Summary of Comments and Responses Relating to CSA Staff Notice and Request for Comment 25-304 - Application for Recognition of New Self-Regulatory Organization

Introduction

In response to the publication of the New SRO application for recognition, on May 12, 2022, submissions from 37 commenters were received.

The public comments demonstrated the continued overall support, from both industry stakeholders and investor advocates, for the New SRO framework adopted by the CSA as outlined in the CSA Position Paper 25-404 *New Self-Regulatory Organization Framework* (**CSA Position Paper**). In developing that framework, the CSA has aimed for the right balance between ensuring strong regulation, oversight and investor protection and avoiding unnecessary burden to the industry. The New SRO framework will provide for enhanced governance of the New SRO that prioritizes public interest and strengthened CSA oversight; at the same time, it will provide a strong industry voice through the New SRO Board of Directors (**New SRO Board**) and standing or advisory committees, and during consultations on policy initiatives.

The CSA and SROs (IIROC and the MFDA) thank all the stakeholders for participating and providing meaningful commentary, which is summarized and responded to below. Staff from the CSA, IIROC and the MFDA worked collaboratively to produce the summaries and responses, which are categorized by common themes for ease of reference.

This summary contains the following sections:

1. General comments
2. Enhancements to governance
3. CSA oversight
4. Investor compensation/enforcement program
5. Investor protection and complaint handling
6. Comments related to Québec harmonization
7. Phase 2 of the New SRO framework
8. Interim Rules
9. Fees and integration costs
10. New SRO Investor Advisory Panel
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1. General comments

Commenters were overall very supportive of the creation of the New SRO, with most commentors stating that the New SRO will enhance investor protection and public confidence.

A number of the commenters expressed some degree of dissatisfaction with the length of the comment period, indicating that:

- the commenter only had time to focus on a handful of high-level issues;
- the consultation period was not sufficient for the scope of the material; and

- the industry should be provided with a meaningful comment period on proposed the New SRO rules.

In determining the duration of the public comment period, the CSA considered the volume and complexity of materials, and the prior stakeholder consultations which informed the decisions made by the CSA. Such consultations included CSA Consultation Paper 25-402 *Consultation on the Self-Regulatory Organization Framework* and CSA Position Paper generating 67 and 31 comment letters, respectively, and the informal consultations which preceded those papers. Relying on these previous publications as benchmarks, the CSA determined that the comment period was a sufficient amount of time for the public to review and provide feedback on the materials that implement solutions from the CSA Position Paper. Additionally, in the near future, there will be opportunities to comment on the consolidated and harmonized rule book.

An industry stakeholder emphasized the main priority for implementation of the New SRO should be the allotment of reasonable and defined timelines that take into account potential operational impacts on the industry. All timelines related to the implementation of the New SRO will be given thorough consideration during the post-amalgamation phase of the process.

2. Enhancements to governance

General

Overall, the commenters were supportive of the proposed enhanced governance structure of the New SRO, which includes:

- emphasis on the New SRO's public interest mandate;
- majority of independent directors on the New SRO Board and independent Chair;
- clear definition of independent director;
- removal of the regulatory decision-making mandate from District Councils

An industry stakeholder commented that the New SRO mandate should be expanded to include capital growth, minimizing regulatory inefficiencies and proportionate regulation. In addition, the New SRO should be required to conduct and produce a meaningful needs analysis and cost benefit analysis for its proposed or amended rules, policies and guidance, and a reference to a needs analysis and cost benefit analysis should also be included in its mandate.

The CSA notes that the New SRO mandate was developed to reflect collectively the mandates of all provincial and territorial regulators. With respect to the capital growth, this requirement is not consistently mandated across Canada. As for the minimizing regulatory inefficiencies and proportionate regulation, the recognition criteria in the New SRO Recognition Order include such requirements. Regarding the cost benefit analysis, an economic impact analysis is required for rule amendments as per the Joint Rule Review Protocol (JRRP) in the MOU among the recognizing regulators regarding oversight of the New SRO (New SRO MOU).

New SRO Board composition, exchange representation

Some industry stakeholders expressed the view that better representation from the industry is required in order to ensure direct representation across business models and many types and sizes

of SRO member firms. At the same time, some investor advocates called for even more independent directors with no prior relationship with the financial services industry. Some expressed the preference for having all New SRO directors appointed by the CSA and the CSA having veto powers over all key appointments, including the Chair.

With respect to the number of directors on the New SRO Board, some industry commenters suggested that better flexibility should be allowed by setting a minimum and maximum number of Directors, instead of a fixed number of 15. One industry stakeholder submitted that the New SRO Board consisting of 15 directors is too large and the number between seven (7) and 11 would be more appropriate. It was noted that 15 directors would be more than the number of directors on the boards of large Canadian banks, which are no less complex than the New SRO.

The CSA is of the view that the composition of the New SRO Board, as established in May of 2022, strikes the appropriate balance between the industry's desire for meaningful participation in its self-regulation and the need for a strong independent New SRO Board enforcing the New SRO public interest mandate.

One commenter emphasized the importance of exchange representation at the New SRO and that the CSA should consider alternative avenues to allow the New SRO receive input from Canadian marketplaces, such as establishing a board advisory or standing committee that requires exchange representation and that reports to the New SRO Board. In addition, the New SRO Board should be composed with individuals who have strong marketplace skills and experience.

The CSA acknowledges the comments and understands that the New SRO's intention is to continue the Market Rules Advisory Committee (MRAC). MRAC has representation from all marketplaces for whom IIROC or New SRO is the Regulation Service Provider and that the mandate of MRAC provides for a standing Board member on MRAC – Chair of the New SRO Board (or another member of the New SRO Board designated by the Chair).

Definition of an independent director

An industry stakeholder noted that the meaning of Independent Director, outlined in the New SRO Recognition Order and By-law No. 1, should be expanded beyond the reference to individuals who have no material relationship with the Corporation or Member to include a requirement for individuals to have independence from securities regulators, federal or provincial agencies responsible for financial sector policy or consumer policy or regulation and securities related advocacy associations.

When developing the CSA Position Paper, the CSA considered whether the definition of independence should include the above-noted entities. It was eventually concluded that the main purpose of the independence requirements is to prevent regulatory capture. It is the CSA view that this will be achieved with the current definition of Independent Director.

One commenter recommended that the "material relationship" test in the definition of Independent Director should be objective, rather than a subjective test of what could be "reasonably expected" by the New SRO Board. In response to this comment, the language in the New SRO Recognition Order (i.e., sub-section 2(2) of Appendix A) is amended to ensure enhanced objectivity of the "material relationship" test.

With respect to the cooling-off period for Independent Directors, some industry stakeholders proposed to reduce it to 2 years (instead of 3 years), while another commenter suggested it should be subject to a reasonable person test. It is the CSA view that the 3-year period is reasonable as it is consistent with the requirements in the National Instrument 52-110 *Audit Committees* as was outlined in the CSA Position Paper. Moreover, the current definition of independence provides for a possibility of a longer cooling-off period if it is concluded that the nature or duration of an individual's relationship with a Member, its Associates, or its Affiliated Entities could be reasonably perceived to interfere with the exercise of that individual's independent judgment.

Skills matrix

Industry stakeholders proposed that the skills matrix for Directors should include member as well as public input. It was also noted that the CSA should be directly involved in the development of the skills matrix. Also, the matrix must include requirements for investor protection experience, specific skills for the Independent Directors (e.g., empirical research, behavioural finance, economics, consumer advocacy, dispute resolution, etc.) and at least one Director with professional financial advice credentials.

