

September 30, 2022

**VIA EMAIL**

**To:**

Alberta Securities Commission  
250, 5th Street SW  
Ste. 600  
Calgary, AB T2P 0R4  
**Attn:**  
Mr. Stan Magidson  
Chair and Chief Executive Officer

The Manitoba Securities Commission  
500 - 400 St. Mary Avenue  
Winnipeg, MB R3C 4K5  
**Attn:**  
Mr. David Cheop  
Chair and Chief Executive Officer

Service Newfoundland & Labrador  
Digital Government and Service NL  
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**Attn:**  
Mr. Scott Jones  
Assistant Deputy Minister, Regulatory Affairs  
Superintendent of Securities

Nova Scotia Securities Commission  
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**Attn:**  
Mr. Paul E. Radford  
Chair

British Columbia Securities Commission  
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**Attn:**  
Ms. Brenda Leong  
Chair and Chief Executive Officer

Financial and Consumer Services Commission  
85 Charlotte Street, Suite 300  
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**Attn:**  
Mr. Kevin Hoyt  
Executive Director of Securities

Office of the Superintendent of Securities  
Department of Justice, Government of the  
Northwest Territories  
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**Attn:**  
Mr. Matthew F. Yap  
Superintendent of Securities

Office of the Superintendent of Securities  
Nunavut  
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Iqaluit, NU X0A 0H0  
**Attn:** Shamus Armstrong

Ontario Securities Commission  
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22nd Floor  
Toronto, ON M5H 3S8  
**Attn:**  
Mr. D. Grant Vingoe  
Chief Executive Officer

The Office of the Superintendent Securities  
Office of the Attorney General  
95 Rochford Street, P.O. Box 2000  
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**Attn:**  
Mr. Steve Dowling  
Director

Autorité des marchés financiers  
800, Square Victoria, 22e étage  
Montréal, QC H4Z 1G3  
**Attn:**  
Mr. Louis Morisset  
President and Chief Executive Officer

Financial and Consumer Affairs Authority of  
Saskatchewan  
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Regina, SK S4P 3V7  
**Attn:**  
Mr. Roger Sobotkiewicz  
Chair and CEO

Office of the Yukon Superintendent of  
Securities  
307 Black Street, 1st Floor  
Whitehorse, Yukon Y1A 2N1  
**Attn:**  
Mr. Fred Pretorius  
Superintendent of Securities

Dear Sirs/Mesdames:

**Re: Application for Recognition of New Self-Regulatory Organization of Canada (the “New SRO”)**

### **Introduction**

This letter sets out the joint application of the Investment Industry Regulatory Organization of Canada (“**IIROC**”) and the Mutual Fund Dealers Association of Canada (the “**MFDA**”, and together, the “**SROs**”) to the 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; and Office of the Yukon Superintendent of Securities, which are collectively the “**Recognizing Regulators**” or members of the Canadian Securities Administrators (the “**CSA**”), to recognize the entity resulting from the amalgamation of IIROC and MFDA, the New Self-Regulatory Organization of Canada, (the “**New SRO**”) as a self-regulatory organization under applicable securities legislation (the “**Application**”). The New SRO will also be a regulation service provider (“**RSP**”) under National Instrument 23-101 *Trading Rules* (“**NI 23-101**”), and an Information Processor (as defined under NI 21-101) for government and corporate debt securities, under applicable securities laws and NI 21-101.

## **Background**

Subject to recognition by the Recognizing Regulators, and approval by the members of the SROs, the SROs propose to consolidate their regulatory activities in the New SRO, through a legal amalgamation (the “**Amalgamation**”). The SROs will bring their memberships, assets, liabilities and legal and regulatory responsibilities, including memoranda of understanding, to the New SRO as a result of the Amalgamation. The main objective of creating the New SRO is to develop a regulatory framework that has a clear public interest mandate and fosters fair and efficient capital markets, by focusing on investor protection to promote public confidence and accommodating innovation and change.

The Recognition Order will become effective upon the Amalgamation, at which time the SROs wish for each of IIROC and the MFDA’s existing recognition orders to be superseded and of no force or effect (discussed further below).

The New SRO will be created in a manner consistent with the CSA Position Paper 25-404 – *New Self-Regulation Organization Framework* (the “**Position Paper**”) and will reflect the CSA’s vision to provide enhanced regulation of the investment industry. The terms of the Recognition Order being sought for the New SRO reflect the principles and approach of the Position Paper.

The respective boards of directors of the MFDA and IIROC determined that the Amalgamation is the most effective way to facilitate the creation of a new single enhanced self-regulatory organization, in the form of the New SRO. Accordingly, the MFDA and IIROC entered into a combination agreement on August 29, 2022, which was approved by the respective boards of directors of the MFDA and IIROC. The Combination Agreement contemplates that, subject to the approval of the MFDA members and the IIROC members, the MFDA and IIROC will amalgamate. Further, the respective boards approved a joint information circular (“**Joint Information Circular**”) inviting members to vote “yes” to the Amalgamation at their upcoming special meeting (described below).

MFDA members voted on the proposed amalgamation at a special meeting of MFDA members held at 11:00 a.m. (EDT) on September 29, 2022. IIROC members voted on the proposed amalgamation at a special meeting of IIROC members held at 5:00 p.m. (EDT) on September 29, 2022. The Amalgamation was approved by not less than two-thirds of the votes cast by MFDA members entitled to vote at the MFDA Meeting and by not less than two-thirds of the votes cast by the Dealer Members and Marketplace Members of IIROC entitled to vote, each voting as a separate class, at the IIROC Meeting.

