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

November 6, 2026

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
Email: memberpolicymailbox@ciro.ca

Dear Mesdames, Sirs,

RE: Rule Amendments Relating To The Proposed Adoption of an Incorporated Approved Person Compensation Option

The Securities and Investment Management Association (**SIMA**) appreciates the opportunity to comment on the Canadian Investment Regulatory Organization (**CIRO**) consultation on the Rule amendments relating to the proposed adoption of an Incorporated Approved Person (**IAP**) compensation option (**Consultation**).

SIMA empowers Canada's investment industry and is now the leading voice of the securities and investment management industry, which oversees approximately $4.5 trillion in assets for more than 20 million investors and whose members participate in Canada's capital markets. Our members, which include asset and investment fund managers, investment and mutual fund dealers, capital markets participants and professional service providers, are committed to building a resilient and innovative investment industry that drives long-term economic growth and finds investment opportunities for Canadians.

We operate under a formal governance framework and gather input from our members through our proactive working groups. Recommendations from these groups are submitted to the SIMA Board of Directors or Board-level steering committees for guidance and approval. This process ensures that our submissions reflect the input and guidance of a broad range of SIMA members.

This submission was reviewed and approved by the Wealth Manager Dealer Steering Committee (**Committee**). The Committee would welcome the opportunity to meet with CIRO to provide further context and discussion on the core elements of our letter.

Introduction

We acknowledge the considerable work undertaken by CIRO in developing this proposal and recognize the complexity of the issues involved. We also appreciate that CIRO provided a longer than usual consultation period, given the proposal's myriads of policy, investor protection and industry considerations. The longer consultation period has allowed us to more thoroughly consider the proposal. We hope that the perspectives and considerations outlined in this submission help CIRO and the Canadian Securities Administrators (**CSA**) make informed decisions with respect to the proposed framework.

Our comments are broken down into the following sections, each of which contain SIMA's analysis and, in some cases, recommendations relating to:

- Areas of the proposal that we support and/or are aligned with,
- Points that we disagree with,
- Elements of the Consultation for which we seek further clarification,
- Taxation,
- The proposed written tri-partite agreement between the Dealer, the corporation and the Approved Person (**AP**),
- Transferability of the corporation, and
- Transition period.

In the appendices, we provide answers to the questions posed in the Consultation and some examples of existing team models that inform our views and recommendations.

In general, we support CIRO's proposed policy approach for the advisor compensation framework.

As a threshold matter, we emphasize that ownership of the corporation is a pivotal issue. A majority of our members have raised significant concerns with the proposal to limit ownership of the corporation to the AP and their "related persons". As we describe below, many advisors, particularly those that would benefit most from this proposal, work in teams. The team model offers important benefits, including facilitating succession planning and continuity of service for investors. Accommodating team-based ownership within the proposed framework would promote fairness across business models while preserving the flexibility needed to support evolving business and succession arrangements.

We hope our comments are helpful and look forward to continuing to collaborate with CIRO to address stakeholders' varied concerns.

Areas of Support/Alignment

The Proposed Mechanism

We support the proposed policy option – a new "Incorporated Approved Person" category – to move toward a level playing field for the advisor compensation model. This approach emerged as the preferred model from CIRO's previous consultation and best positions dealers and CIRO to oversee the corporation's securities-related activity.

Optional Adoption

We agree that dealers should have the option, but not the obligation, to adopt the proposed IAP model.

Other Regulated Financial Services Activities and Ancillary Services

We agree that other Canadian regulated financial services activities and ancillary activities should be permitted to be carried out within the corporation, in addition to those activities performed on behalf of the sponsoring Dealer Member. Many APs have dual or multiple financial sector licenses and provide other financial services to their clients, including, for example, insurance. APs also deliver ancillary services, such as financial planning, which we note is not regulated outside of Quebec. Allowing such activities to be conducted within the corporation would create significant administrative efficiencies by reducing business, compliance, governance, marketing and other administration costs.

We also support the proposed restrictions on the financial services that may be offered through an advisor-owned corporation, as they ensure a coherent range of services that are easily understood, approved and overseen by CIRO and the sponsoring dealer.

Shareholders Cannot Be Approved Persons of Another Dealer

We believe APs sponsored by different dealers should not be permitted to operate within the same corporation, even if they are considered to be "related persons". Differences in dealers' respective policies, procedures and supervisory requirements would create unnecessary complexity and increase the supervisory burden. We request confirmation of this point in the final version of the published rule.

