

# CIRO Proposed Integrated Fee Model Consultation

June 24, 2024



Submission to the Canadian  
Investment Regulatory  
Organization (**CIRO**)

The Canadian Bankers Association (**CBA**)<sup>1</sup> appreciates the opportunity to provide input on CIRO’s proposed Integrated Fee Model (**Proposed Model**) consultation. Below we provide our responses to the specific questions set out in the consultation.

## CIRO Consultation Questions

### 1. Does the proposed integrated fee model or any aspect thereof materially conflict with a guiding principle?

#### *i) Fairness Principle*

The guiding principles set out in the Proposed Model are generally aligned with CIRO’s Recognition Order<sup>2</sup>, however, we note that Schedule 1, subsection 4(2) of the Recognition Order requires that “the process for setting fees must be **fair** and transparent.” (Emphasis added.)

In our view, striving for fairness is fundamental to this process and should be explicitly added as a guiding principle of the Proposed Model in accordance with the Recognition Order. Among other things, fairness requires:

- every aspect of the Proposed Model to be thoroughly assessed to minimize inequity as between the many impacted stakeholders; and
- avoiding negative unintended consequences to investors that would result from escalating regulatory fees diverting industry resources from investment in service and product innovation.<sup>3</sup>

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<sup>1</sup> The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada’s economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals.

<sup>2</sup> [CIRO Recognition Order \(Variation of the Recognition Order of New SRO\) - s. 21.1 and s. 144 of the Act, and s. 16 and s. 78 of the CFA \(effective June 1, 2023\) | OSC](#)

<sup>3</sup> [Improving Self-Regulation for Canadians: Consolidating the Investment Industry Regulatory Organization of Canada \(IIROC\) and the Mutual Fund Dealers Association of Canada \(MFDA\) \(June 2020\)](#) at page 3.

## **ii) Fee Increases for Most Members**

Fairness also requires alignment with key expected outcomes communicated to stakeholders at the outset of the self-regulatory organization amalgamation initiative. One of those key expected outcomes was that the efficiencies and cost savings from the proposed amalgamation of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA) "...could be achieved **without disrupting the existing ... regulatory fee structures.**"<sup>4</sup> (Emphasis added).

In our view, the Proposed Model falls materially short of achieving this key expected outcome. This is because "most firms [will be] experiencing a fee increase"<sup>5</sup>, and because new fees will be levied for CIRO review of "dealer reorganizations or other material business changes". The Proposed Model would also establish new additional fees for such applications considered to use "excessive" amounts of CIRO resources (i.e. remaining under compliance review for any period longer than 6 months)<sup>6</sup> even though Dealer Members would not be in a position to control the length of the review period.

The new and increased fees under the Proposed Model are particularly surprising in light of the fact that the costs of amalgamation are being recovered under the existing Integration Cost Recovery Fee Model.<sup>7</sup>

The new and increased fees of the Proposed Model effectively "disrupt" the existing fee structure to such an extent that further careful consideration by CIRO is warranted. The initial commitment to avoid such a disruption set expectations for stakeholders as a basis for the amalgamation and CIRO should take every effort to ensure that this commitment is achieved by the Proposed Model.

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<sup>4</sup> *ibid*, at page 3.

<sup>5</sup> [CIRO Proposed Integrated Fee Model, Appendix E](#), Question 6.

<sup>6</sup> [CIRO Proposed Integrated Fee Model, Appendix A](#), Entrance Fees, proposed new paragraph 1(b).

<sup>7</sup> [Integration Cost Recovery Fee Model Guideline | Canadian Investment Regulatory Organization \(ciro.ca\)](#)

### *iii) Proportionality*

See our response to Question 2 below.

### *iv) Transparency*

In accordance with the transparency principle and to better enable stakeholders to assess and comment on the Proposed Model, the following clarifying additional information should be disclosed:

- The need and planned uses for the fee increases and new fees referred to above.
- An evaluation of opportunities for CIRO to improve its own efficiency as an alternative to raising fees. The potential benefit of such an evaluation is highlighted by the example of the proposed raised entrances fees, where CIRO indicates that “these amounts still only represent a portion of CIRO’s estimated costs.”<sup>8</sup>
- The basis for benchmarking CIRO’s application fees and fees for mergers and material changes against fees levied by the Financial Industry Regulatory Authority (**FINRA**), given respective market size, revenue generation, types of businesses and numbers of advisors under each regulator’s jurisdiction which may not be equivalent.
- The calculation method for deriving the CIRO revenue rate prescribed by its Board of Directors.
- The expected CIRO revenue rates for the coming years. Because this rate could vary significantly from one year to the next, it could have a significant impact on Dealer Member’s fees. Having this information would allow for better forecasts by Dealer Members.
- The projected and actual cost savings realized from the amalgamation of IIROC and the MFDA.
- Industry statistics for Mutual Fund Dealers (similar to statistics provided to Investment Dealers in the “Monthly Financial Report (**MFR**) Statistics”).
- The Investment Dealer and Mutual Fund Dealer operating cost pools prior to and after

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<sup>8</sup> See s.5.3.2 of Alternatives Considered in respect of Entrance Fees in the [Proposed Model](#).

the pools were combined.

