



June 27, 2022

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
Manitoba Securities Commission  
Financial and Consumer Services Commission of New Brunswick  
Office of the Superintendent of Securities, Newfoundland and Labrador  
Office of the Superintendent of Securities, Northwest Territories  
Nova Scotia Securities Commission  
Office of the Superintendent of Securities, Nunavut  
Ontario Securities Commission  
Prince Edward Island Office of the Superintendent of Securities  
Financial and Consumer Affairs Authority of Saskatchewan  
Office of the Yukon Superintendent of Securities

**Submitted by email to:**

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Dear Sirs and Mesdames:

**Subject: Request for Comment 25-304 Application for Recognition of New Self-Regulatory Organization**

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to respond to the CSA's request for comment, which outlines further details for a proposed framework for a new national SRO.

**About IFB**

IFB is a national, professional association whose 3,000+ members are licensed financial advisors and planners.



Many IFB members are currently regulated by the Mutual Fund Dealers Association (MFDA). A smaller number are regulated by the Investment Industry Regulatory Organization of Canada (IIROC). Most are also life insurance licensees, and as such are regulated by their provincial insurance regulator(s). Some are exempt market or scholarship plan registrants whose activities are regulated by their provincial securities commission(s). Often, they have earned additional credentials or designations to better enable them to address the broader needs of their clients, such as tax and estate planning, financial planning, etc. The amalgamation of the existing SROs, therefore, is of significant interest to our Members. In particular, they are interested in whether the New SRO will offer new opportunities for them to improve the services they can provide to their clients.

IFB members are self-employed individuals who own small to medium sized financial services practices in their local community. They provide personalized advice and planning to families, individuals, and businesses across Canada - often over many years and spanning generations. Advisors who have chosen to be independent provide an important community-based alternative to the financial advisory services offered by large integrated financial firms, and to those who are restricted to the sale of proprietary products. IFB does not represent employees of financial firms/institutions or career agents of life insurance companies.

IFB members have become increasingly concerned with the growing regulatory burden and costs associated with their financial advisory practice, and how they affect their ability to advise clients, particularly those clients who are just beginning to invest or have smaller investment accounts. It is our hope that the new, more streamlined SRO framework, can be more efficient, reduce costs for registrants and their clients and, importantly, mitigate the confusion the current bifurcated SRO structure creates for the investing public. We expand on these comments below.

### ***Comments on the Proposals***

#### Timelines

IFB agrees that it is appropriate to amalgamate the MFDA and IIROC in Phase 1, as well as merge their respective investor protection funds into New IPF.

IFB would like to commend the CSA, and the Working Group, on its plan to implement Phase 1, effective January 1, 2023. In our response, dated May 2021, to [CSA Position Paper 25-404](#), IFB had expressed concern that there were no timelines associated with the proposed Phase 1 or 2. We anticipate a single SRO will have many benefits for the securities industry and its clients, and are pleased that regulators are moving forward in an expeditious manner on this first Phase.

At the same time, IFB encourages the CSA to establish a formal timeline for a Phase 2 rollout, since some of the advantages of the New SRO will not be fully realized in Phase 1. It will be important for the securities industry and its clients that the momentum to create a more fully integrated SRO is not lost.

#### Regulatory Co-ordination

As noted above, many IFB members are jointly licensed to provide clients with services for both life/health insurance and mutual funds. IFB encourages the CSA and its insurance counterparts, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Regulatory Organizations (CISRO), to work closely throughout the development of the New SRO so the many advisors who

operate under both regimes can benefit from a coordinated approach to regulatory rules and outcomes, where possible.

As work on the New SRO continues, it presents an important opportunity to consider the broader nature of the provision of financial advice and services to clients, who are often confused by the different or overlapping rules between sectors.

In its *Position Paper 25-404*, the CSA noted that the Joint Forum of Financial Markets Regulators can provide the opportunity to consider harmonizing, where appropriate, securities and insurance regulation. Although not scheduled to begin until Phase 2, IFB encourages this to be a higher priority.