Points of Disagreement

Limited Ownership

As the consultation states in section 7.3, based on feedback received from stakeholders, "…it is common for teams of financial services advisors to provide a range of financial services to clients and so continuing to have this ability was important from a continuity and cost of client service standpoint. Further, where a team approach is used, they also stressed that it was important to allow all of the corporation advisor team members (and related person members of their family) to be able to participate in the ownership of the corporation in order to not introduce an equity participation double standard amongst the corporation's advisors and to, when the time comes, enable the smooth transition of ownership from one set of financial services advisor corporation owners to another".

We note that CIRO had adopted policies that would respond to certain of these industry needs. However, the Consultation proposes that:

- the voting shareholders of the corporation are limited to a single client-facing AP, sponsored by the Dealer Member, who provides investment services to clients from within the corporation, and
- the non-voting shareholders of the corporation are limited to the same client-facing AP and their related persons.

We strongly disagree with this approach. The Consultation does not provide investor protection or market efficiency rationale for the proposed ownership restrictions, despite significant stakeholder feedback supporting the need for flexible ownership models.

As discussed below, existing team models provide significant benefits to clients, APs and their sponsoring dealers, as well as CIRO. The proposed ownership restrictions would disrupt these arrangements and impose unnecessary operational and financial burdens. Several jurisdictions already permit multiple mutual fund APs to operate within the same corporation. Requiring existing structures to transition to a "one-AP-per-corporation" model could involve extensive corporate restructuring and substantial upfront and ongoing costs for APs and dealers, while potentially disrupting client service. APs currently operating in team environments, may also need to establish new agreements or arrangements for ownership, financing of client books of business, employment, payroll and benefits, revenue and cost sharing, rent allocation, bank accounts, tax structures, , corporate governance, client relationships, and compliance oversight. These are not simply administrative adjustments. Depending on the structure, they may involve significant legal, tax, financing, and operational consequences. They may also affect succession arrangements that were implemented legitimately under the existing regulatory framework.

Team models have evolved to meet the needs of both clients and advisors and offer important client service and operational benefits. Multidisciplinary teams can offer clients a one-stop-shop service for various financial services, including investments, insurance, financial planning and other financial services. Teams of APs within the same securities registration category can also enhance continuity of service during vacations, parental or other leaves, and facilitate effective succession planning. Team structures also allow APs to share resources and costs, creating efficiencies that ultimately support client service.

Team-based arrangements are also increasingly prevalent. Based on information provided by a sample of our mutual fund and investment dealer members, 20 to 50 percent of dealers' APs currently operate in a team environment, and members report that the adoption of a team model is a growing trend. Given the prevalence and benefits of these arrangements, the proposed framework should accommodate existing and future team structures rather than require APs to dismantle arrangements that are working effectively for clients, advisors and dealers.

Team structures are particularly important for succession planning. They facilitate the gradual transfer of client relationships from retiring APs to other APs within the team who are already familiar with the clients and their needs. This supports an orderly transition, continuity of client services and a better client experience.
Team structures also accommodate different career and employment models within the industry. Some APs prefer to work as employees rather than build and manage their own client base. Under the current directed commissions model, APs in the mutual fund sector can employ other APs sponsored by the same dealer. A one-AP-per-corporation restriction could limit this model and create barriers to attracting and developing new advisors, with potential implications for the availability of advice to investors.

The team model also benefits CIRO and dealers by reducing administrative burden. Permitting multiple APs on the same team to operate within a single corporation reduces the number of corporate entities that CIRO and sponsoring dealers must approve, while also facilitating the analysis of trends across teams. The result is a more efficient and scalable framework that reduces administrative burden without compromising the quality or rigour of oversight, particularly as the number of APs operating in the industry continues to grow.

We point to a recent United States development as support. The Securities and Exchange Commission (SEC) staff have taken a position that expressly contemplates more than one advisor owning a personal services corporation[1].

In Appendix 2, we have provided examples of various existing team structures in the Canadian market to better illustrate our comments on the prevalence, use and variety of team structures which we believe to be working appropriately.

