CFA Societies Canada

Canadian Advocacy Council
120 Adelaide Street West, Suite 2205
Toronto, ON M5H 1T1
+1 (416) 366 3658
www.cfacanada.org

June 25, 2025

VIA EMAIL

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

Trading and Markets
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
email: tradingandMarkets@osc.gov.on.ca

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

CIRO Bulletin 24-0276 – Rules Bulletin – Request for Comments – DC Rules – Rule Consolidation Project – Phase 5 (the "Consultation")

The Canadian Advocacy Council of CFA Societies Canada (the “**CAC**”)[1] appreciates the opportunity to provide the following general comments on the Consultation and responses to the specific questions listed below.

We commend CIRO for completing this comprehensive rule consolidation initiative and support the harmonization efforts that promote regulatory efficiency and clarity for the industry. The alignment of complaints handling procedures and capital requirements across dealer types represents an important step toward creating a more coherent regulatory framework while maintaining appropriate investor protection standards.
We are particularly supportive of the enhanced complaints handling framework, which strengthens investor protection through expanded reporting requirements and standardized resolution procedures. The introduction of clear definitions for serious misconduct and the requirement for written responses to a broader category of complaints will improve transparency and accountability in client relationships, and should work to improve overall trust in the industry.

[1] The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 21,000 Canadian CFA charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

As the global association of investment professionals, CFA Institute sets the standard for professional excellence and credentials. The organization is a champion of ethical behaviour in investment markets and serves as the leading source of learning and research for the investment industry. CFA Institute believes in fostering an environment where investors' interests come first, markets function at their best, and economies grow. With more than 200,000 charterholders worldwide across 160 markets, CFA Institute has ten offices and 160 local societies. Find us at www.cfainstitute.org or follow us on LinkedIn and X at @CFAInstitute.

120 Adelaide Street West, Suite 2205
Toronto, ON M5H 1T1
+1 (416) 366 3658
www.cfacanada.org

Question #1 - Definition of "complaint"

> ***The proposed definition of "complaint" includes current and former clients. Should "prospective clients" also be included, as they are in the current MFD Rules? Do "prospective clients" generate a significant number of substantive complaints that present a material regulatory concern, rather than just service issue?***

We support the inclusion of prospective clients in the definition of "complaint," consistent with the current MFD Rules. While prospective client complaints may be less frequent than those from current clients, they can still raise material regulatory concerns, particularly regarding sales practices and related representations, disclosure adequacy, and suitability assessments during the client onboarding process.

In our view, complaints from prospective clients could particularly highlight potentially systemic issues in marketing materials, initial client interactions, or the account opening process that could affect multiple potential clients. Excluding them from the complaint definition could create a regulatory gap that undermines investor protection objectives.

Question #2 - Definition of "serious misconduct"

> ***Does the proposed definition of "serious misconduct" cover the appropriate elements that should be reported, investigated, and dealt with in respect of complaints?***
>
> ***Note that the proposed definition does not specifically include harm to the Dealer. Should it encompass conduct that harms the Dealer, even where that harm does not pose a reasonable risk of material harm to clients or the capital markets, nor result in material non-compliance with applicable laws?***

We support the objective of enhanced reporting for serious misconduct but recommend CIRO provide additional implementation guidance to provide clear examples to assist with interpretation, and to ensure consistent application across the industry. The current definition, while comprehensive, may benefit from clearer boundaries and identification criteria or thresholds to help firms determine reporting obligations consistently.

Regarding conduct that harms the Dealer without directly affecting clients or markets, we believe the definition should include criteria for identification of conduct that could be symptomatic of broader conduct problems and highlight the potential for recidivism, both of which could harm clients or markets directly, or indirectly via dealer harm and loss of trust in markets. With this said, the definition should remain primarily focused on client protection and market integrity. Including Dealer-specific harm too widely could broaden reporting requirements beyond the core investor protection mandate, but where conduct is fundamentally problematic regardless of harmed party, we believe the ability for regulators to identify problematic patterns of individual behaviour justifies inclusion in the definition and a reporting obligation.

120 Adelaide Street West, Suite 2205
Toronto, ON M5H 1T1
+1 (416) 366 3658
www.cfacanada.org

<u>Question #3 - Definition of "non-reportable complaints"</u>

> ***Is the definition of "non-reportable complaints" appropriate to minimize reporting where there is no material risk of harm to clients or the capital markets, or instances of non-compliance, while still ensuring that material complaints are addressed?***

We support the proposed definition of "non-reportable complaints" as it appropriately balances regulatory oversight with practical implementation considerations. The definition effectively captures low-risk service issues while ensuring that matters with potential investor protection implications remain subject to appropriate reporting and investigation requirements.

