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Re: CIRO Proposed Integrated Fee Model

The Federation of Independent Dealers (FID, Federation) has been, since 1996, a dedicated voice for dealers. We currently represent firms with hundreds of billions in assets under administration and tens of thousands of licensed advisors that provide service to millions of Canadians. As such we have a keen interest in all that impacts the dealer community and its advisors.

We appreciate the opportunity to provide comments on the Proposed Integrated Fee Model put forward by the Canadian Investment Regulatory Organization's (CIRO). We support the initiative for a unified fee structure as it could potentially streamline operations and promote fairness between channels. However, we have particular concerns regarding the proposed \$250 fee per approved person.

As noted in the proposal, this fee will intentionally disproportionately impact MFD firms. MFD firms support advisors at a 2:1 rate over ID firms, moreso when compared to the other categories of firms which are contemplated to fall under CIROs oversight in the next phase of the SRO merger¹. MFD firms are the mass market financial advice channel in Canada.

Applying an equivalent AUA fee to high revenue earners and SME financial advice providers works towards the regulatory objective of protecting investors. It incentivizes firms to continue providing

¹ CSA Position Paper 25-404 - New Self-Regulatory Organization Framework (<https://www.osc.ca/en/securities-law/instruments-rules-policies/2/25-404/csa-position-paper-25-404-new-self-regulatory-organization-framework>)

Canadians with professional advisors and slows the ever-increasing regulatory costs for those that – by far – provide the most advice to the most Canadians.

We firmly believe that the proposed fee will limit onboarding and training opportunities, hindering the inclusion and development of new advisors in the industry, particularly those from rural and diverse communities. A reduction in new advisors joining the industry is not in the best interest of the investing public or the securities industry as an ecosystem.

This will result in reduced access to advisors, at a time when the population is expanding faster than ever before.²

The proposed fee of \$250 may seem insignificant when viewed in isolation. However, when considered in the context of the financial pressures that new advisors and dealerships often face, it can become a significant barrier. The cost of training and onboarding new advisors is already high, and this fee exacerbates it. New advisors require time to learn, build their client base, and slowly begin to generate revenue. Imposing an upfront fee could hinder the potential of advisors, particularly those within underrepresented communities and those with language challenges.

Diversity in the financial services industry is a clearly signalled regulatory goal and the per approved person fee will impact the diversity of the advisory workforce. A diverse workforce can serve specific communities, providing advice that is relevant and culturally sensitive. By potentially limiting the overall number of opportunities for new advisors, the proposed fee will undermine this goal.

We understand that CIRO is tasked with the challenging job of balancing the need for a sustainable revenue model with the need to support a vibrant securities industry. However, we believe that the proposed fee may tip this balance unfavourably. We recommend reconsidering this fee or choosing a revenue model that doesn't risk limiting opportunities for new advisors and reducing access to advice.

We note that this fee is not contemplated under competing regulatory umbrellas, further enlarging the cost/benefit difference of an insurance, exempt, or portfolio management license against one with CIRO oversight. As proposed the fee would also apply to licensed assistants and compliance department staff that have no books of business.

Challenges with the per approved person fee:

- Limits training and onboarding opportunities,
- Penalizes the smallest advisory businesses,
- Unfairly tilts the playing field to the disadvantage of MFD firms, the training firms in particular,

² Ontario's Long-Term Report on the Economy 2024 (<https://www.ontario.ca/document/ontarios-long-term-report-economy-2024/chapter-1-demographic-trends-and-projections-2024>)

- Reduces access to advice by pinching the flow of new entrants at the recruitment sources, those few firms making significant training expenditures are likely to reduce onboarding opportunities.

Federation recommendations:

- Graduate the fee for new entrants over two years and reduce the fee overall,
- Cap fees at either the revenue or per approved person extremes of the proposed model,
- Remove the fee for approved persons without books of business,
 - licensed assistants
 - compliance staff
 - some branch managers
- Reduce regulatory cost at every opportunity,
- Bring back the recently discarded 'Risk Premium' and/or 'Actual Compliance Usage' fees,
- Maintain a tiered revenue fee and implement a cap as a percentage of revenue,
- Do not implement the Normalization Factor,
- Index rather than increase application and business change fees this dramatically as it discourages new entrants and slows industry innovation and evolution.

The prior removal of the risk premium fee disproportionately advantages risk heavy firms, while negatively impacting the competitiveness of advisor-first firms that now must share the overhead, many of whom operate with lower risk profiles and lower revenue.

We emphasize that firms will target higher assets per advisor and will scale back new advisor training and onboarding opportunities. They will adjust business goals and targets to address the new costs represented both by the approved person fee and the 'normalization factor' fee.

