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**Re: CIRO Request for Comments 24-0154 issued on April 25, 2024 - Proposed Integrated Fee Model**

The **Canadian Independent Finance and Innovation Counsel** appreciates the opportunity to provide comments to CIRO regarding its integrated fee model proposal.

The Canadian Independent Finance and Innovation Counsel represents national Investment Dealers and their industry's position on securities regulation, public policy, and industry issues. We represent notable CIRO-regulated Investment Dealers in the Canadian securities industry.

### New Integrated Fee Model

The Investment Dealers we represent are generally in agreement with the proposed model. However, the following fees should be reviewed by CIRO as we believe they do not meet the terms and conditions of CIRO's recognition orders and Guiding Principles:

- Fee for reorganizations, transfers and amalgamations.
- Fee for material changes to business activities.

Both fees will be discussed below.

### Reorganizations, Transfers and Amalgamations (\$15,000 for Investment Dealers and Dual-Registered Dealers)

*If the business or ownership of a Member is proposed to be reorganized or transferred, amalgamated or otherwise combined in whole or in part with another person (including another Member) in a manner which the Member or its business will cease to exist in, or will be substantially changed from, its then current form, or a change of control of the Member may occur, the Member (not less than 30 days prior to the proposed effective date of such event) shall give written notice to the Corporation.*

In such an event, a fee of \$15,000 will be imposed.

### Material Changes to Business Activities (\$15,000 for Investment Dealers and Dual-Registered Dealers; \$20,000 for Adding Crypto Activity)

*A fee will be charged for "any material change to business activities, under IDPC Rules, subsection 2246(2) and described further in published guidance. While IDPC Rules, subsection 2246(2) is applicable only to ID Members, CIRO plans to propose corresponding fees for MFD Members if the harmonized Rulebook expands this requirement to MFD Members."*

In such an event, a fee of \$15,000 will be imposed. A \$20,000 fee will be imposed for adding a crypto asset trading platform.

## Terms and Conditions of CIRO's Recognition Orders

We believe it is important to assess the proposed fees by analysing the terms and conditions of CIRO's recognition orders, which require, among other things, as stated in the Executive Summary of the Proposal, that:

- *All fees imposed by CIRO must be equitably allocated and be proportionate to Members' activities.*
- *Fees must not have the effect of creating unreasonable barriers to access.*
- *The process for setting fees must be fair and transparent.*
- *CIRO must operate on a cost-recovery basis.*
- *Mutual Fund Dealers operating in Quebec benefit from an adequate transition period, the duration of which shall be agreed with the Autorité des marchés financiers (AMF). During the transitional period, fees are reduced proportionate to the services offered to them.*

We agree with the above outlined terms and conditions and would like to offer our comments on the first item (equitable allocation and proportionality to Dealer Members' activities) below.

### Equitably Allocated and Proportionate

A uniform fee for both small and large Investment Dealers would contravene the principle that "fees must be equitably allocated and proportionate to Dealer Members' activities" for several reasons:

**1. Equitable Allocation:** Equitable allocation means that fees should be distributed fairly among all participants, taking into account their respective sizes, resources, and activities.

Disproportionate Financial Impact: A uniform fee places a disproportionate financial burden on smaller dealers compared to larger ones. For example, if a small dealer and a large dealer both pay a \$15,000 fee, the impact on the smaller dealer's finances is significantly greater. This is because a small dealer has fewer financial resources and less revenue to absorb such costs.

Economic Strain on Small Dealers: Equitable allocation considers the ability of each dealer to bear a cost. A uniform fee ignores the fact that small dealers operate on tighter budgets; such a large fee can strain their finances and hinder their operations.

**2. Proportionality to Activities:** Proportionality to activities implies that fees should reflect the scale and scope of a dealer's business activities, ensuring that those with greater activity levels or higher revenues contribute more.

Mismatch with Business Scale: Uniform fees do not account for the size or scale of business activities. A large dealer with extensive operations and higher transaction volumes should logically contribute more to regulatory costs than a small dealer with limited activities.

Inconsistent Cost Burden: Proportionality ensures that fees align with the level of regulatory oversight and resources required. Larger firms typically require more regulatory scrutiny and resources, justifying higher fees. A uniform fee does not align with this principle as it does not consider the varying degrees of regulatory attention needed.

We believe that CIRO's Overarching Principles should also be analysed in regard to the fees for reorganizations, transfers and amalgamations, and for material changes in business activities.

### CIRO's Overarching Principles ("Guiding Principles")

CIRO developed Guiding Principles to help guide the evaluation of its integrated fee model. These principles are as follows:

1. **Proportionality** – *A Dealer Member should pay fees proportionate to its usage or consumption of regulatory services provided and/or benefits received from being regulated by CIRO.*
2. **Practicality** – *Fees should be efficient and easy to administer.*
3. **Consistency** – *Rules and principles that determine fees should be consistently applied to all Dealer Members.*
4. **Transparency** – *Fees should clearly reflect the application of the guiding principles. Dealer Members should be able to recalculate the fee payable based on billing drivers, as noted in an invoice, to information that is verifiable.*
5. **Serving the Public Interest** – *Fees should not unreasonably inhibit new entrants from joining the industry or prevent smaller Dealer Members from remaining in the industry.*
6. **Sustainability** – *CIRO must operate on a cost-recovery basis with consideration to stability of fees for ongoing services without compromising the ability to address new regulatory requirements and future needs.*

We fully endorse the Guiding Principles established by CIRO.