Given these concerns, we recommend that the proposed ownership restrictions be amended to permit multiple owners, including APs and advisors providing other regulated financial services and ancillary services, as well as their related persons. We also recommend that the corporation be permitted to employ one or more APs sponsored by the same Dealer Member.

Voting and Non-Voting Shareholders Cannot Be Individuals Who Are Persons Subject to a Relevant Sanction During the Period of the Sanction

We would appreciate CIRO providing its rationale for this proposed restriction. The decision to adopt the IAP model is fundamentally a business decision intended to allow APs to incorporate, similar to professionals in other industries, to improve business efficiency and facilitate business management and succession planning. In our view, a regulatory sanction should not prevent an AP from accessing the benefits of incorporation. Many APs continue to be permitted to conduct securities-related activities while

[1] In the United States, multiple advisors affiliated with the same dealer may own shares in a single personal services corporation. SEC staff has taken a no-action position permitting such a corporation to receive transaction-based compensation on conditions that include each owner of the entity being a registered person of the dealer, and each of the representatives and principals at the entity being registered with that same dealer. *See* Letter from Emily Westerberg Russell, Chief Counsel, Division of Trading and Markets, U.S. Securities and Exchange Commission, to Clifford Kirsch, Eversheds Sutherland (US) LLP (November 17, 2025); FINRA, Regulatory Notice 26-12 (June 9, 2026). Legislation to codify this relief would extend permitted ownership in an entity to the representative's immediate family members and to entities wholly owned by the representative or those family members, without distinguishing between voting and non-voting interests: *Clarity for Compensation Act*, HR 7187, 119th Cong (2026), s 2, adding s 3(a)(4)(G) to the *Securities Exchange Act of 1934*.

under investigation, except in cases of a temporary suspension or prohibition that prevents them from conducting such activities.

We also question the practicality of this proposal. If an existing shareholder is sanctioned, how would the shareholder divest their shares for the duration of the sanction and subsequently reacquire them?

We would support the proposed restriction where a voting or non-voting shareholder is subject to a permanent ban. In that case, the shareholder would no longer be able to conduct securities-related activities and, therefore, there would be no basis for continuing to benefit from the IAP model.

Elements for Which We Seek Further Clarification

Approval of Activities Within the Corporation

Proposed section 2305 outlines the specific dealer, AP and corporation requirements under the IAP model, including what activities can take place within the corporation. Paragraph 2305 (1)(ii) states:

"(ii) the activities that may be carried out within the Incorporated Approved Person, in addition to those activities performed on the sponsoring Dealer Member's behalf, are limited to those activities that:

(a) are determined by the Corporation to be:

(I) ancillary to the activities performed within the Incorporated Approved Person on the sponsoring Dealer Member's behalf, or

(II) regulated Canadian financial services sector activities, provided the agent:

(A) is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and

(B) is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed,

(b) are not contrary to securities laws, and

(c) do not bring the securities industry into disrepute, and

(d) have been approved in advance by the sponsoring Dealer Member to be carried out within the Incorporated Approved Person in accordance with the requirements set out in subsection 2555(1)."

We seek clarification on the respective roles of CIRO and sponsoring dealers in the approval process. As we understand from the Consultation, dealers would be responsible for reviewing and approving the activities conducted through the corporation. If this is the case, we support this approach as it aligns with existing risk-based practices. We seek clarification from CIRO regarding what level of scrutiny CIRO would apply when approving the IAP, and how much reliance CIRO will place on the dealer's review. We recommend that the respective responsibilities of CIRO and sponsoring dealers be more clearly articulated in the rules or accompanying guidance.

Dealers should have primary responsibility for the review and approval of the corporation's activities, with CIRO providing appropriate regulatory oversight. This approach would leverage dealers' existing supervisory processes, make efficient use of CIRO resources and reduce the risk of bottlenecks in the approval process.

We refer to section 3.4 of CIRO's previous consultation on this subject[2], which proposed that the dealer would be responsible for, among other things, reviewing and "approving the ownership structure and the activities that will be conducted within the corporation in accordance with CIRO (and where applicable CSA) requirements." The consultation further stated that "CIRO (and where applicable the CSA) would be

[2] https://www.ciro.ca/media/6801/download?inline

informed of the sponsoring Dealer Member approval of the application for approval or registration and CIRO will rely on this approval to automatically approve the application. Records relating to all such automatic approvals will be retained by the sponsoring Dealer Member and will be subject to periodic inspection by CIRO examination staff."