## **The New SRO Mandate**

The New SRO will be a non-share capital corporation under the *Canada Not-for profit Corporations Act* (“**CNCA**”). The initial By-law No. 1 of the New SRO (“By-Law No. 1”) is attached hereto as Schedule 1.

The mandate of the New SRO is to act in the public interest by, without limitation:

- protecting investors from unfair, improper, or fraudulent practices by its members;
- fostering fair and efficient capital markets and promoting market integrity;
- fostering public confidence in capital markets;

- facilitating investor education;
- administering a fair, consistent and proportionate continuing education program for all Dealer Members and applicable approved persons;
- accommodating innovation and ensuring flexibility and responsiveness to the future needs of the evolving capital markets, without compromising investor protection;
- providing effective market surveillance;
- fostering efficient and effective cooperation and coordination with the Recognizing Regulators to ensure regulatory alignment;
- facilitating access to advice and products for investors of different demographics;
- recognizing and incorporating regional considerations and interests from across Canada;
- facilitating meaningful consultation and input from all types of members and ensuring that investor perspectives are factored into the development and implementation of regulatory policies;
- administering robust compliance and enforcement processes;
- ensuring that the complaint handling and resolution processes of New SRO and the complaint handling requirements New SRO imposes on its members are accessible to, and provide clear understandable guidance for, complainants and deal with complaints fairly and efficiently;
- contributing to financial stability, under the direction of the Recognizing Regulators; and
- administering effective governance and accountability to all stakeholders and preventing regulatory capture.

## **Members**

The New SRO will initially have two classes of members, Dealer Members and Marketplace Members (collectively, “**Members**”), each class having equal voting rights and voting together.

Upon completion of the Amalgamation, each MFDA Member and IIROC Dealer Member will become a Dealer Member of New SRO and each IIROC Marketplace Member will become a Marketplace Member of New SRO. A Member may qualify as both a Dealer Member and Marketplace Member but shall only be entitled to one vote on any vote by Members, unless a vote of Members by class is required.

Dealer Members of the New SRO will be investment dealers and/or mutual fund dealers registered under applicable Canadian securities legislation and accepted for membership by the Board.

A Marketplace Member of the New SRO will be a marketplace that is:

- \* a recognized exchange or a commodity futures exchange registered in a jurisdiction of Canada;
- \* a recognized quotation and trade reporting system; or
- \* a person or company not included in clause (a) or (b) above that facilitates the trading of securities or derivatives in a jurisdiction of Canada; and
  - \* constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities or derivatives;
  - \* brings together the orders for securities or derivatives of multiple buyers and sellers; and
  - \* uses established non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade.

## **Corporate Governance**

### **The New SRO Board**

By-law No. 1 establishes a 15-member board of directors of the New SRO (the “**Board**”), comprised of the President and CEO of the New SRO (the “**CEO**”), six industry directors (representing the Members), and eight Independent Directors (as defined below). The roles of CEO and chair of the Board will be occupied by separate persons, and the chair of the Board must be an Independent Director.

Pursuant to By-Law No. 1, the term of each director of the New SRO (each, a “Director”) will expire at the dissolution or adjournment of the second annual meeting of Members following the annual meeting of Members at which the Director was elected. With the exception of the President and CEO, a Director may be elected to serve four consecutive terms in office but will not be eligible to be elected to serve a fifth consecutive term.

The term “Independent Director” means a Director who has no direct or indirect material relationship with the New SRO or a member of the New SRO. The full definition of “Independent Director” is set out in By-law No. 1.

The initial Directors and chair of the Board (the “Chair”), proposed by the Special Joint Committee formed by IIROC, the MFDA and the CSA, are set out, and their backgrounds described, in the Joint Information Circular.

### **The New SRO Board Committees**

The Board will initially appoint four standing committees: the Governance Committee, the Finance, Audit and Risk Committee, the Human Resources and Pension Committee and the Appointments Committee. The Board will appoint the chair of each committee.

## Governance Committee

The Governance Committee, in accordance with By-law No. 1, and considering the overall composition of the Board and its representation of the Canadian capital markets, will recommend as nominees for election as Directors those individuals that it considers qualified and desirable.

The Governance Committee will consider all relevant factors in nominating directors to seek to ensure that the composition of the Board: (a) complies with the requirements of By-Law No. 1 and the New SRO Recognition Order, (b) provides fair, meaningful and diverse representation, (c) reflects the regional diversity of the New SRO's stakeholders, (d) otherwise reflects, in the judgement of the Governance Committee, the appropriate balance of interests and perspectives of the Members and stakeholders, (e) consists of, in the judgement of the Governance Committee, a reasonable number of Directors with relevant experience with investor protection issues and (f) addresses, in the judgement of the Governance Committee, actual, potential or perceived conflicts of interest arising from any relationship between a Member and a Director. The Governance Committee will consider, for each potential Director:

- appropriate regional representation across Canada;
- appropriate mix of skills, competencies, individual diversity and characteristics to contribute to a well-functioning Board able to service its mandate;
- the business interests of the candidate or entities with which the candidate is associated;
- the extent of overlap and/or integration of the boards and/or management between members and entities with which the candidate is associated;
- in the case of Independent Directors, whether the candidate would have met the test to be an Independent Director; and
- the appropriate resolution of any actual, potential or perceived conflicts of interest.