- Total fees for Investment Dealers (by type of firm and grand total) and Mutual Fund Dealers (by type of firm and grand total) prior to amalgamation.
- Total projected fees for Investment Dealers (by type of firm and grand total) and Mutual Fund Dealers (by type of firm and grand total) under the Proposed Model.
- The Proposed Model indicates that some of the fee increases are a result of “a redistribution of fees [that] is mathematically unavoidable.” Providing examples to illustrate this point would be helpful.
- The impact assessment charts provided in the Proposed Model express impacts in terms of “percentage of revenue”. It would be helpful to also include impact assessment examples using dollar amounts. The data should also be categorized by type of firm (e.g., for Investment Dealers, categorize them by “Retail Only”, “Institutional” and “Integrated”.)
- The FAQs included with the Proposed Model indicates that “Integration Cost Recovery Fees will continue to be set as a percentage of the applicable Member firm’s annual membership fees.” Does this mean that Dealer Members that experience an increase in their annual fee under the Proposed Model will also see a proportionate increase in the Integration Cost Recovery Fee?

#### ***v) Sustainability***

It is unclear how the guiding principle of sustainability is being met in relation to the overall fee increases. In other words, CIRO operates on a cost-recovery basis but, as we note above, has not articulated what additional costs are being recovered with the overall increase in fees.

#### ***vi) Public Interest***

Adding to the industry’s overall expense may result in passing costs on to clients or cause diversion of resources from initiatives benefitting clients. This will not be in the public’s interest as it contributes to creating potential barriers to access for the investing public and runs counter to the need for increased industry investment in new advice channels and leveraging emerging technology in the delivery of advice. It also compounds the financial burden the industry must

absorb from other associated regulatory initiatives, including implementing the upcoming integrated CIRO rulebook.

**2. Does the proposed integrated fee model appropriately allocate costs to Dealer Members in proportion to their size and impact, and their use of regulatory resources?**

In our view, total revenue, as the main fee driver, is not necessarily directly linked to usage or consumption of regulatory services provided and/or benefits received from being regulated by CIRO. For example, a Dealer Member may experience large increases in revenue due to increases in interest rates as has been the case in recent years. Rising rates also affects Dealer Member's financing cost inversely, which is not taken into consideration in CIRO's fee driver.

A fairer fee driver would be net revenue as the specific expenses incurred to generate these revenues should also be considered (for example, financing cost should be netted against interest revenue). In addition, net revenue should not be determined based on the legal entity in which the revenue is earned, but instead should be calculated based only on Dealer Member activity. For example, where an investment fund manager operates in the same legal entity as a Mutual Fund Dealer, the revenue of the investment fund manager should be excluded from the fee calculation.

In terms of proportionality as between Mutual Fund Dealers and Investment Dealers, this is difficult to assess without additional transparency as currently CIRO alone possesses comparative information on Dealer Members' usage or consumption of regulatory services. We can, however, say that the total revenue approach unfairly redistributes fees to Investment Dealers with large amounts of interest revenues relative to Mutual Fund Dealers, which typically do not have similarly large amounts of interest revenues based on secured financing activities such as repurchase agreements.

Finally, the Proposed Model does not take into consideration Dealer Members' own costs to operate compliance programs and the effectiveness of those programs. Those with highly effective compliance programs would tend to use less of CIRO's regulatory resources and this

should be taken into account in determining fees.

### **3. Is the methodology easy to understand?**

In addition to our comments above in our response to Question 1 regarding transparency, our members would benefit from additional clarity on the following aspects of the methodology:

- Transition of Quebec fees. Clarification regarding whether in the final phase, the Autorité des marchés financiers (**AMF**) will decrease fees for Mutual Fund Dealers operating in Quebec commensurate with oversight activities it will be delegating to CIRO to avoid duplicative fees.
- The use of revenue tiers. The Proposed Model notes that one consistent rate will be applied to all seven revenue tiers upon implementation. Will rate(s)/tier numbers be provided? Is there a timeline for planned assessments as to whether rates need to be differentiated by tier?

### **4. Are there other adjustments or factors that need to be considered that would not add additional complexity to the calculation or require additional and auditable reporting from firms, while continuing to meet the guiding principles?**

See our comments above in our response to Question 2 regarding use of net revenue rather than total revenue and regarding compliance program effectiveness as a factor in determining fees.

### **5. Does the proposed integrated fee model create unreasonable barriers to entry or access to advice?**

See our comments above in our response to Question 1 regarding the public interest principle.

### **6. Will the proposed integrated fee model continue to apply as the industry evolves and transforms?**

As industry evolves and transforms, the fee model should be revisited to reflect changes and

ensure that it does not act as a barrier to innovation. As noted above in our response to Question 1, the overall increase in fees may hamper the ability for industry to increase investment in new advice channels and the use of emerging technology in the delivery of advice.

**7. Are there other stakeholders that could unfairly benefit or be adversely impacted?**

We note that the Proposed Model would remove the Trade Fee Discount currently provided to Qualified Market Makers. Removing this discount signals a lack of recognition for the firms who are willing to make markets and take on the associated additional obligations. It is also not clear whether the proposed corresponding reduction in the per trade fee applied to all other equity security trades executed on a Marketplace by Investment Dealer Members would be significant.

If the Trade Fee Discount is to be removed, CIRO should consider creating other incentives for Qualified Market Makers to take on these obligations.

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We thank you for taking the time to consider our views regarding the Proposed Model and trust that you will find these comments helpful. We would be pleased to discuss our comments further at your convenience.