

Appendix B

Impact Assessment - Notice 23-0010 – Rules Notice – Request for Comments – Proposal on Distributing Funds Disgorged and Collected through New SRO (now CIRO) Disciplinary Proceedings to Harmed Investors

I. Impact Assessment Table

In the impact assessment table below, we list:

- the major elements of the proposed disgorgement distribution program,
- a description of the intended benefits of each element, and
- an assessment of its impact on investors/clients, investment dealers, mutual fund dealers and CIRO.

II. Conclusions

Based on our assessment, we have concluded that the proposed program will enhance investor protection and market integrity by offsetting certain investor losses through distributing to harmed investors ill-gotten profits or losses avoided by advisors or firms as a result of their breaches of the CIRO Rules (i.e., *disgorgement*).

Although the harmed investors may not recoup all of their losses through the program, receiving a portion of their losses outweighs the possible confusion and other complexities of the current investor recovery framework where investors may seek full recovery of their losses through the existing compensation options (i.e., *restitution*), such as civil courts, the Ombudsman for Banking Services and Investments (**OBSI**) or arbitration, thus resulting in a net positive impact of the proposed program on investors/clients of CIRO dealers.

We also concluded that the program, as an extension of CIRO's current Rules and practices, will have a neutral impact on CIRO dealers and an overall positive effect on CIRO itself.

III. Cost Estimate

As it is a novel initiative, it is difficult to estimate the dollar magnitude of the program at this time. However, based on the proposed parameters of the program and the fact that we do not propose to start from scratch but rather build on CIRO's existing processes and resources, we do not anticipate any significant incremental costs to CIRO, CIRO dealers or their clients. To ensure its efficacy and value, we propose to conduct regular reviews of the program following its implementation.

Description of the proposed change	Related intended benefits	Impact on investors/clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<p><i>Extend “disgorgement” as an explicit sanction to mutual fund dealers under the CIRO Rules</i></p>	<p>Removing inconsistencies in the Rules and ensuring a level playing field for investment dealers and mutual fund dealers and their clients by aligning the sanctions in the Rules. All CIRO dealers will be subject to the same disciplinary sanctions, including disgorgement as a distinct sanction, which can be collected separately and distributed to harmed investors under the proposed program.</p>	<p><i>Neutral</i> – We anticipate no impact on investors/clients because of the Rule change.</p>	<p><i>Neutral</i> – We anticipate no impact on investment dealers as disgorgement is already explicitly provided for as a sanction under the Investment Dealer and Partially Consolidated Rules.</p>	<p><i>Minor positive</i> – We anticipate no material impact on mutual fund dealers as disgorgement, although not explicitly provided for under the Mutual Fund Dealer Rules, has been included by hearing panels in global fines. The Rule alignment will provide clarity for mutual fund dealers.</p>	<p><i>Minor positive</i> – CIRO Rules will be aligned by providing the same sanctions for all dealers. This will ensure clarity, consistency, and predictability of CIRO’s requirements and strengthen CIRO’s enforcement and investor protection mandate.</p>

Description of the proposed change	Related intended benefits	Impact on investors/clients	Impact on investment dealers	Impact on mutual fund dealers	Impact on CIRO
<i>Create a disgorgement distribution program to benefit harmed investors</i>	The program will distribute the funds disgorged and collected through CIRO disciplinary proceedings to harmed investors.	<i>Net positive</i> - Investors/clients of CIRO dealer members may receive some of their losses back under the program increasing their and public trust in the regulatory system. Given the limits of disgorgement orders, collection and distribution challenges, the distribution of funds under the program may only cover a portion of investor losses (i.e., it may not provide full compensation/restitution).	<i>Neutral</i> – We anticipate no impact on investment dealers as the program is an extension of the existing disgorgement processes.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers as the program is an extension of the existing disgorgement processes.	<i>Net positive</i> – The program squarely aligns with CIRO’s mandate and will enhance investor protection and market integrity. The program will build on the hearing panels’ existing powers to order disgorgement, CIRO’s existing processes to prosecute violations of the Rules and enforce sanctions, and the current organizational structure for the program administration. We do not anticipate the administrative costs and CIRO resources needed to set up and administer the program will result in significant costs.
<i>Preserve the current enforcement processes</i>	Maintaining the focus of CIRO Enforcement on prevention and deterrence of misconduct (not investor compensation).	<i>Net positive</i> – The program will preserve the focus of CIRO Enforcement on deterrence of misconduct, which is in the public interest and protects investors generally. Investors may seek	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Net positive</i> - Enforcement proceedings are not designed to provide investor redress but to prevent and deter misconduct. Preserving this focus is necessary to protect CIRO’s mandate, avoid any disruption to the regulatory