In addition, and in respect of Board nominees, the Governance Committee will focus on qualities such as integrity, business judgement and acumen, capital markets expertise and other relevant business, professional or board expertise, as well as ensuring that nominees are appropriate in recognition of the status of the New SRO as a self-regulatory organization in the various Canadian jurisdictions.

The Governance Committee will recommend, and the Board may appoint, directors to fill vacancies that arise between annual Members' meetings, ensuring that any such appointees maintain the Board composition specified by By-Law No. 1. The Governance Committee will be composed of not less than five directors, and may include the Chair of the Board. All of the members of the Governance Committee will be Independent Directors.

The Governance Committee's mandate includes: (i) reviewing the efficacy of the New SRO's governance practices, (ii) managing and overseeing the process for nominating new directors to the Board, (iii) succession planning for the chair of the Board, (iv) managing and overseeing the process for evaluating the performance of the Board and its committees, (v) ensuring that there is an effective process in place for the identification and management of real, potential or perceived conflicts of

interest, (vi) appointing individuals to New SRO's Investor Advisory Panel (as described below), and (vii) reviewing and approving the use of restricted funds (i.e. fine and settlement monies).

#### Finance, Audit and Risk Committee

The mandate of the Finance, Audit and Risk Committee (the "**FAR Committee**") will be to assist the Board in its oversight of the integrity and effectiveness of New SRO's accounting and financial reporting processes; the qualifications, independence and performance of New SRO's external and internal auditors; the New SRO's processes relating to its internal control systems and security of information; and the New SRO's policies and processes for risk management. The FAR Committee will be composed of at least five Directors, a majority of which (including the chair of such committee) will be Independent Directors.

#### Human Resources and Pension Committee

The Board will establish a Human Resources and Pension Committee (the "**HR Committee**") to ensure that New SRO can attract and retain personnel with the appropriate qualifications and experience to achieve its mandate, goals and strategic objectives by offering compensation, pension and benefit plans that are competitive, motivating and rewarding and to assist the Board in its oversight of the New SRO's human resources policies and procedures, benefits and pension plans and with ensuring regulatory compliance thereof. The HR Committee will be composed of at least five Directors, a majority of which (including the chair of such committee) will be Independent Directors.

#### Appointments Committee

The Board will establish an Appointments Committee (the "**Appointments Committee**") which will be responsible for appointing members to the New SRO hearing committees (the "**District Hearing Committees**"). Members of District Hearing Committees will sit as hearing panel members in the Districts (as defined in By-Law No. 1). The Appointments Committee will be composed of at least seven Directors, including the President and CEO, and a majority of which (including the chair of such committee) will be Independent Directors. In accordance with By-Law No. 1, the Appointments Committee will always be comprised of an uneven number of Directors.

#### **Member Committees**

##### New SRO National Council and Regional Councils

The New SRO will have a National Council and seven Regional Councils composed of Dealer Members from each Region (as defined in By-Law No. 1).

Each Regional Council will be composed of four to 20 members, as determined from time to time by the Regional Council, including a chair and vice-chair to be elected at the annual meeting of Dealer Members of the Region. The Regional Councils will have an advisory role to New SRO to provide regional perspectives on national or any other issues and recommendations on regulatory policy matters to staff of New SRO. Pursuant to the Recognition Order, New SRO will allocate sufficient resources to the Regional Councils to ensure they can meaningfully fulfil their responsibilities. In addition, the Regional Councils will advise New SRO on industry trends and issues to ensure that New SRO is proactive in dealing with emerging issues.

The Board intends to establish a National Council to be composed of the Chairs and Vice-Chairs of the Regional Councils and to act as a forum for cooperation and consultation among the Regional Councils and provide recommendations to the Board. The National Council will report to the Board at least annually.

Functions currently residing with IIROC District Councils relating to hearing committee nominations, and MFDA Regional Councils with respect to members sitting as hearing panel members, will not reside within the new council structure, as the Appointments Committee will have responsibility for appointing members to District Hearing Committees. In addition, IIROC's District Councils regulatory responsibilities will be transferred to New SRO, as Regional Councils will not have regulatory decision-making authority.

As a transitional measure, pending the establishment of Regional Councils, the existing members of the IIROC District Councils and members of the MFDA Regional Councils will continue to serve on interim councils with a revised advisory mandate. Following the Amalgamation, the New SRO intends to consult with advisory committee members on the role of the new Regional Councils and National Council. The role and mandate of the Regional Councils and the National Council will be considered in the context of the New SRO, reflecting regional diversity and industry representation as well as a larger eco-system of the New SRO advisory committees. It is anticipated that Regional Councils will be constituted in the second calendar quarter of 2023.

#### Advisory Committees

The Board may from time to time appoint such advisory bodies as it may deem advisable, and may delegate such power of appointment to any Director, officer, committee or employee of the New SRO. Membership on such advisory committees shall be determined by the Board from time to time and if the Board so decides, members of such advisory committees may include Directors, directors, officers or employees of Members, or other individuals. Advisory committees will provide advice to staff and may report to the CEO, senior management or the Board as directed. Each will be asked to conduct an annual "self-assessment" and the Board will conduct a biennial review of the overall advisory committee structure to ensure that such committees are relevant and are providing meaningful advice in a timely and effective manner.

