Federation of Independent Dealers
Fédération des Courtiers Indépendants

March 11, 2024

Member Regulation Policy
Canadian Investment Regulatory Organization
(as of Monday February 12, 2024)
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RE: Rule Consolidation Project – Phase 2

Established in 1996, the Federation of Independent Dealers (FID) serves as the premier collective voice for independent dealer firms in Canada. The Federation advocates on behalf of dealer firms overseeing assets under administration in excess of $125 billion. These dealers represent a substantial network of over thirty thousand licensed registrants, offering a comprehensive range of financial services and planning to more than 3.8 million Canadians. Our organization is deeply invested in matters that affect the interests of the independent dealer community and the professional advisors within it.

We thank CIRO for the opportunity to provide comments. As the ongoing evolution of modern finance marches onward, and new ideas and technology including open banking, crypto, DeFi, and tik-tok influencers now exist, we would share a few remarks.

The nature and practices between ID and MFD channels can be more divergent (or more aligned) than their shelf of securities. Where the shelves do align we see the need for not only equivalent requirements but also equivalent access. Investors benefit when all firms can easily access the broadest range of products.

We appreciate CIRO's successes and strides towards channel integration and harmonization under a single new SRO and rulebook. In this vein, we would like to see an evolution of flexibility and opened pathways for MFD businesses.

MFDs can offer properly compliant accounts and business strategies that are currently only enjoyed on the ID side. These could include margin accounts, 'free cash', OEO, and robust 'managed money' programs.

Therefore, we emphatically disagree with the proposed section 2.1 Margin Requirements bullet point two. It's unnecessary to import the old (former)MFDA rule (3.2.1) that prohibits MFDs from allowing clients to purchase securities on margin. This should not be a missed opportunity to implement service-offering harmonization for dealerships. It can be dropped from the proposal, it's long past the sell-by date.

If a (former)IIROC firm goes to market offering mutual funds and GICs, they also offer margin accounts and out-compete MFD firms based upon this alone. One goal of these proposals is to reduce regulatory arbitrage.

Empower MFD firms with competitive equivalence and new tools for millions of Canadians.

General comments

We support the comments in IFICs submission requesting CIRO provide a description of changes from current MFDA rules for each phase, and the need for longer consultation periods.

As we proceed through the phased rule consolidation process, the FID also requests provision of additional time to formulate responses. Please aim to provide a 90-day comment period or greater for each subsequent phase of this project.

Industry firms are concurrently dealing with matters including T+1, Total Cost Reporting, other consultations, and audits simultaneously. We also face challenges with obtaining participation and input during RSP season, the summer and over Christmas holidays, in particular. This is one factor that affected our response here, as the first FID membership meeting of the year occurs after RSP season and the closing of this consultation.

Lastly, we note the restriction on Dual-platform firms that their advisors may only obtain ETF education from a list of three providers IDPC (2603(1)(ii)(a-c)). We would like to see that removed in favour of harmonized content requirements or an exam, as (former)MFDA firms moving to dual-platform structure should be able to retain the education provider(s) of their choice. An open format was recently proposed by CIRO on the future direction of education, we concur with that direction and goal.

Responses to specific questions

1. *As part of the Phase 2 Proposed DC Rules, we have adopted existing IDPC Rule requirements relating to best execution/client identifier/client priority and propose extending the same requirements to the mutual fund dealers dealing in the investment products they are entitled to transact in (such as ETFs and certain debt securities):*

a. *Are there specific components of sections 3119 to 3129, section 3140 or section 3503 that need to be adjusted or clarified to account for the activities of mutual fund dealers dealing in ETFs or debt securities?*

There are items within these sections that are entirely new regulatory requirements on MFD members. MFD members are currently non-executing for ETF transactions and engage an ID Member who complies with the requirements.

These sections will require MFD members to complete initial reviews of the executing ID member Best Execution disclosures and obtain attestations of their compliance annually, per 3123(1)(i-iii). MFD members will also be required to create best execution policies of their own, but would then be required to review them annually. This annual review represents an avoidable burden for members who are entirely non-executing.

If the MFD member doesn't alter their policy or process and has not been approved as an OEO or 'dual- platform', E.g. 'Executing' firm in the prior year, they should be exempted from annual reviews of internal best execution policies and practices by modifying 3126(2)(iv) to remove 'in addition to annual reviews'.

The following sections could be reserved for ID firms, or marked as non-applicable unless the MFD is, or becomes, an executing member:

- 3122 (1)(II) (a – d),
- 3125,
- 3126(1),
- 3128 and,
- 3129 (iii), (iv).

b. *What is the expected operational impact on mutual fund dealers who will need to adhere to the best execution, client identifier, and client priority requirements?*

MFDs typically use omnibus jitney accounts to group together orders from more than one client or account type for execution when trading ETFs per 3140(2)(ii) 'bundled order' or 'multiple client order'.

They would therefore be exempted from providing the client identifiers required in (3140(1)). It's a burden for MFDs (and all Introducers) to implement a process solely to send client identifiers when carrying members already handle best-ex requirements and client identifiers.

We request these related sections be streamlined and harmonized. An exemption for trades executed through an omnibus jitney account would be efficient and effective.

c. *What type of implementation support (e.g. training) can CIRO provide to mutual fund dealers dealing in ETFs or debt securities?*

MFD firms could benefit from a discussion on opportunities and options for accessing Exempt Fixed Income securities directly for their clients, rather than solely via pooled products. They could also benefit from an overview & walk-throughs of CIRO requirements on margin accounts to ensure a compliant implementation, should our request above be approved.

***2**. We have extended the debt securities trading and settlement practice obligations to mutual fund dealers. Are there specific components of Rule 7100 that nseed to be adjusted or clarified to account for any uniqueness in mutual fund dealer debt market activities?*

It's important not to implement a requirement that may inadvertently impinge MFD firms from continuing to offer their existing suite of debt securities. These include Federal, Provincial, and Crown Corporation bonds, ('Exempt fixed income').

Rule 7100 and subsequent rules reference the 'debt securities markets', which MFD firms don't directly access. We would request an enumeration of the requirements intersecting with MFD permitted debt security transaction procedures.

We may find instances where the proposed rule(s) require a standard higher than existing MFD systems can support or where the information isn't necessarily provided, nor reasonably accessible to MFD members. E.g. 7103 (2)(vi)(b) "…monitoring procedures to detect mark ups, mark downs or commissions that exceed the maximums specified by the Dealer Member…". We ask CIRO consider whether there is a risk of outsized mark-ups/downs and/or commissions in the Exempt Fixed Income sphere, and if not, whether MFD firms can be excluded from these monitoring requirements.

***3**. We have not extended the transaction reporting for debt securities obligation to mutual fund dealers at this stage. Should we extend this obligation to mutual fund dealers? If yes, are there specific components of Rule 7200 that need to be adjusted or clarified to account for any uniqueness in mutual fund dealer debt transactions?*

We agree with the decision to not extend this obligation presently.

Respectfully,

Matthew T. Latimer

Executive Director,
Federation of Independent Dealers