The Canadian Investment Regulatory Organization ("CIRO")

On January 1, 2023, the Mutual Fund Dealers Association of Canada ("**MFDA**") and Investment Industry Regulatory Organization of Canada ("**IIROC**") combined to establish one organization now known as the CIRO.

CIRO has published its Annual Priorities for Fiscal 2024 which detail CIRO's areas of focus for the April 2023 to March 2024 period. CIRO has set out the following eight priorities:

- Determine mission, vision, values, and brand for CIRO and develop a three-year strategic plan.
- Promote the investor perspective through the Office of the Investor and Investor Advisory Panel.
- Create a harmonized regulatory approach.
- Articulate the plan for an integrated fee model.
- Maintain an engaged, empowered, and unified staff.
- Continue to deliver on the regulatory mandate and support investors through industry and regulatory transformation.
- Strengthen stakeholder relationships.
- Demonstrate progress on the integration of corporate systems and processes.

On June 30, 2023, CIRO published an update on its Rule Consolidation Project, which outlines the phased approach CIRO plans to pursue in drafting and implementing the CIRO Dealer and Consolidated Rules. CIRO anticipates that there will be five rule development and implementation phases as follows:

- Phase 1 - Establish new rule set structure which includes interpretation provisions, definitions, exemption provisions, and general standards of conduct.
- Phase 2 - Adopt rules that are unique to the Investment Dealer and Partially Consolidated ("**IDPC**") Rules or Mutual Fund Dealer ("**MFD**") Rules and have been assessed as not having a material impact on stakeholders.
- Phase 3 - Adopt rules that are common to the IDPC and MFD Rules and have been assessed as not having a material impact.
- Phase 4 - Adopt rules that are unique to the IDPC or MFD Rules and have been assessed as having a material impact on stakeholders.
- Phase 5 - Adopt rules that are common to the IDPC and MFD Rules and have been assessed as having a material impact.

CIRO anticipates that the proposed Phase 1 rule amendments will be published for public comment in fall 2023. Currently, there is an interim rule book comprised of the IIROC and MFDA rules. CIRO provides an FAQ on the interim rules on its website.

CIRO also intends to publish its proposed approach regarding the issue of directed commissions being paid to personal corporations later in 2023, which is expected to expand these benefits to additional registered representatives.

Total Cost Reporting ("TCR") Disclosure for Investors

The Canadian Securities Administrators (the "**CSA**") and Canadian Council of Insurance Regulators (the "**CCIR**") have published the final enhanced cost disclosure requirements for investment funds and new cost and performance reporting requirements for segregated funds.

The TCR amendments take effect on January 1, 2026. The regulators extended the transition period from the initial proposal in light of implementation issues and concerns identified in the consultation process. This means investors will receive their first annual report of charges and compensation (the "**Annual Report**") with the new requirements in 2027 for the period ending December 31, 2026.

The amendments are part of the regulators' response to concerns relating to current cost disclosure under the client relationship model reforms ("**CRM2**") which took effect July 2016. CRM2 only required disclosure of commissions and fees paid to dealers, not fund fees paid to investment fund managers. The TCR requirements are intended to improve investor awareness of all embedded fees.

The Annual Report will be expanded to include:

- the total aggregated dollar value of fund expenses paid by the investor;
- any direct investment fund charges in dollars (e.g., short-term trading fees); and
- the fund expense ratio, which is the sum of the management expense ratio and trading expense ratio, expressed as a percentage for each fund held.

The CSA and CCIR intend to establish an implementation committee, with participation from CIRO, to provide guidance and assistance to the industry in operationalizing the new requirements.

Client Focused Reforms – Conflicts of Interest Compliance Review

On October 3, 2019, the CSA adopted amendments to NI 31-103 to implement reforms to enhance the client-registrant relationship (the "**Client Focused Reforms**"). The main objective of these reforms is for the registrants to put clients' interests first when giving them investment advice and trading securities for them. You can visit our Regulatory Resource page on Fidelity.ca for a detailed summary of the Client Focused Reforms, which came into effect fully on December 31, 2021.

In 2022, the predecessor self-regulatory organizations, MFDA and IIROC, along with the CSA conducted a detailed review of 172 registered firms to assess their compliance with the CFR Conflict of Interest ("COI") requirements that came into effect on June 30, 2021. The objective of the review was to determine if dealers had met the spirit of the new COI rules and implemented processes to address material conflicts in the best interest of clients.

A joint CSA and CIRO Staff Notice published on August 3, 2023 reports on common deficiencies that were identified in the compliance review, and provides additional guidance to registrants on how to comply with the COI requirements.