The existing advisory committees of each of the MFDA and IIROC will continue after the completion of the Amalgamation on an interim basis. The New SRO will conduct a review of the mandates and composition of the existing advisory committees of the MFDA and IIROC and engage in a consultation with stakeholders on the proposed advisory committee structure for the New SRO.

#### Investor Engagement

The New SRO will create mechanisms to educate and formally engage with investors, including for the purpose of obtaining input on the design and implementation of applicable rule proposals. In particular, the New SRO must:

- establish an investor advisory panel to provide independent research or input on regulatory and/or public interest matters (the "**Investor Advisory Panel**");
- establish a separate investor office within the New SRO that is prominently positioned, easily identifiable and accessible to investors to be established to support rule development and



provide investor education or outreach with the goal of improving investor protection (the “**Investor Office**”);

- ensure that appropriate New SRO advisory committees include a reasonable proportion of investor representatives; and
- maintain a whistleblower program.

The terms of reference of the New SRO’s Investor Advisory Panel is attached hereto as Schedule 4.

### **Member Voting Rights**

In respect of matters to be voted upon by Members (including the election of Directors), all Members will vote together and be entitled to one vote per Member. In accordance with the CNCA, certain matters such as amendments to the New SRO’s articles of amalgamation or by-laws, including creating a new class of members, and certain fundamental transactions such as an amalgamation or plan of arrangement of New SRO or disposition of all or substantially all of its assets, will require approval by a two-thirds vote of the Members. A vote of members by class may be required for certain amendments to the New SRO’s articles of amalgamation or by-laws in accordance with the CNCA, but will not be required to create a new class of members.

### **Conflicts of Interest**

The governance structure, the rule-making and policy development process, the hearing committee process, and the hearing panel structure will all reflect New SRO’s efforts to fulfill its public interest mandate and address the views of its Members and persons subject to its jurisdiction as an SRO.

The New SRO will have policies and procedures managing real, potential or perceived conflicts of interest of: (i) its officers and employees, as reflected in the Employee Code of Conduct (the “**Employee Code**”), and (ii) members of its disciplinary panels. New SRO will undertake a review of each division where regulatory decisions are made by staff and will identify specific risk areas associated with conflicts of interest. The Employee Code will contain policies dealing with conflicts of interest in those areas where employees are required to make decisions on behalf of New SRO as part of their regulatory responsibilities. In addition, internal policies and procedures of each division where employees exercise decision-making authority will contain more specific guidelines on how to comply with the Employee Code. Generally, these deal with disclosure of any conflicts with persons regulated by New SRO and the allocation of responsibilities among staff that minimizes potential conflicts arising. The Employee Code will be approved by the Board and acknowledged by officers and employees initially and annually. The policies and procedures of New SRO will require that the Employee Code be reviewed at least annually to ensure that it continues to appropriately meet its objectives.

The New SRO will also have a written policy managing conflicts of interest of members of its Board, which will be acknowledged by directors initially and on an annual basis. This policy will be reviewed periodically to ensure that it continues to appropriately meet its objectives and complies with the CNCA.

## **Access**

The existing criteria for access to membership and the provision of regulation services will be preserved in the New SRO, as initially will the processes for obtaining such access. The New SRO will have reasonable written criteria that permit all persons or companies that satisfy the criteria to access the New SRO's regulatory services. The access criteria and the process for obtaining access will be fair and transparent. Any changes to the criteria or process for obtaining access will be developed and implemented in a fair and transparent manner and subject to Board approval as well as approval by the Recognizing Regulators.

Pursuant to the Amalgamation, current members of the MFDA or IIROC will be Members of the New SRO and no additional acceptance or approval requirements will be required.

## **Financial Viability**

The New SRO will be a non-share capital, membership-based, not-for-profit corporation. As with IIROC and the MFDA (as well as many of the Recognizing Regulators), its financial model will be based on the collection of fees from Members in order to recover the costs incurred in its regulatory activities.

Upon completion of the Amalgamation, the New SRO will own all of the assets (and will assume all of the liabilities) of the MFDA and IIROC, including the balances in the MFDA Discretionary Fund and the IIROC Restricted Fund (which will be transferred to the New SRO Restricted Fund and used solely for prescribed purposes as described in the Recognition Order). In accordance with the draft Recognition Order, the New SRO must operate on a cost recovery basis and seek authorization for any increase in fees for Dealer Members that are not affiliated with the same controlling interest or are not dually registered as both investment dealers and mutual fund dealers, in each case to the extent that such increase is related to the costs of creating the New SRO.

The costs and expenses incurred relating to the Amalgamation and start-up of the New SRO are being borne by IIROC and the MFDA and will ultimately be borne by the New SRO. Given that the creation of the New SRO is in the public interest, both the MFDA and IIROC sought approval from the CSA to access the MFDA Discretionary Fund and the IIROC Restricted Fund for an amount up to \$4,290,000 each respectively. The balance of integration costs after application of approved Discretionary Fund and Restricted Fund use will be recovered through the Integration Cost Recovery Model fees charged to existing MFDA and IIROC Members who are affiliated with the same controlling ownership interest, and any New SRO Member, existing or new, that becomes dually registered before the cost recovery period ends, as further described below in the section on Fees.

