

Appendix E – Frequently Asked Questions (FAQs)

I. Membership Annual Dues

1. Why is the fee model being changed?

The fee model is being changed in order to have a consistent and harmonized approach to collecting fees for the newly combined membership. There is a need for an integrated fee model which:

- can be applied consistently to all Members, ID Members and MFD Members, regardless of size or business model,
- is practical to administer in recovering the combined operating costs of CIRO, and
- is sustainable to accommodate future needs.

2. I am a mutual fund dealer. How is the fee model changing for my firm?

The proposed methodology for the Annual Member Fee will be changing significantly for MFD Members in the following ways:

- Fees will no longer be based on AUA, but on Revenues and Approved Persons
- Revenue component will be based on total revenues reported on Line 13 of Statement D in the December 31 Form 1.
- MFD Members with AUA greater than \$1 billion, and those MFD Members with activity in Québec will be subject to additional changes (refer to the Revenue and Approved Person sections below).
- There will be an Approved person fee calculated as the product of \$250 and the 12-month average Approved Person count for the previous calendar year.
- Minimum fee is increasing as follows:
 - from \$1,500 to \$5,000 for a Level 1, 2 or 3 MFD Member,
 - from \$10,000 to \$15,000 for a Level 4 MFD Member.

3. I am an investment dealer. How is the fee model changing for my firm?

The proposed methodology for the Annual Member Fee will not be changing significantly for ID Members. Here are some of the key changes:

- The Approved person fee will now be based on the 12-month average of Approved Person count for the previous calendar year, and not as at December 31.
- The Minimum fee will increase from \$16,000 to \$25,000.
- There will be 7 tiered rates.

4. I am a dual registered dealer. How is the fee model changing for my firm?

A dual registered dealer is considered an “investment dealer” for the purpose of calculating fees. Throughout this document, references to “mutual fund dealer” refer to firms that are only mutual fund dealer licensed.

5. How will I know what the potential impact of the new fee model is on my individual firm?

CIRO will be contacting each individual Member to notify them of the directional impact of the proposed integrated fee model on their fee assessment.

6. Why are most firms experiencing a fee increase under the proposed integrated fee model?

40% of Members are seeing a fee increase because the minimum fee amounts across all categories are increasing. Only 24% of Members are seeing an increase due to the unavoidable redistribution of fees resulting from:

- combining the ID and MFD operating cost pools at CIRO, and
- changing the methodology to harmonize the fee calculation consistently for all Members.

7. Why was AUA not used in the proposed integrated fee model?

CIRO was focused on developing a methodology for an integrated fee model that would apply to all Members regardless of size or business model. While AUA was the primary factor in the mutual fund dealer fee model, it cannot be applied to all ID Members consistently due to the diverse nature of business lines, products and accounts at ID Members. For example, AUA does not apply to capital markets activity. We found that Revenue and Approved Persons was the most consistent basis of measurement across all members.

8. Why doesn't the proposed integrated fee model apply to Deemed Members and individuals registered only in Québec?

The proposed integrated fee model does not apply to Deemed Members during the transition period as provided in the Québec Recognition Order.

However, reduced fees, proportionate to services offered and based on cost recovery, will be charged to Deemed Members for the functions performed by CIRO under the delegation of powers granted by the AMF during the transition period.

9. Will this impact Integration Cost Recovery Fees?

There is no change to the manner in which integration costs are being recovered. Integration costs are recovered from affiliated members with the same controlling ownership interest and any member that becomes dually registered before the cost recovery period ends. Integration Cost Recovery Fees will continue to be set as a percentage of the applicable Member firm's annual membership fees.

10. Why were transitional measures not implemented for all Members?

Changes to the fee model impact all Members to varying degrees. Creating transitional measures for all Members in addition to those required for the transition period for MFDs in Québec would not adhere to the principles of practical, proportionate, or consistent.

Revenue Component

11. Why did CIRO implement a normalization factor? And why does it only apply to mutual fund dealers with AUA greater than \$1 billion?

Some MFD Members reported lower Form 1 revenues compared to other MFD Members even though they had proportionately larger AUA than other MFD Members. These MFD Members are typically part of cost-sharing or transfer pricing arrangements amongst a corporate group, (i.e. where the fund manufacturer is affiliated and therefore, pays a lower fee to the MFD Member to distribute their products than they would typically pay to a third-party MFD Member). The change to a revenue-based fee model would see such Members experience material fee decreases relative to their peers.

As the model is now changing for MFD Members, from AUA to Revenues and Approved Persons, the normalization factor is being proposed to add equity to the allocation of costs.

Members that have more than \$1 billion of average AUA represent medium and large size MFD Members, and therefore this threshold avoids capturing smaller MFD Members that may have lower Form 1 revenues compared to AUA for other reasons, such as being a relatively new Member. Of the Members with more than \$1 billion of average AUA, only a small number of Members have a revenue to AUA ratio low enough for the normalization factor calculation to apply.