We support this model and recommend its adoption.

In Appendix 3, we provide the current regulatory framework where there is no regulatory approval required for activities in a corporation.

Exemptions

The consultation states:

> *"Eligibility for exemptions* – Revise rule requirements to specify that exemptions may also be granted to "Approved Persons" and other "Regulated Persons" to clarify that the CIRO Board of Directors (Board) may grant exemptions to any Regulated Person provided certain conditions are met. The equivalent MFD Rule already refers to Approved Persons *[IDPC Rule subsection 1302(1); MFD Rule 1A, Exemptions; and CIRO Rule subsection 1302(1)]".*

We would appreciate it if CIRO clarified whether the CIRO Board intends to delegate these exemption functions to CIRO staff through regulation. We believe that exemption requests would be addressed more quickly if the approval process is performed by CIRO staff, given that the Board only meets once a month, potentially delaying response times.

We also refer to CIRO's comments in the Phase 6 consultation[3] of the consolidated rulebook project in which CIRO indicated that, given the large volume of exemption requests, CIRO proposes to give CIRO staff the ability to grant exemptive relief:

> "3.4.1*(c) Exemptions regarding personal financial dealings*
>
> Given the volume of routine exemption requests, we propose giving CIRO staff the ability to grant exemptive relief from the personal financial dealings requirements where the circumstances warrant such relief. *(CIRO Rule sub-clauses 3110(3))".*

Legislative Amendments

As we stated in our previous submission[4] on this subject, we believe that the objective of the corporation being able to engage in registrable activities may not require legislative amendments but may be implemented through amendments to NI 31-103 where permissible under local law[5].

We also expressed the view that: "Legislative changes are not guaranteed to be achieved. Even if carried out by each jurisdiction, legislative changes would take long and be potentially implemented at different times in each jurisdiction, therefore disharmonizing the system within Canada and, for some potentially significant period of time, countering the level playing field that CIRO and the CSA are trying to achieve."

[3] https://www.ciro.ca/newsroom/publications/rule-consolidation-project-proposed-ciro-rules
[4] https://www.sima-amvi.ca/wp-content/themes/ific-new/util/downloads_new.php?id=29341&lang=en_CA
[5] For example, this is how the Securities Act of Ontario would permit to introduce a new registration category through regulation: Section 26.(2)1(vi) "A person or company making an application under subsection (1) with respect to registration as a dealer under this Act shall do the following: 1. Apply to be registered in one or more of the following categories: (vi) such other category of dealers as may be prescribed by regulation. Section 143(1): "Subject to subsection (1.1) the Commission may make rules in respect of the following matters: 2. Prescribing categories or subcategories of registration. In certain other jurisdictions, exemptive relief from registration requirements may be necessary, but this relief could be issued conditionally upon the corporation complying with the new registration category requirements prescribed in NI31-103.

We reiterate these comments and seek further clarification as to the basis for the view that legislative changes are necessary to achieve the IAP model. In our view, it is in the best interest of all stakeholders that the IAP model be implemented consistently across the various provinces/jurisdictions in Canada.

Taxation

Section 7.3 *(CIRO advisory committee and other stakeholder feedback)* of the consultation states that the Canada Revenue Agency (**CRA**) staff feedback was "generally neutral" and that links were provided to relevant cases and CRA published materials.

The key tax issue is ensuring that the relationship between a dealer and an AP who adopts the IAP model is an independent-contractor relationship rather than an employee-employer relationship. If an AP is considered an employee of the dealer member, the AP's corporation will likely be considered a "personal services business" under the *Income Tax Act* (Canada), which would substantially limit the tax benefits associated with incorporation and would undermine the goal of tax certainty.

To help address the independent contractor versus employee question in other professions, the CRA has published materials setting out what it looks at when determining the employment status of a particular profession. In particular, the CRA published this information for real estate agents and for truck drivers. These publications list (i) facts that would be considered neutral – *i.e.*, facts that are not determinative and can support either conclusion, (ii) facts that indicate independent contractor status, and (iii) facts that indicate employee status. The facts include the specific elements that are unique to each profession and provide a clear roadmap for how to structure contracts to achieve either an independent-contractor relationship or an employee relationship.

To that end, we would appreciate CIRO clarifying whether it's analysis of the cases and materials provided by the CRA spoke to the personal services business issue.

