

February 26, 2025

Canadian Investment Regulatory Organization

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Re: Non-tailored Advice in the Order Execution Only Channel

The Federation of Independent Dealers - Fédération des Courtiers Indépendants (FID, Federation) appreciates the opportunity to submit comments on the Canadian Investment Regulatory Organization's (CIRO) consultation regarding non-tailored advice in the order execution only (OEO) channel. As a national non-profit trade association representing investment and mutual fund dealers, FID is committed to enhancing investor protection, professional advice, and fair, cost-effective regulation.

General Comments

While FID supports CIRO's efforts to enhance the OEO channel and improve investor education and protection, we have reservations about the potential for proposed changes to blur the line between non-tailored advice and registrable activities. We contend that:

- Providing under-informed investors with educational information and 'self-help' tools may not be sufficient to equip many with the necessary knowledge to make informed self-directed investment decisions.
- The proposals appear to meld the ideas investor protection with enabling OEOs to expand their service offerings, possibly in anticipation of computer-enabled 'advice'. In our opinion, steps towards implementation of computer aided investing should be available only in non-OEO accounts to ensure maximal supervision and oversight.
- CIRO should prioritize diverting 'at-risk' low-information and vulnerable investors away from Do It Yourself accounts towards professional advice and the time-tested robust suitability process to prevent financial self-harm and poor outcomes. Vulnerability and poor knowledge can be discerned and alternative investing channels presented during the onboarding questionnaire.
- CIRO should not take an active role supporting the expansion of OEO offerings into providing recommendations, as an OEO is not giving advice, and not doing a suitability analysis, and by its nature will never 'know the client'. CIRO should likewise be circumspect in consideration of adopting the related Consumer-Driven Banking Framework, which explicitly aims to introduce tailored automated financial advice¹. We believe professional advice is the best option for an average Canadian household. While we welcome improvements to non-tailored information and tools for investors, they cannot be a substitute for a

¹ "Allow Canadians to safely access innovative products and services that can help them improve their financial outcomes. For example: [...] **Platforms that provide automated financial advice, tailored to a consumer's unique financial situation, and needs.**" (<https://www.canada.ca/en/departement-finance/news/2024/12/2024-fall-economic-statement-canadas-complete-framework-for-consumer-driven-banking.html>)

professional who knows the client and can perform the registrable activity of providing regulated, tailored advice and recommendations.

- CIRO should address the growing impact of 'finfluencers' in conjunction with expanded access & role of OEO accounts.

Responses to Consultation Questions

Question #1 – Notifications and alerts

- FID suggests that OEO Dealers should not be encouraged to issue alerts or proactive information beyond regulatory standards, as this could lead to risks of investing gamification.
- If CIRO proceeds with allowing proactive notifications and alerts, we suggest consistent criteria:
 - Relevance: Information should be relevant to a broad range of clients, not tailored to individual circumstances.
 - Timeliness: Information should be up-to-date and pertinent to current market conditions or regulatory changes.
 - Educational value: Information should aim to educate clients on investment concepts, market trends, or regulatory requirements.
 - Neutrality: Information should not promote specific investments, portfolios, or strategies but rather provide a broad perspective to aid decision-making and learning.

Question #2 – Self-help tools

- FID believes that OEO Dealers should be able to provide self-help tools for investor use and they should be allowed to:
 - Develop and offer tools that provide general educational content, such as investment calculators, market trend analyses, economic information or educational videos.
 - Ensure tools are based on aggregated data, not targeted specifically to the individual client, excepting self-assessment (behavioural, investment knowledge, etc.).
 - Regularly review and update tools to maintain their relevance and accuracy.
 - Clearly communicate the purpose and limitations of tools to clients.

Question #3 – Restrictions on recommended products

- OEO providers should remain prohibited from recommendations, as any recommendations would be exempt from suitability obligations. We agree with CIROs existing Guidance on OEO.²

Model portfolios or products presented in a non-tailored fashion must be subject to restrictions that will prevent conflicts of interest (e.g. Proprietary or revenue generating products) and thereby ensure order-execution-only accounts remain beneficial to investors.

- To address potential conflicts of interest and draw the line between OEO Dealers and full CIRO dealers, the following measures can be implemented:

² Guidance on order execution only account services and activities (<https://www.ciro.ca/newsroom/publications/guidance-order-execution-only-account-services-and-activities>)

- Prohibit preferential treatment of proprietary products.
- Ensure presentation of any products or information remains applicable for a broad range of investors.
- Mandatory disclosure of any conflicts of interest.
- Regular audits and monitoring by CIRO.
- Update the guidance to retain clarity on the line between OEO and full CIRO dealers.

Question #4 – Copy trading

- FID believes that OEO Dealers should not be allowed to provide copy-trading tools, as this introduces risks including investors mirroring the portfolios of non-registrants (stealth advising, influencers), among others.
- We strongly oppose allowing OEO Dealers to offer unrestricted copy trading functionality, as this would require full client suitability, a function of full CIRO dealer accounts.
- FID does not believe that any measures can ensure copy trading is used beneficially for investors, as it inherently involves influencing clients' investment decisions.

Question #5 – Delivery of tools and information

FID opposes allowing OEO Dealers to provide differentiated information and tools between websites, email, or through apps and social media sources, as this would further blur the line between non-tailored advice and registrable activities. The channel of distribution often reflects distinct demographics and audiences, akin to targeting (or tailoring) the message, information, and tools.

The Federation appreciates the opportunity to provide input on this consultation. We have outlined our concerns about the potential for proposed changes to enable stealth advising and blur the line between non-tailored advice and registrable activities. We urge CIRO to focus on protecting investors and maintaining the integrity of the OEO channel.

Sincerely,

Matthew T. Latimer, Executive Director

Federation of Independent Dealers
Fédération des Courtiers Indépendants