12. Why is the normalization factor not considered for ID Members?

ID Members typically have a diverse range of revenues, business lines, products and accounts. The normalization factor would be significantly more complex to determine for ID Members and would require additional reporting from ID Members to separate revenues. We felt that the benefit of attempting a normalization factor for ID Members would be eclipsed by the cost.

13. How do I calculate the normalization factor to determine the revenue for fee purposes if my firm is an MFD Member with more than \$1 billion of average AUA?

Here is a hypothetical example of the calculation:

Assumptions:

- Average AUA of the individual MFD Member = \$10 billion
- Median of (Form 1 Revenues ÷ 2-year average AUA) of all MFD members = 0.95%

Calculations:

- Normalization factor
 - = Median – 0.10%
 - = 0.85%
- Normalized revenues for the MFD Member
 - = AUA x Normalization factor
 - = \$10 billion x 0.85%
 - = \$85 million

Total revenue for fee purposes:

The MFD Member's revenues for fee purposes is the GREATER of:

- \$85 million, and
- the MFD Member's Form 1 revenues.

14. Why are MFD Members with Revenues in Québec given a transitional reduction in revenues?

During the transition period, MFD members registered in Québec pay reduced fees proportionate to the services offered to them, in accordance with the Recognition Order. Until the transition is complete, MFD members with activity in Québec will be subject to a reduction in Québec revenues for fee purposes as follows:

- In year one, no fees will be charged on Québec-based revenue to help such MFD Members manage the impact of the change.
- In year two and/or until the transition period is complete¹, the inclusion of 50% of Québec-based revenue will reflect a proportionate allocation of regulatory services provided by CIRO.
- After the transition period is complete, all of the Québec-based revenue will be included in the total revenue for fee purposes.

15. How will CIRO determine the dollar amount of Québec-based revenues for MFD Members?

In order to reduce the burden associated with additional reporting from MFD Members, CIRO will compute the value of Québec-based revenues for MFD Members based on the Québec-based AUA relative to total AUA of the MFD Member. Note that MFD Members report their Québec-based AUA to CIRO annually.

Here is a hypothetical example of the calculation:

Assumptions (for all years):

- Total AUA of the MFD Member (including Québec) = \$10 million
- Québec AUA of the MFD Member = \$3 million
- Total Form 1 revenues of the MFD Member = \$100,000

Calculations:

- Form 1 revenues as a percentage of total AUA
= $\$100,000 \div \10 million
= 1%
- Computed Québec-based revenues for the MFD Member
= (Form 1 revenues as a percentage of total AUA) x (Québec-based AUA)
= 1% x \$3 million
= \$30,000

Total revenue for fee purposes:

- Year one:

¹ The transition period will end on agreement with the AMF.

The MFD Member's revenues for fee purposes is:
= Total Form 1 revenues – Québec-based revenues
= \$100,000 - \$30,000
= \$70,000

- Year two (and/or until transition period is complete):

The MFD Member's revenues for fee purposes is:
= Total Form 1 revenues – (50% x Québec-based revenues)
= \$100,000 – (50% x \$30,000)
= \$85,000

- After the transition period is complete:

The MFD Member's revenues for fee purposes is:
= Total Form 1 revenues
= \$100,000

16. How are activities carried out by the CSF considered during and after the transition period to comply with the Recognition Order of the AMF?

During the transition period, MFD individuals registered only in Quebec are subject to CSF and AMF oversight, but not CIRO oversight, and therefore there are no fees applied as part of the Annual Dealer Member Fee, as no services are provided by CIRO during this time. After the transition period, CIRO will have responsibilities for oversight that are not materially different from other MFD Member firms and individuals, and therefore the integrated fee model will apply at that time and fees will be calculated in a consistent manner to other members.

For MFD individuals registered in Quebec and other provinces, they will be counted as part of the Approved Person count in the calculation of the Annual Dealer Member Fees, and Quebec MFD revenues will be adjusted per the transitional measures, to reflect reduced fees proportionate to services provided.

Approved Person Fee Component

17. Why is the Approved Person count based on a 12-month average instead of the number as at December 31?

MFD Members tend to experience material fluctuations in their Approved Person counts from month to month. Therefore, using a 12-month average for the year helps to eliminate volatility in the determination of the fee amount for all Members.

18. Are Québec MFD dealing representatives included in the Approved Person count?

If an individual is registered in Québec and other provinces, they would be included in the Approved Person count. If an individual is only registered in Québec, they generally would not meet the definition of an Approved Person under MFD Rules².

Minimum Fee Component:

19. Why were the minimum fees increased?

To ensure a more proportionate distribution of costs across the membership, the proposed fee model is increasing the minimum fees marginally over the pre-integration levels.