The most common deficiencies identified include:

- 34% of the firms reviewed did not identify or adequately address material COI, including conflicts related to proprietary products, internal compensation and incentive practices, third-party compensation and referral arrangements.
- 53% of firms provided incomplete disclosure to clients about material COI.

  When disclosing COI, registrants are required to include a description of:

  1. the nature and extent of the conflict of interest,
  2. the potential impact on and the risk that the conflict of interest could pose to the client, and
  3. how the material conflict of interest has been, or will be, addressed.
- 28% of firms had inadequate controls to address certain material conflicts in the best interest of clients.
- 66% of firms had inadequate policies and procedures related to COIs.

Registrants are encouraged to review the requirements set out in NI 31-103, the guidance published in 31-103CP, IDPC Rule 3100 Part B, MFD Rule 2.1.4, and the Staff Notice, to assess their policies and procedures and disclosure relating to COIs. Additional guidance can also be found in the CSA's Client Focused Reforms - Frequently Asked Questions (updated April 29, 2022).

Title Protection

ONTARIO

On March 28, 2022, Financial Services Regulatory Authority's ("**FSRA**") Financial Professionals Title Protection Rule (the "**Titles Rule**"), outlining the minimum standards for the use of the "financial planner" (**FP**) and "financial advisor" (**FA**) titles in Ontario, came into force. In connection with the Titles Rule, FSRA also released updated guidance in its Financial Professionals Title Protection - Supervisory Framework and Financial Professionals Title Protection - Administration of Applications.

Here are some significant highlights from the Titles Rule:

- Entities seeking approval as credentialing bodies to oversee the conduct of FP and FA title users need to be approved by FSRA.
- Approved credentialing bodies are required to provide FSRA with the information needed to create and maintain a public registry of title users.
- Individuals who currently use either title will not be "grandfathered" under the new rule that establishes minimum standards for those who want to use those titles; however, this is a transition period allowed for individuals using these titles prior to January 1, 2020.
- Minimum standards for FPs require them to have a credential that, among other things, has an educational component related to financial planning, such as estates and tax planning, retirement planning, technical knowledge, ethical practices and dealing with conflicts of interest.
- Minimum standards for FAs include similar components, as well as education on providing suitable financial and investment recommendations to clients.
- The transition period for individuals using these titles prior to January 1, 2020, is two years for FA title users and four years for FP title users. Individuals who commenced using these titles post January 1, 2020 must cease to use their title until they obtain an approved credential from an approved credentialing body.

- FSRA has authority to take enforcement action in various circumstances, including:
  - if an approved credentialing body fails to comply with the FPTPA, the Titles Rule or any terms and conditions associated with FSRA's approval;
  - if an individual uses the FP or FA title without an approved credential;
  - if an entity is or appears to be representing as an approved credentialing body without valid approval;
  - if an entity is or appears to be representing that it can offer an approved FP or FA credential without FSRA approval of the credential;
  - utilizing a title that could reasonably be confused with FP or FA.

FSRA announced on December 22, 2022 that users of FA and FP titles in Ontario will be given more time to find a path to comply with the Titles Rule. FSRA is focusing its resources on approving credentialing bodies and assisting them with the implementation of the title protection framework, which will continue until June 30, 2023. Until then, FSRA's enforcement activities with respect to non-compliant title users will focus on responding to consumer complaints and requesting non-compliant title users to voluntarily cease title use within 30 days.

As of the date this Regulatory Pulse is written, the following credentialing bodies and credentials have been approved by the FSRA:

Approved Credentialing Body	Approved Credential	Permitted Title
FP Canada	Certified Financial Planner	Financial Planner
	Qualified Associate Financial Planner	Financial Planner
Institute for Advanced Financial Education (IAFE), a subsidiary of Advocis	Chartered Life Underwriter	Financial Planner
	Professional Financial Advisor	Financial Advisor
Canadian Securities Institute	The Personal Financial Planner	Financial Planner
	Designated Financial Services Advisor (DFSA™)	Financial Advisor
The Canadian Institute of Financial Planning (CIFP)	Registered Retirement Consultant® (RRC®)	Financial Planner
	Registered Financial and Retirement Advisor® (RFRA®)	Financial Advisor
	Registered Retirement Analyst™ (RRA™)	Financial Advisor

CIRO is currently working with FSRA to become a credentialing body for financial advisors.

Please refer to the FSRA's website for an up-to-date list of all approved credentialing bodies and credentials.

SASKATCHEWAN

On July 3, 2020, the Saskatchewan government passed the *Financial Planners and Financial Advisors Act* (the "**FPFA Act**"). The FPFA Act is modelled on the FPTPA Act in Ontario and restricts who in Saskatchewan may legally use the titles of "financial planner" and "financial advisor".

