IIAC ACCVM

Investment Industry Association of Canada Association canadienne du commerce des valeurs mobilières

June 24, 2024

Submitted via Email

Attention:

Membership Services
Canadian Investment Regulatory Organization
40 Temperance Street, Suite 2600
Toronto, Ontario M5H 0B4
E-mail: MembershipServices@ciro.ca

Dear CIRO:

Re: CIRO Consultation – Proposed Integrated Fee Model (the "Consultation")

The Investment Industry Association of Canada (**IIAC**) is the national association representing financial services firms of any size and type operating in Canadian and global markets. Our members manufacture and distribute a variety of securities and provide products and services to Canadians.

Thank you for the opportunity to express our comments on the Consultation. We provide our comments via responses to discussion questions 1 to 6 posed in the Consultation, followed by more specific considerations.

SUMMARY OF RECOMMENDATIONS

1. Net revenue is a better billing driver for the proposed integrated fee model.
2. More information is needed to properly assess proportionality and sustainability, and to better reflect the guiding principle of transparency.
3. Informing Dealer Members in advance of expected revenue rates will allow for forecasting and budgeting.
4. No increase to the integration cost recovery fees charged to Dealer Members should result from the proposed integrated fee model.
5. Reconsider allocation of costs to Mutual Fund Dealers and Investment Dealers.
6. No overlapping or duplicate fees should be charged to Québec Mutual Fund Dealers.
7. Net revenue is the appropriate component through which CIRO's costs related to reviews of material changes to business activities of Investment Dealer Members should be incorporated.
8. Regulatory costs to support innovation and competition across the industry should be shared among all members.

9. Adequately consider compliance levels required of carrying brokers, and Type 1 to 4 introducing brokers and introducing dealers. No duplicate fees should be charged if material business changes are initiated by the introducing broker and supported by changes implemented by the carrying broker.
10. Lower the Approved Person fee where the number of Approved Persons of Mutual Fund Dealers significantly exceeds the number of Investment Dealer Approved Persons. Allocate a portion of the fee charged per Approved Person to support the movement of advisors from Mutual Fund Dealers to Investment Dealers.
11. It is important to have harmonization among fee models of applicable provincial regulators.
12. Provide fee relief for Dealer Members incurring rules consolidation costs.
13. Implement regular reporting to Dealer Members in respect of progress towards synergy, efficiency, and cost savings targets, together with a framework to evaluate the implemented integrated fee model on a periodic basis.

RESPONSES TO CONSULTATION QUESTIONS

(1) Does the proposed integrated fee model or any aspect thereof materially conflict with a guiding principle?

There are aspects of the proposed integrated fee model that do not align with the guiding principles, as follows:

(a) Proportionality

(i) Proportionality can only be properly assessed with greater transparency.

The industry is unable to fully assess whether the proposed integrated fee model will ensure that fees are proportionate to Dealer Members' usage or consumption of regulatory services without comparative data. Please see our comments below under "Transparency" (paragraph (b) of this Question 1).

(ii) Net revenue is a better billing driver for the proposed integrated fee model.

Total revenue, as the main billing driver in the proposed integrated fee model, does not allow for an appropriate allocation of costs. To illustrate, the increase over the last year in Dealer Members' revenue is largely related to interest rate increases affecting firms' financing activity. Interest rate increases also inversely affect firms' financing costs, which does not appear to be taken into consideration in the proposed integrated fee model. Financing costs should be netted against interest revenue.

We suggest that a better driver would be net revenue, which would appropriately consider the specific expenses incurred to generate these revenues.

We further recommend that the net revenue calculated should include only the net revenue earned by the business activity of the Dealer Member in question, and exclude any revenue generated by another registrant that may be integrated in the same legal entity. For instance, if an investment fund manager and a mutual fund dealer are integrated in the same legal entity, the net revenue captured for the mutual fund dealer should be that earned by the mutual fund dealer's activity specifically.

(b) Transparency

(i) Greater transparency is required.

CIRO does not provide any or sufficient detail in respect of the following. Providing this data would better inform all Dealer Members, including in their assessment of the proportionality of the proposed integrated fee model, and would better reflect CIRO's guiding principle of transparency:

(a) Corresponding dollar amounts to the percentages provided under Section 3.1.2 of the Consultation ("*Potential re-distribution impact*");
(b) How the revenue rates prescribed by the CIRO Board are calculated;
(c) Comparative anonymized data on Dealer Members' usage or consumption of regulatory services;
(d) Cost savings resulting from the amalgamation of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA);
(e) The additional costs being recovered with the overall increase in fees under the proposed integrated fee model;
(f) Industry statistics for Mutual Fund Dealers, similarly to statistics for Investment Dealers.

