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

Submitted by email:
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Dear Sirs & Mesdames:

Subject: CSA Consultation Paper 25-402 *Consultation on the Self-Regulatory Organization Framework*

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to comment on the CSA's consultation paper to examine a framework for the self-regulatory organizations.

IFB is a national, professional association whose members are licensed financial advisors and planners. Many IFB members are regulated by either the Mutual Fund Dealers Association (MFDA) or 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 and are regulated by their provincial securities commission(s).

The current fragmented approach to securities regulation has led to a complex system of licensing, market oversight, compliance, and regulatory costs. The CSA identified widespread support to change the current system and to find more effective solutions that will enhance investor protection and confidence in our capital markets, while reducing costs, regulatory burden, and impediments to innovation[1]. We agree.

IFB supports the continuation of a self-regulatory regime for investments, albeit in a renewed entity. However, it is incumbent on regulators, industry, and other stakeholders to ensure that the process begins and is implemented in a timely way and not encumbered by years of continuing debate.

To put our comments into context, IFB members are self-employed individuals who generally 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 even generations. IFB does not represent employees of financial firms/institutions or career agents of life insurance companies.

Issue 1: Duplicative Operating Costs for Dual Platform Dealers
Targeted Outcome: A regulatory framework that minimizes redundancies that do not provide corresponding value.
As an Association representing licensed financial professionals, IFB's interest in how a future SRO might be structured is centered on how it will affect our members and their clients. As mentioned, the majority of IFB members are currently regulated by the MFDA, and their provincial insurance regulator(s). What is paramount to them is how they can continue to advise clients of moderate means at a cost that is not prohibitive to their financial practice or their clients. In this respect, under any newly formed SRO – whether by merger or rethink – they need assurance that there will be a level playing field between mutual fund dealers and IIROC firms to the extent that existing mutual fund firms (and by extension, their advisors) will not be pushed out of the investment industry due to an increase in cost or regulatory burden. The potential impact of any unlevel playing field will be far greater on smaller, independent mutual fund firms and their advisors, than on large integrated firms (like bank-owned investment firms) who will experience greater reduction in duplicative costs (as they operate on both platforms).

It has become clear that a combination of mergers, acquisitions and firms moving to the IIROC platform has reduced the number of firms that want to exclusively serve the restricted mutual

[1] CSA Consultation Paper 25-402, Consultation on the Self-Regulatory Organization Framework. Page 9.

fund market. Despite this, it is also clear that many Canadians of moderate means rely on mutual funds as an accessible investment vehicle to participate in the capital markets.

Choice in how they access advice, and continued access to advice, for individuals and families with smaller investment accounts through an independent firm should be a factor the CSA is mindful of when considering how best to proceed with any transition away from the current SRO regime.

Indeed, IIROC acknowledges this in its submission to this CSA consultation:
We support the importance of a range of different business models by size, geography and specialization serving clients of all sizes and means across the country in rural and urban communities. In support of investor protection, we will collectively need to avert taking steps that could leave any group of investors unserved, or unprofitable to serve. Careful analysis will be required to avoid unintended consequences which might impact smaller, regional and specialized business models. This should include ensuring a framework which supports ongoing innovation and new entrants and the provision of a wider selection of products and services for investors. Based on our experience, we strongly support a focus on the importance of small and independent dealers who provide access and choice to investors across the country regardless of where they live or the amount of their investments.[2] This perspective and support from IIROC is important assurance for the smaller dealers, and advisors like IFB members. We will look for similar assurance from the CSA as it moves toward a recommended approach.

i) Directed Commissions and 270 Rule

In a new SRO, consideration will have to be given to some rules that are unique to the MFDA, such as the ability to pay directed commissions to a personal corporation. Many IFB members are permitted as mutual fund registrants and life insurance licensees to direct their commissions to a personal corporation. The MFDA has permitted it for many years with no resulting investor protection issues. IIROC advisors do not have this option. Many advisors who are dual-licensed will need comfort that this arrangement will be continued under any new, merged SRO. Going forward, this may also present an opportunity to revisit the restriction in securities legislation which does not permit individual registrants to incorporate and receive commissions directly.