On July 28, 2021, the Financial and Consumer Affairs Authority of Saskatchewan ("**FCAA**") published for comment proposed regulations under the FPFA Act which closely reflected Ontario's Titles Rule. In July 2022, the FCAA posted for comment changes to these regulations in response to comments received on the initial consultation. These changes reduce harmonization with Ontario in respect to certain aspects of the proposed framework.

A notable change is the FCAA is considering changing the competency profiles for the FA credential to be closer to that of a FP. Given the proposed changes to the FA credential:

- It is possible that approved FA credentialling bodies in Ontario will not qualify to be an approved FA credentialling body in Saskatchewan without expanding their education requirements.
- The FCAA has asked whether the transition period for FAs should be extended to match those that will be available to FPs (i.e. four years from the date the regulation comes into force).

The comment period on Saskatchewan's proposed regulations ended September 20, 2022.

OTHER PROVINCES

Following the lead of Ontario and Saskatchewan, the Financial and Consumer Services Commission of New Brunswick has taken the next step in establishing a framework for title protection. Following its consultation in 2021, the government introduced Bill 29, the Financial Advisors and Financial Planners Title Protection Act. If passed, the next step will be consulting on proposed rules for the use of FA and FP titles in the province. Manitoba Finance has now published a consultation paper that reviews the recent developments in other provinces relating to the use of the FA and FP titles, and poses questions about whether the Manitoba government should proceed with its own legislation. Comments are due by September 30, 2023.

Québec was the first province with title regulation in force by regulating the "financial planner" title and restricting other titles.

Ombudsman for Banking Services and Investments ("OBSI") Governance Review

On November 1, 2022, OBSI released a request for public input on its organizational governance. The consultation follows OBSI's 2021 Independent Evaluations which made a number of governance-related recommendations, including that OBSI's board should undertake a strategic review of its governance structure to determine how best to ensure that key stakeholder interests are most effectively considered in board oversight and decision-making.

The comment period closed on January 31, 2023. OBSI will consider all submissions and work towards updating its organizational governance structure in consultation with the regulators on any proposed changes. The CSA also intend to develop and publish for comment a proposal to provide OBSI with the authority to make binding compensation decisions in 2023.

Review of Mutual Fund Sales Practices

On June 1, 2023, the CSA launched a review of the use of chargebacks in the mutual fund industry. Chargebacks are a compensation practice where a dealing representative is paid upfront commissions and/or fees when their client purchases securities. If a client redeems their securities before a fixed schedule expires, the dealing representative is required to pay back all or part of the upfront commission/fees they received. The CSA's review follows a consultation by the insurance regulators, as described below. The CSA's review will guide any possible changes to the mutual fund sales practice rules going forward.

On September 22, 2022, the CSA announced the regulators are launching a review of sales practices for proprietary mutual funds. The first phase of the CSA's review includes surveying investment fund managers identified as using a "principal distributor" - defined as funds sold exclusively by a particular dealer - to provide a better understanding of sales practices and distribution structures. The review is intended to help the CSA determine whether regulatory amendments are needed in light of the CSA's recent work in developing its Client Focused Reforms.

Tied-Selling and Anti-Competitive Practices

As stated in its 2023-2024 Statement of Priorities, the Ontario Securities Commission ("**OSC**") will be continuing its analysis of tied selling and other anti-competitive practices in capital markets. This initiative will include receiving formal submissions together with supporting evidence from issuers, dealers and other market participants. The OSC will be establishing the extent that such conduct may be impeding competition.

Previously, the OSC reported findings and potential recommendations to the Minister of Finance following its inquiry into banks' activities regarding the availability of third-party investment funds on product shelves and the practice of tied-selling to corporate clients in February 2022.

Insurance Regulators' Consultation on Potential Ban of Upfront Commissions

On May 15, 2023, the CCIR and the Canadian Insurance Services Regulatory Organizations ("**CISRO**") announced actions they intend to pursue following the public consultation on their discussion paper on upfront compensation paid for the sale and servicing of segregated funds.

The CCIR and CISRO concluded that without appropriate control measures, there is a risk of customer harm if insurers pay intermediaries for selling individual variable insurance contracts and require the intermediaries to repay some or all of the commission if the customers withdraw money within a specified time (also known as chargebacks).

For now, the CCIR and CISRO have opted not to ban chargebacks outright. The regulators will be considering the appropriate controls to be put in place and will be incorporating them into guidance they are creating with respect to segregated fund market conduct expectations, which will be published for public comment. In addition, CCIR and CISRO announced in February 2022 that the regulators are working on their respective approaches to deferred sales charge bans in their jurisdictions.

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