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To:  
Member Regulation Policy  
Canadian Investment Regulatory Organization  
Suite 2000  
121 King Street West  
Toronto, Ontario M5H 3T9  
by e-mail: [memberpolicymailbox@iiroc.ca](mailto:memberpolicymailbox@iiroc.ca)

By copy:  
Market Regulation  
Ontario Securities Commission  
Suite 1903, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

and

Capital Markets Regulation  
B.C. Securities Commission  
P.O. Box 10142, Pacific Centre  
701 West Georgia Street  
Vancouver, British Columbia, V7Y 1L2  
email: [CMRdistributionofSROdocuments@bcsc.bc.ca](mailto:CMRdistributionofSROdocuments@bcsc.bc.ca)

**RE: Rule Consolidation Project – Phase 1**

Worldsource Financial Management Inc., and Worldsource Securities Inc., together Worldsource, thanks the Canadian Investment Regulatory Organization (CIRO) for the opportunity to provide comments on this paper and commends the CIRO and the CSA for soliciting feedback in order to help advance the structure of the proposed consolidated rule implementation.

## **Overview**

Worldsource operates an Investment Dealer (ID) and a Mutual Fund Dealer (MFD) separately and continues to deal directly, professionally and collaboratively with the new CIRO.

While we agree there is a requirement to formalize a single Rule Book, we urge the CIRO to take great caution in the implementation of rules that may be detrimental to the investing public, the registrants and the dealers, who continue to strive to provide the high level of service and fulsome advice that should be available to every investor.

We will focus our response on the CIROs specific questions that have been asked on Phase 1 of the proposed rules.

- 1. Delegation: Generally, permit the use of delegation, subject to specific prohibited exceptions itemized elsewhere, OR, generally prohibit the use of delegation, subject to specific permitted exceptions itemized elsewhere throughout the rules?*

Worldsource supports the adoption of existing IDPC Rule subsection 1103(1) relating to delegation for MFD members. Regulated entities should be able to continue working within the confines of which functions can or cannot be delegated, without ambiguity across all types of dealers. The defined mechanisms for reviewing delegated functions, ensuring compliance, and taking corrective action if needed, have worked well within the former IIROC environment, without negative impact to the general public.

A balanced approach, that considers both the need for operational flexibility and the importance of regulatory control, has proven to be the most effective approach. Allowing the execution of the function to be delegated, but not the responsibility, has allowed individuals and dealers the operational efficiency that they need. Eliminating the ability to delegate functions would inhibit the registrant and dealer to provide robust services to investors by increasing the day to day functions of the individuals responsible.

The vast majority of acceptable delegated duties belong to compliance professionals who must perform oversight tasks. Delegation eases the daily burden for review (but not the responsibility) of members of a compliance regime, that are often senior members of the Executive.

Worldsource believes the adoption of delegation across all dealers will simplify oversight and allow for the continued uniformity of rules already proven to be favourable to an efficiently run dealer.

2. *Temporary Discretionary Accounts: Proposed elimination of this investment dealer account type.*

Worldsource opposes the proposed elimination of Temporary Discretionary Accounts.

We do not deem this to be in the best interest of the investor. The only apparent benefit would be to those registrants registered in the Portfolio Manager category with the provincial securities commissions and not to existing CIRO registered representatives, or their clients.

There are significant implications of eliminating the account type for existing clients who may have temporary discretionary accounts; forcing them to transfer accounts to an ICPM, which may not be in their best interest. Additionally, it would negatively impact, and potentially eliminate, the relationship they have with their current advisor.

The temporary discretionary account provides a level of flexibility that benefits clients in certain circumstances. Unless there is evidence to the contrary that we are not aware of, ongoing demand or usage of temporary discretionary accounts by clients and investment dealers is not detrimental to the investing public. The retention of this account type is important to meet market demands and provide clients with diverse options.

Any decision should aim to strike a balance between simplifying the regulatory framework and ensuring that the needs of clients and the industry are adequately addressed, but not eliminate an account type strictly for what appears to be the benefit of one registration category only.

b. Discretionary Accounts

As the CIRO noted to “propose the elimination of the offering of the discretionary account arrangement within a future phase of the Rule Consolidation Project”, we would like to take the opportunity to comment as we believe it is ultimately intertwined with the comments requested for Temporary Discretionary Accounts.

