ANDY MITCHELL
President and CEO *Président et chef de la direction*
amitchell@sima-amvi.ca 416 309 2300

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Delivered By Email: memberpolicymailbox@ciro.ca
Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
121 King Street West
Toronto, Ontario M5H 3T9

Dear Sirs and Mesdames:

RE: CIRO - Rule Consolidation Project - Phase 5

The Securities and Investment Management Association (SIMA) appreciates the opportunity to comment on the Canadian Investment Regulatory Organization (CIRO) Rule Consolidation Project – Phase 5 (the Consultation).

SIMA empowers Canada's investment industry. The association, formerly the Investment Funds Institute of Canada (IFIC), is now the leading voice for the securities and investment management industry. The industry oversees approximately $4 trillion in assets for over 20 million investors and participates in the Canadian capital markets. Our members – including investment fund managers, investment and mutual fund dealers, capital markets participants, and professional service providers – are committed to creating a resilient, innovative investment sector that fuels long-term economic growth and creates opportunities for all Canadians.

We operate within a governance framework in which we gather input from our member working groups. The analyses and recommendations of these working groups are submitted to the SIMA board or board-level committees for direction and approval. This process ensures submissions that reflect the input and direction of a broad range of SIMA members

Summary

SIMA continues to support CIRO's Rule Consolidation Project. To aid this initiative, SIMA developed Guiding Principles, which are outlined in each of our Phase 1–4 Comment Letters. These Principles continue to inform our members' analysis of the proposals in each phase and are repeated below for reference.

We reiterate our recommendation that the final Dealer Member Conduct (**DC**) Rules should not come into force until consolidated and conforming guidance - developed through public consultation - is finalized.

Additionally, we strongly urge CIRO to provide stakeholders 120 days to review and comment on Phase 6 of the Rule Consolidation Project. While stakeholders have had opportunities to comment on each of the five previous phases individually, this will be their first opportunity to assess the fully consolidated DC Rules. Extending the comment period 30 days will help to ensure stakeholders have sufficient time to thoroughly review and provide thoughtful feedback, supporting the successful implementation of the DC Rules.

In addition to our comments below regarding transition periods, we also request that CIRO provide a timeline for the next steps in the Rule Consolidation Project, including target dates for publication of

Phase 6 and associated guidance for comment, as well as the dates for publication of the final DC Rules and guidance, which collectively assist members to prepare for the changes.

Guiding Principles

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

1. Like dealer activities should be regulated in a like manner.
2. Regulatory arbitrage between investment dealers (**IDs**) and mutual fund dealers (**MFDs)** should be minimized.
3. Current MFDs that choose to continue as MFDs should be minimally impacted by revisions to the MFD Rules and the Investment Dealer Partially Consolidated (**IDPC**) rules, reflected in the consolidated Dealer Member Conduct (**DC**) Rules.
4. The DC 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 examinations of dealers should be consistent in the interpretation and application of the rules, regardless of a dealer's business model.

CIRO Guidance

SIMA acknowledges CIRO's intention to publish updated guidance following the CSA's approval of the aggregated DC Rules, however, SIMA strongly urges CIRO to publish both the aggregated DC Rules and the draft, updated guidance together in Phase 6, prior to the CSA's review.

In our view, publishing the draft DC Rules and updated guidance at the same time provides stakeholders with the most comprehensive and transparent presentation of the proposed DC Rules and updated guidance, and ensures that the updated guidance developed addresses all aspects of the DC Rules requiring supplementary guidance.

Until CIRO adopts updated guidance, SIMA members will continue to operate on the basis that the current Rules Guidance Notes and MFDA Staff Notices will remain applicable to the IDPC Rules and MFD Rules, respectively.

Implementation of DC Rules

Clarity of Definitions

This Consultation introduces several new or revised definitions. It is essential that CIRO ensure that each new or revised definition is clear, easily understood, and is only as broad in scope as is necessary to achieve CIRO's regulatory objective.