#### Access to advice

IFB has expressed concern for some years that the growing regulatory burden and costs associated with operating a financial practice are limiting the ability of advisors to offer personalized advice to all types of consumers. The result in the industry has been a trend toward attracting high net worth clients, often at the expense of smaller clients, to make a practice sustainable.

Many IFB members operate small to medium sized practices in their local community, outside of large metropolitan areas. It's important to them that they can continue to serve their rural and small-town clients, and those with small amounts to invest.

One of the major concerns about the New SRO was that it would lead to reduced costs for large integrated firms, that can take advantage of operating on a single platform, at the expense of smaller, independent firms, most often registered on the MFDA platform. Any such increased costs would further erode the ability of smaller firms to operate and cause them to exit the industry. This would be an undesirable result for the industry and the public, neither of which will benefit from lack of choice.

We believe the CSA has heard this concern, as evidenced by the CSA directive given to the New SRO Working Group, which was to focus on finding solutions that meet certain principles. Of particular interest to us is Principle 7: *do not impose barriers to registrants providing access to advice and products for investors of different demographics, including less affluent or rural investors.*<sup>1</sup>

In addition, IFB is encouraged by the commitment for New SRO to develop a new fee model based on the following principles:

- all fees imposed must be equitably allocated and proportionate to the Members' activities
- fees must not have the effect of creating unreasonable barriers to access, especially for small and independent Members
- the process for setting fees must be fair and transparent
- New SRO must operate on a cost-recovery basis

These two initiatives, alongside the ability of MFDA dealers to have introducing/carrying broker arrangements with investment dealers to gain greater access to ETFs, are reassuring - especially for smaller, independent MFDA registrants.

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<sup>1</sup> [CSA position paper 25-404, New Self-Regulatory Organization Framework](#), August 2021. Page 2.  
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#### Directed commissions/Incorporated salesperson

IFB had hoped that Phase 1 of the amalgamation would have included a mechanism for the directed commissions model to be fully integrated into the New SRO. There seems to be little reason to delay moving forward on this for current IIROC registrants when both mutual fund registrants and life insurance licensees are permitted to direct commissions to their corporations. This would seem an opportune time to extend this option to all registrant categories, and IFB members would welcome a consistent approach.

We understand the Working Group is also considering the Incorporated Salesperson category. Certainly, there are benefits to this, but given the possible delays with this model, we encourage the CSA to move forward with permitting directed commissions at this time.

#### Proficiency Upgrade for mutual fund only registrants

IFB suggests that the proficiency upgrade, for some mutual fund only registrants, warrants further explanation. It appears that firms wanting to be registered as a dual-registered firm with New SRO will need to have their existing mutual fund only registrants upgrade their proficiency, by completing the Conduct and Practice Handbook and be subject to a 90-day training period. It further appears that this applies to individuals licensed for mutual funds only and who are employees of a dual-registered firm. We would like to better understand the rationale for requiring the upgrade and any potential impact on other advisor-firm contractual relationships.

#### Governance model

IFB generally supports the proposed governance structure. We believe the public interest mandate, increasing the number of independent directors, and requiring the Chair to be independent, are important steps, that will improve upon the existing SROs' governance structures. It's also important that the New SRO's governance is reflective of the many types and sizes of SRO member firms that will be regulated by it and the advisors who work with those firms, in addition to having strong investor input.

Given the size and power of this new SRO, IFB agrees that it is appropriate for the CSA to have enhanced oversight capabilities. These capabilities should be exercised in a judicious way, however, so they do not interfere with, or impair, the regulatory efficiencies expected to be realized by the New SRO.

We note that the draft Bylaw No. 1, proposes that the Governance Committee be comprised entirely of independent directors. We query the rationale behind this proposal as the Board will be comprised of both industry and independent directors. In our view, the Governance Committee would benefit from the perspectives of both industry and independent directors, as well as aligning with the actual composition of the Board of Directors.

#### Investor Office/Investor Advisory Panel

The New SRO provides for the inclusion of a separate Investor Office, whose goal is to improve investor protection by providing a stronger investor voice that will be identifiable and accessible to investors, support rule development and provide investor education and outreach. We agree that investor education and increased financial literacy are important contributors to investor protection.