We want to take this opportunity to indicate our support of maintaining the ability of investment dealers to continue to offer this core account type; “Discretionary Managed Account”. While this account type allows Advisors, who have attained the portfolio manager (PM) qualification through higher educational requirements, it also allows for

efficiencies to be realized in Advisor and Dealer practices through the ability to bulk trade across all accounts that are modeled and or hold the same security. Discretionary accounts also allow portfolio manager advisors the ability to hone their value proposition, rather than simply focusing on investment management performance and pricing.

While we recognize that investment dealers are not the only registrants that offer discretionary accounts, we do believe the level of compliance oversight and regulatory requirements required by investment dealers to provide this account type is currently higher than that required by other registrants who are not regulated by the CIRO. We feel that this higher compliance oversight standard is sufficient to allow investment dealers the ability to continue to offer discretionary accounts, both now as well as in the future.

- 3. Account types that can be offered by ID and MFD members: Proposing to allow MFD members to offer managed accounts and order execution only accounts as part of future rules?*

As we mentioned previously in CSA Staff Notice and Request for “Comment 25-304 – Application for Recognition of New Self-Regulatory Organization”, Worldsource emphatically supports the proposal to allow MFD members to offer managed accounts and order execution only accounts, as long as MFDs comply with requirements that are materially the same as those that apply to ID members.

We believe that rules should be aligned, to allow MFDs the ability to provide clients of mutual fund only advisors a broader array of managed products and solutions to include third-party money managers, within an enhanced program similar to the SMA/UMA programs currently offered by many investment dealers. The intent is to allow MFD advisors the same access to managed solutions, that utilize securities which mutual fund advisors are licensed to sell, such as ETFs and traditional mutual funds. Such access will allow Dealers to flow costs, as well as program and administrative efficiencies directly to investors. We believe this still allows the intent of outsourcing money management to prevail, but moves forward in the current environment of new managed solutions and structures, with the limited trading authority required to administer them efficiently. Allowing MFDs to offer these additional account types aligns with the broader trends and changes in the financial services industry, such as robo-advice platforms. Additionally, the former MFDA has, for many years, allowed Model Portfolios to be offered to clients. A managed account has very similar features as a model portfolio,

with respect to the investment strategy the client agrees to and the role the advisor plays in monitoring the strategy to ensure that the client's goals are met.

As a requirement to offer this service, we believe that MFDs should ensure that investors receive clear information about the nature, risks, and benefits of these account types and are provided with clear disclosure on the overall portfolio strategy and asset allocation, as well as information on the roles and responsibilities of all parties involved in the program. Correspondingly, dealers must ensure they have the necessary infrastructure, systems, and expertise to comply with the requirements associated with these account types.

We acknowledge there must be regulatory oversight mechanisms in place to monitor the activities of MFDs offering managed accounts and order execution only accounts. An overall rule for Managed Accounts and Order Execution Only accounts, for advisors who have the educational requirements to provide that specific advice, would suffice if the regulatory requirements for managed accounts and order execution only accounts are materially the same. In fact, this general offering may contribute to a more consistent and streamlined regulatory framework, through the evaluation of the educational requirements of the approved person and the disclosure requirements for investors utilizing managed accounts and order execution only accounts through MFDs, this can be attained.

4. *Regulatory Financial Filing Forms: Should two different financial filing forms be maintained for both categories of CIRO dealer members?*

If there are distinct financial reporting requirements for IDs and MFDs, maintaining separate forms may allow for more tailored and specific information gathering. This can be important if the financial structures and activities of these two types of Dealer Members significantly differ, if for example, they continue to be run as independent dealerships.

Consolidating into one form will simplify the compliance process for Dealer Members, reducing administrative burden and the potential for confusion only if this streamlined approach is applicable to a 'dual firm'.

If the dealer has applied to be a 'dual dealer firm' only then can a single form promote uniformity and standardization in financial reporting. Essentially, dealers should have flexibility to report separately or together depending on their registration type.