For example:

- The definition of "serious misconduct" within the Complaint Handling and Investigation rules includes "…any other instance of material non-compliance with CIRO requirements, securities laws, or any applicable laws." In our view, the potential breadth of this definition would result in unnecessary regulatory burden. We urge CIRO to consider the regulatory objective of this and other proposed definitions to ensure clarity and precision.
- Proposed DC Rule 3711(1) introduces a new requirement that Dealer Members report "any substantial compensation" paid to a client. In the Consultation, CIRO notes that dealers are expected

to use their "professional judgment" to determine what "substantial compensation" means. While we appreciate CIRO's use of a principles-based approach and recognize that the definition of "substantial" will depend on the circumstances of each case, we recommend that CIRO provide guidance to Dealer Members to ensure CIRO's regulatory expectations are clear to Dealer Members.

- In Proposed DC Rule 2490, CIRO proposes to adopt MFD Rule 1.1.3 *service arrangements,* which would apply to Dealer Members and Approved Persons regardless of whether they are providing or receiving the service. CIRO confirms that while there are no equivalent service arrangement provisions in the IDPC rules, CIRO's Outsourcing Arrangements Guidance Note (**GN-2300-21-003**) suggests that CIRO's current regulatory expectations are similar to those reflected in proposed DC Rule 2400. It is not clear, however, whether proposed DC Rule 2490 is intended to replace GN-2300-21-003 or whether CIRO's Guidance Note will be updated and will apply to both "core" and "non-core" arrangements that a Dealer Member may engage in. If the Guidance Note is retained in some form, we ask that CIRO confirm whether MFDs will be subject to GN-2300-21-003.

Complaint Handling

In its Consultation, CIRO proposes removing the IDPC provision requiring Dealer Members to adopt complaint handling policies that ensure *"a balanced approach to dealing with complaints that objectively considers the interests of the complainant, the Dealer Member, including employees, Approved Persons, or other relevant parties."* CIRO's rationale is that this provision conflicts with the obligation to prioritize clients' interests when managing conflicts of interest.

We believe the existing requirement promotes the fair and objective resolution of complaints by considering the interests of all parties. Accordingly, we recommend that CIRO retain the provision but revise it to clarify that Dealer Members and Approved Persons must continue to act reasonably in the circumstances, with a view to ensuring fair and appropriate treatment of clients.

Prioritizing client interests in a complaint scenario, without considering what is reasonable in the circumstances could place Registrants in a position that would require them to resolve complaints in favour of the complainant despite Registrants' reasonable conduct.

Given the importance and potential impact of this proposal, we also urge CIRO to provide stakeholders with supporting data and analysis, as well as detailed guidance to help Dealer Members understand and meet CIRO's regulatory expectations with respect to their role regarding conflict management and complaint resolution.

Reporting Requirements

Employee Misconduct

We support CIRO's regulatory objective to prevent serious misconduct in the securities industry and registrants reporting serious misconduct of the firm but oppose treating all unregistered employees in the same way as registrant employees.

In our view this proposal unnecessarily imposes additional regulatory burden on Dealer Members without a demonstrable benefit, given that existing internal controls – including internal conduct policies, compliance training and supervisory oversight - adequately address employee misconduct issues.

To address this issue, we urge CIRO to define the term "Dealer Member-related activities" in a manner that ensures that the term does not capture the actions of unregistered employees. Doing so will avoid the unnecessary reporting of matters that are unrelated to the duties of CIRO registrants.

If, however, the proposal ultimately applies to unregistered employees, we recommend that CIRO narrow the scope of the proposal to only apply to unregistered employees' serious misconduct that is linked to securities activities, while employed by a Dealer Member. To ensure clarity, we urge CIRO to review and update the language within Rules 3710(2)(ii), 3710(2)(iv), and 3711(2)(ii), which could be interpreted to include unrelated personal issues, such as family disputes or garnishments.

Privacy Incident Reporting

Rule 3712(2) requires Dealer Members to report "any material breach of client information that would require reporting under applicable privacy legislation." However, privacy statutes typically mandate reporting only when there is a real risk of significant harm, not for all material breaches. To align CIRO's requirements with privacy legislation and avoid over-reporting, we recommend revising section 3712(2) as follows:

"*A Dealer Member must report to the Corporation any breach of client information that triggers a reporting obligation under applicable privacy legislation, in the form and within the timelines required by that legislation*."

