The Bank of Nova Scotia
Executive Offices
Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1

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SUBMITTED VIA EMAIL

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
e-mail: memberpolicymailbox@ciro.ca

Copy to:
Market Oversight, Alberta Securities Commission (CIRO-Reporting@asc.ca)
Trading and Markets, Ontario Securities Commission (TradingandMarkets@osc.ca)

Dear Sirs/Mesdames:

RE: Rule Amendments Relating to the Proposed Adoption of an Incorporated Approved Person Compensation Option

We are writing on behalf of Scotia Wealth Management, comprising of the Canadian investment dealer registrants of Scotiabank ("Wealth Management" or "we") in response to the Canadian Investment Regulatory Organization's ("CIRO") consultation on rule amendments relating to the proposed adoption of an Incorporated Approved Person ("IAP") compensation option (the "Consultation").

We support CIRO's objectives of a level playing field and harmonized rules that apply to mutual fund dealers and investment dealers. There should also be a harmonized framework for client-facing Approved Persons ("Approved Persons" or "Advisors"). Canadians should have the same level of investor protection regardless of how they access the capital markets and irrespective of where they reside in Canada. The rules governing registrant actions and activities should be clear, consistent, and efficient to maintain fair and orderly markets and instill trust and confidence in our industry.

A. Intersection of Securities and Tax Laws

Advisors are licensed professionals and should benefit from a more tax efficient compensation framework just like other licensed professionals in Canada. This letter focusses on how to best achieve this objective.

For other professionals, these personal corporations are created under statutory/provincial laws, providing certainty on these structures from a tax perspective and clarity that such professionals are still personally liable in order to protect the public.

CIRO and the Canadian Securities Administrators are attempting to construct the same outcomes through a combination of SRO Rules and National Instrument registration amendments. Consistent with our previous submission, we support a framework that enables Advisors to realize the intended benefits of incorporation while maintaining appropriate regulatory oversight, investor protection, and accountability.

Tax considerations are foundational to the viability of any incorporation model and any such arrangement between the Approved Person and the sponsoring dealer must withstand the scrutiny of Canada Revenue Agency and provincial tax authorities. For many dealers and Approved Persons, this means terminating the employee-employment relationship and entering into a new principal-agent relationship, including withdrawal from pension plans, as applicable. This is not a scenario where Approved Persons and dealers can go back to the status quo if these arrangements are subsequently challenged by tax authorities.

It is important that the framework be designed and implemented in a manner that is both practical and capable of supporting its intended outcomes, with tax and investor protection being key drivers of those decisions. While we recognize that tax policy and tax administration fall outside CIRO's mandate, the anticipated benefits of incorporation are a key consideration for many Advisors. CIRO's supervision framework and investor protection regulatory reforms in the last two decades have been grounded on the dealers' supervision over Approved Persons and their activities, including conflict of interest, product due diligence, outside business activities, etc.

Question 1: Has CIRO reconciled these securities law obligations with CRA expectations of an "independent contractor" under tax laws? Is CIRO contemplating any changes to a dealer's obligations over Approved Persons given that these individuals will be independent contractors?

Question 2: Has CIRO reviewed the principal-agent model, which was first introduced in 2003, and considered whether the arrangements and the tri-partite agreement are sufficiently robust given the possibility that the entire investment industry will be moving to this model?

Question 3: The current proposal contemplates one Approved Person with a personal corporation. This is consistent with the arrangements for other professionals incorporated under provincial laws and there is a benefit to follow precedents in other professions. We understand that CIRO is considering allowing multiple Approved Persons to be associated with a personal corporation and this might better reflect the

current arrangements by mutual fund dealers and the teaming arrangements which have become more commonplace within investment dealers. If this alternative is pursued, does CIRO intend to review its introducing/carrying arrangements and how CIRO will differentiate the obligations of the new corporation (i.e. control of who can conduct registerable activities, joint advisor codes, etc.) and the sponsoring dealer?

We recommend CIRO adopt a framework that is capable of achieving its intended objectives and provides dealers and Advisors with sufficient certainty regarding how the model will operate in practice. In this regard, we encourage CIRO to continue assessing how the final framework interacts with existing Dealer Member requirements and other applicable regulatory obligations. Previous commenters in the consultation process have raised concerns that an expanded compensation framework could add regulatory complexity and costs without commensurate investor protection benefits. These concerns reinforce the importance of designing the IAP framework to deliver meaningful benefits to Advisors while maintaining appropriate oversight, accountability, and investor protection. Additional clarity regarding the expected operation of the model, and its interaction with existing tax and regulatory requirements would assist firms and Advisors in evaluating and implementing the framework with confidence. Greater certainty would support meaningful adoption, reduce the risk of unintended consequences, and help ensure that the anticipated benefits of incorporation can be realized in practice.

B. Minimum Implementation Period

We recommend CIRO provide sufficient implementation time following the publication of final requirements. Introducing an IAP framework would require firms to develop governance structures, supervision processes, technology controls, policies, and operational procedures, as well as make related legal, compliance, operational, and training changes. A meaningful transition period of at least 24 months, coupled with a common implementation date, would support orderly adoption, and help ensure that appropriate controls and safeguards are established before the framework becomes effective.

Adequate implementation time would also benefit Advisors by providing greater certainty regarding how and when the framework will be introduced and by supporting a more consistent industry-wide rollout. Investors would similarly benefit from a coordinated approach that reduces the risk of disruption or confusion during implementation and promotes a consistent, well-supervised client experience across the industry.

C. Harmonized National Implementation

As noted in our previous submission, national harmonization remains an important consideration. We are concerned that legislative or regulatory changes could be

implemented at different times across jurisdictions, creating uncertainty and unequal access to the IAP framework. We recommend CIRO work with the Canadian Securities Administrators and provincial jurisdictions to support a coordinated and harmonized implementation approach.

A consistent national framework would help maintain a level playing field, promote regulatory certainty, reduce operational complexity, and ensure that Advisors across Canada have equitable access to the benefits of the proposed framework. Inconsistent adoption could result in a patchwork framework, with representatives and clients subject to different regulatory structures depending on the jurisdiction. This further supports a coordinated national approach that provides Advisors with equitable access to the IAP framework while maintaining consistent regulatory standards and investor protection across Canada.

Conclusion

To support the successful implementation of the framework, we recommend that CIRO:

- adopt a practical and workable incorporation framework capable of achieving its intended objectives;
- provide sufficient clarity regarding how the framework is expected to operate in practice and deliver the intended benefits for Advisors;
- provide firms with sufficient implementation time following final regulatory and legislative approvals, including a transition period of at least 24 months; and
- implement the framework on a nationally harmonized basis across all Canadian jurisdictions.

We appreciate the opportunity to comment and would welcome continued engagement with CIRO and the CSA as the framework is finalized.

Yours truly.



Todd Barnes
Executive Vice President
Canadian Wealth Management Investment Advisory

cc: Markets Oversight
Alberta Securities Commission
Suite 600
250-5th Street SW,
Calgary, Alberta T2P 0R4

e-mail: CIRO-Reporting@asc.ca

and

Trading and Markets
Ontario Securities Commission
22nd Floor
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: TradingandMarkets@osc.ca