Consolidating forms may be resource-efficient for both regulatory bodies and Dealer Members. It reduces duplication of efforts and resources associated with maintaining and updating separate forms. A single form can facilitate easier regulatory oversight, as it allows for a more straightforward comparison of financial data across a dual dealer member. This can enhance the ability to identify trends, outliers, and potential issues. A consolidated form may be more adaptable to changes in the financial services industry or regulatory landscape. It provides a more flexible structure that can accommodate evolving reporting requirements over time.

Financial impact to firms is also important. Thus, Worldsource proposes, that regardless of whether a single financial filing form or multiple financial filing forms are in use, the overall financial burden be fair and equal across all dealer members.

*5. Harmonized Approved Person Regime: What other factors should CRO consider to develop a more harmonized AP regime?*

CRO should consider several factors to ensure a balanced and effective Approved Person regime. Each registration category should address the unique characteristics and activities of each approved person, without imposing an unnecessary regulatory burden.

In harmonizing the regime, maintaining the mutual fund-only registration category is a crucial consideration, as it reflects an understanding of the unique characteristics and activities of certain approved persons in the financial services industry. Millions of Canadians rely on advisors that are currently MFD only approved persons. Retaining this registration category ensures continued access to financial advice for investors who primarily engage with mutual funds. Maintaining a dedicated registration category allows these professionals to focus on their specialized knowledge, contributing to a higher level of service for their clients. Investors may have established relationships with advisors based on their expertise in mutual funds, and maintaining this registration category supports continuity in these relationships.

Additionally, a mutual fund-only registration category can streamline compliance efforts for individuals and firms. It provides a clear regulatory framework that aligns with the specific characteristics and risks associated with mutual fund activities.

Eliminating this categorization, or forcing these approved persons to apply for other registrations categories, does not appear to enhance investor protection. Retaining the mutual fund-only registration category is essential to address the unique characteristics of professionals specializing in mutual funds, ensuring investor access, and promoting industry stability.

Furthermore, if changes to the Approved Person regime occur, the development of a clear transition plan and implementation timeline is crucial to allow registrants and firms sufficient time to adapt to the new harmonized regime, providing clarity on compliance expectations and deadlines.

6. *Categorization of Clients: Should all Dealer Members have the options of either categorizing all clients as either 'institutional client' or a 'retail client' or treating all clients as 'retail clients' and complying with the rules relevant to retail clients?*

The decision to remove the "institutional client" / "retail client" categorization to all Dealer Members and whether to provide all Dealer Members with the option of treating all clients as "retail clients" involves several considerations.

We recommend CIRO evaluate the primary objectives of the regulatory framework. If the differentiation between institutional and retail clients aligns with the goals of investor protection, market integrity, and fair treatment, maintaining the categorization is important.

By eliminating 'institutional client' accounts, CIRO could essentially be affecting competition and overall market efficiency. Additionally, a single categorization of 'retail client' is not uniform to categorizations used throughout North American exchanges. The consideration of allowing only categorization of 'retail clients' may not align with the interests of both institutional and retail clients, and may not support a fair and transparent financial services environment.



## Conclusion

We would like to encourage CIRO to create a forum in which those most impacted, the registrants themselves, have the ability to participate and have their voice heard. It is important to acknowledge that rule changes affect not only dealers, but advisors as well. The opinions and suggestions coming from this particular group is invaluable to creating rules that not only protect the integrity of our industry, but also are accepted, acknowledged and do not put undue stress on those who are most affected by any rule change.

Ultimately, the new rules should be guided by a careful balance between simplifying regulatory processes for industry participants, protecting investors, and maintaining the integrity and efficiency of the financial markets. Regular assessments, industry consultations, and a commitment to regulatory goals will be crucial in navigating this decision-making process.

We would like to thank the CIRO and the CSA for the opportunity and forum to comment on the Rule Consolidation Project – Phase 1 and would request the ability to review and comment on any changes to the proposed rules that may be considered after the CIRO and the CSA have the time to review the comments received.

Sincerely,  
**WORLDSOURCE WEALTH MANAGEMENT INC.**

*"Natasa Morfesis"*

Natasa Morfesis  
Vice President, Dealer Compliance  
Chief Compliance Officer, Worldsource Securities Inc./Worldsource Financial Management Inc.

*"Richard Rizi"*

Richard Rizi  
Vice President, Investment Services

*"Doce Tomic"*

Doce Tomic  
UDP and President, Worldsource Securities Inc./Worldsource Financial Management Inc.