Transition Periods

SIMA appreciates CIRO's recognition of the broader impact of the rule proposals, particularly their effect on MFDs. Given the scope and complexity of the proposed DC Rules, we recommend that CIRO apply extended transition periods more broadly to facilitate their implementation.

Additionally, we suggest that CIRO provide stakeholders with an aggregated list of proposed transition periods within the Phase 6 Consultation. This would allow stakeholders to assess transition periods holistically and propose adjustments that are logical, consistent, and conducive to the successful and timely implementation of the DC Rules.

Electronic Delivery of Client Documents

The impact of this requirement will vary among Dealer Members, depending on the maturity of their policies, procedures, and technologies related to electronic delivery. Given that the delivery of disclosure documents is already addressed in National Policy 11-201 (Electronic Delivery of Documents) and the Electronic Commerce Act, 2000, and is being considered as part of the Canadian Securities Administrators' (CSA) ongoing "access equals delivery" initiative, we encourage CIRO to consult with its CSA partners to ensure alignment with CIRO's proposal to establish electronic delivery as the default option.

FinOp Proposals

We note that the Consultation's financial operations (FinOps) proposals are extensive, some of which could materially impact Dealer Members. The following concerns are noted for CIRO's consideration:

Client Free Credit Segregation Deficiency Capital Charge – The application of the proposed rule to all Dealer Members is a significant departure from the current standard. It requires Dealer Members to correct any deficiency within one business day, and results in a capital charge if the deficiency is unresolved within that timeframe. The result is a reduced timeframe for Dealer Members to identify and address deficiencies, while imposing additional financial capital requirements on a Dealer Member if it is unable to prevent such deficiencies. SIMA would appreciate CIRO clarifying whether this proposal reflects its view, that the current IDPC Rule is not sufficiently effective to address client free credit segregation deficiencies and requires revision.

Provider of Capital Concentration Charge – This proposal would extend the current *Provider of Capital Concentration Charge* (**Concentration Charge**), within Form 1, to MFDs. This would materially impact MFDs that hold large amounts of cash at a parent bank, as this amount would now be subject to the Concentration Charge. To mitigate this issue, MFDs would need to either obtain collateral for cash deposits at the parent bank or invest excess cash in securities.

In our view, this proposal will not materially impact Investment Dealers or MFDs that have custodial arrangements in place, but it would present a financial and operational challenge for MFDs that do not already have such arrangements. We suggest that CIRO consider whether this proposal is necessary and appropriate for MFDs, in light of the impact we have identified.

Counterparty Credit Risk – CIRO's proposal to adopt IDPC Form 1 provisions concerning non-allowable assets would impact MFDs in particular, as it would bring "commissions and fees receivable" into scope as

a non-allowable asset. The current MFD Form 1 does not explicitly exclude the treatment of trailer fees under the allowable assets category. The proposed change would be impactful to smaller MFDs because it would require that more capital is held. Although CIRO's intent is to align with the existing ID provisions, it will materially impact some MFDs by increasing their capital requirements.

Schedule for Mutual Fund Dealers to Report Broker Trading Balances – This proposal would have a significant impact on MFDs' capital requirements. We request that CIRO provide further clarification to determine how to calculate or obtain this information. We also note that this complex calculation would require approximately 2 years to implement for many Dealer Members.

Insurance – CIRO's proposal to adopt the MFD rule that requires MFDs to report insurance-related claims to CIRO within 2 days of the claim is not reasonable. Currently, the process requires the Dealer Member to obtain an acknowledgement from the insurer, prior to notifying CIRO, however this acknowledgement typically takes a week or more to obtain. We recommend the proposal be amended to require Dealer Members to report claims to CIRO within 15 days of the claim.

"Trade Confirmation" to "Transaction Confirmation" – CIRO's proposed revisions to DC Rule 3855(1) requires Dealer Members to "provide clients with a written confirmation of *transactions* in investment products and other property for the client's account." We are concerned that the proposed use of the term "transaction confirmation", rather than "trade confirmation" may expand the scope of the requirement beyond what was originally intended, potentially encompassing a wider range of activities including deposits, withdrawals, contributions, stock splits and name changes. As such, we recommend that CIRO retain the original term "Trade Confirmation".