## **Fees**

### **Final fee model**

The New SRO will continue the project commenced during the Amalgamation planning process to develop an appropriate fee model for the New SRO following the Amalgamation. Development of a new fee model will be a complex exercise and will therefore require expert professional advice. Implementation of any such fee model will involve consultation with Members and other stakeholders and will be subject to a public comment process and approval by the Recognizing Regulators.

In accordance with the Recognition Order, the following principles will be applied in a fee model adopted by the New SRO:

- All fees imposed by the New SRO must be equitably allocated and be proportionate to Members' activities.
- Fees must not have the effect of creating unreasonable barriers to access.
- The process for setting fees must be fair and transparent.
- The New SRO must operate on a cost-recovery basis.

#### Interim fee model

Upon the Amalgamation, and on an interim basis, the existing fee structures and models of IIROC and the MFDA will initially be maintained and administered by the New SRO with necessary modifications (the “**Interim Fee Model**”). The Interim Fee Model is based on cost recovery. Members who are currently paying fees under both the IIROC and MFDA fee models will continue to pay such fees under the Interim Fee Model immediately following the Amalgamation and until such time as the new fee model is implemented. Dealer Members that register as both an investment dealer and a mutual fund dealer will pay fees under both the IIROC and MFDA fee structures within the Interim Fee Model until such time as the new fee model is implemented. IIROC's Equity Market Regulation, Debt Market Regulation, and Debt Information Processor fee models will remain largely unchanged as part of the Interim Fee Model, except for the impact of the change on the timing of fee setting as described below.

Fees for fiscal year 2023 will continue to be charged after the Amalgamation, through to the end of the respective fiscal years for MFDA and IIROC.

In order to align administration of annual membership fees for the New SRO under the Interim Fee Model, all fees will be set and approved with the budget in March. Fees will be communicated on or about the first week of April with the first quarterly installment for annual membership fees due for payment by the first business day of May. Each subsequent quarterly installment for annual membership fees will be invoiced at the beginning of the quarter and due by the first business day of the following month. As the first quarter of fiscal 2024 for the New SRO is equivalent to the last quarter of fiscal 2023 for MFDA, mutual fund dealer Members will continue to pay the quarterly membership fees communicated for fiscal 2023 for that quarter, with the balance of annual membership fees for fiscal 2024 evenly distributed over the remaining three quarters and following the Interim Fee Model due dates noted above. The timing of processes related to non-payment of member fees will also be aligned.

As one of the public interest guiding principles is facilitating access to advice for investors of different demographics, including those primarily served by smaller and independent firms, it is important to retain and support that community through the transition to the new regulatory model. Accordingly, the Interim Fee Model will reduce both minimum fees and rebalance downward the fee rates per Revenue Tier for IIROC fees and Assets Under Administration (“AUA”) category for MFDA fees applicable to the small dealer group. A small dealer is defined for the purposes of the Interim Fee Model as a Member that is either: (i) an investment dealer that pays the IIROC minimum fee, or (ii) a mutual fund dealer with AUA for MFDA fee purposes that is less than \$1

billion. Specifically, the IROC minimum fee will be reduced to \$16,000 with the related Revenue Tiers reduced accordingly. The MFDA minimum fee will be reduced to \$1,500, with the related AUA fee rates under \$1 billion reduced by 50% for small MFDA dealers. This modification would apply starting for fiscal year 2024 and will apply for a minimum of two years or until the final fee model is determined. The Interim Fee Model Guidelines applicable to Investment Dealer Members and Marketplace Member are attached hereto as Schedule 3.

#### Québec-based mutual fund dealers

The transition of regulatory services in Québec and related impact on fees will follow the same fee model principles outlined above. While the New SRO will continue to operate on a cost recovery basis, efforts will be made to minimize or avoid fee impacts of duplicative regulatory structures during transition in Québec, and specifically ensure that mutual fund dealers in Québec pay the New SRO a reduced fee, the amount of which shall be proportionate to the services offered to them.

#### Integration cost recovery model

Integration costs will be recovered through a separate fee, calculated based on an integration cost recovery model (the “**Integration Cost Recovery Model Fees**”), charged quarterly as a percentage of the applicable firm’s annual membership fees, subject to a 10% annual cap. The percentage will be set annually and charged over three to five years until the balance of integration costs are recovered. The final timeframe will be determined after all integration costs captured by March 31, 2024 are known, to ensure that fees will remain under the 10% of annual membership fees cap. Applicable firms include existing MFDA Members and IROC Members who are affiliated with the same controlling ownership interest, and any New SRO Member that becomes dually registered before the cost recovery period ends.

Integration Cost Recovery Model Fees will begin for the first quarter of fiscal 2024 at an amount not to exceed 8% of annual membership fees.

### Performance of Regulation Functions

#### *Recognition Orders*

The independence, mandate and obligations of the New SRO will be prescribed as terms and conditions of its Recognition Order. As with IROC and the MFDA, the New SRO must seek input from the Recognizing Regulators before finalizing its strategic and business plans, annual statements of priorities and budgets. The New SRO must cooperate and assist with any reviews of its functions by the Recognizing Regulators or an independent third-party that is acting at the direction of the Recognizing Regulators. The Recognizing Regulators will conduct an annual risk-based oversight review, which will enable the Recognizing Regulators to ensure that the New SRO acts in a manner consistent with the public interest in carrying out its mandate as an SRO.

