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Membership Services  
Canadian Investment Regulatory Organization  
40 Temperance Street, Suite 2600  
Toronto, Ontario M5H 0B4

Dear Sirs and Mesdames:

**RE: CIRO Consultation – Proposed Integrated Fee Model**

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on Canadian Investment Regulatory Organization (**CIRO**) Proposed Integrated Fee Model (**Consultation**).

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

As we have raised in our previous submissions within CIRO consultations, it is crucial that CIRO provide at least 90-day comment periods. This Consultation only provides 60 days. Not only the complexity of the Consultation justifies more time, it is also important to note that it was published simultaneously with the consultation of Phase 3 of the Rule Consolidation Project. We would like to reiterate that in the majority of cases, it is the same staff within industry firms who respond to CIRO consultations. Responding to two simultaneous consultations has proven to be an unreasonable burden. We therefore recommend that going forward, CIRO avoid simultaneous consultations and that comment periods be at least 90 days.

**GENERAL COMMENTS**

Overall, our members do not disagree with the proposed integrated fee model of calculating registrant fees based on revenue and the number of Approved Persons. Nevertheless, the industry is surprised that only a minority of registrants (36% based on paragraph 3.1.2 (b)) will likely experience a fee reduction and 64% will likely see a fee increase because of the increase in the minimum fee component and for reasons unrelated to the minimum fee component. As we outline below, there was a general expectation that the creation of CIRO would create synergies and cost savings at CIRO itself and lead to regulatory fee reductions, all things being equal. We therefore recommend some adjustments and ask for additional information to address some industry concerns.

Although the Consultation includes transparency as part of the guiding principles, as we outline below, we find that the Consultation lacks critical information. We understand that CIRO's cost recovery numbers and the associated fee model that is proposed in the Consultation must have been the subject of extensive modeling and simulations, the details of which are only known to CIRO. We therefore are making recommendations based on the limited information that we have, knowing that we cannot quantify their impact on the cost recovery for CIRO, the proportionality of fees between mutual fund dealers and investment dealers, and individual registrants. We cannot make final recommendations on how to adjust the fee model given that we do not have the detailed data and modeling to understand the impact of the recommendations set out herein. It is therefore imperative that if our recommendations are accepted, and before the fee model is finalized, we have the opportunity to see and assess the quantified impact on CIRO, followed by a second consultation. Generally, we further recommend that CIRO share its detailed data that

reflects the current proposed fee model, and any data that reflects subsequent iterations of the fee models and hold subsequent consultations for material changes.

We also recommend that in any future publication regarding the fee model, that CIRO provide clearer display of important information. For example, the Consultation divides mutual fund dealers and investment dealers into “Large firms”, “Medium-sized firms” and “Small firms”. Those categories are defined in a footnote. We believe those important definitions should be in the body of the text or in a definition section.

We have also come to the conclusion that we cannot comment on proportionality of fees between mutual fund dealers and investment dealers given that we do not have full details on the level of oversight that is required for each registration category or for the different business models within each registration category.

## LEVEL OF FEES

As mentioned above, we are of the opinion that all registrants should experience a fee reduction, all things being equal. Paragraph 3.1.2 (b) of the Consultation mentions the following:

*“(b) Under the proposed integrated fee model relative to the Interim Fee Model:*

- *36% of Dealer Members will likely see a fee decrease. The number of Dealer Members likely to experience a fee decrease is fairly evenly split between ID Members and MFD Members.*
- *40% of Dealer Members will likely see an increase in fees because of the increase in the minimum fee component.*
- *24% of Dealer Members will likely see an increase in fees that is unrelated to the minimum fee component.”*

On a number of occasions, during the consultation phase on the creation of CIRO, regulators stated that CIRO’s creation would lead, among other things, to increased efficiencies, synergies and avoidance of duplication which we reasonably expected would pertain to both registrants and a new single SRO. The fact that only 36% of registrants will experience a fee reduction under the proposed fee model, does not meet the intended objectives. We outline those statements below:

- In the Canadian Securities Administrators’ (CSA) Position Paper 25-404 – *New Self-Regulatory Organization Framework*<sup>1</sup>, the following was stated:

The introduction section includes the following:

*“Accordingly, the Working Group focused on identifying solutions that:*

*... 6. increase regulatory efficiencies, accommodate innovation, and deliver effective and efficient regulation by minimizing redundancies and complexities, and ensuring flexibility and responsiveness to the future needs of the evolving capital markets;”*

Under section 3 *New SRO Framework*:

*“ The proposed framework includes specific solutions to best achieve the CSA targeted outcomes identified in the Consultation Paper by:*

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<sup>1</sup> [https://www.osc.ca/sites/default/files/2021-10/csa\\_20210803\\_25-404\\_new-self-regulatory-organization-framework\\_linkup.pdf](https://www.osc.ca/sites/default/files/2021-10/csa_20210803_25-404_new-self-regulatory-organization-framework_linkup.pdf)

- *eliminating duplicative costs and minimizing regulatory inefficiencies; ...*"

Section 4 e), *Reducing Industry Costs*, states the following:

*" Review the current SRO fee models used to set fees paid by members, and take the steps below respecting New SRO fees:*

- *Ensure that fees in the New SRO are proportionate to registrants' activities and do not carry over any duplications currently experienced by dual platform dealers; ...*
- *More broadly, consider the impact of the New SRO on the profitability of smaller and independent dealers, both from the perspective of whether the new rules could have a detrimental impact on revenue earned and fees paid."*

- In a paper published by the then Investment Industry Regulatory Organization of Canada (IIROC) on June 20, 2020<sup>2</sup>, *Improving Self-Regulation for Canadians*, the following was stated:

*" We propose bringing together IIROC and the MFDA as divisions of a consolidated SRO as an important first step. Over the next decade, this step alone would save hundreds of millions of dollars by reducing duplicative red tape and regulatory burden—money that could be reinvested in innovation, customer service and economic growth across Canada.*

*It could be achieved without disrupting the existing rule framework, business models or regulatory fee structures."*

There was a general expectation within the industry that following the transition period, the efficiencies, avoidance of duplication and cost savings that were foreseen would also happen at CIRO and that those savings would be reflected in reduced fees for all members. This is even more relevant given that the industry has paid separate fees for the implementation of CIRO. Increasing industry fees is inconsistent with the cost savings that are to accrue to CIRO members through member efficiency realized through utilizing the dual registration option.

We would also like to note that the Consultation lacks critical information. Although we are thankful that the Consultation provides the background and reasoning behind the proposed fee model, it does not clarify whether overall fees for mutual fund dealers and investment dealers have increased or decreased and by what dollar amounts. Given that IIROC and the Mutual Fund Dealers Association of Canada (MFDA) were able to oversee the industry at a certain cost, it is important that CIRO disclose the aggregate cost of the most recent IIROC and MFDA costs and CIRO's cost of oversight going forward and justify any increases. It would also be helpful and appreciated if CIRO could provide visibility into the scale of any increase in fees by firm type, expressed both in dollars and percentages by firm type on current state and expected future state using the proposed model. This would be helpful for CIRO Dealer Members to better understand the fees allocated to the different types of firms.

Increasing regulatory costs for investment dealers and mutual fund dealers would ultimately raise costs for investors. This would counter the collective desired objective of increasing access to advice to Canadians. Both papers by IIROC and the CSA referenced above stress the importance of improving access to advice through the creation of CIRO. We therefore recommend that for the benefit of investors and market efficiencies, that CIRO achieve the expected cost effectiveness that was promised.

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<sup>2</sup> <https://www.iiroc.ca/media/13111/download?inline>

## ELEMENTS OF FEES

We recommend that CIRO review with its members the definition of both elements, revenue and Approved Persons for the purpose of fee calculation.

On the revenue component, for example, some firms' revenues include cost recovery items, interest income and foreign exchange gains which the industry believes should not be included as part of regulatory oversight fees. This principal is in place at other financial regulators in Canada. For example, the Ontario Securities Commission Capital Markets Participation Fee Calculation<sup>3</sup>, excludes "Revenue not attributable to capital markets activities".