The initial skills matrix for Directors were developed by the Special Joint Committee, comprised of IIROC and MFDA board members and independent members, all appointed by the CSA, with an external consultant. The skills matrix will be further developed as required to meet the industry, investor and regulatory needs, and any changes to the skills matrix will be subject to the CSA non-objection process.

Remuneration of non-independent directors

One commenter recommended that non-independent directors be remunerated as well as it will motivate stronger engagement.

The SROs are not contemplating payment to non-independent directors and are of the view that issues related to director performance are more appropriately addressed through the director assessment process and in monitoring and enforcing compliance with the director code of conduct.

Board and governance committee mandates

One commenter made a number of governance recommendations related to the New SRO By-law No. 1. Most of these changes will be addressed in various New SRO governance mandates for example, conflicts of interest, board nomination processes and criteria, and Board committee governance will be set out in the New SRO Director Code of Conduct, Board Charter, Board Committee Mandates, and skills matrices for the President/CEO and Board of Directors. These documents are subject to the approval of the CSA and will be made public once they are in place.

This is a summary of the recommended changes to the New SRO By-law No. 1 made by the commenter (the SROs' responses are italicized):

- The definition of conflicts of interest should be expanded to include family members and affiliates of a Director, and additional guidance on the disclosure and management of conflicts of interest should be provided.

  The SROs have addressed conflicts of interest extensively in the Director Code of Conduct.

- There should be in-camera sessions of only Independent Directors at every regularly scheduled meeting of the Board.

  The Board Mandate for the New SRO addresses the issue of in camera meetings of directors and contemplates in camera sessions with independent directors where appropriate.

- There should be a position description for the CEO.

  A detailed position description for the role of President & CEO was employed in the search process for filling the position by the Special Joint Committee (SJC) and approved by the CSA.

- The Board and Board Committees should be empowered to retain Independent Advisors to advise them if or when needed.

  Agents and attorneys can be retained by either the Board or Board Committees as needed. This is generally done by engaging senior management.

- Executive Committees should be explicitly prohibited.

  The SROs do not anticipate that an Executive Committee of the Board will be struck.

- A Director should not be appointed to just any committee as not all Directors may have the competencies to serve on a particular committee.

  The Governance Committee conducts a careful review of the skills matrix for candidates in making its recommendations. Competencies are a critical factor in selecting committee appointments, as they are in selecting potential Board nominees.

- The Finance, Audit and Risk (**FAR**) Committee should report to the Board on the risk appetite framework for the New SRO. In addition, FAR committee members should have financial literacy or expertise requirements.

  The FAR Committee mandate includes the responsibility to review and approve the risk management framework, including risk appetite, risk tolerance and risk policy statements, and the guiding principles that underpin and support a risk-aware culture. The director skills matrix used for Board succession/recruitment speaks to the requirement for financial literacy for all directors, including those who are members of the FAR Committee.

- The Human Resources and Pension (**HR&P**) Committee should not establish officer compensation as this is a Board responsibility. In addition, the HR&P Committee should recommend to the Board, for its approval, the President & CEO's evaluation, succession and compensation.

While Officer compensation is largely the responsibility of management, compensation for the President & CEO is decided through an extensive review and approval process conducted by the HR&P Committee of the Board. The HR&P Committee mandate includes the performance evaluation of the President & CEO.

- Each of the Board Committees should not have the autonomy to regulate its procedure and make decisions including the ability to select its own members and chairs. They should review and make recommendations to the Board for approval.

  The SROs are of the view that Board Committees are in the best position to decide on appropriate procedures for themselves. The Board has the responsibility to appoint Committee members and Chairs of the Committees.

- There should be a diversity requirement for the Board. The word "diversity" is missing from By-law No. 1.

  Diversity requirements are an important factor in Board member selection and are set out in the Governance Committee mandate.

- The Terms of Reference for all of the Board Committees should be disclosed.

  As noted above, the mandates of the Board of Directors and all Board Committees, i.e. the terms of reference, will be made public once they are formally in place.

- There should be a regular assessment on the effectiveness of the Board, each Board Committee, and individual Directors, including independent assurance every three years, with external reporting on the process to provide assurance on effectiveness of the New SRO governance.

  The responsibility for the conduct of Board assessments is addressed in the Governance Committee mandate. The SROs anticipate that existing practices will continue i.e., using a third party to assist with the assessments.

- The Chair and Vice Chair of the Board should not be the member of a Committee ex officio.

  The SROs are of the view that such prohibitions against Board Committee membership are not required in light of the extensive oversight over the Board and the New SRO activities by the CSA.

- There should be a term limit of three years for the Chair of the Board.

  The term limit of Chair is governed by the term limit of the individual as a director of the New SRO.

The commenter also asked for clarification on the disclosure obligations of the New SRO compliance with By-law No. 1 and who has the responsibility for recommending to the Board the nomination of Directors.

The New SRO's compliance with By-law No. 1 and other obligations is monitored closely by the CSA through regular reporting and oversight activities. The CSA will publish an annual

oversight activities report of the New SRO. Also, the responsibility for recommending the nomination of Directors is set out in the Governance Committee mandate.

Governance committee

Industry commenters expressed concerns about the requirement in By-law No. 1 that the Governance Committee be comprised entirely of independent directors. The commenters stated that it would be useful to include industry members on the Governance Committee, in alignment with the actual composition of the New SRO Board.

The CSA will maintain a fully independent Governance Committee, and is not implementing changes to the New SRO Recognition Order and By-law No. 1 in this regard. The current IIROC Governance Committee is already required to be 100% independent. In addition, the proposal to have an all-independent Governance Committee was a recommendation in the CSA Position Paper, supported by the majority of stakeholders.

Comment related to the New SRO By-law No. 1

One commenter noted that in order to achieve a harmonious, pan-Canadian, self-regulatory framework, securities regulatory authorities and commissions should consider, rather than supersede the rights of Members and be subject to the New SRO's by-laws, and that the New SRO should not adopt subsection 18.1(2) of By-law No. 1.

The CSA disagrees with the statement that subsection 18.1(2) of By-law No. 1 should not be adopted as subsection 18.1(2) restates existing Canadian securities legislation that will continue to apply to the New SRO. It does not change the existing securities regulatory framework.

"Self" in Self-Regulation

Many industry commenters expressed concerns that the revised CSA governance and oversight approaches do not achieve the right proportion of industry self-regulatory authority, specifically citing a number of aspects of the New SRO framework:

- the CSA will have greater oversight over certain governance matters, such as business plans and exemptions from the New SRO rules
- changing the current decision-making role of IIROC District Councils to an advisory role
- requiring the New SRO Board to have a majority of independent directors

Considering the comments from industry and investor advocate stakeholders, the CSA is of the view that the New SRO framework achieves the right proportion of industry self-regulatory authority. As noted in the CSA Position Paper, the CSA intends to ensure the "self" in self-regulation is not lost. The changes related to governance and oversight (including requiring an independent New SRO Board) are necessary to appropriately reduce the risk of regulatory capture and enable the New SRO to appropriately carry out its public interest mandate.

The requirement to seek input from the CSA regarding business plans and a non-objection mechanism for approval of the New SRO Board exemptions came from the CSA Position Paper, which considered stakeholder views, including those of the SROs.