#### *Regulation Services*

The New SRO will seek to protect investors, foster investor confidence and enhance the fairness and efficiency of Canadian capital markets through the provision of effective self-regulation of Members, their representatives and other persons subject to the New SRO's jurisdiction. As a neutral, cost-effective and responsive SRO, the New SRO will not unreasonably discriminate between Members. The New SRO will assume all of the regulatory responsibilities and perform, on a consolidated basis, all of the regulatory services currently being performed by IIROC and the MFDA.

Under the applicable National Instruments, orders granted under the National Instruments by certain securities commissions, and its regulation service agreements with Marketplace Members, IIROC applies the UMIR to Marketplace Members and Dealer Members. Subscribers of a Marketplace Member alternative trading system ("ATS") that are not Dealer Members are subject to UMIR and the jurisdiction of IIROC, as IIROC's agreements with Marketplace Member ATSs require this. Upon the Amalgamation, these Instruments, orders and regulation service agreements will apply to the New SRO by operation of law.

#### *Transitional Jurisdiction*

The New SRO will have jurisdiction over the conduct of Dealer Members and over the trading conduct of all members, users and subscribers of Marketplace Members, including for investigations or enforcement actions in progress at the Effective Time or related to actions which took place prior to the Effective Time.

### **Capacity and Integrity of Systems**

The New SRO plans to perform its regulatory functions using the information technology systems currently used by IIROC and the MFDA, including those systems currently provided to IIROC and the MFDA by various external service providers. Relevant existing service agreements between IIROC and the MFDA and their respective service providers will continue with the New SRO.

The New SRO will perform its market surveillance regulation function using the systems currently used by IIROC.

#### *Capacity Planning and Management*

The New SRO will ensure that information technology systems capacity planning is undertaken on a regular basis and system upgrades, processing capability, storage, connectivity and backup are managed carefully. With respect to the market surveillance regulation functions, the New SRO will continue the IIROC practice of regularly forecasting its expected data volumes.

#### *Development and Testing Methodologies*

The New SRO will use development and testing cycles that do not interfere with the normal operation of its production systems. The New SRO will regularly review and update its development and testing methodologies, either internally or through its service providers.

#### *System Vulnerability*

The level of exposure to threats and system vulnerability for the New SRO will vary based on whether the system is critical or not. Sensitive regulatory data will be kept secure and confidential, within the organization and in relation to service providers. The New SRO will continue the MFDA and IIROC's practice of continuous vulnerability scanning and at least annually engage a third party to conduct an independent assessment of its potential vulnerability to internal and external threats. The New SRO will continue to ensure that relevant service providers implement appropriate confidentiality and security provisions.

#### *Internal Controls*

The New SRO will, at least annually, engage a third-party to complete an assessment of the New SRO's internal controls for critical systems in accordance with established audit procedures and standards.

#### *Contingency Planning, Disaster Recovery & Business Continuity Plans*

IIROC and the MFDA have written contingency, business continuity and disaster recovery plans, which include specific criteria for all critical system applications. Upon the Amalgamation, the New SRO plans to continue to operate under these and/or new consolidated plans. As with IIROC, all New SRO market surveillance systems will have full redundancy with two live sites running in parallel and personnel backup in multiple offices of the New SRO.

### **Rules**

Initially, it is the intention of the New SRO to adopt and administer interim rules which will incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-laws, rules and policies of the MFDA (collectively, the "**Interim Rules**"). Members can expect that their activities and conduct as Members of the New SRO will continue to be regulated in the manner to which they are accustomed based on their current securities registration status, pursuant to the New SRO's Interim Rules. The Interim Rules will include: (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules.

The Interim Rules, which were subject to public consideration and comment, will also include new Rules to: (i) eliminate IIROC District Council regulatory approval authorities while maintaining their advisory role, (ii) permit firms registered as both an investment dealer and a mutual fund dealer (dual-registered firm) to employ mutual funds only licensed individuals without having to upgrade their proficiencies to those required of a securities licensed individual, (iii) permit introducing/carrying broker arrangements between mutual fund dealers and investment dealers, (iv) enable mutual-funds-only registered individuals employed by a dual-registered firm to be able to continue to direct commission where permitted by local securities legislation, (v) facilitate the timely movement of accounts between affiliated firms (including situations where accounts are being moved to a dual-registered Affiliated Firm) without requiring the completion of new account documentation, and (vi) allow for a sufficient Dealer Member implementation period once the names of the New SRO and investor protection fund are determined. The New SRO will review the Mutual Fund Dealer Rules, Investment Dealer and Partially Consolidated Rules and the UMIR in order to propose changes to harmonize rules, policies and related processes.

A draft of the Interim Rules is attached hereto as Schedule 2.

A consolidated rule book will be developed, informed by a comprehensive policy plan for a regulatory approach reflecting the general principle that like activities will be regulated in like manner. The intention is to find convergence on a risk based and consistently applied approach to principles-based rules, compliance and enforcement. The process for development of the consolidated rule book (and new policy development generally) will be informed by consultations, following existing, established proposed rule review and approval mechanisms including the assessment of public comments to determine the needs of the Members of the New SRO and the public interest. The intention is to give the New SRO Members and the public sufficient time and opportunity to engage with the New SRO personnel to respond to any new rule proposals following a consultation period. The voice of Members will be key.

