

## Advocacy Bulletin 2022/5

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### **New Self-Regulatory Organization releases Interim Rules**

***Work continues to launch the ambitious new regulator by the end of this year***

This spring, the Canadian Securities Administrators (“CSA”) published interim rules for the new self-regulatory organization that will be created upon the merger of the MFDA and IROC (the “New SRO”). While the merger is moving ahead briskly, with an expected commercial close by the end of this year, dealers and advisors operating under the New SRO are not likely to find that things seem noticeably different from the outset: the true impact of the New SRO will only be realized when the rulebooks of the mutual fund dealer and investment dealer divisions are reviewed and harmonized, which is a process that will take many years post-closing.

The interim rules will serve as the initial playbook for dealers and advisors under the New SRO, and are largely a continuation of existing mutual fund dealer and investment dealer rules. Nonetheless, there are some key changes that will impact advisors and dealers in the short term and may portend where the New SRO will go with its policy direction through the longer-term harmonization process. This Bulletin highlights some of the key developments in the interim rules.

#### **What is New for Member Firms?**

The New SRO aims to improve access to exchange traded funds for mutual fund dealer clients by allowing mutual fund dealers to introduce business to investment dealers while still operating under mutual fund dealer rules. However, where a *significant* portion of the mutual fund dealer member’s business is carried by an investment dealer, the mutual fund dealer will become subject to the investment dealer rules. The definition and scope of what is a *significant* portion are expected to be developed soon and we will update our members accordingly.

Further, individual dealer firms can now register in both mutual fund dealer and investment dealer categories and combine these activities within the same entity. These dual-registered firms will be able to integrate their back-office functions to serve both platforms. Firms applying to become dually registered must be prepared to demonstrate their reorganization plans with respect to their operations as well as the measures they will undertake to ensure compliance with the interim rules. Dual-registered firms can choose whether they want to integrate their compliance systems or operate separate systems for their investment dealer and mutual fund dealer businesses.

## How do the Interim Rules Change Proficiency Requirements?

Another change in the Interim Rules is the creation of a new category of registered representatives who deal strictly in mutual funds at a dual-registered firms. Representatives in this category will be able to conduct business within the revised investment dealer rules on a permanent basis.

Representatives in this new category will not have to upgrade their proficiencies to those of a registered representative dealing with securities. However, they will be required to complete the Conduct and Practices Handbook (“CPH”) course within 270 days of their firm becoming dually registered.

Note that this new CPH proficiency requirement does not (and continues to not) apply to individuals registered as mutual fund representatives with a mutual fund only dealer, unless these representatives choose to move to a dual-registered firm, or their firm becomes dually registered.

In our response to the CSA, we stated that we do not believe the CPH course is an appropriate requirement for the new category of registrants. The majority of the CPH course covers topics that are either irrelevant for representatives dealing strictly in mutual funds or are simply duplicating what these individuals are already required to learn through mutual fund licensing courses. In our view, representatives transacting in the same products must be subject to similar regulatory expectations, regardless of their dealer’s registration status.

## How do the Interim Rules Change Continuing Education Requirements?

With respect to continuing education (“CE”) requirements, regulators expect that the MFDA and IIROC CE frameworks will be consolidated into a single and harmonized CE framework in the future. In the meantime, existing CE requirements will continue to apply for those representatives who are registered and stay in either the investment dealer or mutual fund dealer categories. Registered representatives under the new category of approved persons who deal strictly in mutual funds at a dual-registered firm will be subject to mutual fund representative CE requirements.

In our comments to the CSA, we have encouraged the New SRO to mandate accreditation for CE courses for both the investment dealer and mutual fund dealer streams. We have also encouraged the use of recognized third-party accreditation services, such as The Institute for Advanced Financial Education, which is an approved third-party accreditation service with the MFDA CE program. Accreditation enhances consumer protection by ensuring the quality of the CE programming and ensures that advisors have access to high quality CE courses that would meet regulatory scrutiny in an audit.

## Do the Rules Change Directed Commissions?

The interim rules represent a good news-bad news story when it comes to directed commissions to unregistered corporations, but there is reason to be hopeful. The bad news is that directed commissions will continue to be prohibited for representatives on the investment dealer platform. However, the good news is that the CSA preserves directed commissions for representatives on the mutual fund dealer platform – and expands their use by also allowing them for the new category of mutual fund-only representatives at dual-platform firms.

With the interim rules, the CSA had to make a decision on how to treat directed commissions. The fact that the CSA preserved the status quo for existing platforms, and increased their scope to cover parts of the new platform, is a positive sign. It could have just as easily retrenched their presence. The CSA's working group studying directed commissions continues its work, but it has generally made favourable comments regarding the impact of this measure on consumer protection. We will continue to work with the CSA with the goal of expanding this practice to the investment dealer platform, so we can level the playing field among all representatives regardless of their registration category.

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The Advocacy group represents our members on both the regulatory and political fronts. To learn more about our regulatory submissions and bulletins, please click [here](#). To learn more about our political advocacy efforts and see how you can get involved, please click [here](#).

If you have questions or comments about this Bulletin, or to connect with the department, please contact us at [regulatoryaffairs@advocis.ca](mailto:regulatoryaffairs@advocis.ca).

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