Rule 270 is another example, in that if mutual fund only registrants were to become part of an IIROC merger, and a restricted mutual fund license is to be retained, the Rule would need to be withdrawn. Reasons for keeping it in the past were the CSA's concern that abolishing it would permit mutual fund advisors to work at an IIROC firm without having to complete the proficiency upgrade, and since this might be attractive to IIROC firms, it could threaten the viability of the MFDA. Going forward under a single SRO, this would seem to be no longer a consideration.

[2] IIROC response to CSA SRO consultation, page 7.

ii) Financial Compensation Funds

Investor assets are protected in the event a securities or mutual fund firm becomes insolvent. MFDA investors are protected under the MFDA Investor Protection Corporation. IIROC investors have similar protection under the CIPF. Under a single SRO scenario would the assets in the MFDA IPC continue to be separate, or would they be merged with the IIROC CIFP? It also raises the question of what will happen in Quebec, (whose mutual fund advisors are not part of the MFDA) if those in the mutual fund industry become part of an IIROC firm, since IIROC is recognized in Quebec.

Issue 2: Product-Based Regulation

Targeted Outcome: A regulatory framework that minimizes opportunities for regulatory arbitrage, including consistent development and application of rules.

We agree with other stakeholders that have noted the differences in approaches to compliance oversight by the two SROs, with the MFDA generally taking a more prescriptive approach and IIROC being more principles-based. Under a single SRO model, the existing Rules can be harmonized and applied more consistently.

More importantly, there seems to be no economic basis to continue having two SROs for Canada's investment industry. This is particularly true given the decline in MFDA membership. In 2002, the MFDA had 220 dealer members; today, the number of dealer firms has dropped to 90, 25 of which are dual platform (IIROC/MFDA). This leaves only 65 firms that deal exclusively in mutual funds. Bearing in mind that the SROs are required to operate on a cost-recovery basis funded by its members, the situation would become financial untenable for the remaining mutual fund-only firms if the dual platform dealers exit the MFDA. Since 60% of mutual funds are sold through IIROC firms, and the Deloitte Assessment of Benefits and Costs of Self-Regulatory Organization Consolidation, issued in July 2020, estimated that the cost savings for dual-platform firms over a 10-year time period to be between $380 million and $490 million such an exit seems likely.

Issue 3: Regulatory Inefficiencies

Targeted Outcome: A regulatory framework that provides consistent access, where appropriate, to similar products and services for registrants and investors.

Lengthy delays to implement change.

One of the advantages of any SRO regime is the expectation that, because it acquires a particular expertise about the businesses it regulates, it will produce more effective results and be able to detect problem areas or patterns more quickly.

However, we share the frustration of those who find that change in the financial field can be a lengthy process – often years in the making. For example, it is widely acknowledged that an important investor protection measure is that anyone licensed to advise on financial products be proficient. Their knowledge should be sufficient to understand the products they

recommend and the clients they are recommending them to. Continuing education is a recognized essential element to keeping one's professional knowledge current.

Yet in 2020, mutual fund advisors are not required to complete mandatory CE. Continuing education is a mandatory licensing requirement for IIROC advisors, life insurance advisors, holders of financial services designations, such as the CFP®, and for many other financial professionals. Currently, the MFDA oversees approximately 90,000 mutual fund advisors. While many of these advisors complete CE either as required for another license or designation/credential or voluntarily, it remains a gap in MFDA procedures that it has yet to implement a CE requirement. IFB first responded to the MFDA 's consultation on CE in 2014. Today – 6 years later – there is still no system in place, or implementation date despite large investments in a system to electronically track CE. There has been widespread industry support for a CE requirement for MFDA advisors from the beginning, and near universal calls that it be simply and quickly implemented by recognizing the CE requirements and many available educators already in the marketplace. Instead, the MFDA proceeded to pursue multiple consultations and a separate accreditation framework that has delayed its implementation, all under the CSA's watch. In contrast, Ontario's Financial Services Regulatory Authority issued a consultation paper in August 2020 on a Financial Planner/Financial Advisor titling restriction framework that it expects to put into place in 2021.

Issue 4: Structural Inflexibility

Targeted Outcome: A flexible regulatory framework that accommodates innovation and adapts to change while protecting investors.

i) A single SRO could improve outcomes for MFDA firms.