The CSA also disagrees with the statement that the repurposing of District Councils will substantially diminish the industry's self-regulatory role. As stated in the CSA Position Paper, changing the role of the District Councils is one of the solutions to support and promote the New SRO's public interest mandate and manage the risk of regulatory capture.

3. CSA oversight

General

Commenters were generally supportive of the need for enhanced CSA oversight of the New SRO, particularly given the broader mandate of the New SRO. That said, some commenters felt that these enhancements could adversely impact the New SRO's ability to function independently as a self-regulatory body. Some commenters acknowledged that any adverse impact could be mitigated by the CSA exercising those oversight enhancements in a judicious manner.

Suggestions from other commenters were largely consistent with current oversight practices, such as conducting annual risk assessments. However, some commenters questioned the effectiveness of a risk-based approach in assessing whether the New SRO continues to meet its public interest mandate. Some commenters also suggested the use of high-level oversight review objectives, such as delivering strong levels of investor protection, while others advocated for specific key performance indicators (KPIs) and discrete the New SRO Recognition Order provisions, such as mandating continuous improvement in the areas of regulatory effectiveness, efficiency and cycle times (productivity).

The CSA has determined that the oversight enhancements strike the right balance between self-regulation and investor protection, with regulating in the public interest being front and center in the New SRO mandate. Furthermore, regulating in the public interest remains at the forefront of all oversight activities conducted by the CSA. Lastly, the terms and conditions relating to the performance of the New SRO functions and the criteria for recognition regarding capacity to perform those functions in the New SRO Recognition Order address the matters related to the effectiveness and efficiency of the New SRO. New SRO will have extensive reporting requirements to its Board and other stakeholders, including benchmarking to a number of KPIs.

One commenter opined that seeking Commission input for the New SRO strategic and business plans and annual statement of priorities and budgets should be worded more strongly as to require the New SRO to use or consider that input. They also emphasized the need for these documents to mirror the CSA or Commission strategic plans and priorities. Lastly, this commenter also suggested a minimum frequency for independent third-party reviews of the New SRO, with the final report being made public.

The New SRO Recognition Order requirement to seek input from the Commission before finalizing the New SRO's strategic and business plans, annual statements of priorities and budgets codifies the existing CSA practice to review these documents in advance of publication. Consistent with these current practices, the CSA expects the New SRO to consider Commission input, and to engage in further discussions when necessary. Disagreement on critical matters will be escalated through the existing oversight structure.

The requirement to undergo a third-party review will be used sparingly, likely for instances where specialized skills are necessary or distance from any perceived conflicts is deemed appropriate. These reviews are not expected to take the place of recurrent oversight reviews, audits, etc. Consequently, it is inappropriate to mandate a minimum frequency for these reviews given their ad hoc nature. The results of any such review may form part of the Annual Report on Oversight Activities.

The New SRO rulemaking

A commenter noted that the appropriate use of guidance (i.e., guidance is not a mechanism for rule making) should be outlined explicitly as part of the New SRO Recognition Order. This commenter also suggested that the requirement to establish and maintain rules that ensure adequate proficiency and continuing education of Approved Persons be expanded to include ethical behaviour and conduct standards.

Significant guidance notices are currently, and will continue to be, reviewed by CSA oversight staff with a number of considerations in mind, including whether that guidance could constitute rulemaking.

Lastly, the criteria for recognition in the New SRO Recognition Order specify that rules must foster fair, equitable and ethical business standards and practices. The CSA has determined that this criteria, when read in conjunction with the requirement to develop rules which ensure adequate proficiency and continuing education, inherently include ethical behaviour and conduct standards for Approved Persons.

Commenters suggested that the JRRP in the New SRO MOU be amended to specify a comment period of 60-90 days, with the duration being relative to the complexity of the rule being proposed and the implementation period commensurate with the transition period necessary to adopt those changes. Commenters also expressed a desire for proportionate regulation, considering the scale, complexity and risks involved in the underlying rule and any costs associated with the implementation. This would include a pre and post-implementation cost-benefit analysis. One commenter recommended that all FAQs for rules be updated and re-published from time-to-time and also be subject to industry consultation. Further to this, the commenters suggested that any variation or exception to the JRRP itself be subject to public consultation.

Lastly, one commenter questioned whether it is appropriate that any recognizing regulator may withdraw from the New SRO MOU with 90-days written notice. They also articulated discomfort with the guiding principles using the word “strive” in reference to harmonious direction to the New SRO. This commenter also recommended that the New SRO Oversight Committee liaise with the Ombudsman for Banking Services and Investments (OBSI) when coordinating oversight activities.

Regarding the length of the comment period, the JRRP in the New SRO MOU does not preclude the New SRO from offering longer comment periods. Historically, the comment periods offered have been reflective of the complexity of the rule or extenuating circumstances, as was the case for the 120-day comment period for the Plain Language Rules and the 90-day comment periods during COVID.

The criteria for recognition in the New SRO Recognition Order require the New SRO to establish and maintain rules that are designed to be scalable and proportionate to different types and sizes of Dealer Member firms and their respective business models; and the JRRP in the New SRO MOU requires an economic impact analysis of proposed rule changes. The review of significant guidance, including FAQs updated as a result of a rule review, and consultations with OBSI are consistent with existing, and future, CSA practices. The CSA remains committed to providing harmonious direction in all areas of New SRO Oversight to the extent that is practicable and situationally applicable.

With respect to the amendments to the New SRO MOU, even though not formally required to do so, the individual members of the CSA have published existing SRO MOUs for comment, as was the case for the draft New SRO MOU and 2021 IIROC and MFDA MOUs. In rare cases where any JRRP requirements might be waived or varied at the request of the New SRO, it is the CSA expectation that appropriate disclosures will be provided by the New SRO in the public notices of rule implementation.

Finally, the ability of any recognizing regulator to withdraw from the MOU within 90 days of a written notice is an existing clause and a standard term for CSA MOUs.

The New SRO MOU non-objection process

Some commenters were of the view that the CSA's ability to non-object to the New SRO independent director nominations, CEO appointments, changes to the New SRO Board and CEO skills matrices, and exemptions to the SRO rules is overly prescriptive and unwarranted. These commenters also expressed concern that the non-objection process and criteria would limit the New SRO's decision-making autonomy and hinder its ability to enact its mandate. Conversely, one commenter questioned if the CSA should permit the New SRO to grant exemptions to rules that the CSA previously approved and urged the CSA to clarify its policy for the New SRO granting exemptions to rules.

The CSA has concluded that the non-objection process and corresponding criteria adequately balances the "self" in self-regulation while providing the CSA with a means to expeditiously oversee proposed changes in critical areas of governance and rule exemptions. This mechanism overall will result in more timely decisions than a formal approval process without compromising the ability of the CSA to intervene when necessary. Lastly, the non-objection process codifies existing powers of the CSA while also offering a more timely resolution process than current practices would.

Investor perspective on CSA Oversight of the New SRO

One commenter recommended that investors should have a means to provide input respecting the New SRO Oversight Program and that the Chairs Report be made publicly available to assist in that process. They also suggested that the New SRO Recognition Order stipulate that an annual or bi-annual investor satisfaction survey be utilized to obtain insights on public perception of the New SRO.

The CSA notes that the Annual Report on Oversight Activities of the New SRO will publicly disclose, where appropriate, relevant content that previously formed part of the Chairs Report.

Neither the New SRO Recognition Order nor MOU preclude the New SRO from conducting investor satisfaction surveys. The CSA may consult with investors, through investor advisory panels, respecting the New SRO Oversight Program when necessary.