Post-amalgamation proposals to replace or amend the Interim Rules would be submitted to the Recognizing Regulators for approval in accordance with the procedures established in the Memorandum of Understanding among Recognizing Regulators regarding oversight of the New SRO, on terms and conditions reflective of the Position Paper, between the New SRO, as a self-regulatory organization and RSP, and the applicable Recognizing Regulators. The New SRO will, subject to the terms and conditions of the Recognition Order and the jurisdiction and oversight of the relevant Recognizing Regulators, establish rules, regulations or policies that promote the public interest, and are designed to:

- ensure compliance with applicable securities legislation,
- prevent fraudulent and manipulative acts and practices,
- promote just and equitable principles of trade and the duty of Dealer Members to act fairly, honestly and in good faith with their clients,
- promote Member education,
- foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities and derivatives,
- foster fair, equitable and ethical business standards and practices,
- promote access to advice in different geographic zones, including the servicing of clients in both urban and rural settings,
- allow Members to develop and make use of technological advancements to achieve greater efficiencies and productivity, while mitigating any risks to the investors and the public,
- promote the protection of investors,
- are scalable and proportionate to different types and sizes of Dealer Member firms and their respective business models, and
- provide for appropriate discipline of those whose conduct it regulates.

The Interim Rules, and any replacement of thereof, will not unreasonably discriminate among those subject to its regulation nor impose any unnecessary burden or constraint on competition or innovation. The Interim Rules and the administration thereof will not impose costs or restrictions on the activities of market participants that are disproportionate or contrary to the public interest.

## **Continuing Education**

The MFDA and IIROC continuing education requirements will continue to apply to Dealer Members of the New SRO who are registered as mutual fund dealers and investment dealers. The new category of mutual-funds-only licensed individuals employed by a dual-registered firm will be subject to the same requirements as dealing representatives registered with a Mutual Fund Dealer. The New SRO will work towards the development and implementation of a harmonized continuing education program for all Dealer Members that is fair, consistent and proportionate.

## **Financial Statements**

The New SRO will provide to the Recognizing Regulators its financial statements and other financial reporting in accordance with the requirements of its Recognition Order, including audited annual financial statements.

## **Discipline Process**

The New SRO plans to base its rules for the discipline of persons or companies subject to its regulation on those of the MFDA and IIROC. The process for disciplining Members and others will be fair, transparent and will provide for due process. Any reviewable decision of the New SRO, including any disciplinary or enforcement decision, will be reviewable by the Recognizing Regulators or other designated reviewing bodies as provided in applicable securities legislation having appropriate jurisdiction.

## **Québec Requirements**

For mutual fund dealers registered in Québec (“**Québec MFDs**”), the New SRO’s regulatory requirements will not apply, with the exception of provisions required to ensure the smooth operation of the New SRO, to their Québec activities. Québec MFDs will benefit from a transition period in order to integrate their Québec activities with the New SRO.

### *Transition Period*

During the transition period, activities carried out in Québec by Québec MFDs will be required to meet the requirements in Regulation 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations and applicable Québec legislation. Québec MFDs dealing representatives will continue to be exempt from the New SRO’s continuing education requirements for their activities in Québec as well as discipline since the Chambre de la sécurité financière (“CSF”) is responsible for those activities in Québec.

As well, during this transition period, the New SRO will meet the requirements provided in the Appendix, which also forms part of the Québec Recognition Order. Québec MFDs will participate as members in the consultations and committees that will be constituted by the New SRO.

Complaints and inquiries relating to Québec MFDs and their registered individuals will be referred to staff of the New SRO in Montréal for their Québec activities for transfer to the AMF or the CSF.

Fees payable by Québec MFDs to the New SRO shall be prorated to the services offered to them by the New SRO.



### *Other Québec Specifics*

The New SRO will comply fully with section 69 of the Act respecting the regulation of the financial sector, CQLR c. E-6.1. The power to make decisions relating to the supervision of the New SRO's activities in Québec will be exercised mainly by persons residing in Québec.

The members of the hearing panels of the New SRO in respect of matters involving Québec residents will be from Québec.

The New SRO Québec MFDs will be able to participate as Members in the consultations and committees that will be constituted by it.

### **Information Sharing and Regulatory Cooperation**

The New SRO will provide all necessary notices and information to each Recognizing Regulator except as may be otherwise indicated in an applicable recognition order or directions provided by such Recognizing Regulator.

As specified in the Recognition Order, the New SRO will, subject to applicable law (including privacy law), share information with the Recognizing Regulators, and may, as appropriate, proactively and transparently share information with exchanges, SROs, clearing agencies, financial intelligence or law enforcement agencies or authorities, banking, financial services or other financial regulatory authorities and investor protection or compensation funds. The New SRO will continue to abide by the terms of the information-sharing agreements previously entered into by IIROC and the MFDA, and enter into new information-sharing agreements where appropriate.

### **Surrender or Revocation of Existing IIROC and MFDA Recognition Orders**

In addition to an Application for recognition, kindly also consider this joint letter a request by the SROs for the CSA to accept the voluntarily surrender of, or revoke, the existing IIROC and MFDA Recognition Orders, in accordance with securities legislation applicable to the Recognizing Regulators. The voluntary surrender or revocation of the recognition orders will not be prejudicial to the public interest; specifically the interests of the members of the organizations and the public are sufficiently protected.

The SROs believe this will assist full public transparency. There is no need to continue the existing recognition orders post-Amalgamation, as they will be fully replaced by the New SRO RO once it is effective.