Written Agreement Between the Dealer, the Corporation and the AP

We understand CIRO's objective in requiring a tripartite agreement between the dealer, the corporation and the AP that sets out each party's respective responsibilities and obligations. However, we caution that including the AP as a party to the agreement could have unintended tax consequences and undermine the benefits of the model.

Specifically, feedback received from tax experts suggests that including the AP as a party to the agreement could increase the risk that the CRA would characterize the corporation as a "personal services business," as discussed in the Taxation section above. The AP's responsibilities could instead be reflected in a manner informed by specialized tax advice to ensure compliance with applicable tax laws without creating unintended tax consequences.

We recommend that the rules be amended so as not to specify that the agreements must be tripartite agreements, allowing industry members to draft these agreements in a manner consistent with a favorable tax characterization of the relationships. The rules should provide flexibility such that the agreements may also be bilateral in nature: i.e., an agreement between the dealer and the IAP, and then separate agreements between the IAP and the AP.

Transferability

We recommend that the final rules explicitly allow for the corporations to be transferable between APs, subject to CIRO approval, as the right to sell a corporation to other APs is a critical component of the succession-planning process.

Transition Period

We appreciate that CIRO has proposed a reasonable implementation period of 12 to 18 months following the finalization of the necessary regulatory and legislative amendments to allow interested dealers and APs to obtain the necessary approvals. SIMA members have different perspectives, however, on whether there should be a mandatory transition period. We therefore do not have a specific recommendation on this issue but provide both perspectives for CIRO's consideration.

Some members do not support a mandatory transition period. Given that participation in the IAP model is optional, these members believe dealers should have the flexibility to adopt the model at any time after the publication of the final rules, provided they are able to comply with securities and tax regulations. For example, a dealer that is ready to implement the model six months after the publication of the final rules should not be required to wait until the end of a prescribed 12-or 18-month transition period.

Other members support a single, uniform effective date for dealers to offer the IAP model to their APs following a minimum transition period. These members note that the operational, legal and structural changes required to implement the IAP model will vary significantly depending on a dealer's current business model. Implementation may be more complex and time-consuming for dealers operating under an employee model than for those operating under a principal-agent model. Employee-model dealers may need to modify employment, compensation, benefits, payroll, tax, supervisory and human resource arrangements to accommodate advisor incorporation.

These members are therefore concerned that, without a minimal transition period and uniform effective date, dealers able to implement the model more quickly could gain a competitive advantage in advisor recruitment and retention. In their view, a common effective date would provide all dealers with sufficient time to prepare and promote a level playing field regardless of their existing business model.

Conclusion

SIMA is pleased to have had this opportunity to provide feedback as part of this consultation. Please email Kia Rassekh, Director, Policy, Regional Director, Quebec, at krassekh@sima-amvi.ca or Andy Mitchell, President and CEO, at amitchell@sima-amvi.ca. We will be happy to answer your questions.

* * * * *

Sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION

A. Mitchell

By: Andy Mitchell
President and CEO
SIMA

Cc: Market Oversight
Alberta Securities Commission
250-5th Street SW, Suite 600
Calgary, Alberta T2P 0R4
Email: CIRO-Reporting@asc.ca

and

Trading and Markets
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Email: TradingandMarkets@osc.ca

Appendix 1: Responses to Consultation Questions

Part A - Questions Relating to Allowable Other Business Activities Within an Advisor-Owned Corporation

Relevant Background Proposal Information

For client-facing Approved Persons wanting to provide financial services to clients from within a corporation they own, the proposed amendments restrict the financial services that may be provided to those determined by CIRO to be:

- ancillary to the activities they perform on the sponsoring Dealer Member's behalf, or
- regulated Canadian financial services sector activities, provided the client-facing Approved Person:
    - is a qualified individual financial services advisor in those provinces and territories in Canada in which these activities are to be performed, and
    - is not prohibited from engaging in these activities in any of the provinces or territories in Canada in which these activities are to be performed.

Questions

A1. *Should the proposals restrict the financial services that may be offered from within an advisor-owned corporation to the above detailed financial services?*

Please also provide your response rationale.

Response: Please refer to our comments in the body of the letter under the heading "Other Regulated Financial Services Activities and Ancillary Services".