4. Investor compensation/enforcement program

Investor advocates want the New SRO's public interest mandate to prioritize investor compensation and to ensure the New SRO has the authority to collect monetary sanctions and direct those funds back to harmed investors. Commenters offered suggestions for the process of determining the dollar amount of sanctions to be administered.

The CSA acknowledges that the issue of investor compensation is very important to investor advocacy groups. There are a number of ongoing projects that are addressing several issues raised – e.g., IIROC's disgorgement project which reviews and recommends how disgorged funds collected through disciplinary proceedings may be returned to harmed investors, IIROC's arbitration program and the CSA OBSI project. Compensation authority will be considered as to not interfere with organizations dedicated to this function (e.g., OBSI).

One commentor thought a specific amendment was needed in s.11(c) of Schedule 1 - Disciplinary Matters. They suggested that any sanction imposed be consistent with the June 2015 paper by the International Organization of Securities Commissions (IOSCO) titled Credible Deterrence in the Enforcement of Securities Regulation. The CSA believes that the proposed language might be too prescriptive and have potentially limiting effect on the outcomes.

There was a comment that the New SRO Recognition Order should contain a requirement for the New SRO to refer all cases of illegal activity and suspected fraud to law enforcement. As per the RO, the New SRO will be required to cooperate with law enforcement authorities and report to CSA any breaches of securities law. The CSA/SRO Enforcement Protocol addresses referrals from the SROs to "provincial securities commissions, other domestic or foreign regulators/agencies and police."

5. Investor protection and complaint handling

One commenter noted that changes should be made to the New SRO framework to enhance investor protection by going beyond the principle in the New SRO Recognition Order about "protecting investors from unfair, improper, or fraudulent practices by its Members". Specifically, the commenter recommended that there be an obligation imposed by the New SRO on its Members to ensure that registered representatives are provided with support, education/training and supervision in order to enhance investor protection. The CSA does not think that further changes to the New SRO Recognition Order are required. These elements are captured by the overall framework (including s. 10(1) of Schedule 1 of the New SRO Recognition Order and s. 11.1 of NI 31-103).

The commenter also provided a number of other revisions to the New SRO framework to generally expand investor protection. Although we appreciate the commentary, the CSA generally did not make changes to the framework in response to these comments. The CSA believes that the outcomes of these suggestions were covered in other areas of the framework, were recently addressed in rule changes, or were out of scope of the CSA Position Paper.

Another commenter noted that it would be important to clearly state the general duty of member firms and their managers and representatives to act with loyalty and diligence in the best interest of their clients. The CSA notes that firms and their representatives are currently, and will continue to be subject to a high standard of care under securities legislation through their obligations to deal fairly with clients and to address conflicts in the best interest of clients.

Two investor-advocate commenters suggested an increased focus on investor protection through an enhanced complaint handling process. One commenter suggested that a requirement be added to establish a modern, effective Dealer client-complaint handling system into Schedule 1 of the New SRO Recognition Order based upon a root cause analysis methodology, and that any changes to complaint handling rules should be subject to public consultation and formal CSA approval. Both commenters suggested that the New SRO Recognition Order set out core principles for a robust complaint handling and resolution process in the regulatory framework. In response to this comment, the New SRO Recognition Order was revised to enhance the core principle relating to complaint handling (see subsection 1(1) Public interest guiding principles in Schedule 1 of the New SRO Recognition Order).

One of the investor-advocate commenters also suggested that the New SRO framework be amended to include the development of a working relationship with OBSI with the goal of improving rules, processes and products, and preventing the recurrence of harmful systemic issues. The commenter also suggested that the New SRO should not have a duty to nominate OBSI directors as they should not represent entities or groups, instead relying on a skills matrix. The CSA notes that other CSA groups conduct ongoing work in this area and that the CSA intends to consider the role, responsibilities and relationship between the New SRO and OBSI.

6. Comments related to Québec harmonization

General

Many commenters welcomed and underlined the benefits of the amalgamation of the two SROs. Commenters from Québec also expressed a wish for harmonization of applicable rules, policies, and processes throughout Canada.

The CSA has taken into consideration the importance of harmonizing applicable rules, policies, and processes, to the extent possible. The AMF also notes that according to its proposed transition plan for mutual fund dealers (MFDs) in Québec, starting with the permanent phase, Québec MFDs will be subject to the same oversight as MFDs in the other Canadian jurisdictions, while also taking into account features that are specific to the framework applicable to the mutual fund sector in Québec.

Generally speaking, improvements associated with the New SRO will be available in all jurisdictions, subject to any local legislative or regulatory requirements.

Please refer to the sections below for the responses regarding specific concerns related to harmonization.

AMF powers delegated to the New SRO

One commenter mentioned that AMF powers being delegated to the New SRO will only be beneficial if the New SRO's services and professionalism is of the same level or of a greater level than the ones provided by the AMF.

The AMF acknowledges the comment.

Creation of the Québec district

Many commenters welcomed the creation of the Québec district and the decision by the AMF to recognize the New SRO. One commenter said that the Québec district should be harmonized with the functionality of the New SRO. More specifically, current mechanisms regarding qualifications, approvals and supervision should be maintained.

The AMF agrees with the comment. Québec-specific Condition 21 of the New SRO Recognition Order will ensure appropriate harmonization of the Québec district operations with operations conducted elsewhere in Canada.

Language

One commenter said that the services offered in French should be equivalent of those offered in English and that the President/CEO should be bilingual, or at least able to communicate in French.

The New SRO will be a bilingual organization operating in all provinces, including Québec. Accordingly, all official communication of the New SRO to the public will be in both French and English. Moreover, Condition 21 of the New SRO Recognition Order will ensure that the Québec district shall offer its members and the investing public all necessary services in French, and that the quality of said services will be equivalent to the services offered in English in other offices of the New SRO.

Role of the Chambre de la sécurité financière ("CSF")

Many comments were received with regards to the role of the CSF within the new regulatory framework. Some commenters requested that its role be reviewed, or else it would prevent Québec investors and registrants from benefiting from the amalgamation of the two existing SROs and would increase the differences that exist between the oversight of mutual fund dealers ("MFDs") in Québec and elsewhere in Canada.

Some commenters suggested that the oversight of MFDs' representatives should be withdrawn from the responsibilities of the CSF and repatriated under the New SRO, which should be recognized by the AMF as the sole regulatory authority responsible for the oversight of MFDs and their approved persons in Québec. Commenters recognized, however, that a legislative amendment would be required to withdraw the CSF's disciplinary powers over MFDs representatives operating in Québec.

Commenters also suggested that if the CSF remains in the regulatory framework, there must be no duplication of activities and responsibilities between the New SRO and the CSF, and that harmonization and simplification (including in the complaints handling process) be achieved in Québec as well as other provinces. Exemplary collaboration and close relationship between the

AMF, the New SRO and the CSF was mentioned to be very important to avoid duplication of work and overlap.

The AMF agrees with the comments received regarding the importance of ensuring that there is no duplication of activities and responsibilities. As indicated by the AMF in its local consultation on regulatory amendments to *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations* relating to the transition for Québec MFDs to the New SRO, the AMF's transition plan for Québec MFDs to the New SRO provides that their dealing representatives will remain members of the CSF in keeping with legal requirements, which will remain in place after the transition phase. As those legal requirements are set out by the *Act respecting the distribution of financial products and services*, CQLR, c. D-9.2, any modifications would require legislative amendments.

