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RE: CSA Staff Notice and Request for Comment 25-304 – Application for Recognition of New Self-Regulatory Organization

Worldsource Financial Management Inc., an MFDA Dealer, and Worldsource Securities Inc., an IIROC Dealer, together Worldsource, thanks the CSA for the opportunity to provide comments on this paper and commends the CSA for soliciting feedback in order to help advance the structure of the proposed regulatory framework.

Overview

Worldsource operates an Investment Dealer and a Mutual Fund Dealer separately and continues to deal directly, professionally and collaboratively with both the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

While we recognize the desire for the consolidation into one regulatory body, we also recognize the need for consistency in interpretation, focus and implementation of a single Rule Book that is concise, and above all, clear with respect to the fundamental principles that will guide all dealerships and registrants moving forward.

To this end, we note that there is a need for consistency within the current published rendition of the Interim Consolidated Rules. Both regulators have made available their own versions of the proposed rules, as well as independent FAQs. As compliance professionals we have found these publications somewhat confusing, misaligned and left to interpretation. This causes us significant concerns as we believe this confusion will also be felt by our advisors, and most significantly, by our clients who are also often unsure when dealing with different governing bodies, depending where they invest.

Given the shortened period provided for comment, we will focus our response to Consultation Paper 25-304 on the following items, listed in order of highest importance to Worldsource:

1. Advisor Compensation Models
2. Continuing Education Cycles
3. Duplicative Operating Costs
4. Proposed Interim Rule Book
5. Advisor Proficiency Requirements
6. Consideration allowing mutual fund only advisors to offer a broader managed product base

1. Advisor Compensation Models

There are fundamental differences in advisor compensation models within the IIROC and the MFDA, primarily the ability of the MFDA advisor to direct compensation to their unregistered corporation. The proposed rules do not allow the same ability to IIROC registrants. This will create a disparity within one regulatory body.

As a dealer, that has worked with both compensation models for decades, and has collaborated successfully with the IIROC to obtain relief that allows registered representatives who are dually employed to direct compensation to their credit union employer, for securities-related activities, we do not understand why all IIROC advisors will not be given the same advantages as their mutual fund dealer only colleagues.

More importantly, we do not feel having an IIROC advisor direct their compensation to an unregistered corporation will bring any harm to our clients or to the general public. In fact, continuing to allow an unequal compensation structure represents a barrier for entry to those advisors who may be contemplating joining either an investment dealer or a dealer registered as both an investment dealer and a mutual fund dealer.

As the CSA mentioned in “CSA Consultation Paper 81-408 - Consultation on the Option of Discontinuing Embedded Commissions”, we too believe in adopting business models that promote fair, competitive and efficient capital markets. As a result, we strongly believe that granting advisors registered with investment dealers the ability to direct their compensation to an unregistered corporation will result in an increase in client access to both investment dealers and investment dealer advisors. This increased access will create a more competitive environment that provides investors with additional choices in which to direct their investments savings. We believe that providing investors with additional dealership choices aligns with the best interest standard introduced through the Client Focused Reforms (CFRs) in 2021.

We strongly urge the CSA to require the Interim Rules to be updated to ensure direction of commissions to unregistered corporations be included for all registrants. Any alternative would put IIROC advisors and investors at a disadvantage.

2. Continuing Education Program Cycles

From a separately run Mutual Fund and Investment Dealer perspective, the most significant inefficiencies from the Continuing Education requirements arise from having two different CE cycles, where we interpret the SRO’s intent behind their respective programs being largely the same. The differences in tracking and reporting requirements create inefficiencies for Dealers and create

confusion and discrepancies for advisors moving between MFDA and IIROC firms.

A. The Mutual Fund Only Advisor vs The Investment Dealer Advisor

- For an Investment Dealer advisor the cycle begins on January 1 and runs for two years.
- For a Mutual Fund Only advisor the cycle means any 24-month period beginning on December 1 of an odd-numbered year.
- The number of Professional Development and Compliance courses for Investment Dealer advisors differ from the number of Business Conduct, Compliance and MFDA specific courses for Mutual Fund Only advisors.

We remind the CSA that the MFDA Continuing Education program is in its first year of infancy and has yet to publish a full list of approved courses or material. We believe it is an opportunity for the new Proposed Framework to immediately amalgamate the Continuing Education programs. This will negate any differences between the CE requirements for any type of advisor. Additionally, using one CE program cycle will eliminate the different start and stop times of the programs. This will eradicate any confusion for registrants and create a smooth transition for those moving between a Mutual Fund Only dealership to an Investment Dealership or Dual Platform.