However, we encourage CIRO to provide clear guidance and examples to help firms consistently distinguish between reportable and non-reportable complaints, particularly in borderline cases where the materiality assessment may be subjective. We would also suggest considering inclusion of criteria for required reporting where a pattern of repeated problematic process or behaviour becomes apparent, despite the one-off instances of problematic behaviours giving rise to each complaint being otherwise non-reportable in nature. This would be consistent with systemic issue reporting concepts utilized elsewhere in securities regulation in pursuit of gatekeeping concepts.

<u>Question #4 - Time limit to provide a substantive response letter</u>

> ***Is the 90-day time limit to provide a substantive response letter to a complainant appropriate, given that the Autorité des marchés financiers has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations)?***

We support maintaining the 90-day period as it provides adequate time for thorough investigation and resolution while remaining aligned with the majority of CSA jurisdictions. The 90-day timeframe allows dealers sufficient time to conduct proper investigations, particularly for complex complaints involving multiple parties or technical issues.

However, we encourage dealers to strive for earlier resolution where possible and to provide interim updates to complainants when investigations require the full 90-day period.

We would also suggest broader independent examination of the appropriateness of the 90-day period on the basis of objective evidence of complainant experience, complaints data/timelines, and overall effects on industry trust and client perceptions.

<u>Question #5 - Time limit applicable to internal dispute resolution</u>

> ***Is the proposed time limit for internal dispute resolution processes reasonable, considering the need to balance an expedient resolution for clients while still allowing an appropriate amount of time for Dealers to determine an effective and fair resolution?***

We support the proposed time limits for internal dispute resolution as they provide appropriate balance between timely client service and thorough investigation. These timeframes should encourage dealers to resolve complaints efficiently while maintaining the quality and fairness of the resolution process.

The time limits will also provide clients with greater certainty about complaint resolution timelines and may increase the incidence of positive and expeditious resolution, and reduce the need for escalation to external dispute resolution services.

<u>Question #6 - Client reporting</u>

> ***Do you agree with our assessment of the areas where the proposed harmonization is consistent with current requirements and Dealer practices and therefore no significant negative impact has been introduced for Dealers and clients as a result? If not, please explain.***

> ***Do you agree with our assessment of those areas where the proposed harmonization may impact some Dealers, but that the benefits of such harmonization outweigh the costs to the affected Dealer? If not, please explain.***

To the extent of our direct knowledge, we generally agree with CIRO's assessment that the proposed harmonization aligns with current industry practices in most areas and will not create significant negative impacts. We believe the standardization of client reporting requirements will benefit investors through improved consistency and comparability across dealer types.

Where harmonization may create implementation costs for some dealers, we agree that the long-term benefits of client experience/reporting consistency, regulatory consistency and reduced complexity for dual-registered entities justify these transitional expenses, provided adequate implementation time is provided. We believe that a transparent ex-post review (perhaps 18-24 months following the final effective date) for effects (both anticipated and unintended) against stated regulatory intent and objectives in this area (and perhaps the project more broadly) would be a useful mechanism for consulting with dealers, stakeholders broadly, and making any necessary regulatory policy adjustments.

<u>Question #7 - Use of free credit client cash</u>

> ***Is it appropriate to extend the ability to use free credit client cash to level 3 mutual fund dealers in addition to level 4 mutual fund dealers?***

We believe the use of free credit client cash should be limited to Level 4 mutual fund dealers, as these dealers are subject to enhanced capital requirements and oversight that better protect client assets, address potential conflicts, and address marginal contributions to dealer-specific and systemic risk. Level 3 dealers are not required to have the same risk management infrastructure and capital adequacy standards necessary to safely manage client cash usage relative to Level 4 dealers, and we believe this would create a disincentive for progressing risk, compliance, capital and internal controls to Level 4 dealer standards, and create an opportunity for regulatory arbitrage. If the differences between these dealer levels are otherwise not seen as significant by affected dealers and CIRO, we would prefer to see exploration of the amalgamation of levels (i.e. Levels 3 and 4), with deference to the higher standards required of Level 4 mutual fund dealers for the use of free credit client cash.

Question #8 - Transition period for Form 1 capital formula and provider of capital charge

> ***Is the phased approach we propose, for mutual fund dealers to adopt the new DC Rules Form 1 capital formula and the provider of capital concentration charge, an appropriate approach and transition period?***

We support the phased approach for implementing the new Form 1 capital formula and provider of capital concentration charge. This approach recognizes the significant operational and systems changes required for mutual fund dealers while ensuring appropriate risk management standards are ultimately achieved.

The transition period should provide adequate time for dealers to update their systems, train staff, and implement necessary compliance procedures without compromising ongoing operations or client service. We believe 12 months should be adequate.

Question #9 - Transition period for mutual fund dealers' auditor approval

> ***Should the proposed requirements for approval of mutual fund dealers' auditors as panel auditors be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?***

We support an extended transition period for mutual fund dealers' auditor approval requirements. Many mutual fund dealers currently use non-panel auditors and may need significant time to close out current financial periods/auditor engagements and transition to approved panel auditors, or to allow time for their current auditors to obtain panel approval.