Furthermore, the AMF, the CSF and the New SRO will coordinate their efforts and actions to enforce the regulatory provisions, including through a cooperation agreement which will be established between all three organizations to avoid any overlap of their regulatory activities.

Fees and costs related comments

Numerous commenters raised concerns about possible additional costs resulting from the duplication of regulatory organizations in Québec. Commenters mentioned that MFDs having activities in Québec should not have to pay for the overlap of services offered by the New SRO and the CSF. Commenters suggested that no additional regulatory fees should be imposed to Québec's financial industry stakeholders and that cost should be similar to those paid by MFDs of the same size in other provinces. One commenter suggested that the membership fees of the New SRO be reduced to account for activities performed by the CSF. Finally, another commenter suggested that Québec MFDs could make one annual payment to the New SRO, using the same formula that will apply to MFDs outside Québec. The New SRO could then share a part of its revenue to the CSF, proportionate to the services provided by the latter.

The AMF agrees with the comments received regarding the importance of avoiding any duplication of fees and overlap of services and understand the concerns that were raised. To minimize or avoid fee impacts of duplicative structures during the transition phase in Québec, Condition 21 of the New SRO Recognition Order stipulates that the New SRO shall ensure that MFDs registered in Québec pay a reduced and proportional fee to the services offered to them. As mentioned above, a cooperation agreement between the AMF, the CSF and the New SRO will be established to avoid any overlap of regulatory activities between the different organizations, which will also help ensure an efficient use of resources.

Examinations and information sharing agreements

Commenters mentioned that robust cooperation agreements and information sharing agreements should be established between the different regulatory organization in Québec to avoid duplication, notably of regulatory enquiries. One commenter also expressed interest in obtaining additional information regarding the nature and form of the planned cooperation agreement between these organizations.

Some commenters are of the opinion that, during the transitional period in Québec, compliance examinations should be conducted jointly by the New SRO and the AMF, and that a single report should be issued. One commenter also said that it is essential for these organizations to establish a rigorous mechanism for inspection and investigation that is both reciprocal and automatic.

One commenter requested additional information with regards to the conduct of examinations during the transition phase.

The AMF agrees with the comments received regarding the importance of cooperation and information sharing between regulatory organizations. As mentioned above, a cooperation agreement between the AMF, the CSF and the New SRO is currently being negotiated. Examinations and how they will be conducted by the different organizations will be covered by this agreement to avoid any overlap in their regulatory activities. As part of the permanent phase which will be established following the conclusion of the transition phase in Québec, the AMF expects that mutual fund dealer oversight will be conducted primarily by the New SRO.

Rules

One commenter said it would be advisable for a single harmonized rulebook to be applicable in all jurisdictions, including Québec. This commenter also suggested the CSA to consider allowing national firms to elect to have mutual fund dealers be subject to the New SRO Interim Rules for their activities in Québec, and ultimately, a harmonized set of rules. Finally, another commenter also expressed interest in obtaining additional information on efforts and actions to draft and implement regulatory rules in this sector.

Please refer to "Harmonization/Consolidation of Rule Books" in section 8. Interim Rules below.

The AMF believes that a transition phase will be necessary for Québec MFDs to have sufficient time to make the necessary changes to their systems following the adoption of the New SRO's harmonized rule book, as presented in the AMF's proposed transition plan for Québec MFDs, published on May 12, 2022. The AMF also expects that, as part of the permanent phase which will be established following the conclusion of the transition phase in Québec, the New SRO rules would be applicable to mutual fund dealer activities in Québec.

The AMF plans to provide additional details and make publicly available the cooperation agreement between the AMF, the New SRO and the CSF.

Transition period

Concerning the local amendments to Regulation 31-103 in Québec published for consultation by the AMF on May 12, 2022, commenters said that the proposed one-year transition period for the permanent phase following the implementation date of the New SRO's harmonized rule book would not be sufficient. One commenter suggested that a minimum of 18 months, and ideally 24 months, would be required to review all its policies and procedures, and make any necessary changes. Commenters are also of the view that a staggered implementation of new requirements should be considered and suggested a phased-in approach based on the complexity of the rules, from which MFDs in Québec which were not previously supervised by an SRO would especially benefit from.

Another commenter underlined the importance of establishing a clear timeline concerning the entry into force of the permanent phase.

The AMF agrees with the importance of establishing a clear timeline for the permanent phase and will consider comments received regarding the length of the transition period for the permanent phase. Please refer to the AMF's response to comments which will be provided pursuant to the AMF's May 12, 2022 consultation on local amendments to Regulation 31-103 in Québec.

Continuing education requirements

One commenter said that it would be advisable to not exempt mutual fund dealers in Québec from the continuing education requirements of the New SRO that are applicable to persons (e.g., directors, senior managers, branch managers, supervisors, etc.), other than representatives, working for such dealers.

Dealer Members of the New SRO registered as mutual fund dealers will continue to be exempted from the New SRO's continuing education requirements for their activities in Québec, considering that the CSF is responsible by law for regulating the continuing education of mutual fund dealing representatives in Québec.

The AMF will refer this comment to the CSF and consider whether the scope of this exemption should be revised as part of a future policy project.

Please also refer to "Continuing Education" in section 8. Interim Rules below.

Complaint handling

With regards to the complaint processing and dispute resolution framework applicable in Québec, many commenters supported a harmonized, pan-Canadian approach, as they are of the view that separate processes would add unnecessary complexity and lead to possible confusion. Some specifically mention that this framework should not apply to them, asserting that a single complaint process for all registered firms in Canada would allow for better complaint management for the New SRO with regards to all registered firms and provide a better transition for the final implementation of the New SRO.

The AMF acknowledges the comment. In Condition 21 of the New SRO Recognition Order, the New SRO acknowledges that the AMF has established a specific framework for processing complaints and resolving disputes. The AMF published a draft regulation on complaint processing and dispute resolution for comments in 2021. The draft regulation is intended to harmonize and strengthen the fair processing of complaints in Québec's financial sector and is complementary to specific obligations imposed by the *Securities Act,* CQLR, c. V-1.1 and the *Derivatives Act*, CQLR, c. I-14.01 on complaint processing and dispute resolution that Quebec registered firms are required to comply with. The AMF takes note of the concerns expressed by Québec registered firms as it pursues its work on its proposed complaint processing and dispute resolution regulatory framework, keeping in mind its commitment towards minimizing the compliance burden that Quebec registered firms are subject to and facilitating their transition to a new SRO.

As for the complaints that may be investigated by the AMF, the CSF or the New SRO, they will be governed by a cooperation agreement which will be established between the three organizations that will coordinate their respective complaint handling processes. This cooperation agreement is currently being negotiated.

Protection of Québec investors

One commenter is unsure as to how the new framework will provide greater protection to consumers in Québec. On the other hand, another commenter believes that the protections necessary to ensure Québec investors continue to thrive are well accounted for in the Québec requirements.

The AMF believes that investors will largely benefit from the amalgamation of the SROs. The amalgamation will allow investors to have an easier and more cost-effective access to a broader range of investment products.

One of the key features of the New SRO will be enhanced governance. The New SRO will, by design, clearly convey how the public interest informs the New SRO's regulatory actions and responsibilities and emphasize the public interest mandate in constating documents. A majority of the New SRO Board members, and its Chair, will be independent and nomination of each independent director will be subject to the CSA non-objection process. The New SRO will also seek CSA input on its annual priorities, business plan and budget, and provide to the CSA for review documents that could have a significant impact prior to publication.