Client Reporting

Reporting Substantial Compensation Paid to Client – Proposed DC Rule 3711(1) introduces a new rule that requires Dealer Members to report "any substantial compensation" paid to a client. In the Consultation, CIRO notes that dealers are expected to use their "professional judgment" to determine what "substantial compensation" means. While we appreciate that the definition of "substantial" will depend on the circumstances of each case, we recommend that CIRO provide guidance to Dealer Members to ensure that they understand CIRO's regulatory expectations with respect to this proposed new requirement.

Service arrangements vs outsourcing arrangements – Under DC Rule 2490, CIRO proposes adopting MFD Rule 1.1.3 on service arrangements applying whether a Dealer Member (or Approved Person) is providing or receiving the service. The proposal introduces a definition of service arrangement as,

"An arrangement entered into between a Dealer Member or Approved Person, and any other person, including another Dealer Member or Approved Person, to provide services that do not: (i) constitute securities and derivatives related business, or (ii) include duties or responsibilities that are required to be performed under Corporation requirements or securities laws by the Dealer Member or Approved Person that is receiving the services."

This definition distinguishes service arrangements from outsourcing. CIRO notes that while no equivalent IDPC rules exist, *GN-2300-21-003* sets expectations that are similar to those in DC Rule 2400.

It is unclear, however, whether DC Rule 2490 replaces or only supplements outsourcing guidance, or if it applies to all Dealer Member arrangements – including core activities covered by the guidance, and non-core activities, which were previously excluded. The guidance classifies "non-core" activities, such as office services and human resources, as eligible for outsourcing without regulatory concern. The definition of outsourcing arrangements referenced in GN-2300-21-003 does not cover purchasing contracts, defined as the acquisition from a vendor of services, good or facilities without the transfer of the purchasing firm's non-public proprietary or customer information. Please confirm that such contracts are also out of scope under service arrangements

In addition:

- are these “non-core” activities now covered under DC Rule 2490?
- If so, what circumstances changed to warrant regulatory oversight?
- Are MFDs required to comply with GN-2300-21-003?

Conclusion

SIMA is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at amitchell@sima-amvi.ca. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION

By: Andy Mitchell
President and CEO

cc: Trading and Markets, Ontario Securities Commission
(TradingandMarkets@osc.gov.on.ca)

Capital Markets Regulation, B.C. Securities Commission
(CMRdistributionofSROdocuments@bcsc.bc.ca)

APPENDIX A

Question #1 - Definition of "complaint"

The proposed definition of "complaint" includes current and former clients. Should "prospective clients" also be included, as they are in the current MFD Rules? Do "prospective clients" generate a significant number of substantive complaints that present a material regulatory concern, rather than just service issue?

SIMA Response:

Inclusion of Prospective Clients

SIMA opposes expanding the definition of "complaint" in proposed section 3702(1) of the DC Rules to include "prospective clients". In our view, expanding this definition is redundant, does not materially enhance the existing complaint handling requirements and imposes unnecessary regulatory and operational burdens on Dealer Members, based on our view that:

- existing CIRO requirements already ensure that a prospective client's substantive complaint relating to conduct are addressed through a Dealer Member's internal investigation process, with outcomes reported to CIRO,
- the additional operational and regulatory burden created by this proposal could hinder Dealer Members' ability to appropriately focus on their current and former clients,
- there is no privity-of-contract between Dealer Members and prospective clients, and
- some prospective client complaints may be more appropriately handled by other regulators, such as the Competition Bureau or Privacy Commissions.

Given these considerations, we urge CIRO to reconsider its proposal to expand the definition of complaint to include "prospective clients".

Clarifying the Scope of "Former Clients"

SIMA recommends that CIRO incorporate a limitation period within the definition of "former client" that aligns with regulatory record retention requirements and other relevant provisions, such as OBSI's six-year limitation period.