An extended transition period of 18-24 months beyond the general effective date would provide adequate time for this transition while avoiding disruption to existing audit relationships and financial reporting obligations.

Question #10 - Form 1 schedules

> ***Where we have proposed separate schedules for mutual fund dealers and investment dealers in the new DC Rules Form 1 (e.g. client trading***

> ***accounts, broker trading accounts, FX margin, concentration etc.), are these separate schedules appropriate or should we consider one combined schedule for both mutual fund dealers and investment dealers?***

We support a scalable but integrated regulatory approach whereby some level of consistency and comparability between dealer types is introduced by maintaining common schedules/items across those items common to both dealer types – a 'core' set of Form 1 schedules, but adding distinct supplemental schedules for items distinct to a dealer type or particular business model choices. This would allow for comparability and risk aggregation across common items, while remaining scalable to the differing underlying activities and risks, and complexity of dealer activity. We believe this also minimizes regulatory complexity in this area.

<u>Question #11 – Concentration for diversified investment products</u>

> ***The current concentration schedule allows Dealers to look through to underlying securities where the concentrated product is a broad based index. Does the proposed change allowing this approach on a broader basis to diversified investment products such as mutual funds that have a basket of underlying investment products (not including derivatives) provide sufficient operational flexibility to Dealers in managing potential concentration exposures? Or, should we consider excluding these types of fund products from concentration testing based on their risk profile?***

We support the proposed expansion of the look-through approach to diversified investment products such as mutual funds, and any other similar broad-based redeemable/open-ended investment products and investment funds. This approach provides appropriate operational flexibility while maintaining effective risk management for concentration exposures. Additional scrutiny should be applied to instances where theoretical liquidity available through an open-ended fund structure could overwhelm actual liquidity in the underlying securities, or where the fund/investment product has inherent concentration or common factor/non-idiosyncratic risks, such as the case of a thematic, geography-focused, style-focused or otherwise relatively concentrated portfolio.

The look-through approach better reflects the actual risk profile of diversified investment products compared to treating them as single concentrated positions. This change should reduce unnecessary capital charges while maintaining appropriate oversight of actual concentration risks.

<u>Question #12 - Transition period for counterparty margin</u>

> ***To what extent is it appropriate to apply a phase-in approach for mutual fund dealers to adopt the counterparty margin requirements for acceptable counterparties and regulated entities? What is an appropriate extended transition period?***

120 Adelaide Street West, Suite 2205
Toronto, ON M5H 1T1
+1 (416) 366 3658
www.cfacanada.org

We support a phased approach for mutual fund dealers to adopt counterparty margin requirements, as these represent significant operational and risk management changes for dealers not previously subject to such requirements.

An appropriate transition period in our view would be 12-18 months, allowing dealers sufficient time to develop counterparty margin policies, implement necessary systems and controls, and transition and/or establish relationships with acceptable counterparties while ensuring effective risk management is ultimately achieved.

<u>Question #13 – Rule consolidation project</u>

> ***Considering all the phases of this project, are the proposed DC Rules aligned with the objectives of the project? To what extent have the proposed DC Rules introduced excessive regulatory burden?***

We believe the proposed DC Rules are well-aligned with the project objectives of harmonizing regulatory requirements while maintaining appropriate investor protection standards. The consolidation has successfully reduced regulatory arbitrage opportunities between dealer types while preserving proportional oversight that reflects different business models and risk profiles.

While the consolidated rules do introduce some additional requirements for certain dealer types, we do not consider this to constitute excessive regulatory burden for affected dealer types or for industry overall. If anything, we see the net effect of the project as a needed simplification of undue complexity and somewhat artificial distinction between like activities and risks, but under differing legacy regulatory models. The enhanced consistency and clarity of the regulatory framework will provide long-term benefits that justify the implementation costs and transitional efforts required.

Concluding Remarks

We acknowledge the significant effort CIRO has undertaken to complete this comprehensive rule consolidation project and commend the organization's commitment to stakeholder engagement throughout the process. The harmonization of complaints handling, capital requirements, and operational standards, and the broader production and finalization of the consolidated DC Rules represents an important achievement in the progress of Canadian securities regulation.

We emphasize the critical importance of providing clear implementation guidance and adequate transition time to ensure the successful adoption of these changes, and for the overarching project goals and timelines not to be unduly swayed by the interests of narrow dealer constituencies. The enhanced investor protection standards achieved through this consolidation must be supported by practical implementation support for dealer members and continuing regulatory and guidance development.

120 Adelaide Street West, Suite 2205
Toronto, ON M5H 1T1
+1 (416) 366 3658
www.cfacanada.org

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in the future.

(Signed) *The Canadian Advocacy Council of*
CFA Societies Canada

The Canadian Advocacy Council of
CFA Societies Canada