A2. *Please detail any impact of prohibiting the client-facing Approved Person from providing services other than those detailed above within their corporation on existing activities or legal structures currently used by dealing representatives.*

***Response*:** Consistent with our response to question A1, we have no additional comments on this question.

A3. What types of financial services other than those listed above should be permitted to be conducted within a corporation by its client-facing Approved Person owner?

***Response*:** Consistent with our above comments, we agree with the proposed restrictions on the financial services that can be offered through the corporation.

A4. *Should there be any restrictions on the other financial services that may be offered through a corporation owned by a client-facing Approved Person owner that are performed by the same client-facing Approved Person?*

***Response*:** We do not believe any additional restrictions are necessary as the proposed guardrails are sufficient.

A5*. What level of supervision or oversight over the other financial services related activities conducted by the client-facing Approved Person within their corporation should be performed by the sponsoring Dealer Member?*

***Response*:** Currently, in the mutal fund sector, where directed commissions to a corporation are permitted, there are agreements between the dealer and the AP that specify the activities that can be carried out within the corporation and that the dealer has audit and disciplinary powers. The extent of a dealer's responsibility for regulated and ancillary financial services activities that are conducted through the

corporation but not on the Dealer Member's behalf should be limited to overseeing that the activities within the corporation are not contrary to securites laws and regulations and do not put the industry in disrepute. It is important to note, however, that dealers will not be involved in the day-to-day operations of the corporation, such as payment of taxes, salaries, rent, etc.

A6. *Are there conflicts of interest that can arise by allowing the client-facing Approved Person to conduct other regulated financial services within their corporation? If there are conflicts, can they be managed in the best interests of their clients?*

Response: Conflicts are not novel to the IAP model. Advisor teams currently under the supervision of their dealer, that provide other financial services to clients, must already deal with actual or perceived conflicts . Consistent with the Client Focused Reforms (CFRs), the identification, avoidance, management and disclosure of material conflicts of interest is an existing part of the regulatory framework to which dealers must adhere. Pursuant to the CFRs, dealers must take reasonable steps to identify existing and reasonably foreseeable material conflicts of interest, and must address those material conflicts in the best interest of clients. If there is no way to address the material conflicts of interest in the best interest of clients, those conflicts must be avoided. This is an ongoing registrant obligation.

A7. *Should the proposals be revised to permit an advisor-owned corporation to employ:*

a) *multiple client-facing Approved Persons sponsored by the same Dealer Member?*

   Response: Yes. Currently there are many team models at investment dealers. Further, under the current directed commission model, APs in the mutual fund sector can employ other APs sponsored by the same dealer. The APs jointly service clients and eventually the junior APs take over, ensuring smooth succession planning and continued client service.

b) *one of more qualified individual financial services advisors to provide other financial services to clients?*

   Response: Yes. Concistent with our comments above, we believe the multi-service model has many benefits and is already very present in the industry.

As a general comment to the question, we ask CIRO to clarify how would the current team model continue should it not be allowed under the IAP? The Consultation is proposing limitations without any alternative solutions to existing models, hence creating a significant disruption, especially for succession planning, which is an important business component of the corporation. Prudent, seamless succession planning that ensures continuity of advice to clients is critical for investors and maintaining confidence in the capital markets.

A8. *If the proposals are revised to permit an advisor-owned corporation to employ one of more qualified individual financial services advisors to provide other financial services to clients, are there any conflicts, or risks to clients arising from employees being subject to different statutory duty of care standards within the advisor-owned corporation?*

Response**:** Please refer to our response to question A6.

Part B – Questions Relating to Ownership and Control of an Advisor-Owned Corporation

Relevant Background Proposal Information

For client-facing Approved Persons wanting to provide financial services to clients from within a corporation they own, the proposed amendments restrict corporation ownership to:

- *a single client-facing Approved Person, who would own the voting shares of the corporation and who may also own non-voting shares of the corporation, and*
- *family members of the client-facing Approved Person who qualify as a "related person" (as defined within the proposals), who may own non-voting shares of the corporation.*

Questions

B1. *Should a corporation or family trust be allowed to hold shares of the corporation, if the shareholders/beneficiaries are the client-facing Approved Person or their family members? Should the family trust or holding corporation be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?*

Response**:** Currently, certain provinces including British-Columbia allow family trusts to be shareholders of an AP's corporation. We believe the IAP model should provide as much flexibility as possible and be harmonized across Canada and not impose greater restrictions than existing rules. We also recommend that holding corporations be permitted to hold shares in an IAP.