For information, the minimum fees for ID Members prior to the Interim Fee Model were:

- \$25,000 from 2002-2011
- \$15,000 (for Dealers whose allocated costs are less than \$20,000) and \$27,500 (for Dealers whose allocated costs are more than \$20,000) for 2012-2017,
- \$22,500 in 2018.

For information, the minimum fees for MFD Members prior to the Interim Fee Model were:

- \$10,000 for Level 4, and \$3,000 for Level 1, 2, 3 since 2001.

20. Why were the minimum fees reduced under the interim fee model from the legacy IIROC and MFDA fee structures?

When planning the amalgamation, both legacy SROs felt that it was important to retain and support the smaller dealer community through the transition to the new regulatory model. Accordingly, the Interim Fee Model reduced minimum fees and rebalanced downward the fee rates per Revenue Tier for ID Member fees and rates per AUA for MFD Member fees applicable to the small dealer group. This modification, as noted in the Information Circular to all Members in August 2022, was to apply only on an interim basis starting in fiscal year 2024 and for a minimum of two years or until the final integrated fee model was determined.

II. Membership Application and Business Change Fees

21. Why are the membership application fees being increased?

The membership application fees have not changed in over 20 years and are far below CIRO's costs of reviewing these applications. The proposed fee amounts represent more closely CIRO's costs associated with providing regulatory services.

22. Why is there a specific application for Crypto Dealers?

Membership applications for Crypto Dealers require a much more extensive review by CIRO staff due to the novel nature of their business models in comparison to other Investment Dealer applicants that trade traditional securities. For example, Crypto Dealer applications generally include applications for exemptive relief from CIRO requirements, which require additional review,

² Individuals registered only in Québec but who submit to CIRO's jurisdiction would be considered an Approved Person under MFD Rules. For example, a branch manager who is not registered in Québec but supervises individuals outside Québec would be subject to CIRO's jurisdiction and captured in the Approved Person calculation.

assessment and approval by CIRO. For other types of membership applications, requests for exemptive relief from CIRO requirements are rare. The higher entrance fee for Crypto Dealer applications reflects the increased costs incurred by CIRO in comparison to other types of Investment Dealer applications.

23. Why am I being charged for material changes in business?

The proposed fees are intended to recover some of CIRO's costs associated with our review of material changes in business, from the Dealer Members that make use of this regulatory service.

24. Will MFD Members be charged for material changes in business?

MFD Members will pay a fee for a reorganization, amalgamation, or other similar business combination, captured under CIRO By-law No.1, section 3.10. MFD Members will also pay a fee if they apply to become an ID Member. However, MFD Members will not be charged a fee for other types of material changes to business activities. If the harmonized Rulebook requires MFD Members to submit "material changes to business activities" for CIRO review, as currently required for ID Members under IDPC Rules, subsection 2246(2), then we expect to propose corresponding fees at that time.

25. What is the application fee for an MFD Member that wants to become an ID Member?

The MFD Member would pay a reduced application fee since it is already a CIRO Member. For example, if a Level 4 MFD Member wants to become an ID Member, the required fee would be \$20,000. This fee is the difference in the proposed ID Member application fee (\$40,000) and proposed MFD Member application fee (\$20,000).

26. What is the fee for an ID Member to become a Dual-Registered Member?

An ID Member becoming dual-registered is "a material change to business activities" under IDPC Rules, section 2246(2). The proposed fee for an ID Member's material change to business activities is \$15,000.

27. Why is CIRO implementing an "extraordinary costs and expenses" reimbursement for applications and business changes that take more than 6 months to review?

The proposed reimbursement framework is intended to recover costs for excessive attention, time and resources spent on an application or change in business. The fees associated with membership applications and material business changes are based on CIRO's review keeping within 6 months. We often find that delays in advancing applications are generally due to a lack of preparedness and/or responsiveness by the firm.

CIRO has several ways to try to ensure that firms are prepared before sending an application:

- We provide firms with guidance on what is needed to apply for membership or for a change in business.
- We ask firms to complete a [Readiness Questionnaire](#) so they can self-assess their level of preparedness for the membership application process.

- As part of our intake process, CISO staff conducts a preliminary review of the application before we accept it for review. If we find significant deficiencies in the application, we will not accept the application or application fees.
- CISO staff operate under internal service standards to ensure that responses are provided to Member submissions within certain timelines.

III. Market Maker discount

28. Will this change impact my firm?

The removal of the discount for Qualified Market Makers will only impact fees for investment dealers that directly execute trades in equity securities or ETFs on Canadian marketplaces. Meaning, only investment dealers that are also Participants (meaning, a member or subscriber of a marketplace).

29. How will this change impact my firm?

If your firm is a Participant and NOT a Qualified Market Maker, the fee that is applied on a per trade basis will decrease. If your firm is a Participant and IS a Qualified Market Maker, the impact will depend on how many trades your firm executes as a Qualified Market Maker.