Revision of "Complaint" Definition to Include Employees

SIMA urges CIRO to withdraw its proposal to include "employee" in the definition of complaint for the following reasons:

- Proposed DC Rules 3710 and 3711 will significantly expand Dealer Members' reporting obligations. If the proposal is adopted, this will have significant implications for Dealer Members. For example, it will require Dealer Members to allocate time and resources to ensure that employees comply with reporting obligations, including the review and revision of employment contracts to comply with the requirements of the rule, to ensure that Dealer Members are able to meet their own reporting obligations to CIRO.
- The requirement to report serious misconduct is grounded in CIRO's investor protection mandate but in our view, extending the scope of this rule to include employees does not materially assist CIRO achieve this mandate. For example, a Dealer Member's IT technician that engages in some form of misconduct would typically have little, if any, direct contact with clients nor would the employee have the ability to influence the capital markets. It is unlikely, therefore, that the employee's misconduct could cause harm to clients or capital markets. If, however, CIRO has information suggesting that this is a material issue, we recommend CIRO provide this information to stakeholders in order to inform our views and analysis.

- CIRO does not have direct jurisdiction over the conduct of Dealer Members' employees that are not Approved Persons under CIRO rules (**Unregistered Employees**). It is not clear, therefore, how CIRO would address employee conduct that is reportable to CIRO, given that CIRO lacks the authority to sanction or discipline Unregistered Employees. We note, however, that the conduct of Unregistered Employees is currently addressed through the supervisory obligations of Dealer Members under CIRO rules and internal codes of conduct. Any serious misconduct involving an Unregistered Employee would trigger the Dealer Member's obligation to conduct an internal investigation and would ensure that serious misconduct committed by an Unregistered Employee is managed and addressed appropriately through the Dealer Member's internal disciplinary measures, and
- For Dealer Members to ensure that they meet CIRO Reporting obligations relating to Unregistered Employees, Dealer Members would need to:
    - develop and deliver education and training to thousands of Unregistered Employees,
    - implement policies, procedures and technology to enable Unregistered Employees to report to their employer (i.e. the Dealer Member), and
    - allocate human and financial resources to meet this new requirement.

Given that a demonstrable need to implement this proposed revision has not been provided, and in light of the considerations discussed above, we oppose the adoption of this recommended revision of the definition of "complaint".

Question #2 - Definition of "serious misconduct"

Does the proposed definition of "serious misconduct" cover the appropriate elements that should be reported, investigated, and dealt with in respect of complaints?

Note that the proposed definition does not specifically include harm to the Dealer. Should it encompass conduct that harms the Dealer, even where that harm does not pose a reasonable risk of material harm to clients or the capital markets, nor does it result in material non-compliance with applicable laws?

SIMA Response:

With the exceptions noted below, we support CIRO's proposed definition of **"**serious misconduct**."** However, we oppose including the clause "*any other instance of material non-compliance with CIRO requirements, securities laws, or any applicable laws*" (**Catch-All Provision**) within this definition.

The Catch-All Provision is overly broad and may lead to unnecessary reporting of immaterial issues, creating an administrative burden for both CIRO staff and Dealer Members. Materiality depends on various factors, including a Dealer Member's size and circumstances, therefore, Dealers with differing scale and scope of operations may reasonably assess similar issues differently.

To reduce ambiguity and prevent over-reporting, we recommend removing the Catch-All Provision and instead provide a defined list of material non-compliance issues, along with clear criteria to guide Dealer Members in meeting CIRO's regulatory expectations. We suggest that this guidance be aligned with the guidance for ComSet reporting (i.e. with the identification of each violation type, absent an "Other" or "Catch All" category). Additionally, the current wording extends beyond securities laws, requiring Dealers to report matters already governed by separate regulatory frameworks, such as Canadian Privacy Law.

SIMA also opposes expanding the proposed definition to include harm to the Dealer. Given CIRO's investor protection mandate, misconduct against a Dealer Member should only be considered serious if it poses a reasonable risk of material harm to clients or capital markets, or results in material non-compliance with applicable CIRO requirements. In our view, such matters are better addressed through other means, including employee training, disciplinary action, employment law or civil proceedings.

Question #3 - Definition of "non-reportable complaints"

Is the definition of "non-reportable complaints" appropriate to minimize reporting where there is no material risk of harm to clients or the capital markets, or instances of non-compliance, while still ensuring that material complaints are addressed?