We would appreciate further clarification from CIRO regarding the rationale for proposing a more restrictive model than those currently available to mutual fund APs.

Rules limiting who may hold voting shares are an important consideration, as voting shareholders can significantly influence the governance of a corporation. Accordingly, we support limiting the voting status of holding corporations and family trusts under the IAP model, ensuring that APs hold the majority of voting shares.

We are also concerned that shareholders, beneficiaries, directors and officers who are not employed by the same Dealer Member may have rights under corporate law to access non-public dealer information. We ask that CIRO carefully consider potential conflicts between corporate law, privacy requirements and obligations to protect confidential dealer information, and provide clear guidance to the industry on how such conflicts should be addressed.

We also request that CIRO require that the identity of all shareholders and/or beneficial owners of a corporation be disclosed to the dealer.

B2. *Is the proposed use of the "related person" definition, to determine those family members that are allowed to hold non-voting shares of the corporation, too restrictive or not restrictive enough? Please provide your rationale.*

Response**:** We support the use of the proposed definition of "related person" since it is used in other CIRO rules and would therefore promote rule harmonization.

B3. *Should "related persons" of the client-facing Approved Person, who are not themselves a client-facing Approved Person of the same sponsoring Dealer Member, be allowed to own shares in the corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation?*

Response**:** We recommend the same reasoning as our response to question B1.

B4. *Should other client-facing Approved Persons, sponsored by the same Dealer Member, be allowed to do business through, and own shares in the same corporation? Does your answer change if the other client-facing Approved Persons are "related person" family members operating within the corporation?*

Response**:** Consistent with our previous comments, we believe that a team approach offers benefits to clients, CIRO and dealers, as well as APs. Current AP corporation models already allow for multiple APs, sponsored by the same dealer, to carry out their registered activities and be shareholders. We recommend maintaining these models through the IAP.

Our answer does not change if the other client-facing APs are "related person" family members operating within the corporation.

B5. *Should individuals who qualify as a "qualified individual financial services advisor" (as defined within the proposals), but who are not themselves a client-facing Approved Person, be allowed to conduct business within, and own shares in, the same corporation? Should they be allowed to hold only non-voting shares or also voting shares, and if voting shares, to hold sufficient voting shares to control the corporation? Does your answer change if the "qualified individual financial services advisors" are "related persons" of the client-facing Approved Person operating within the corporation?*

Response**:** We believe that "qualified individual financial service advisors" who are not APs but are regulated should be allowed to conduct business through, and hold shares in, the corporation. Many existing models suppport multi-service, multi-owner corporations. However, to ensure appropriate alignment with CIRO requirements, we recommend that sponsored APs of the same Dealer Member hold the voting shares that control the corporation.

Our answer does not change if the "qualified individual financial services advisors" are "related persons" of the client-facing AP operating within the corporation.

B6. *Is the proposed requirement that the client-facing Approved Person must be the sole director of the corporation too restrictive? Please provide your rationale.*

Response**:** Yes, we are recommending that the IAP model should permit corporations to have multiple owner APs and multiple directors.

Part C - Questions Relating to Implementation of Proposed Amendments

Relevant Background Proposal Information

We anticipate that there may be significant interest in using the new incorporated advisor compensation option if approved by the CSA. As using this option would involve seeking:

- *registration of the advisor-owned corporation in those CSA jurisdictions requiring corporation registration, and*
- *CIRO approval of the advisor-owned corporation as an "Incorporated Approved Person"*

We are contemplating an implementation period of 12 to 18 months[6], once necessary regulatory and legislative amendments have been effected, to be able to ensure that those immediately interested in using this option can obtain the necessary approvals up front.

Questions

C1. *Do you agree there is a need for an implementation period for these proposals and, if so, what do you think would be an appropriate implementation period and why?*

Response**:** Please refer to our comments in the body of the letter under the heading "Transition Period".

C2. *Please describe any issues for mutual fund dealing representatives that currently direct commissions to their corporations to transition to the proposed incorporated advisor compensation option. What would be a reasonable transition period to address those issues?*

Response**:** Please refer to our comments in the body of the letter under the heading "Transition Period".