(ii) Inform Dealer Members of expected future revenue rates to allow for forecasting and budgeting.

The revenue rate has a potentially significant impact on Members' fees, particularly given that the rate can vary annually. CIRO should inform Dealer Members of the expected revenue rate for the upcoming fiscal year in advance, to allow Dealer Members to better forecast and budget for CIRO fees. This should include an explanation of the rate calculation.

(c) Sustainability

(i) Evaluation of sustainability requires more information.

It is of concern to our members that CIRO operates on a cost-recovery basis but has not articulated what additional costs are being recovered with the overall increase in fees under the proposed integrated fee model. This is of particular note given that CIRO has charged firms an integration cost recovery fee in relation to the amalgamation of IIROC and the MFDA, and IIROC indicated that the amalgamation would remove "hundreds of millions of dollars in purely duplicative costs"[1].

[1] BNN Bloomberg, "Joining forces with the Mutual Fund Dealers Association would make 'the system better' for Canadians: IIROC CEO" (10 June 2020) at 00h:02m:23s, online (video): < https://www.bnnbloomberg.ca/video/joining-forces-with-the-mutual-fund-dealers-association-would-make-the-system-better-for-canadians-iiroc-ceo~1974598 >.

We have also received concerns that the overall increase in Dealer Member fees under the proposed integrated fee model should not result in an increase to the integration cost recovery fees charged to Dealer Members.

(2) Does the proposed integrated fee model appropriately allocate costs to Dealer Members in proportion to their size and impact, and their use of regulatory resources?

(i) The proposed model does not appear to take into consideration Dealer Members' costs to operate compliance programs or the effectiveness of those programs.

We have received concerns about:

- the greater allocation of costs to larger Dealer Members generally;
- the allocation of costs in the context of effective compliance programs that use less regulatory resources;
- the cost of implementing required compliance programs as a higher percentage of revenues for smaller dealers, and the impact of those costs to them.

(ii) We question whether the reallocation of fees from Mutual Fund Dealers to Investment Dealers could be more proportionate.

Mutual Fund Dealers should not, in theory, generate less usage of regulatory services or derive less benefit from regulatory services after the amalgamation (understanding that this impact may be reduced somewhat by the Approved Person fee, but not entirely). We have received concerns regarding the increase in fees to Investment Dealer Members under the proposed integrated fee model. We have also received concerns regarding whether the minimum fee component for Mutual Fund Dealer member levels should be higher than as proposed.

(3) Is the methodology easy to understand?

(i) More transparency is needed.

The methodology is easy to understand, but greater transparency regarding certain factors and data is needed. Please see our response to Question 1 under "Transparency" (paragraph (b)).

(ii) Methodology for Québec Mutual Fund Dealers should ensure non-duplication of fees.

Québec Mutual Fund Dealers should not be charged overlapping or duplicate fees for regulatory services provided as between CIRO and the Autorité des marchés financiers.

(4) Are there other adjustments or factors that need to be considered that would not add additional complexity to the calculation or require additional and auditable reporting from firms, while continuing to meet the guiding principles?

(i) Net revenue should be used as the billing driver.

As previously noted, total revenue does not allow for an appropriate allocation of costs. Net revenue appropriately considers the specific expenses incurred to generate these revenues. Please see our further comments under Question 1, paragraph a(2) under "Proportionality".

(5) Does the proposed integrated fee model create unreasonable barriers to entry or access to advice?

There are concerns regarding the appeal of the CIRO fee model for registered firms and firms seeking to be registered, which are beyond the scope of this correspondence.

(6) Will the proposed integrated fee model continue to apply as the industry evolves and transforms?

Factors impacting the continued application of the proposed integrated fee model would include the following:

- revenue (net or total) as the biggest driver under this model for determining annual fees;
- new business activities which may have a significant impact on (net or total) revenue, without necessarily requiring significant additional regulatory oversight;
- the lack of consideration of related expenses under this fee model.

SPECIFIC COMMENTS

(a) <u>Fee for material changes to business activities.</u>

(i) Fee for material changes to business activities is inconsistent with statements in the CIRO Strategic Plan FY 2025-2027[2] ("Strategic Plan").