We reject the proposed 'normalization factor' as it augments channel arbitrage at the same time as firms are launching dual-platform dealers. It is the definition of unfair to apply this fee strictly to one side of CIRO member firms. CIRO should address transfer pricing directly.

Under 3.2 Alternatives Considered, the proposal states:

"Fee based on Revenue only: We considered relying on a Revenue component alone, and not incorporating an Approved Person component. We found, however, that this would result in a shift of costs towards Dealer Members with larger revenues and fewer Approved Persons which would be disproportionate because CIRO regulates not just firms but individuals as well."³

³ CIRO Proposed Integrated Fee Model, '3.2 Alternatives considered' (https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#footnote8_uxez6f9)

We believe fostering advice distribution for the public is an extremely important consideration. CIRO protects investors by providing them with professional financial advice. Approved persons do not each consume equivalent amounts of compliance overhead; whether a representative has been in the industry for five months or twenty-five years, whether their book is five hundred thousand or fifty million and what securities they recommend count. The easy-to-administer should not overtake the best 'level playing field' outcome. If the fee is contemplated as 'flow through' CIRO should levy registrants directly.

"CIRO regulates individuals as well and not just firms."⁴

CIRO could propose a straight AUA fee with a percentage of revenue cap. If this results in an overall reduction in fee revenues, CIRO should constrain and focus its activities until it is able to sufficiently foster growth in the capital markets to support additional activities.

“Proportionality – A Dealer Member should pay fees proportionate to its usage or consumption of regulatory services provided and/or benefits received from being regulated by CIRO.

Practicality – Fees should be efficient and easy to administer.”⁵

⁴ CIRO Proposed Integrated Fee Model, '4. Alignment with guiding principles, Proportionality' (https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#footnote8_uwez6f9)

⁵CIRO Proposed Integrated Fee Model, 'Executive Summary' (https://www.ciro.ca/news-room/publications/proposed-integrated-fee-model#footnote8_uwez6f9)

We support CIRO and the goal of fee harmonization and remain excited to see the cost-reduction benefits of the SRO merger.⁶ The Federation holds reservations about the fairness and impact of the proposal. We believe this approved person fee in particular will limit onboarding and training opportunities for new advisors, particularly those from diverse communities, and will result in reduced advice for Canadians and poorer retirement outcomes. We urge CIRO to seek a solution that does not present these risks.

Best regards,

Matthew T. Latimer
Executive Director,
Federation of Independent Dealers

⁶ A. Consolidating IIROC and MFDA would save up to half a billion dollars and enhance investor protection (<https://www.ciro.ca/news-room/publications/consolidating-iiroc-and-mfda-would-save-half-billion-dollars-and-enhance-investor-protection>)

B. Deloitte Assessment of Benefits and Costs of SRO Consolidation Final EN ([https://www.ciro.ca/sites/default/files/leg-acy/2021-06/Deloitte Assessment of Benefits and Costs of SRO Consolidation Final EN.pdf](https://www.ciro.ca/sites/default/files/leg-acy/2021-06/Deloitte_Assessment_of_Benefits_and_Costs_of_SRO_Consolidation_Final_EN.pdf))

Appendix 'A'

CIRO Discussion questions

1. Does the proposed integrated fee model or any aspect thereof materially conflict with a guiding principle?
 - a. The proposed model specifically states it is adding an approved person fee to rebalance fees away from high revenue firms. This conflicts with the principle of Consistency.
 - b. The proposed model specifically states it is not adding the Normalization Factor to ID firms due to additional reporting being required. This conflicts with the principle of Consistency.
 - c. Proportionality. Having removed the equitable fee allocation models based upon risk and compliance consumption, this proposal seeks to spread those costs onto low-risk dealers.
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?
 - a. The proposed model appears to have reduced fees for dealers with higher assets/revenue per advisor.
3. Is the methodology easy to understand?
 - a. Yes.
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?
 - a. In the age of algorithms and artificial intelligence, we can absorb some complexity where needed to ensure a smooth fee curve. CIRO should be capable of tracking estimated and actual resource consumption.
5. Does the proposed integrated fee model create unreasonable barriers to entry or access to advice?
 - a. The proposed fee model places a cost in front of new entrant advisors. Advisors with one, two, or three clients in total. The model needs to discern between high consumption, high risk, low risk and non-client-facing approved persons.

6. Will the proposed integrated fee model continue to apply as the industry evolves and transforms?
 - a. The proposed integrated fee model will lead the industry to create the incentivized changes.
7. Are there other stakeholders that could unfairly benefit or be adversely impacted?
 - a. Crypto, OEO, and 'big tech' firms will benefit competitively. Firms not currently operating under the CIRO umbrella will continue to be advantaged and not share in oversight costs.