[6] **Please Note:** The implementation period/date chosen for the CIRO proposals must be a date no earlier than the date related changes to securities legislation are implemented to permit the carrying out of securities and derivatives-related business within the advisor-owned corporation.

Appendix 2: Existing TEAM MODELS for APs at Mutual Fund and Investment Dealers

I. Existing team models at mutual fund dealers

1. Team of APs sponsored by the same dealer

   a. Co-ownership

   A few APs who are co-owners of a corporation that does not deliver registrable securities activity. APs collectively service clients with revenue and expense sharing agreements.

   APs may service their clients in other financial services such as insurance and financial planning if they have the required certification.

   b. Owner(s)-employee(s) model

   One or more APs who are co-owners and who employ one or more APs sponsored by the same dealer. The employed AP(s) usually manage less sophisticated clients until they gain meaningful experience. Employed APs eventually take over the corporation in accordance with a succession plan agreed to with the owner AP(s).

   Owner and employed APs may service their clients in other financial services such as insurance and financial planning if they have the required certification.

2. Co-ownership by multidisciplinary team

   One or more AP(s) co-owning the corporation with other certified financial advisors such as insurance and financial planning. They service their clients collectively based on client needs and each AP-advisor's expertise.

3. AP ownership with agreements with external insurance broker

   AP owns a corporation that has arrangements with an external insurance broker to service clients' insurance needs. Here are examples of some of the arrangements that exist:

   - Referral agreements
   - AP owns a share of the insurance broker
   - A damage insurance broker owning a share of the AP's corporation

II. Existing Team Models at Investment Dealers

1. Team of APs sponsored by the same dealer

   A few APs, who form a team and are paid by the dealer, collectively service clients with revenue and expense sharing agreements in place. AP teams are normally made up of two to three APs; some bigger teams may have up to four APs that may be Registered Representatives or Portfolio Managers.

   APs may provide their clients with other financial services such as insurance and financial planning if they have the required certification.

   APs can form teams, work individually or both simultaneously

   AP teams may also include associates and/or administrative assistants who may be registered as Investment Representatives or Registered Representatives

   Associates/Administrative assistants may be shared among AP teams.

2. Multidisciplinary team

   One or few AP(s) forming a team with other regulated financial advisors such as insurance and financial planning. They service their clients collectively based on client needs and each AP-advisor expertise.

3. AP team with agreements with external insurance broker

   APs form a team that has arrangements with an external insurance broker in order to service clients' insurance needs. The arrangements are similar to those mentioned above for mutual fund APs.

Appendix 3: Current Regulatory Framework for Approving Activities Within an AP Corporation

1. In the Permitted Referral Arrangements under section 13.8 of National Instrument 31-103[7],

   Registration Requirements, Exemptions and Ongoing Registrant Obligations, there are no references to the requirement to obtain approval, prior or otherwise. It is made clear that it is incumbent on the dealer to do the review and approval of such an arrangement.

2. MSN – 0071[8], Referral Arrangements With Other Securities Registrants, does not suggest or refer to CIRO review or approval.

3. Written Agreement Between the Dealer, the Corporation and the AP MSN - 0072[9] - Payment of Commissions to Corporations

   The Schedule A is an agreement that is entered into between the Member, the Approved Person and the Payee. Among other important points, Schedule A provides Members and (the former) MFDA access to all books of account, bank accounts, correspondence and records of every description of, or maintained by or on behalf of, either of them.

4. MSN Outside Activities – MSN- 0040[10] provides guidance on the Members supervisory obligations, among other important points (definition of an OA, Review and Approval by the Member etc.)

   Ongoing Member Supervisory Obligations: While Members do not have specific obligations under the Rules to supervise the approved outside activity itself on an ongoing basis, Members must monitor the activities of their Approved Persons in relation to compliance with MFDA Rules and applicable securities legislation. Accordingly, Members should take reasonable measures to ensure that there is no change in the outside activity that was approved.

[7] https://www.osc.ca/sites/default/files/2023-12/ni_20230913_31-103_unofficial-consolidation.pdf
[8] https://www.ciro.ca/newsroom/publications/referral-arrangements-other-securities-registrants
[9] https://www.ciro.ca/newsroom/publications/payment-commissions-unregistered-corporation
[10] https://www.ciro.ca/newsroom/publications/outside-activity