In addition to the Investor Office, it is proposed that the New SRO will have an investor advisory panel which will be responsible for independent research and input on regulatory and public interest matters. The Investor Office will be the liaison between the IAP and New SRO staff and the New SRO Board will meet with the IAP at least once per year.

While IFB agrees that taking steps to increase investor input is important, various investor advisory panels and investor offices exist now, and we wonder how difficult it will be to adequately populate these various Committees/Panels with enough diversity of input. This possibility seems to have been contemplated, as the draft *New SRO Investor Advisory Panel / Terms of Reference, Article 2.5 Membership on other Investor Advisory Panels*, states that being a member on an investor advisory panel of another organization will not disqualify an individual from applying for or remaining a member of the IAP.

From a practical standpoint, this causes us to question whether having multiple investor offices with overlapping goals and membership will achieve the benefits that the New SRO, provincial securities commissions, FSRA, and the CSA in its June 27<sup>th</sup> announcement that will create a [CSA Investor Advisory Panel](#), envision. This may be an opportune time to rethink how best to incorporate investor input, effectively and efficiently, in the industry.

#### Proficiency/Continuing Education

IFB is pleased to see a commitment for the New SRO to “work towards the development and implementation of a harmonized continuing education program for all Dealer Members that is fair, consistent, and proportionate”.

Under the New SRO, it will be important to streamline the existing MFDA and IIROC continuing education requirements to reduce duplication, inconsistencies, and cost. The current framework of course accreditation is expensive for providers and reduces the ability of smaller providers, like IFB, to offer courses at a competitive price. The objective of a CE system should be to encourage learning by offering attendees access to an array of high-quality educational resources at an affordable price - not be a barrier to either choice or learning options.

We appreciate that in the short-term the existing MFDA and IIROC continuing education requirements will continue to apply separately to their Dealer Members. However, we strongly encourage the CSA to move toward a harmonized program, with fewer barriers for providers and advisors, as soon as possible.

#### ***Other matters***

**Professional liability insurance:** There is no mandatory requirement for mutual fund registrants to maintain valid professional liability insurance, or Errors and Omissions insurance (E&O). We continue to recommend that under the New SRO, all registrants be required to have, and maintain, E&O insurance as a condition of licensing. This would bring mutual fund only registrants in line with the requirements for existing IIROC registrants and life insurance licensees. E&O is an important protection for the public as it provides an accessible and affordable recourse in the event of a mistake or complaint.



Corporation Investment Dealer and Partially Consolidated Rules:

The draft Rule 3115 Personal Financial Dealings - Section 2(1)(a)(ii) reads:

*Compensation received from a client in exchange for services provided through an approved outside business activity would not be considered to be consideration for the purpose of subclause 3115(2)(i)(a).*  
We believe the reference should be to an “approved outside activity”.

Titles: IFB has long supported the use of titles in the financial services industry that are appropriate and accurately describe the registration category and other proficiencies held by the firm or advisor. We support the CSA’s client focused reforms, that will require the New SRO to regulate the use of titles for its registrants, so the public is not misled.

While Ontario has recently implemented a regulatory framework that restricts use of the Financial Planner and Financial Advisor titles (which may be extended to some other provinces), these regulations do not affect the many other titles used in the financial services industry, leaving consumers at continued risk. Since the concerns related to the inappropriate use of titles impact other segments of the financial services industry, IFB recommends that the CSA work with its insurance counterparts, the CCIR and CISRO, to implement a more robust and comprehensive approach to use of titles.

In closing, IFB commends the CSA on its progress toward implementing the New SRO. We are encouraged by the important steps the CSA and Working Group have taken to entrench access to affordable advice in its guiding principles and proposals for the New SRO.

IFB looks forward to working with the CSA and commenting further as future consultations become available.

Should you have any questions or wish to discuss our comments, please contact the undersigned or Susan Allemang, Director, Policy & Regulatory Affairs (E: [sallemang@ifbc.ca](mailto:sallemang@ifbc.ca)).

Yours truly,

***“Nancy Allan”***

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