

June 27, 2022

Via Email

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Dear Sirs and Mesdames:

RE: CSA Staff Notice and Request for Comment 25-304 – Application for Recognition of New Self-Regulatory Organization (New SRO Interim Rules or Rules)

Fidelity Clearing Canada ULC (FCC) appreciates the opportunity to provide comments on the New SRO Interim Rules. We are also appreciative that the CSA has solicited feedback from all stakeholders including industry participants as well as the public to address the proposed Interim Rules and changes respecting the New SRO.

FCC, a federally incorporated entity founded in Toronto in 2009, provides Canadian registered brokerage firms, institutions, and portfolio managers with trade execution, clearing, custody and back-office support. We are also registered with the Investment Industry Regulatory Organization of Canada (IIROC).

Fidelity Clearing Canada ULC ("FCC") is an indirect, wholly-owned subsidiary of 483A Bay Street Holdings LP, which is a joint venture between FIL Limited and Fidelity Canada Investors LLC. FCC and two other separate related legal entities that are also Canadian securities registrants – Fidelity Investments Canada ULC and Fidelity Canada Asset Management ULC – conduct business under the "Fidelity Investments" brand, which is a trademark of Fidelity Investments Canada ULC and a registered business name of FCC. However, each Canadian securities registrant operates and conducts its business independently of each other. FCC is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF).

Summary

Having discussed the possibility of a single SRO for a very long time, we applaud the CSA, IIROC and the MFDA for the speed with which the New SRO Interim Rules have been published for comment and consideration. While we understand that January 1, 2023 looms, the shortened period provided for consideration and comment on the Rules will no doubt leave many to focus on priorities applicable to their own situation as opposed to the entirety of their application. We believe that this is far from ideal, resulting in fragmented contemplation and possible negative impact to the industry.

Given the shortened period provided for comment, we will focus our comments on the following items which are of greatest importance to FCC:

1. Introducing/Carrying Broker Arrangements

We are in support of the New SRO Interim Rules permitting a mutual fund dealer to introduce to an investment dealer, including clearing and settlement, custody of funds and securities, order execution and the maintenance of their books and records.

We also support the decision to allow mutual fund dealers to remain such in light of “insignificant” ETF sales. However, the lack of clarity as to what constitutes “insignificant/significant” business leaves much room for interpretation and inconsistency.

While the IIROC Interim Rules FAQ states that all rule books will be consolidated into a single, highly harmonized rule set **over time** after the establishment of the New SRO, the introduction of defined thresholds is the desired outcome and needed well in advance of “over time”.

It would also be our wish that, in consideration of the general acceptance by the CSA, IIROC and the MFDA to permit mutual fund dealers to introduce business to IIROC Carrying Dealers, that this type of application be effective on, *or before*, January 1, 2023 without an exemption process to do so.

2. Proficiency Requirements

In the short time since 25-304 was released, there has been much discussion and seemingly overwhelming discord as it relates to the new requirement for mutual fund representatives to complete the Conduct and Practices Handbook Course (CPH).

On the face of it, one who deals in mutual funds only shouldn't be required to complete courses that fall outside of their offering. However, the CPH, while having a small section devoted to how securities are traded and settled as well as information regarding issuer bids and margin, is primarily focused on topics that are of paramount importance to *anyone* who is providing investment advice to the public; everyone should take the course.

The following general headings covered in the CPH illustrate the wide breadth of areas that are applicable regardless of your registration category:

- Standards of conduct and ethics in the securities industry
- The Canadian regulatory environment
- Client discovery and the account opening process
- Product due diligence, suitability, and know-your-client requirements
- Dealing appropriately with clients and managing conflicts of interest
- Placing orders for securities and handling client accounts

While cost is always a consideration, the benefit achieved, not only by the individual taking the course but also by their dealership far outweighs the hard dollar cost. This new requirement will contemporaneously achieve the ongoing goal of instilling the public's confidence as to the integrity of our industry.

Considering the many competing priorities this new SRO regime will bring, along with existing priorities, we feel the proposed 270-day time frame to complete the CPH to be too short. We would be in support of a 365-day time frame.

3. Continuing Education Cycle

Considering the voluminous amount of change required to achieve a single SRO with aligned rules, where we can gain consistency quickly and without heavy lifting, we should do so.

The most obvious area where this can be realized is in the CE Cycles. The purposes of the MFDA and IIROC continuing education programs are aligned, what are not aligned are the cycle runs and requirements. In consideration of the MFDA literally *just* launching their program, is it not more efficient, especially for those dual registered dealers as well as those considering movement between platforms, to adopt the IIROC CE Cycle? To address this rather low hanging fruit, yet item of significant importance, allows the CSA to focus on those other areas in need of deep contemplation, reform, and alignment.

Conclusion

While we are largely supportive of the New SRO Interim Rules, we believe that there are numerous areas that need further focus and therefore direct you to IFIC's response and comments.

We appreciate that there is a task-force dedicated to the direction of commissions differences between the two regulators. We anxiously await their results however, much like the low hanging fruit of the CE Cycles, it would appear to make much sense from a time/effort/cost perspective to adopt the MFDA's rules as it relates to the direction of commissions to a corporation.

Again, we appreciate the extraordinary effort this has taken by all regulatory bodies involved and are optimistic that a harmonized set of rules to further efficiencies for ALL members of the New SRO will ensue quickly.

Sincerely,

FIDELITY CLEARING CANADA ULC



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