Additionally, a single CE Program Cycle will create efficiencies for Dealerships who must track activity. The MFDA's current program puts the onus on the registrant and Dealer to track courses where IIROC completes this process on behalf of the participants. We urge the CSA to require the new 'Corporation' Interim Rule Book to adopt the IIROC CE Program Cycle for all the registrants under the new combined entity.

3. Duplicative Operating Costs

Worldsource, was excited to hear about the CSA's desire to reduce operating costs for dealerships. We anticipated the ability to merge both our IIROC and MFDA entities and projected significant costs savings as a result. It was disappointing to read, within the Proposed Framework, that only a Mutual Fund Dealer would be allowed to introduce an insignificant portion of their business to their Investment Dealer.

As one of the MFDA's largest members, Worldsource Financial Management Inc. (WFM) has exponentially larger assets than Worldsource Securities Inc. (WSI), the IIROC member. Additionally, WFM has been trading in Exchange Trade Funds for several years. There is no benefit for WFM to change the current model to clear through WSI. In fact, it would increase technology and trading costs to do so. Our desire would be for the CSA to take into consideration a firm's ability to clear their Investment Dealer through their Mutual Fund Dealer, where the trading platforms exist.

For Worldsource, the ability to have WSI clear mutual funds, as well as other Fundserv eligible products through WFM, will significantly reduce the costs being paid to WSI's carrying broker. WFM currently has a separate custody agreement for its ETFs with a service provider, which can be extended to include stocks and other investments.

We understand that most bank-owned brokerages generally have higher assets within their IIROC dealers than their MFDA dealers, but we would like to bring to the CSA's attention that there are several independent dealerships that also have larger MFDA assets than IIROC assets.

We believe allowing dealerships the flexibility to decide which of their firms to clear through will create a fairer playing field for all. We acknowledge that it would be of the utmost importance for the dealer to prove to the 'Corporation' that the trading platforms exist for this to happen. We would be happy to have the Corporation audit the model we propose if the ability to clear through the MFDA dealership was a possibility.

Furthermore, in order for Worldsource to create a combined entity that is both an investment dealer and a mutual fund dealer, it is our understanding that Worldsource would not be permitted to continue to pay commissions to the unregistered corporations of mutual fund advisors. Should this be the case, it would create a disincentive for exiting mutual fund advisors to join the new combined entity, thus creating a barrier for dual platform dealers to create a combined dealership.

If we are not able to address these concerns, it would not be an option for Worldsource to combine its dealerships. We would be forced to continue running two separate entities in order to ensure our clients, advisors and our firm are treated fairly.

4. Proposed Interim Rule Book

It is our position that the proposal of an Interim Rule Book should be reconsidered. As published, it is apparent to us that the Interim Rules are an amalgamation of the IIROC and the MFDA Rule Books and that the rules will be applied individually based on the registration of the advisor. We urge the CSA to reconsider implementing *Interim* rules.

We recommend that the IIROC and MFDA rule books be kept in their original context until such time as the 'Corporation' is able to provide a fulsome new Final Rule Book. Publishing the proposed Interim Rules may lead to confusion amongst registrants, compliance departments and firms. We do not believe it is the general public's best interests to combine the existing rules at this time. Our thought is it would be best to have the new 'Corporation' refer its registrants to the respective rule books in the format they exist today.

A Final Rule book should not be rushed and we are of the opinion that the one year timeline provided to the new 'Corporation' was not enough to thoroughly review both current rule books and provide clarity moving forward. There are some conflicting rules that are not yet addressed, and other discrepancies that need more clarity, such as:

- a) the MFDA's requirement to appoint an Alternate Chief Compliance Officer (Rule 2.5.3.c), which is a category that is not recognized by the IIROC.
- b) the proposed new category of Mutual Fund advisor that works in a dual platform firm creates significant confusion versus a mutual fund advisor that works at a mutual fund dealer only firm. Additionally, this creates a financial burden on the mutual fund advisor who is part of a dual platform dealership by requiring the CPH to be completed. This is not a "new" category as IIROC always allowed mutual fund advisors to join and had the 270 day rule requirement to upgrade, which effectively accomplished the same registration.

- c) the requirement to provide mutual fund clients with monthly statements if they are part of a dual platform dealer (Proposed Rule 3808) versus the Quarterly statement requirement under MFDA rules.

5. Advisor Proficiency Requirements

The Interim Rules, and the Proposed Framework, reference proficiency requirements for three different types of dealerships;

1. an Investment Dealer
2. a Mutual Fund Only Dealer
3. an Integrated Dealer (dual registered firm) that is comprised of Investment and Mutual Fund advisors.

