

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission of New Brunswick
Office of the Superintendent of Securities, Digital Government and Services,
Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Nunavut
Ontario Securities Commission
Prince Edward Island Office of the Superintendent of Securities
Financial and Consumer Affairs Authority of Saskatchewan
Office of the Yukon Superintendent of Securities

Via email: comments@osc.gov.on.ca

The Secretary
Ontario Securities Commission

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers

Re: Request for Comment 25-304

By way of brief introduction, Designed Securities Ltd. (IIROC) and Designed Investments Ltd. (MFDA) are small, independent dealers who believe strongly in supporting advisors who serve the Canadian investment industry through the use of mutual funds, and securities. Both organizations share the same controlling ownership and have a joint interest in seeing self-regulation thrive.

While the proposed interim rules make some advancement towards a consolidated SRO, it is our view that certain aspects of the interim rules result in unnecessary complexities and continued client confusion. In this response to the May 12, 2022, CSA Staff Notice and Request for Comment 25-304, we believe amendments are required to section 2602 (3) (vii) of the proposed rules, and further clarity is required as to the adoption of Mutual Fund Dealer Rule 2.4.1(b), directed commissions.



Section 2602 (3) (vii)

The proposed requirement of dual registered firms to impose the Conduct and Practices Handbook Course (CPH) on mutual fund only registrants will prevent some dealers operating with two platforms, including our firms, from consolidating. MFDA advisors have successfully served Canadians, with mutual fund only products, without the need to take courses such as the CPH. There is strong empirical evidence that MFDA advisors will avoid taking this exam and they have been proficient up until now with out it. We believe courses should be implemented to ensure that an advisor's proficiency is supportive of the products and services they provide which does not appear to be the impetus of this interim rule. It will also prevent MFDA advisors who do not want to take that exam, from seeking the best dealer to represent them, as it will continue to limit their choices to MFDA only firms.

In considering the value of the CPH requirement we must reflect on how this serves the best interests of the public. Does this truly benefit clients, or confuse them? Does it enhance the services, experience and understanding of the industry from the public's perspective, or not? We do feel it is favourable for the new SRO to review proficiency across registration categories and make specific determinations as to required courses, however, the CPH appears to have a redundancy of information compared to courses previously required by MFDA approved persons, or irrelevant information in terms of topics unique to securities registrants. Although some contents of the CPH may be important to introduce to mutual fund only representatives, to introduce them via the CPH, and only to a subset of registrants, seems in contrast to the purpose of SRO consolidation. It is our view, that the 2602 (3) (vii) requirement to obtain the Conduct and Practices Handbook will protect the existing model of the industry, will confused the public with regards to their advisor's proficiency, and does not further the SRO consolidation's mandates. We propose this requirement be removed entirely until such time that a more thorough proficiency review has been undertaken.

Recommended Alternative

IIROC initiated a proficiency assurance project back in 2015 which has released two phases of proficiency review, with a third phase expected to be released for comment in 2022. Under the new SRO this project should continue as the framework to undertake a comprehensive review of any proficiency requirements, such as those specific to the mutual funds only category, that are proposed under the new SRO. This project was also intended to include an undertaking of a competitive procurement process to create more proficiency choice, beyond the near monopoly held by CSI Global. It is our view that the new SRO should be continuing the mandates of this proficiency evaluation prior to injecting the CPH requirement under 2602 (3) (vii), which has the potential to benefit, quite strongly, CSI Global over any other stakeholder.

Until there is a proficiency evaluation, we feel that registrants moving to a dual registered dealer are best supported through a dealer's 90-day training program which allows internal content to be geared to the specific platforms, supervision structure, and rule books of the dealer.



Mutual Fund Dealer Rule 2.4.1(b)

The rules surrounding directed commissions, as allowed under MFDA Rule 2.4.1 (b) lack clarity. IIROC has long been pressured to adopt a similar process but has remained unchanged. It seems outdated, that in an industry intended to promote financial soundness, and efficiency in accumulating and managing wealth, that self employed, principal-agent advisors are not afforded the same tools for their personal circumstance across different dealer categories. Leaving this rule unaddressed creates a discrepancy in how advisors can approach SRO consolidation. There are also existing tax strategies (within CRA rules) used by advisors to achieve flowing their income to a corporation. However, this costs advisors time and money that is not always reasonable.

Recommended Alternative

Certain incorporation provisions allow a number of regulated professionals to incorporate their practice, such as accountants, lawyers and certain health care professionals. These Professional Corporation ("PC") structures have established parameters that the new SRO could easily adopt in most provinces. MFDA representatives could be provided grandfathering, or a period of time, to establish their PC, whereas effective January 1st, 2023, dual registered firms could begin to establish these structures.

While the rules will inevitably consolidate into one, the industry has had significant resistance to change and these interim rules, left as is, provide reinforcement to that resistance. Change needs to be confronted head on and we must collectively and expeditiously adapt and persevere.

We thank all committees, both from the MFDA and IIROC, and other regulatory participants and partners for their efforts to date and appreciate the opportunity to comment.

Many thanks,

A handwritten signature in black ink that reads 'Gillian Kunza'.

Gillian Kunza, CEO
Designed Securities Ltd.

A handwritten signature in black ink that reads 'Michael Konopaski'.

Michael Konopaski, CEO
Designed Investments Ltd.