SIMA Response:

We are concerned that the definition of **"**non-reportable complaints" is overly broad and lacks the clarity needed for Dealer Members to consistently and accurately identify such complaints. This ambiguity may lead Approved Persons to over-report issues that pose minimal risk to clients, capital markets, or regulatory compliance.

Under the proposed definition, a complaint is considered non-reportable only if the Dealer Member determines that it:

- did not result in material harm to a client or capital markets, and
- does not involve allegations of a breach of CIRO requirements, securities laws, or any applicable laws related to Dealer Member activities.

This definition could be interpreted as extending CIRO's jurisdiction to matters overseen by other regulatory bodies, potentially obligating Dealer Members to report and investigate issues outside of CIRO's scope of authority. Such overlap may result in duplicative oversight and investigations by other regulators, increasing compliance costs and imposing an unnecessary burden on Dealer Members.

Accordingly, we recommend that CIRO instead consider adopting the definition of "Service Complaint" within the MFD Rules.

Question #4 - Time limit to provide a substantive response letter

Is the 90-day time limit to provide a substantive response letter to a complainant appropriate, given that the Autoritédes marchés financiers has moved to a 60-day period (with a 30-day flex period), while the other CSA members recommend a 90-day period (per Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations)?

SIMA Response:

In our view, requiring Dealer Members to respond within 60 days:

- is unlikely to materially improve investor outcomes. We are concerned that reducing the current 90-day time limit to 60 days could compromise the quality of Dealer Members' responses, particularly given the complexity of some complaints, the need for internal discussions, and the time required to engage with the complainant, and
- would impose an unreasonable burden on the industry.

Given these considerations, we support maintaining the proposed 90-day time limit for providing a substantive response.

Notwithstanding our response to this question, we draw CIRO's attention to our concerns with respect to the time limit applicable to internal dispute resolution that we discuss in our response to Question 5, below.

Question #5 - Time limit applicable to internal dispute resolution

Is the proposed time limit for internal dispute resolution processes reasonable, considering the need to balance an expedient resolution for clients while still allowing an appropriate amount of time for Dealers to determine an effective and fair resolution?

SIMA Response:

The 90-day time limit for providing a substantive response to complainants, as outlined in proposed section 3755(v), may be reasonable under ideal circumstances. In practice, this is not always the case - some Internal Dispute Resolution Services (**IDRS**) operate independently and therefore do not receive the complaint until after the Dealer Member has issued its substantive response, which could take up to 90 days.

As a result, under the proposed 120-day time limit in section 3756(5)(ii), the IDRS may be required to resolve the escalated complaint - or communicate the Dealer Member's final decision - within as little as 30 days. Given the complexity of many complaints and the fact that, on average, an IDRS requires 90 days to complete its work, this compressed timeline is often unrealistic.

To mitigate this issue, we urge CIRO to recognize two distinct phases within CIRO's complaint handling rules:

- **Dealer Response Phase**: In this phase, the Dealer Member investigates the complaint and delivers a substantive written response within 90 days of receipt, and
- **IDRS Phase**: In this phase, the IDRS, which operates independently of the Dealer Member, makes reasonable efforts to complete its review and resolution process within a time period that reflects the scope and complexity of the complaint.

In our view, compartmentalizing the complaint handling process better reflects operational realities, upholds fairness, recognizes that a complainant can elect not to engage the IDRS, and preserves the complainant's right to escalate to OBSI at any time. It also respects the independence of the IDRS and ensures that all parties will have adequate time to assess their respective positions and make better informed decisions.

Question #6 - Client reporting

Do you agree with our assessment of the areas where the proposed harmonization is consistent with current requirements and Dealer practices and therefore no significant negative impact has been introduced for Dealers and clients as a result? If not, please explain.

Do you agree with our assessment of those areas where the proposed harmonization may impact some Dealers, but that the benefits of such harmonization outweigh the costs to the affected Dealer? If not, please explain.

SIMA Response:

We generally support CIRO's client reporting proposals and appreciate its efforts to clarify Dealer Members' reporting obligations. In particular, we welcome the revisions related to protection fund coverage disclosure for client-name holdings and the alignment with client-focused reform (**CFR**) requirements. These changes are consistent with current regulatory expectations and industry practices, and we agree that they are unlikely to introduce significant negative impacts for most Dealer Members or clients.