We suggest that the proposed $15,000 fee for a material change to business activities of an Investment Dealer firm[3], and its related monthly reimbursement rate[4], are not aligned with statements in the Strategic Plan, in which CIRO cites the need to "be seen as an enabler to innovation"[5] and lists as one of its values that it is "forward-thinking" and "celebrate[s] those taking the initiative"[6]. This proposed fee instead imposes an additional financial burden on firms

---

[2] Canadian Investment Regulatory Organization, "Strategic Plan FY 2025-2027" (10 April 2024), online (pdf): < https://www.ciro.ca/media/7981/download?inline >.
[3] Canadian Investment Regulatory Organization, "Proposed Integrated Fee Model" (25 April 2024), s 6.2(c), online: < https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#toc-6-2-proposed-fees-for-material-business-changes >.
[4] Canadian Investment Regulatory Organization, "Proposed Integrated Fee Model" (25 April 2024), s 7.2(d), online: < https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#toc-7-2-proposed-reimbursement-framework >.
[5] Canadian Investment Regulatory Organization, "Strategic Plan FY 2025-2027" (10 April 2024) at Slide 8, online (pdf): < https://www.ciro.ca/media/7981/download?inline >.
[6] Canadian Investment Regulatory Organization, "Strategic Plan FY 2025-2027" (10 April 2024) at Slide 9, online (pdf): < https://www.ciro.ca/media/7981/download?inline >.

wishing to innovate by expanding their business or product offerings.

We note that the Annual Dealer Member Fee under the proposed integrated fee model includes a revenue component and believe that this is the appropriate manner through which CIRO's costs related to reviews of material changes to business activities should be incorporated. If a material change to the business activities of a firm is successful, its net revenue will increase and, accordingly, its Annual Dealer Member Fee paid to CIRO will increase.

(ii) Regulatory costs to support innovation and competition across the industry should be shared among all members.

CIRO states that, currently, "costs [for the review of business changes] are absorbed by CIRO's broader membership, including those Dealer Members that may not have directly benefitted from these regulatory services"[7]. This structure of sharing the cost among all members, including those that choose not to engage in new or innovative business changes, is appropriate for a self-regulatory organization to support innovation and create competition across the industry.

(b) Considerations regarding carrying and introducing brokers.

In respect of fees applicable to carrying and introducing brokers, the proposed integrated fee model should adequately consider the compliance levels required of carrying brokers in comparison with Type 1 to 4 introducing brokers and introducing dealers.

Further, no duplicate fees should be charged to both a carrying and introducing broker, if material business changes are initiated by the introducing broker and supported by changes implemented by the carrying broker.

(c) Fee implications on Mutual Fund Dealers when Approved Persons significantly exceed those of Investment Dealer firms.

We recommend that CIRO lower the Approved Person fee in circumstances where the number of Approved Persons of Mutual Fund Dealer Firms / Mutual Fund Dealers of dual-registered firms significantly exceeds the number of Investment Dealer Approved Persons. We further recommend that a portion of the fee charged per Approved Person be allocated to educational and compliance purposes, to support the movement of advisors from Mutual Fund Dealers to Investment Dealers.

(d) Fee harmonization is urged.

We recommend that CIRO collaborate with other applicable provincial regulators to review and consider how fee models can be aligned to ensure consistency for member firms. Specifically, the revenue tiers and normalization factor would benefit from harmonization.

(e) Fee relief for members.

The integration cost recovery fee charged by CIRO to members should result in the provision of

[7] Canadian Investment Regulatory Organization, "Proposed Integrated Fee Model" (25 April 2024), s 6.1, online: < https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#toc-6-1-current-state >.

fee relief for members incurring costs to fulfil system and reporting requirements towards consolidation of the Mutual Fund Dealer and Investment Dealer and Partially Consolidated rules.

(f) **Regular reporting and assessment should accompany integrated fee model implementation.**

We recommend the implementation of regular reporting by CIRO to its members in respect of progress towards its synergy and efficiency targets and objectives, as well as cost savings achieved, in relation to the proposed integrated fee model, once finalized and implemented.

This reporting should be coupled with a framework to periodically evaluate and assess the integrated fees and the implemented integrated fee model to ensure continued efficacy and fulfillment of the guiding principles.

We are happy to discuss with you these observations and recommendations.

Respectfully submitted,

Investment Industry Association of Canada

cc.

Market Regulation
Ontario Securities Commission
E-mail: marketregulation@osc.gov.on.ca

Capital Markets Regulation
B.C. Securities Commission
E-mail: CMRdistributionofSROdocuments@bcsc.bc.ca