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		individual redress to recoup their losses in other specialized fora, such as civil courts, OBSI or arbitration.			system and is in the public interest.
<i>No restitution or full compensation to harmed investors</i>	The program will only distribute disgorged and collected funds and will not provide full compensation/restitution to investors.	<i>Minor negative</i> – Investors would like to receive full compensation of their losses as soon as possible. The program will not provide full <i>restitution</i> for investors’ losses. It will be limited to the gains wrongfully obtained or losses avoided by their advisors or firms who breached the CIRO Rules, i.e., <i>disgorgement</i> . Investors can seek full compensation for their losses through other compensation options, such as civil courts, OBSI or arbitration.	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Neutral</i> – CIRO’s inability to provide fuller redress to harmed investors may be perceived as a system weakness. However, extending the program to restitution risks shifting the focus of Enforcement from regulatory prosecution to investor compensation, which is not the intent of the program.

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<i>Avoid confusion and overlap with investor compensation options</i>	The Program will provide limited redress to investors and will not overlap with investor compensation options, such as civil courts, OBSI or arbitration.	<i>Neutral</i> – Investors will not receive full redress through the program and may need to resort to other options, such as civil courts, OBSI or arbitration to seek full compensation of their losses. Any negative impact due to the confusion between disgorgement distribution and restitution/compensation can be avoided through plain and clear communication about available options and ensuring that the process is simple, easily accessible, and well-coordinated.	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Neutral</i> – We do not anticipate any impact on CIRO except for setting up facilitated processes and developing plain language resources about the program.
<i>Extend the use of the CIRO Restricted Fund (RF) for distribution of disgorged funds</i>	Subject to approvals, the disgorged funds for distribution under the program will come from the RF.	<i>Neutral</i> – We do not anticipate any impact on investors/clients.	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Net positive</i> – Collected disgorgement is part of the RF, which can be used for the purposes enumerated in the CIRO Recognition Orders. Subject to approvals, the use

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<i>to harmed investors</i>					of the RF can be extended for the purposes of the proposed program. The use of the RF under the program will be in the public interest and squarely aligned with CIRO's mandate of enhancing investor protection and market integrity.
<i>Administer claims under the program</i>	Establishing and maintaining a simple process for claims' administration under the program.	<i>Net positive</i> – Investors will be required to apply to participate in the program, but the process will be simplified and facilitated by the program Administrator.	<i>Minor negative</i> – Dealers may be required to cooperate and provide information on calculation of investors' losses early in the enforcement process and/or at the distribution stage. Dealers may receive a credit for cooperation or lower sanctions if investor losses are adequately addressed through or outside of the Program.	<i>Minor negative</i> – Dealers may be required to cooperate and provide information on calculation of investors' losses early in the enforcement process and/or at the distribution stage. Dealers may receive a credit for cooperation or lower sanctions if investor losses are adequately addressed through or outside of the Program.	<i>Neutral</i> – With appropriate resources and information about the program, we anticipate administering most distributions in-house. In complex cases, we may consider an external distribution process, subject to assessing anticipated costs and funds available for a distribution.

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<i>The Administrator vs Office of the Investor</i>	The Office of the Investor will provide information to investors but will not be involved in the administration of the program. The program will be administered by the General Counsel's Office.	<i>Neutral</i> – We anticipate no impact on investors/clients as they will be guided to the program via CIRO's website and other resources, including the Office of the Investor.	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Net positive</i> – We propose to keep the role of the Office of the Investor neutral and separate from the administration of the program, which will be carried out by the General Counsel's Office. This separation of functions will ensure the effectiveness and accountability of the program.
<i>Internal Reconsideration</i>	Establishing an internal reconsideration process of the Administrator's determinations on distribution.	<i>Net positive</i> – Investors will have an opportunity to ask for a review of their eligibility if they disagree with the Administrator's determination.	<i>Neutral</i> - We anticipate no impact on investment dealers.	<i>Neutral</i> - We anticipate no impact on mutual fund dealers.	<i>Net positive</i> – CIRO will need to establish internal processes and set aside resources for an internal review. Making the internal review available will create a more robust program.