### Same fee (Small versus Large Dealers) and CIRO's Underlying Principles

Applying a uniform fee (\$15,000) to both small and large Investment Dealers for material changes as well as reorganizations, transfers and amalgamations, can be critically analyzed through CIRO's Guiding Principles. Below is our detailed analysis:

**Proportionality**: Proportionality involves ensuring that measures or fees are appropriate and correspond to the size and scope of the entity being regulated.

Disproportionate Burden: A uniform fee imposes a disproportionately high burden on smaller Investment Dealers. For instance, a \$15,000 fee represents a much larger percentage of a small

dealer's revenue compared to a large dealer. Imposing a uniform fee is in direct opposition to CIRO's first Guiding Principle of Proportionality.

**Serving the Public Interest:** Serving the public interest involves ensuring that regulatory actions benefit society (investors) as a whole, promoting fairness, efficiency, and stability in the financial markets.

Market Diversity: Small Investment Dealers play a crucial role in providing diverse services and reaching underserved markets. High fees could push these players out of the market, reducing competition and diversity. Imposing a uniform fee is in direct opposition to CIRO's fifth Guiding Principle of Serving the Public Interest.

**Sustainability:** Sustainability in this context refers to the long-term viability and health of the financial ecosystem, including a diverse range of players.

Economic Viability: Ensuring that fees are scaled (our recommendation) helps maintain the economic viability of smaller firms, which contributes to a robust and competitive market. Imposing a uniform fee is in direct opposition to CIRO's sixth Guiding Principle of Sustainability.

In summary, the proposed fee model:

- does not appropriately allocate costs to Dealer Members in proportion to their size and impact and their use of regulatory resources;
- creates unreasonable barriers to entry or access to advice for the general public; and
- unfairly benefits large Dealer Members while adversely impacting smaller Dealer Members.

#### Why were the Minimum Fees reduced under the Interim Fee Model from the Legacy IIROC and MFDA Fee Structures?

As per the CIRO proposal:

*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.*

We firmly believe that CIRO should persist in its efforts to support the smaller dealer community by implementing fee structures that are both fair and proportionate. This approach ensures that

fees are equitably distributed, reflecting the varying capacities and activities of different Dealer Members.

### Fee Analysis – Two Material Business Changes

For smaller dealers, the new fee model would be a significant increase if we take the hypothesis that two major business changes will occur during the year. For example, one Investment Dealer we represent would see a 58% increase in fees in that situation.

### Industry's Recommendations

Our recommendations below are specifically directed towards the fees associated with reorganizations, transfers, amalgamations, and significant changes to business activities:

1. **Implementing Proportional Fees:** Implementing a fee structure that scales with the size and capabilities of Investment Dealers would better align with CIRO's Guiding Principles. We propose the following alternatives:
  - **Tiered Fee System:** Establish different fee tiers based on firm size, revenue, or volume of business activity to ensure fees are proportional, practical, and fair.
  - **Sliding Scale:** Establish a sliding scale fee model where smaller firms pay less, and larger firms pay more; this maintains consistency and transparency while serving the public interest and promoting sustainability.

This proportionate fee approach recognizes the different capacities of firms and distributes the regulatory burden more equitably, ensuring that the financial ecosystem remains diverse, competitive, and healthy.

2. **Long-term Health (sustainability):** A tiered fee or sliding scale model supports the long-term health of the market by allowing smaller firms to grow and thrive, contributing to the overall resilience and adaptability of the financial system.

To ensure fees are equitably allocated and proportionate to Dealer Members' activities, a tiered or scaled fee structure should be implemented for reorganizations, transfers and amalgamations, as well as for material changes to business activities. We propose the following alternatives:

- **Revenue-Based Tiers:** Fees based on revenue brackets, where dealers with higher revenues pay higher fees.
- **Activity-Based Fees:** Fees determined by the volume of business activities, or the level of regulatory scrutiny required.

Either of these approaches would ensure that fees were aligned with the financial capabilities and activities of the dealers, promoting fairness and proportionality.

## Conclusion

Fees should be scaled to the size and capability of the firm. Larger firms typically have more resources and can absorb higher fees more easily, whereas smaller firms might struggle to pay the same amount, potentially threatening their long-term financial viability.

Furthermore, there are significant differences between the regulatory oversight and CIRO resources required for smaller versus larger firms:

- **Small Dealers:** Limited transactions and fewer clients require less regulatory oversight and fewer resources.
- **Large Dealers:** Extensive transactions, numerous clients, and complex activities require significant regulatory oversight and resources.

Uniform fees do not reflect these differences. Large dealers, with their greater need for regulatory resources, should proportionately contribute more to the costs of maintaining their regulatory oversight.

We would like to reiterate that we agree with the proposal as a whole but recommend that CIRO review the two fees discussed above (*Dealer Member Reorganizations, Transfers and Amalgamations and Other Material Changes in Dealer Member Business*).

We are available to discuss the content of this submission further, address any concerns you may have, or provide additional information as needed. Your feedback is invaluable to us, and we are committed to ensuring that we all achieve our objectives effectively and efficiently.

Please feel free to contact me at [annie@cific.co](mailto:annie@cific.co) with any questions, comments, or to schedule a call to discuss any aspects of the letter or explore potential next steps. We look forward to our continued collaboration on this matter.

Sincerely,

*A. Sinigagliese*

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