The AMF also notes that a separate investor office within the New SRO will be established to support rule development and provide investor education or outreach with the goal of improving investor protection. The New SRO will also have an investor advisory panel to provide independent research or input on regulatory and/or public interest matters. The New SRO Board will be required to meet with the Investor Advisory Panel at least twice a year.

The AMF also notes that condition 21 of the New SRO Recognition Order, provides that any decisions that may have an impact on Dealer Members, Market Members and Approved Persons of Québec must be made principally by persons residing in Québec.

Therefore, the AMF is confident this new framework will increase investor education, protection and instill public confidence, while ensuring that Québec investors' interests are protected.

7. Phase 2 of the New SRO framework

The CSA appreciates comments from industry participants regarding the Phase 2 considerations and recognizes the desire for the CSA to establish a formal timeline for the Phase 2 rollout. However, Phase 2 considerations and timelines will only be addressed following close of the amalgamation and after the New SRO has been in operation for a period of time. Phase 2 will have its own analysis and consultation process before any decision is made on these considerations, including whether to expand the New SRO's mandate to include other registration categories.

The CSA is mindful that some industry participants would like to see a higher priority given to possible harmonization between securities and insurance regulation through the Joint Forum of

Financial Market Regulators in appropriate situations, as contemplated in the CSA Position Paper. However, this is not a pre-close priority. Prioritization of tasks will be driven by their significance to the public interest and amalgamation requirements.

8. Interim Rules[1]

Conduct and Practices Handbook (CPH) requirement for mutual fund representatives at dual-registered firms

The most widespread comments received pertained to the proposal in the Interim Rules to require representatives of dual-registered firms dealing in mutual funds only to complete the CPH. Many felt that mutual fund only registered representatives moving to a dual-registered dealer should not be subject to any additional proficiency requirements in order to continue to sell mutual funds only, and that the cost and time burden to complete the CPH requirement would be a significant obstacle to firms who wished to quickly unlock the benefits of becoming dual-registered. There were also comments received on the appropriateness of the CPH requirement as it includes content that was not perceived to have application for MFDA representatives.

While the SROs still believe that all client-facing Approved Persons should be subject to enhanced ethics requirements, we agree that is not essential to pursue the CPH requirement at this time. The Interim Rules have been revised to remove the requirement for individuals to complete the CPH to be approved in the "*Registered Representative* dealing in mutual funds only who is an *employee* of a firm registered as both an investment dealer and a mutual fund dealer". The result of this change is that the individual proficiency requirements for mutual-funds-only licensed individuals employed by a dual-registered firm will be the same as those for mutual-funds-only licensed individuals employed by a mutual fund dealer.

Ethics requirements will be considered as part of the New SRO's work to consolidate the rules applicable to investment dealers and mutual fund dealers, which will take place after the Amalgamation.

Rules applicable to dual-registered firms

There were comments received on the rules applicable to dual registered firms and their employees and approved persons. In the FAQs published in May 2022, we noted that dual registered firms would be required to comply with the New SRO investment dealer and partially consolidated rules, and the New SRO mutual fund dealer rules where there is "no corresponding requirement" in the New SRO investment dealer and partially consolidated rules. Many requested clarification on what "no corresponding requirement" means.

The SROs' intention is that the only circumstance under which mutual fund dealer rules must be followed is where there is no investment dealer rule addressing the same subject matter. In instances where there are both investment dealer and mutual fund dealer rules addressing the

[1] Interim Rules refer to the New SRO rules that will be adopted on establishment of the New SRO (i.e. on the amalgamation of the MFDA and IIROC). The Interim Rules will be comprised of the Investment Dealer and Partially Consolidated Rules, the Universal Market Integrity Rules, and the Mutual Fund Dealer Rules.

same subject matter, the investment dealer rule is to be complied with. Detailed examples have been provided in the FAQs on the Interim Rules.

Client account repapering requirements and new account documentation

There were concerns raised by MFDA and IIROC members on the potential requirement to execute new account agreements and documentation where a mutual fund dealer affiliate or investment dealer affiliate wishes to move client accounts to a dual-registered firm. Many recommended that there be rule amendments to permit such a movement of client accounts without re-papering the client accounts where products and services to be offered to the client and the know your client information collection and assessment processes at the dual-registered firm are materially the same as at the affiliate.

The SRO rules require that new account documentation be obtained when an account is opened, including when an account is moved from one legal entity to another. However, the intention of introducing the dual registered firm approach is to permit firms to carry on the same activities within one legal entity that they could otherwise carry out within two legal entities. The SROs agree with the comments and accordingly, have introduced a provision within the Interim Rules to facilitate the timely movement of accounts between Affiliated Firms (including situations where accounts are being moved to a dual-registered Affiliated Firm) without requiring the completion of new account documentation, provided:

- the account, products and services to be made available to the client
- the know-your-client information collected,
- the approach used to assess the information collected, and
- fees applicable to the account,

at the new affiliated registered firm are materially the same as at the current firm, and the existing account agreement has an acceptable assignment clause[2].

Dual registered firm application process

There were many comments received asking for additional details about the dual-registration application process, the fees and approval timelines. There were a number of requests to simplify and streamline the process to ensure it will not be burdensome. Many also expressed concerns about potential administrative burden with having to re-register individuals under the proposed new category of "Registered Representative dealing in mutual funds only who is an employee of a firm registered as both an investment dealer and mutual fund dealer" on the National Registration Database (NRD).

The SROs have provided some guidance in the FAQs on the process, fees and timelines to become dual-registered. The CSA and SROs are developing a procedural guide to assist firms with this process which we intend to publish as quickly as possible.

[2] Note that a written explanation of the proposal to the client may be required under s. 14.11 of NI 31-103.

The timing to approve such requests would depend on a number of factors including the complexity of the changes being undertaken by the firm.

The SROs have also decided to:

- amend the New SRO Interim Rules to specifically permit the continuance of directed commission arrangements for those individuals that are currently permitted to do so
- make available rule exemptive relief for firm-specific matters which prevent the mutual funds division of a dual registered firm from complying with the same requirements as would otherwise apply if the business was conducted in a separate mutual fund dealer. For example, there may be existing custodial or service arrangements that are acceptable under the Mutual Fund Dealer Rules that are not acceptable under the Investment Dealer and Partially Consolidated Rules there may be a need to accommodate these arrangements through the granting of exemptive relief.

Directed commissions harmonization

There were many comments received related to directed commissions.

1. There was support for the proposal to continue to allow MFDA registered advisors to direct commissions to a corporation within the jurisdictions that permit it. However, many commenters felt that this opportunity should also be extended to registered representatives at investment dealers.

   The CSA Directed Commissions Working Group has been analyzing directed commission arrangements and because the work is still in progress, proposals to expand the permitted use of directed commission arrangements or similar proposals (i.e., incorporated salesperson arrangements) have not been pursued within the proposed the New SRO Interim Rules. Post-Amalgamation, the New SRO will commit to prioritizing the development of a harmonized approach for members of New SRO.

2. There were concerns raised that the New SRO's Investment Dealer and Partially Consolidated Rules would not allow directed commissions by registered representatives dealing in mutual funds at dual-registered firms.