The phased-in approach to SRO consolidation would mean that MFDA-only advisors could access a wider range of products for clients, in a shorter time. This would be beneficial for both clients and the advisors with whom they often develop long-term relationships. Currently, if their investment needs change, clients may be forced to change firms or advisors - most often involving a move to an investment dealer, along with all the associated inconveniences like delays in transferring the account, and repapering to open new accounts. This is not only an inconvenience for investors, but they may be subject to higher fees or minimum asset requirements to access these investments. This is a barrier for investors that should be addressed.

Certainly, improving access to ETFs, which have appeal to many consumers, would be helpful to MFDA-only advisors. The current process to access ETFs is difficult, cumbersome, and costly and impairs their ability to offer them as an investment choice to clients. These clients, if they want to access ETFs, may be forced to do so with an OEO firm, thereby relinquishing their access to advice. A solution which makes ETFs more accessible for mutual fund clients would be welcome.

IFB has seen an increase in the use of technology by our members over the past number of years, and certainly as they work to maintain non-face-to-face communications with their

clients as a result of the pandemic. Some clients will prefer to continue this as a convenient way to conduct business that does not require travel to a physical office. The regulatory framework will need to accommodate such consumer preferences, while ensuring there is no reduction in investor protection.

Issue 5: Investor Confusion
Targeted Outcome: A regulatory framework that is easily understood by investors and provides appropriate investor protection.
A single SRO would reduce regulatory overlap and permit investors who begin their investing experience with a mutual fund, for example, to add investment products over time, as well as harmonize rules that create barriers for investors.

The current plethora of titles used by those in the investment industry contributes to confusion. Restricting titles has been on the CSA radar for years, and yet was not included in the first implementation of the CFRs. In previous CSA consultations, IFB along with many industry stakeholders and investor advocates have generally agreed that titles – particularly the use of corporate and other titles that can mislead consumers -- should be reduced to the advantage of investors. The CSA has undertaken to recommend changes to titles but has yet to do so.

The Client Focused Reforms will most certainly help to clarify for investors the services being provided and recommended.

Issue 6: Public Confidence in the Regulatory Framework
Targeted Outcome: A regulatory framework that promotes a clear, transparent public interest mandate with an effective governance structure and robust enforcement and compliance processes.
IFB supports this outcome. There must be a clear, transparent public interest mandate, effective governance that reflects input from a wide variety of stakeholders, and robust enforcement and compliance. We note that IIROC has recently changed its Board structure to include investors, although the MFDA has not taken this step.

IFB has often advocated for more representation of investors and, equally importantly, advisors themselves. Firms do not speak for advisors. Advisors often have frustrations or see investor issues at ground level and have few mechanisms to bring them forward in a way that will not impair their relationship with their dealer or their SRO.

Concluding remarks
In addition to our comments above, we submit the following for the CSA's consideration.

Given the complexities involved in moving to a single SRO, IFB recommends that the CSA pursue a phased approach. This will allow business to continue within a merged entity while providing opportunities to look for ways to improve and streamline existing processes.

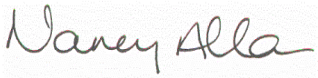
IFB recommends the CSA establish a stakeholder transition group. It will be important to include representation from a wide variety of stakeholders, including investors, advisors, and firms of all sizes and complexity.

IFB believes this presents opportunities to work more closely with other financial service regulators throughout the development of a single SRO and align the regulatory intent of treating consumers fairly without regard for the particular product being considered or the type of business model.

Regardless of the path chosen to move to a single SRO, there must be firm timelines. The industry and its customers should not have to wait for a solution that is years in the making. Delays will create uncertainty and impair confidence among the regulated and their clients. The investing public should be confident that the CSA is moving in a clear direction that will result in a regulatory system that will enhance their experience, not perpetrate the potential for regulatory arbitrage, or increase confusion.

We appreciate the opportunity to provide our views. Please contact the undersigned, or Susan Allemang, Director Policy & Regulatory Affairs (sallemang@ifbc.ca) should you have any questions or wish to discuss our comments further.

Yours truly,



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