



Date: March 11, 2024

Member Regulation Policy
Canadian Investment Regulatory Organization
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Toronto, Ontario M5H 3T9
e-mail: memberpolicymailbox@ciro.ca

Dear Sirs and Mesdames:

RE: CIRO Rule Consolidation Project – Phase 2

IFIC is pleased to provide the Canadian Investment Regulatory Organization (**CIRO**) with our comments on the [Rule Consolidation Project – Phase 2 \(Consultation\)](#).

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.

SUMMARY

IFIC supports the CIRO Rule Consolidation Project (**Project**). In our comment letter dated December 19, 2023 on Phase I of the Project, we set out a number of principles which will guide our members' analysis of the proposals in each phase of the Project. We set these principles out again below. We also emphasize the importance to our members of the Project phases being implemented simultaneously, not in phases, to avoid duplication and reduce implementation risk. We also recommend a sufficient implementation period for our members to make required IT changes as well as any necessary changes to policies and procedures, training and operational matters. In addition, we make suggestions for improving the efficiency of the consultation process for the remaining phases of the Project - in particular we strongly urge CIRO to provide sufficiently long comment periods as the Phases become increasingly complicated.

In Appendix A we provide answers to the three questions posed in the Consultation.

GUIDING PRINCIPLES

The following guiding principles inform the analysis and discussion of our members concerning the current Consultation and will inform the analysis and discussion of the remaining phases of the Project.

1. Like dealer activities should be regulated in a like manner.
2. Regulatory arbitrage between investment dealers and mutual fund dealers should be minimized.
3. Current mutual fund dealers that choose to continue as mutual fund dealers should be minimally impacted by any changes to the rules.
4. Rules should be sufficiently flexible to permit a spectrum of business structures and offerings.
5. Where appropriate and practical, principles-based rules that are scalable and proportionate to the different types and sizes of dealers and their respective business models should be adopted.
6. Reviews, audits and examination of dealers should be consistent in the interpretation and application of the rules, regardless of business model.

IMPLEMENTATION OF THE RULE CONSOLIDATION PROJECT

As we noted in our December 19, 2023 comment letter, it is critical that, while the consultations on the Project are rolled out on a phased basis, the coming into force of the entirety of the Project be done at one time, after a sufficient implementation period. While numerous parties have urged CIRO to proceed expeditiously with the Project, we are concerned that moving too quickly in a piecemeal fashion will cause regulatory inconsistencies, client confusion and significant implementation risk. An unsuccessful launch of the Project would be counter-productive to achieving the regulatory objectives and would undermine dealers', investors' and other stakeholders' confidence in securities regulation.

- It is only once all five phases of the Project are completed that a comprehensive analysis can be done to ensure nothing has been missed and that nothing within the rules is contradictory. A concurrent rather than sequential implementation will also facilitate presenting changes to clients in a digestible manner, minimizing any client confusion. Moreover, the implementation will vary depending on the scope of changes, and a full view of the new requirements will enable firms to create solutions that provide the best experience for clients, and the best structure for ongoing supervision. In short, a concurrent implementation will allow the complete set of rules to arrive as a cohesive whole, and will maximize their impact in the market in a positive manner.
- The IT costs, in particular, of each phase cannot yet be quantified. However, to the extent that different phases require the same documents or the same processes to be updated, amended or modified numerous times, the magnitude of the cost will increase dramatically. For example, one member estimates the cost of updating documents with the new CIRO name and logo alone will cost seven figures. If those same documents must be updated and amended again as a result of any phase of the Project, a similar cost will be incurred again. Such duplicative costs are onerous and can be avoided by only requiring implementation once the Project is completed.
- There are a finite number of people in each dealer firm who can deal with the IT, compliance and operational implications of the Project, in addition to their other work. Their time and efforts must be deployed in the most efficient way possible; to do otherwise will increase, not decrease, regulatory burden.
- There is likely to be significant change management efforts required by dealers to implement the new rules, including training of staff, advisors and advisor teams.

The time for completing the review once all phases are complete, and subsequently for each dealer to make the necessary IT, operational and compliance changes and complete training in their firm, must be reasonable and sufficient. While we cannot quantify the time needed for implementation this early in the Project, we will provide our suggested timing when the Project is substantially complete and prior to the implementation period beginning.

IMPROVING THE EFFICIENCY OF THE CONSULTATION PROCESS

We have two suggestions to improve the efficiency of the consultation process for the remaining phases of the Project:

1. *Provide a minimum 90-day comment period for each subsequent phase of the Project.*

Our concerns are founded in the importance of public input to the rule-making process and the difficulty for industry organizations, such as IFIC, which provide comments reflecting the consensus views of our members, to obtain and reflect those comments in a reduced time frame. IFIC gathers its members' comments through a committee process; the comments are then reflected in a draft comment letter, which is circulated to members of the committee struck for the purposes of reviewing the draft rule, as well as to appropriate working groups and committees of the Board of Directors for their approval.

The time required to have meaningful committee discussions, gather comments and formulate a response which represents the feedback obtained from our members, who are doing this work in addition to their regular work commitments, is exacerbated by (i) the large number and diverse sizes of our members and their different current and evolving business models, (ii) the need for members to canvass and receive comments from multiple parts of their firms, such as operations, systems, behavioral economics, finance, legal, compliance and tax divisions, and (iii) the frequent need to receive comments from third-party service providers. Further, rule consultations have become longer and more complicated to assess and implement, with greater need to obtain operational and systems perspectives at the comment stage than was once required. The time challenges are further complicated when there are several overlapping rules published for consultation at the same time or when a consultation is published for comment over the summer, over holiday periods, or during particularly busy times for our members, such as year end and RRSP season, as was the case with the current Consultation, which was published just prior to Christmas holidays.

2. Provide a description of changes from current MFDA rules for each phase

Our members find it challenging to easily identify the changes to the MFDA rules being suggested by the Consultation. In future phases, it would greatly assist our analysis if there was a narrative discussion of what is being changed or not being carried forward from the current MFDA rulebook.

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. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Andy Mitchell
President & CEO

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APPENDIX A

Question #1 – Best execution obligation

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):

- 1) 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?

IFIC Response:

In keeping with our principle that like activities should be regulated similarly, we have no concerns about the components of sections 3119 to 3129, sections 3140 or section 3503 being extended to apply to the activities of mutual fund dealers dealing in ETFs and certain debt securities.

- 2) 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?

IFIC Response:

The expected operational impact on mutual fund dealers who will need to adhere to the best execution, client identifier and client priority requirements are the creation of additional policies and procedures, conducting related training, and establishing control mechanisms.

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

IFIC Response:

We believe CIRO can provide significant implementation support including:

- **Ensuring the language used in the rules is sufficiently clear prior to their adoption**
- **Availability of staff to respond to inquiries**
- **One or more webinars concerning the applicable principles and guidance.**

It is particularly important that there be an iterative understanding of and compliance with the new rules, rather than findings through audits. In addition, it will be important for every CIRO member to be audited to the same standards, and that guidance be published if these standards are modified.

Question #2 - Debt market trading and settlement practice obligations

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

IFIC Response:

In keeping with our principle that like activities should be regulated similarly, we have no concerns about extending these obligations to mutual fund dealers who engage in these activities.

Question #3 – Transaction reporting for debt securities

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?

IFIC Response:

We agree that the transaction reporting for debt securities obligation should not be extended to mutual fund dealers at this stage.