Sincerely,



**Andrew J. Kriegler**  
President and Chief Executive Officer  
IIROC



**Karen L. McGuinness**  
President and Chief Executive Officer  
MFDA

Attachments:

Schedule 1 – By-law No. 1 of New SRO

- a. Clean
- b. Blacklined to May 12, 2022 publication

Schedule 2 – Interim Rules of New SRO

- i. Investment Dealer and Partially Consolidated Rules
  - a. Clean
  - b. Blacklined to May 12, 2022 publication
- ii. Investment Dealer Form 1
  - a. Clean
  - b. Blacklined to existing IIROC Form 1
- iii. Mutual Fund Dealer Rules
  - a. Clean
  - b. Blacklined to May 12, 2022 Publication
- iv. Mutual Fund Dealer Form 1 (clean only, no changes since May 12, 2022 publication)
- v. Universal Market Integrity Rules
  - a. Clean
  - b. Blacklined to May 12, 2022 Publication

Schedule 3 – Interim Fee Model Guidelines Applicable to Investment Dealer Members and Marketplace Members

- a. Clean
- b. Blacklined to existing IIROC Fee Model Guidelines

Schedule 4 – Terms of Reference for the New SRO Investor Advisory Panel

- a. Clean
- b. Blacklined to May 12, 2022 publication

Appendix – Québec Requirements

## APPENDIX

### QUÉBEC REQUIREMENTS (Unofficial Translation)

- a) New SRO shall maintain a Québec district, which shall have clearly defined responsibilities in the matter of regulation, membership, sales compliance, financial compliance, markets monitoring, trade desk reviews and enforcement of the rules applicable to its Dealer Members, Market Members and Approved Persons.
- b) The Québec district shall maintain a place of business in Québec, and any decision concerning the supervision of its self-regulatory activities and the Dealer Members, Market Members and Approved Persons of Québec shall be made principally by persons residing in Québec.
- c) The most senior officer responsible for the Québec district shall report directly to the CEO of New SRO.
- d) The Québec district shall offer its members and the investing public all necessary services in French so as to provide a quality of service equivalent to that offered in English in other offices of New SRO.
- e) The Québec district shall ensure that French is the language used in all communications and correspondence with the AMF.
- f) New SRO shall obtain the prior approval of the AMF before making a change to the organizational and administrative structure of the Québec district that might have an impact on its functions and activities in Québec, and on the exercise of its decision-making powers, notably as regards the financial, human and material resources allocated to the Québec district.
- g) The Québec district shall have a separate budget which must be approved by the Board. The latter shall allocate to the Québec district the necessary resources and support to fulfil its duties, powers and activities, including material, informational and financial support, and human resources support.
- h) The Québec district shall report to the AMF biannually on its staffing of each position, specifying the positions that are authorized, filled and vacant, as well as on major staff reductions or changes, for each position.
- i) The Québec district shall report to the AMF upon request, through its most senior officer responsible for the Québec district, on the manner in which it exercises its functions and powers and performs its activities.
- j) New SRO recognizes that the AMF, pursuant to the Act respecting the regulation of the financial sector, CQLR c. E-6.1 ("LESF") and the Québec Securities Act, CQLR, c. V-1.1 ("LVM"), has established a specific regulatory framework for the management of complaints and disputes ("LESF/LVM process"). New SRO recognizes that the complaints and disputes management process stipulated in its rules or in any other document shall not have the effect of limiting the application of the LESF/LVM process. New SRO undertakes to comply with and promote the LESF/LVM process, including the terms and conditions and time frames provided in the LESF and LVM and to cooperate fully in regard to its administration.
- k) In the event of an incompatibility or a divergence between the LESF/LVM process and that of New SRO, the LESF/LVM process shall prevail.

**l) It is expressly understood that the coexistence of the LESF/LVM process and that of New SRO, as provided in paragraph j) above, shall not constitute, either directly or indirectly, an agreement relative to the examination of complaints made by persons who are dissatisfied with their examination or the result of said examination, or to the mediation between interested parties pursuant to section 33.1 of the LESF.**

**m) New SRO recognizes and undertakes to respect the applicable laws of Québec.**

**n) New SRO shall ensure that firms registered as mutual fund dealers in Québec (« MFDs registered in Québec ») benefit from an adequate transition period, the duration of which shall be agreed upon with the AMF, for their integration with New SRO in regard to their activities in Québec.**

**o) During the transition period, New SRO for the activities carried out by MFDs in Québec: i. shall ensure that its bylaws, rules, decisions, notices or other instruments that do not apply to MFDs registered in Québec, with the exception of provisions required to ensure the smooth operation of New SRO, as well as the implementation of the requirements stipulated in paragraph n) and in subparagraphs ii and iii of this paragraph o), ii. shall authorize MFDs registered in Québec to participate as members in the consultations of New SRO and on the committees that the latter shall create, iii. shall ensure that MFDs registered in Québec pay New SRO a reduced fee, the amount of which shall be proportional to the services offered to them.**

**p) New SRO shall obtain the prior approval of the AMF before making any change to its bylaws, rules, decisions, notices or other instruments concerning elements that are subject to the requirements stipulated in paragraphs n) and o) with the goal of ending or changing the conditions applicable to the transitional period, or before taking any action that might have the effect of forcing an MFDs registered in Québec to subscribe to the guarantee fund of New SRO for its activities in Québec.**