Regarding the areas where the proposed harmonization may affect some Dealer Members more than others, we acknowledge that certain adjustments—such as changes to reporting formats, system updates, procedural modifications, as well as staff training and education—may require operational or technological investments. However, we agree with CIRO's assessment that the long-term benefits of harmonization, including greater regulatory clarity, improved client understanding, and enhanced consistency across the industry, outweigh the transitional costs for affected Dealer Members.

We also recognize that harmonization can reduce regulatory fragmentation and compliance uncertainty, particularly for firms operating across multiple jurisdictions or regulatory frameworks. Over time, this should lead to more efficient compliance processes and better client outcomes.

Notwithstanding these views, we encourage CIRO to continue engaging with industry stakeholders to ensure that implementation timelines are reasonable and that sufficient guidance is provided to support a smooth transition. Flexibility in early implementation phases—especially for smaller or resource-constrained Dealer Members—will be key to minimizing disruption while achieving the intended benefits of harmonization.

Question #7 - Use of free credit client cash

Is it appropriate to extend the ability to use free credit client cash to level 3 MFDs in addition to level 4 MFDs?

SIMA Response:

As part of the rule consolidation initiative, it would be inappropriate for CIRO to extend the use of free credit client balances to Level 3 MFDs (**L3MFDs**) at this time, for the following reasons:

- **Impact on CIRO's Rule Project** – Allowing L3MFDs to use free credit client balances would require extensive policy, regulatory, operational and supervisory analysis. This could delay the finalization and implementation of the consolidated DC Rule Book.
- **Regulatory Oversight** – Permitting L3MFDs to use free credit client balances would necessitate significant revisions to CIRO's capital adequacy rules and risk management frameworks and would increase demands on CIRO's Financial Operations (**FinOps**) audit capacity to maintain investor protection and financial stability.
- **Risk Management** – Most L3MFDs currently lack the financial infrastructure, risk management systems and managerial expertise necessary to meet the capital, solvency and supervisory requirements that would accompany this expanded capability.
- **Regulatory Burden** – Granting this ability would impose substantial compliance costs on L3MFDs, including the need to develop new policies, procedures, and reporting mechanisms to align with CIRO's investment dealer standards.

Given these considerations, we recommend that CIRO defer this initiative and consider it as part of a future rule consultation following the implementation of the DC Rules.

Question #8 - Transition period for Form 1 capital formula and provider of capital charge

Is the phased approach we propose, for MFDs to adopt the new DC Rules Form 1 capital formula and the provider of capital concentration charge, an appropriate approach and transition period?

SIMA Response:

We support CIRO providing an extended transition period to MFDs to facilitate their adoption of the new DC Rules Form 1 capital formula. In the event CIRO decides to extend the provider of capital concentration charge to MFDs as well, an extended transition period would also be required. Based on the complexities involved in the adoption of the Form 1 capital formula and Provider of Capital Charge by MFDs, including the necessary implementation of policies, procedures and technology, as well as the hiring of qualified CFOs by some MFDs we suggest that a six-year extension, beyond the general effective date for the DC rules, is provided.

Question #9 - Transition period for MFDs' auditor approval

Should the proposed requirements for approval of MFDs' auditors as panel auditors be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?

SIMA Response:

CIRO panel auditors must possess several key qualifications, including:

- **Professional Standing**: The audit partner must be a CPA Canada member in good standing with a minimum of five years of experience.
- **Specialized Training**: The engagement audit partner must have completed the CPA Canada In-depth Brokers and Investment Dealers Course.
- **Tailored Audit Procedures**: The audit firm must have developed audit procedures aligned with the risks and requirements of investment dealers, consistent with CIRO's IDPC Rule 4100.

In contrast, MFD auditors are currently expected to meet:

- **Professional Standing**: CPA designation in good standing with CPA Canada.
- **Relevant Experience**: Experience auditing mutual fund dealers or similar regulated entities, particularly for the engagement audit partner.
- **Familiarity with MFD Rules**: Working knowledge of the Mutual Fund Dealer Rules, including MFDR Form 1 and related audit procedures.