For the Approved Persons component, our members believe that only client facing Approved Persons should be included in the calculation of fees and Approved Persons who work in compliance or branch management should be excluded.

As noted above, we cannot quantify the impacts of these measures on the cost recovery for CIRO and fees for members and cannot offer alternative solutions. We would therefore appreciate the opportunity to review any amendments to the Consultation before CIRO's fees are finalized.

## USAGE OF TIERS

The Consultation is not clear whether tiers will be used and for which category of registrants.

Section 2.1 i. (B) states the following:

*"There will be **seven (7) revenue tiers**. The stacked rate per tier will be determined based on the overall revenue distribution through the tiers and on CIRO's budgeted costs for the year. Upon implementation, one consistent rate will be applied to all the tiers. The tier structure is being maintained should the need arise to differentiate the rates."*

Our understanding is that one consistent rate is to be applied to all tiers. However, we have heard that more than one single rate is being applied to all tiers. As mentioned above, there's a lack of critical information in the Consultation, and some of the information provided on tiers is inconsistent. For example, some references include the concept of scale and others refer to complexity. We believe that the rate should be disclosed. If it is just one rate that is being applied, we would appreciate that CIRO provide more clarity, including data, on why this is the better option as opposed to tiered rates, and provide more information on how the level of oversight is related to the fees charged under the proposed model. This would be in line with the first guiding principle of proportionality.

Similarly, if future differentiated rates are being considered, the effected tiers and those rates should be disclosed and a public consultation should be held if material fee increases could result from the changes.

Also, in question 2 in the FAQs, on "How is the fee model changing for my firm?" for mutual fund dealers, there's no mention of seven tiered rates. Question 3, which asks the same question for investment dealers, mentions in the third bullet that "There will be 7 tiered rates.". Can CIRO please clarify whether the lack of reference to 7 tiered rates in FAQ Question 2 was an unintentional omission or whether in fact mutual fund dealers will not be subject to tiers.

We would also like to point out that the lack of clarity around the usage of tiered rates in the Consultation prevent dealers from making informed analyses. For example, a mutual fund dealer cannot evaluate the

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<sup>3</sup> [https://www.osc.ca/sites/default/files/2020-12/form\\_13-502F4\\_0.pdf](https://www.osc.ca/sites/default/files/2020-12/form_13-502F4_0.pdf)

fee difference for becoming a dual registrant, which is crucial information for business planning. There is also an overall lack of clarity regarding the fees applicable to dual registrants.

We have also heard that several dealers in Quebec have received different rates despite the general understanding that a single rate was used for all dealers' estimates. We don't know whether this was due to an administrative error in several isolated cases or a systemic issue.

## REGULATORY FEES IN QUEBEC

We appreciate the details that the Consultation provides on the fees that are applicable to mutual fund dealers that have operations in Quebec, both during the current transition period and for the final phase. We would like to emphasize, however, that there is great concern in the industry on a possible duplication of fees in Quebec in the final phase in at least two circumstances. Firstly, the Autorité des marchés financiers (AMF) should reduce its fees proportionally to reflect the oversight activities that it is delegating to CIRO. Secondly, CIRO should reduce its fees proportionally to the oversight activities of the Chambre de la sécurité financière (CSF). The current oversight fees in Quebec for mutual fund dealers are the sum of AMF fees plus the fees from the CSF. Given that CIRO fees will be added in the final phase, the feedback we have received from some of our members who have the totality or the majority of their activities in Quebec, is that their fees will increase significantly if these fee reductions don't occur. This would put dealers operating in Quebec at a competitive disadvantage, by taking away resources that could be invested in innovation, more efficiency and a better client experience.

We urge the AMF, CIRO and the CSF to work collaboratively to have a fee model for Quebec registrants that is equivalent to that of registrants elsewhere in Canada.

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## CONCLUSION

IFIC is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at [amitchell@ific.ca](mailto:amitchell@ific.ca). I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



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