments, insurance, group retirement savings, financial planning and related services in support of their clients. In the context of these benefits, and in the absence of any articulated investor or market concerns, we believe that finalizing advisor compensation rules that would require the dismantling and re-organization of our model would be detrimental to advisors and their clients. Our assessment is that relevant market, investor and regulatory protections can be achieved while accommodating any of our key recommendations below.

KEY RECOMMENDATIONS

Gryphin's multiple-advisor, multiple-shareholder and multi-director structure does not diminish the sponsoring Dealer Members' authority over securities activities, the personal accountability of Approved Persons or CIRO's ability to oversee regulated conduct. As such, we have the following key recommendations in connection with the Proposed Amendments:

1. **Preserve existing structures that function for the benefit of advisors and investors:** We recommend that CIRO's final rules expressly permit Gryphin's existing structure to continue and participate in the IAP framework. This outcome would preserve a long-standing model that benefits advisors and investors, while leaving the sponsoring Dealer Members' supervisory authority and the accountability of individual Approved Persons unchanged.

2. **Establish a more flexible, principles-based set of rules that do not preclude Gryphin's structure:** If CIRO does not adopt an express preservation provision, Gryphin recommends that the final rules permit established multi-advisor, multi-owner and director financial-services corporations where the arrangement is transparent, approved by the relevant Dealer Members and subject to equivalent supervisory and investor-protection safeguards.

3. **Retain discretion to approve appropriate structures:** At a minimum, CIRO should retain discretion to approve structures that do not satisfy each prescriptive ownership or governance requirement where the applicant demonstrates equivalent or superior regulatory outcomes.

RESPONSES TO CONSULTATION QUESTIONS

Below are our responses to the consultation questions in the Proposed Amendments.

A - Questions relating to allowable other business activities within an advisor-owned corporation

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

Per the submissions set out in our Brief Conclusions and Overview of Gryphin, we believe the proposed restrictions on financial services that may be offered from within an IAP are too narrow.

We do not see any investor or market protection reason for prohibiting lawful services from being performed by an IAP. We understand CIRO's objective to be improving consistency between investment and other financial advice delivery and to promote access to regulated advice by making advisory businesses more financially viable. As a result, we propose a more principles-based approach to the services allowed to be performed from within an IAP.

As an alternative to the currently proposed IAP restrictions, we ask CIRO to consider a set of general criteria required for a service to be performed from within an IAP. We raise the following potential framework for consideration. For ease of reference, going forward in our submission, we refer to these as the "**Permissible Service Considerations**".

- The IAP having obtained any required license or registration necessary to perform the service in question;
- The service having been disclosed to the sponsoring Dealer Member and approved by same;
- All material conflicts of interest having been identified and managed in the best interests of clients and disclosed;
- Client-facing materials disclosing the entity and regulatory capacity in which each service is being provided and directing complaints to be routed to the responsible regulated entity, where applicable;
- Compensation being recorded and allocated transparently between services;
- The IAP maintaining separate records and client disclosures related to securities activities so they can be accessed by CIRO and/or the Dealer Member.

We observe that this approach could meet CIRO's policy objectives while not unnecessarily impeding successfully functioning business models.

> 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 representative.

The final IAP framework presents an opportunity to accommodate Gryphin's established activities and business model while advancing CIRO's policy objectives. As described above, Gryphin's business model extends beyond activities performed by one advisor for one securities dealer. Allowing for this broader model would support continuity of services and avoid the need for material

changes to Gryphin's current activities and structure that the proposed restrictions would otherwise entail.

Accommodating Gryphin's model would allow Gryphin and our network of associated independent advisors to maintain integrated services and direct resources toward supporting advisors and their clients. It would also avoid substantial restructuring costs and operational changes that, in our view, would not deliver a corresponding increase in investor protection.

> 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?

Further to our response to Question A1, we advocate for the adoption of a Permissible Services Considerations approach to the scope of permissible activities within an IAP. By virtue of being flexible and amenable to evolving CIRO guidance, a principles-based framework has the added benefit of being more conducive to investor-protection-focused industry innovation, evolution and efficiency.

> 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?

We view the Permissible Services Considerations model detailed in our response to Question A1 as accounting for any risk-based restrictions.

> 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?

We support CIRO's Proposed Amendments which impose responsibility on Dealer Members for securities-related conduct. Under the Proposed Amendments, Gryphin would retain responsibility for insurance regulatory supervision as well as oversight of activities that fall outside of the dealer relationship which we believe to be appropriate.

> 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?

While conflicts of interest can arise in any commercial arrangement, we view any IAP-related conflicts of interests as being clearly captured by existing securities regulatory requirements, meaning that they must be adequately managed in the best interests of clients and disclosed or avoided all together.