We understand that approximately 24 MFD auditors will be required to meet CIRO's more rigorous panel auditor standards, potentially necessitating additional training. To avoid disruption to MFD operations, we support an extended transition period beyond the DC Rules' effective date. The extension should align with the time needed to satisfy current IDPC requirements; therefore, we recommend an extension of no less than two years and no more than five years in length.

Question #10 - Form 1 schedules

Where we have proposed separate schedules for mutual fund dealers and investment dealers in the new DC Rules Form1 (e.g. client trading accounts, broker trading accounts, FX margin, concentration etc.):

- ***are these separate schedules appropriate, or***
- ***should we consider one combined schedule for both mutual fund dealers and investment dealers?***

SIMA Response:

We support separate schedules to simplify reporting for Dealer Members by including only items relevant to the Dealer Member's classification.

Additionally, we recommend developing an aggregated smart form schedule that aggregates all line items but dynamically displays only those line items applicable to the Dealer Member's classification. This would streamline the process while maintaining relevance.

We also urge CIRO to integrate built-in validations within each schedule to maintain consistency across statements, particularly for balances or figures carried over between sections. This enhancement would improve accuracy and reduce reporting errors.

Question #11 – Concentration for diversified investment products

The current concentration schedule allows Dealers to look through to underlying securities where the concentrated product is a broad-based index.

Does the proposed change allowing this approach on a broader basis to diversified investment products such as mutual funds that have a basket of underlying investment products (not including derivatives) provide sufficient operational flexibility to Dealers in managing potential concentration exposures?

Or should we consider excluding these types of fund products from concentration testing based on their risk profile?

SIMA Response:

We are supportive of this proposal because it provides Dealer Members with the option, but not the obligation, to look through to underlying securities within diversified investment products, such as a mutual fund, that have a basket of underlying investment products (excluding derivatives).

Providing IDs and Level 4 MFDs with this additional analytical tool may enable them to more effectively assess and manage concentration risk of diversified investment products. We note, however, that looking through the underlying securities would not be a simple task, given the data related challenges involved in determining how and where to source the data efficiently and on a timely basis.

For greater clarity, we recommend that CIRO confirm that diversified investment products, such as mutual funds based on a broad-based index, can be excluded from concentration testing based on their risk profile under this proposal.

Question #12 - Transition period for counterparty margin

To what extent is it appropriate to apply a phase-in approach for mutual dealers to adopt the counterparty margin requirements for acceptable counterparties and regulated entities?

What is an appropriate extended transition period?

SIMA Response:

We strongly support a phase-in approach to facilitate MFDs' adoption of the counterparty requirements for acceptable counterparties and regulated entities. Given that the adoption of margin requirements has significant policy, procedural, technology and training implications, we recommend CIRO provide a two-year extended transition period, following the CSA's approval of the relevant provisions.

Question #13 – Rule consolidation project

Considering all the phases of this project, are the proposed DC Rules aligned with the objectives of the project? To what extent have the proposed DC Rules introduced an excessive regulatory burden?

SIMA Response:

Based on our submissions in response to Phases 1 to 5 of the Consolidated Rule Project, we believe the proposed DC Rules generally align with its objectives. However, we cannot provide a definitive response to this question until we have thoroughly reviewed the proposed, consolidated DC Rules and draft guidance in Phase 6, as we discussed in our core letter.

Regarding the second part of this question, we are of the view that some proposals would impose an additional regulatory burden on some or all Dealer Members, including:

- Phase 5 - Expanding the complaint definition to include employees who are not Approved Persons.
- Phase 5 - New and revised complaint handling and reporting requirements, including the broader obligation to report misconduct by individuals that are not Approved Persons.
- Phase 4 - proposal prohibiting MFD personnel from:
  - Holding positions of control or authority over a client's financial affairs, and
  - Being named as a beneficiary.
- Phase 3 – Proposal to require cross guarantees between Dealer Members and their related companies
- Phase 3 – Proposal to increase the penalty per offence from $5 million to $10 million
- Phase 3 – The potential impact on the ability of SIMA members to comply with applicable employment law requirements, if CIRO's proposed expansion of prohibitions, relating to sanctioned individuals, are adopted.