   To address this, the SROs have introduced a provision within the Interim Rules to permit mutual-funds-only registered individuals, acting as agents on behalf of a dual registered firm, to be able to direct commissions to an unregistered corporation, where permitted by local securities legislation, provided they are not in the process of upgrading their proficiencies to those of a securities licensed individual[3].

3. There were questions asked about whether the AMF would permit directed commissions for Quebec MFDs.

[3] Directed commissions will continue for mutual fund dealing representatives, where currently permitted.

The AMF notes that section 160.1.1 of the Québec *Securities Act*, which allows mutual fund dealers to share a commission only with certain registered persons, can only be modified through the legislative process.

The AMF is participating in the CSA working group formed to analyze directed commission arrangements. See Directed commission harmonization #1 above for more details on this subject and regarding incorporation of representatives.

Introducing broker / carrying broker arrangements

There was general support for the proposal to permit mutual fund dealers to introduce business to investment dealers as it will make it easier for mutual fund dealers to offer ETFs to their retail clients.

1. There were many requests for further clarification and certainty as to the circumstances under which a mutual fund dealer can introduce business to an investment dealer carrying broker without being subject to investment dealer rules. Specifically, commenters found the proposal to allow a mutual fund dealer to continue to be only subject to mutual fund dealer rules where they introduced an "insignificant portion" of their business to an investment dealer, confusing.

   To address this confusion, the Interim Rules have been revised to remove the "insignificant portion" and "significant portion" requirements in order to generally permit:

   - a mutual fund dealer introducing broker to comply with mutual fund dealer rules, and
   - an investment dealer carrying broker[4] to comply with investment dealer rules,

   under an introduction arrangement that is entered into between a mutual fund dealer and an investment dealer. The only exception to these general rule compliance requirements is where, for a particular activity, compliance by one introduction arrangement party to one set of Interim Rule requirements[5] interferes with the ability of the other arrangement party to comply with a different set of Interim Rule requirements[6] – in this case, both parties must seek exemptive relief from the New SRO that specifies the manner in which the activity must be performed and the rule requirements that apply.

   It is important to note that the proposals to permit a mutual fund dealer to introduce to an investment dealer do not take away the current option for a mutual fund dealer to use an omnibus account at an investment dealer.

2. There were a few comments asking why investment dealers were not permitted to introduce business to mutual fund dealers.

[4] Under the revised requirements, either an investment dealer or a dual-registered firm would be permitted to offer carrying broker services to a mutual fund dealer
[5] Such as the mutual fund dealer introducing broker complying with mutual fund dealer rule requirements for a particular activity
[6] Such as the investment dealer carrying broker complying with investment dealer rule requirements for a particular activity

This was not pursued as a near-term rule amendment because allowing investment dealers to introduce to mutual fund dealers would not have expanded the products to which investment dealer clients would have access. Further amendments to the introducing broker / carrying broker arrangements, including permissible arrangements between investment dealers and mutual fund dealers, will be explored as part of the rule consolidation work that the New SRO will carry out post-amalgamation.

Harmonization/Consolidation of Rule Books

Many comments showed general support of the New SRO-Interim Rules and that no additional requirements were being proposed in the interim. Some felt that the Interim Rules should consider more harmonization than what was proposed. There were also questions about the timing, the regulatory objectives, and process of developing the consolidated rulebook.

The focus of the SROs on developing the New SRO Interim Rules was to not create significant disruptions to the operations of investment dealers and mutual fund dealers. The consolidated rules need to be carefully considered in order to benefit clients and appropriately address the unique business models employed by investment dealers and mutual fund dealers. The principles that will guide the development of consolidated rules will be to find convergence on a risk-based and consistently applied approach to principles-based rules, compliance and enforcement. There will need to be a necessary period of time for the New SRO staff to develop and implement these consolidated rules. A consolidated rules plan is being developed and regular updates will be provided on this plan and our progress in carrying it out.

Membership disclosure

Many commenters asked about the name of the New SRO and expressed concerns about the complexity and cost for dealers to change references to IIROC, MFDA, CIPF and MFDA IPC to the names of the organizations as each new name is finalized. There were recommendations to the SROs to allow for a reasonable transition period to permit documentation amendments to reflect these new names.

The SROs have made revisions to the Interim Rule requirements relating to SRO and IPF membership disclosure to include the option that the existing disclosure requirements may remain unchanged for a period after the New SRO commences operations. The inclusion of this optionality within the rules will provide the New SRO and New IPF the flexibility to be able to implement the name for the New SRO and New IPF on a date after the commencement date of each organization and to allow for a sufficient Member implementation period.

The New SRO Regional Councils and National Council

We received many comments from members of the industry asking about the role of Regional Councils and requesting that the advisory mandate for Regional Councils be formulated through further member consultation. There were also comments recommending that the National Council have formal standing before the Board.

New SRO will be reviewing all existing advisory committees in consultation with members. New SRO will consult with the Dealer community, including current District Councils'/Regional

Councils' and Advisory Committees' members on the role of new Regional Councils and National Council in New SRO. While the Regional Councils and National Council will have an advisory role, their specific responsibilities will be considered in the context of the new SRO, reflecting regional diversity and industry representation as well as a larger eco-system of the New SRO advisory committees. In addition, similar to IIROC's National Advisory Council today, the new SRO National Council will meet with the New SRO Board on a regular basis.

District Hearing Committees

There were comments recommending that there be additional consultation on the Appointments Committee which will be evaluating members to be appointed to the District Hearing Committees.

The qualification requirements to be considered by the Appointments Committee on appointment of panel members to the District Hearing Committees have been set out in the Investment Dealer and Partially Consolidated Rule 8305 and the MFDA Dealer Member Rule 7, which closely mirror the current requirements set out in IIROC Rule 8305. The Appointments Committee will also establish and periodically review a list of qualifications and other nomination and appointment criteria for the District Hearing Committees.

Continuing Education (CE)

Most comments agreed with the proposal that the New SRO maintain both CE programs for the time being but requested that harmonization be implemented quickly. There were widespread concerns about inefficiencies from having two different CE cycles, due to the differences in tracking and reporting requirements, and in the confusion and discrepancies for advisors moving between MFDA and IIROC firms. In addition, some commented that, unlike the MFDA's CE program, IIROC's CE Program does not mandate that CE courses be accredited and recommended that the New SRO require CE courses to be accredited.

The MFDA CE program was designed to be materially harmonized with the CSF program in Quebec as there are a significant number of individuals subject to both regimes. The New SRO will be seeking to harmonize CE programs of MFDA, IIROC and the CSF for the next CE cycle. We will take all of these comments into consideration as we develop consolidated rules for the New SRO.

Other changes to rules

We received comments and clarifications about other rule changes:

- SROs were asked by some commenters to consider amending the mutual fund dealer rules (specifically MFDA Rule 2.3.1(b)) to allow mutual fund dealers to engage in limited discretionary trading without relying on exemptive relief, as some of them do today.

  The SROs will review this policy initiative post-amalgamation.

- A couple of comments pointed out that the draft investment dealer Rule 3115 Personal Financial Dealings – Section 2(1)(a)(ii) should make reference to "approved outside activity" instead of "approved outside business activity".

This discrepancy was caused by a timing issue as the New SRO Investment Dealer and Partially Consolidated Rules that were published for public comment were finalized well in advance of the implementation of the IIROC housekeeping amendments relating to registration information requirements, outside activity reporting and updated filing requirements. These housekeeping amendments became effective on June 2, 2022 and feature a number wording revisions to sections 2304, 2554, 2801, 2803, 2807, 2808, 3115 and 3623.

