

Member Regulation Policy

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VIA EMAIL ONLY

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Re: Rule Consolidation Project – Phase 1

The Federation of Mutual Fund Dealers (“Federation”) has been, since 1996, Canada’s only dedicated voice of Independent Dealers. We currently represent dealer firms with over \$124 billion of assets under administration and greater than 25 thousand licensed advisors that provide financial services to over 3.8 million Canadians and their families. As such we have a keen interest in all that impacts the dealer community, it’s advisors, and their clients.

General comments

As we embark on this first phase of the significant rule harmonization project for CIRO, we want to highlight the importance of utilizing all regulatory tools to empower independent dealerships in meeting the diverse needs of investors. Our focus should not be solely on streamlining regulations for efficiency but rather on creating a flexible framework that maximally accommodates the kaleidoscope of investment preferences of all Canadian investors. This approach may require prioritizing inclusivity over rule efficiency or simplicity, but it is essential for reducing limitations on investor choices and fostering the distribution of financial advice.

We’re advocating development of oversight mechanisms that expand the range of permissible advisory services and investor choices, under appropriate supervision. Favouring investor-centric regulation is preferable to a standardizing of the rules system that can result in restrictions to investor options and outcomes. Our goal is to encourage a regulatory environment that is as dynamic, adaptable, and expansive as each investor it is intended to protect and serve.

Consultation Specific Questions

Do you agree with CIRO's proposed elimination of temporary "discretionary account" arrangements

We strongly oppose the elimination of temporary discretionary accounts. These accounts are vital for accommodating unique client needs, especially in scenarios requiring swift decision-making under limited time frames. They offer a crucial service for certain investor segments, and their elimination will undoubtedly disadvantage these clients, cause undue hardship, and diminish the competitive edge of independent dealerships in the market. 'We have the internet now' is insufficient justification to eliminating a longstanding and investor supporting tool such as this. If there are compliance concerns around these accounts, we would encourage those to be addressed specifically and surgically, and not with such a broad and crude brush as 'no Canadian investor shall ever have one of these accounts again'. We look forward to engaging with CIRO on the specific challenges these accounts pose, and finding a better solution.

Should CIRO consider proposing to allow mutual fund dealers to offer managed accounts and order execution only accounts as part of a future phase

We fully endorse the proposal to allow Mutual Fund Dealer Members to offer managed accounts and order execution only accounts. This extension would promote a level playing field, enhance competition, and offer more robust and comparable services to clients across the different licensing channels.

Should the distinction between "institutional clients" and "retail clients" be extended to mutual fund dealers and if so, should all members be given the option of treating all clients as "retail clients"

We agree with giving mutual fund dealer members the option to either categorize clients as "institutional" or "retail," or treat all clients as "retail" for regulatory purposes. This flexibility will be an enhancement of the options available to them, and permit them to operate with an additional suite of options that have previously only been available to investment dealer members.

Should there be two separate financial solvency reports forms (Form 1) or move to one form

Acknowledging the challenge that creating a harmonized form presents to CIRO, we do recommend the consolidation of regulatory financial filing forms into one unified form. On the whole this would simplify compliance processes and reduce the administrative burden that multiple forms represent.

To be clear, we support the combining of the form as an administrative matter, and *only* if the substantive contents (methodology, capital requirements, etc.) of the form are *not* combined. This can be implemented as a separate MF dealer section.

Should the rules generally permit the use of delegation with specific prohibited exceptions, or generally prohibit it with specific permitted exceptions

We support a regulatory framework that permits delegation, subject to specific prohibited exceptions. This provides necessary flexibility for independent dealerships to efficiently manage resources by delegating where appropriate while maintaining compliance. We see this as the flexibility and efficiency-positive choice.

CIRO is looking for input on factors to consider while developing a more harmonized regime for Approved Persons across Investment Dealer Members and Mutual Fund Dealer Members

In developing a harmonized regime, CIRO should consider the potential impact on smaller dealers in terms of technology, compliance, or other costs and both initial and ongoing operational overhead. One of our key issues is defending against the benefit that can accrue to large institutions from increased regulatory requirements. These requirements can and do represent real additional cost burden on smaller and more nimble independent competitors. What we can't afford to see is an ever increasing share of independent firm's finite resources redirected away from clients towards fees, mandatory technology spend, or creeping compliance overhead as it impinges their ability to grow and serve investors.

Secondly, despite the complexities involved we feel it is critical for CIRO to implement the 'directed commissions' or 'advisor incorporation' model for investment dealerships. The extension of this benefit would promote a level playing field, enhance competition, and offer more robust and comparable services and billing options to clients. Mutual fund dealer member firms have long been able to employ either the Employee/Employer or Principal/Agent models, and we feel the investment dealer side could benefit from enhancing access to a Principal/Agent model through access to advisor incorporation. It broadens the options available to firms and advisors, allowing them to structure their practices in a way most suitable to fit their local or regional market and clientele, and is one path towards opening new business models here in the footsteps of the U.S. 'RIA model'.

In conclusion, we reemphasize our support for the CIRO's initiative in harmonizing the ID and MFD rulebooks under the Rule Consolidation Project. We believe this endeavour will significantly streamline regulatory processes, enhance the clarity of compliance requirements, and foster a more unified and efficient financial sector. We look forward to the continued collaboration with CIRO as the project proceeds through the phases.

We thank CIRO for the opportunity to provide comments.

Respectfully,

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