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

(a) Multiple client-facing Approved Persons sponsored by the same Dealer Member?

We strongly urge CIRO to allow multiple client-facing Approved Persons to operate through the same corporation. CIRO's publication acknowledges that teams of advisors commonly produce a range of financial services that can support client service continuity and reduce costs. We believe it is imperative for the health of the investment industry and the clients it serves to allow for multi-advisor

corporations. We understand this viewpoint to be broadly echoed in the advocacy of other industry stakeholders. There are market and investor protection benefits to permitting a team model, including: providing continued service to clients in the event of a leave of absence, illness or retirement; reducing the risk that a client is without advice; allowing for the sharing of specialized expertise; making the provision of independent advice more sustainable through the pooling of costs and services; and supporting the development of junior advisors.

(b) One or more qualified individual financial services advisors to provide other financial services to clients?

We strongly recommend that one or more qualified individual financial services advisors be permitted to provide other financial services to clients. Prohibiting such a model would undermine the benefits of integrated services and continuity that CIRO has acknowledged.

A8. If the proposals are reviewed 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?

The existence of differing regulatory standards across securities, insurance and financial planning is an already-existing feature of Canada's financial services system. Requiring separate corporations would not eliminate these differences. We view any potential risks (namely, client confusion, lack of clarity regarding complaints, and information sharing between business lines) as controllable through disclosure, service-specific engagement documentation, clear privacy consents and, in the case where there may be overlapping activities and a lack of clarity as to the applicable standard, the final rules could impose the most protective applicable standard on the corporation undertaking those activities.

B – Questions relating to ownership and control of an advisor-owned corporation

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 the 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?

Yes, we believe that family trusts and holding companies should be permitted to hold voting or non-voting shares. We believe that CIRO can address its ownership oversight requirements by requiring disclosure of the ultimate beneficial ownership and voting control of IAPs. For example, we believe these structures should be permitted, provided that all beneficial owners or beneficiaries are fully disclosed, no prohibited person exercises direct or indirect control over a corporation, and that CIRO and the Dealer Member can identify the ultimate controlling minds of the corporation.

B2. Is the proposed use of the "relation 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.

We believe that CIRO's determination of eligibility for participation in an IAP should be principles-based with a focus on control, fitness, conflicts and supervisory impacts, as opposed to tied to this definition.

> 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 it voting shares, to hold sufficient voting shares to control the corporation?

CIRO may wish to consider reserving controlling voting ownership by a non-Approved Person for exceptional circumstances, grandfathering or specific approvals granted in the presence of certain controls.

> 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?

Yes, CIRO should permit ownership of IAPs by multiple Approved Persons sponsored by the same Dealer Member, and our analysis does not change based on whether such individuals are related family members. As set out in Section 3 above, we also do not believe there to be a basis for prohibiting an IAP with multiple Approved Persons where such persons as sponsored by more than one Dealer Member, provided that the books and records associated with the securities business of the advisors sponsored by the Dealer Member are held separate by the IAP.

> 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" or the client-facing Approved Person operating within the corporation?

Yes, subject to certain limits reflecting their qualifications and roles, we believe that individuals who are not client-facing Approved Persons should be allowed to conduct business from and own shares in the same IAP. Our analysis does not change based on whether such individuals are related persons.

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

Yes, we strongly believe that requiring the Approved Person to be the sole director of an IAP is too restrictive. Being mindful of CIRO's oversight and governance concerns, we instead propose that, where a corporation seeks to have more than one director, that the board of such an IAP be required to conform to certain parameters. We view multi-director IAPs as offering the potential for enhanced governance, including diverse operational oversight and compliance expertise alongside continuity and succession planning benefits.

C – Questions relating to implementation of proposed amendments

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?

[Intentionally omitted]

C2. Please describe any issues for mutual fund dealing representatives that current 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?

We anticipate significant transition issues arising for advisors currently using the directed commission structure.

CONCLUSION

Gryphin respectfully asks CIRO to ensure that the final IAP framework does not unintentionally dismantle or materially disrupt an established model that supports thousands of independent advisors and the Canadian investors they serve. Where a structure preserves Dealer Member supervision, individual Approved Person accountability, transparent governance and effective regulatory access, differences in ownership, directorship or the number of participating advisors should not be disqualifying in themselves. Preserving Gryphin's structure—or permitting it to continue subject to proportionate conditions—would advance CIRO's investor-protection objectives while supporting continuity, competition and access to independent financial advice.

We thank CIRO again for the opportunity to provide Gryphin's feedback on the Proposed Amendments. Should you wish to discuss any of our submissions or ask us any further questions, please do not hesitate to contact me.

With sincere regards,

"*Kirk McMillan*"

Kirk McMillan
President
The Gryphin Advantage, Inc.