All of these wording revisions have been picked up in the final version of the New SRO Investment Dealer and Partially Consolidated Rules.

- We received a request for clarification on why the following section in the MFDA rules under Internal Control Matters was deleted—"… (*ii) Authoritative literature such as publications of the Mutual Fund Dealers Association of Canada, the MFDA Investor Protection Corporation, the Internal Control Guidelines published by the Investment Dealers Association of Canada and Publications of the Chartered Professional Canadian Institute of Chartered Accountants Canada*."

  The deleted language contained outdated references. The intent was to generalize reference to other regulators and professional accounting bodies.

9. Fees and integration costs

We received a number of comments from MFDA and IIROC members asking about the final fee model and integration cost recovery model.

1. Many requested clarity on the costs of the SRO consolidation and which firms would be subject to the recovery. There were a few comments recommending that the integration costs be allocated to firms that operate as dual platforms as they would be the primary beneficiaries of the amalgamation.

   The SROs expect to fund approximately 25% of estimated integration costs from the MFDA's discretionary fund and IIROC's restricted fund. The balance of the integration costs will be recovered from existing MFDA and IIROC Members who are affiliated with each other through the same controlling ownership interest, and any New SRO Member that becomes dually registered before the cost recovery period ends.

   The recovery will be a separate fee calculated based on an integration cost recovery model, charged quarterly as a percentage of the applicable firm's annual membership fees, subject to a 10% annual cap[7]. The percentage will be set annually and charged over 3 to 5 years until the balance of integration costs are recovered. The final timeframe will be determined after all integration costs by March 31, 2024 are known, to ensure that fees will remain under the 10% of annual membership fees cap.

2. There were comments requesting additional details about the interim fees for dual registered firms under the New SRO.

[7] Integration Cost Recovery Model Fees will begin for the first quarter of fiscal 2024 at an amount not to exceed 8% of annual membership fees

Dual-registered dealer members will pay fees under both the IIROC and MFDA fee structures within the Interim Fee Model until such time as the new fee model is implemented. In other words, the dual-registered member will pay fees pursuant to the existing MFDA fee model for the mutual fund dealer division, and in accordance with the existing IIROC fee model for the investment dealer division.

There are also additional changes made to the interim fee model. As one of the public interest guiding principles is facilitating access to advice for investors of different demographics, including those primarily served by smaller and independent firms, it is important to retain and support that community through the transition to the new regulatory model. Accordingly, the Interim Fee Model will reduce both minimum fees and rebalance downward the fee rates per Revenue Tier for IIROC fees and Assets Under Administration ("**AUA**") category for MFDA fees applicable to the small dealer group[8]. Specifically, the IIROC minimum fee will be reduced from $22,500 to $16,000 with the related Revenue Tiers reduced accordingly. The MFDA minimum fee will be reduced from $3,000 to $1,500, with the related AUA fee rates under $1 billion reduced by 50% for small MFDA dealers. This modification would apply starting for fiscal year 2024 and will apply for a minimum of two years or until the final fee model is determined

3. There was extensive support and endorsement for the principles to be applied in the fee model adopted by the New SRO. There were requests for consultation on fees to ensure business models would not be adversely impacted by changes to the fee calculation.

   The SROs agree that the development of a new fee model will be a complex exercise and will therefore require expert professional advice. Implementation of any such fee model will involve consultation with Members and other stakeholders and will be subject to a public comment process and approval by the Recognizing Regulators.

10. The New SRO Investor Advisory Panel (IAP)

There was a lot of support for the New SRO IAP and its mandate. Many felt that the terms of reference support an independent and effective the New SRO IAP and will ensure the concerns of investors are considered in New SRO's work and policy development, which historically have been perceived to favour the industry's concerns.

1. There were comments asking about how the New SRO IAP will complement the new CSA investor advisory panel and recommended that the New SRO ensure there is no overlap of mandates to avoid creating investor confusion through potentially competing messages.

   The SROs are mindful of the concerns around duplication with other panels and will engage with the New SRO IAP to discuss strategies to coordinate efforts and communications with other IAPs.

[8] A small dealer is defined for the purposes of the Interim Fee Model as a Member that is either: (i) an investment dealer that pays the IIROC minimum fee, or (ii) a mutual fund dealer with AUA for MFDA fee purposes that is less than $1 billion. MFDA small dealers excludes carrying dealers, as they do not hold assets under administration.

2. We received comments, from investor advocates in particular, requesting an increased involvement of the New SRO IAP in matters pertaining to New SRO operations. They felt that, in addition to advising staff of the New SRO, the New SRO IAP should also advise the New SRO's Board and they recommended that the New SRO IAP's chair meet with the Board at least twice a year (instead of at least annually, as proposed).

   The SROs agree. As an advisory panel to SRO staff, the New SRO IAP will advise the New SRO during the early stages of development of policies, strategic plans, annual priorities and other initiatives in order to enhance the investor voice in SRO regulation. We have also amended the terms of reference to require the Chair of the New SRO IAP to meet with the Board twice a year, at a minimum.

3. There were comments asking for details about the funding of independent research projects for the New SRO IAP, in that it should be adequate to meet its needs.

   New SRO will provide the New SRO IAP with sufficient funding to ensure that it can effectively carry out its mandate and conduct research activities; the FAQs have been amended to state that research funding will be sufficient to meet the needs of the New SRO IAP. The funding provided will be similar to amounts provided to other consumer panels in the securities industry. The New SRO will fund most of the New SRO IAP's expenses from the discretionary/restricted fund[9].

11. Other comments

This is a summary of some other comments that came in (where applicable, the CSA and/or SROs' have provided responses which are italicized):

- Single comments on some other matters relating to use of titles, robo-advisors, arbitration, etc.
- *These matters are out of scope of the CSA Position Paper and implementation of the New SRO. These comments will be passed on to the appropriate CSA committees for consideration.*
- There were comments asking the CSA to re-consider allowing mutual fund dealers direct access to market to trade in ETFs (i.e., via a blanket exemption to National Instrument 23-103 – Electronic Trading and Direct Electronic Access to Marketplaces).

  Allowing mutual fund dealers direct access to market to trade in ETFs is out of scope of the CSA Position Paper and implementation of the New SRO. These comments will be passed on to the appropriate CSA committee for consideration.
- There was a comment asking about the process for handling complaints against the New SRO.

[9] Section 16(1)(b) of the Recognition Order provides some guidance that the funding could come from the restricted/discretionary fund. "*All Monetary Sanctions collected by the [New SRO] may only be used, directly or indirectly, in the public interest as follows… (b) for reasonable costs associated with the administration of the [New SRO]'s investor office, investor advisory panel and the [New SRO]'s hearings.*"

The process for handling complaints against the New SRO will be clarified, as required under the RO, and published on the New SRO's website.

- There were a few comments recommending changes to the arbitration program and for the New SRO to consider using the restricted/discretionary fund to subsidize complainant fees related to arbitration.

  IIROC has engaged with an independent working group to review and provide recommendations on its Arbitration Program. The working group has prepared substantive recommendations, which IIROC intends to publish for public consultation later this year.

- There were comments supporting the responsibility for the market surveillance function remaining with the New SRO.

- There were comments supporting the ongoing review of proficiency requirements and the view that registrants should generally be required to follow a higher standard.

- There were comments supporting IIROC's efforts to improve complaint handling by dealer members today, as opposed to waiting for the New SRO to address these issues at a later time.