As written, the Integrated Dealer model appears to be structured similarly to a traditional Investment Dealer. The proposed new category requires mutual fund only advisors to upgrade their proficiencies to include the Conduct and Practices Handbook Course (CPH) and 90 day training. There is also an additional requirement for the dealer to complete six months of supervision. While we agree with the importance of proficiency requirements, we find this new category closely aligns with the current proficiency requirements for registered representatives dealing in mutual funds of a traditional investment dealer. This, on the surface, appears to be repetitive and potentially unnecessary. We believe the CSA had initially contemplated, and hoped for, through the creation of the combined regulator, better efficiencies for existing mutual fund only advisors to operate within the integrated dealer environment without adding additional burdens to advisors or dealers.

Considering that the CPH content is mostly geared towards the Registered Representative category rather than the Mutual Funds Only category we believe that the new SRO can continue to rely on existing MFDA proficiency requirements for the new integrated dealer model.

Furthermore, the proposed new registration category creates confusion for the general public and does not appear to add value beyond what is already found in a traditional Investment Dealership. If it is the CSA's intention to create an integrated Investment and Mutual Fund dealer category, we believe the elimination of additional courses and supervision requirements should be considered.

We recommend a creation of a mutual fund only registration category that allows registrants to work within an integrated dealership without proficiency upgrading requirements. We believe a separate category, as the aforementioned, would allow for two types of dealerships; an Investment Dealer and an Integrated Dealer that includes a Mutual Fund arm. If these two types of dealerships were available it would negate the need for dual platform dealers, like Worldsource, to operate separate dealerships.

The new SRO can rely on existing MFDA proficiency requirements for the mutual fund portion of this dealer model allowing registration, compliance and operations departments to realize costs savings by amalgamating their two entities under the integrated dealer model. Again, our suggestion will not require the mutual fund only advisor to upgrade their proficiency through the completion of the CPH, thereby eliminating any financial burden. (We reiterate that this option would only be acceptable if commissions for all could be directed to unregistered corporations).

6. Consideration allowing mutual fund only advisors to offer a broader managed product base

Worldsource respectfully requests the CSA take under consideration, to further align the rules, allowing mutual fund dealers and integrated dealers, the ability to provide clients of mutual fund only advisors the provision of a broader array of managed products and solutions to include third-party money managers, within an enhanced program similar to the SMA/UMA programs currently offered by many IIROC dealers. The intent is to allow MFDA advisors the same access to managed solutions, that utilize securities which mutual fund advisors are licensed to sell, such as ETF and traditional mutual funds, with the view that these products still fall under the purview of a third party sub-advisor, as is the case with Mutual Funds and Exchange Traded Funds currently.

Clients of mutual fund only Advisors should have similar access to Dealer managed solutions that investment dealer advisors currently offer. Such access will allow Dealers to flow costs, as well as program and administrative efficiencies directly to investors. We believe this still allows the intent of outsourcing money management to prevail, but moves forward in the current environment of new managed solutions and structures, with the limited trading authority required to administer them efficiently.

We propose further amendments to the new rules to allow mutual fund only advisors to offer limited discretionary trading proposed by the MFDA within model portfolio services where an Advisor can engage in limited discretionary trading, such as making fund substitutions (within a Dealer pre-approved fund option that has similar characteristics of the fund being substituted) or other changes to portfolio asset allocations, within pre-established parameters, of the mutual fund model portfolios that may be offered by the dealer. Specifically, we are requesting limiting discretionary trading to fund substitutions and portfolio asset allocation changes within the pre-established parameters of the mutual fund model portfolios offered by members, as initially contemplated in the MFDA's "Proposed Amendments to MFDA Rule 2.3.1(b) (Discretionary Trading)".

Current MFDA rules allow for the use of model portfolios, but have inefficiencies attached to them via the need for continuous client authorization/notification. We believe that by allowing limited 'discretionary' trading by the mutual fund only advisor, the client experience will be enhanced and will also provide clients with investment account options that are currently only available in an investment dealership managed account. We understand that this option may require additional qualifications and would support additional proficiency requirements and supervision be put in place by the new SRO, but reiterate these qualifications should be lower than those required of a full Portfolio Manager.

A Final Consideration

We encourage the CSA to take the necessary time to implement the new framework in a clear, concise and fair process. We believe a single regulator is necessary, and long overdue, but our concerns centre on the implementation of processes and rules that may cause discrepancies for all. We urge the CSA to take the time necessary to implement a framework that will be transparent and all encompassing.

The 45 day time period allotted for responses was a mitigating factor in limiting our comments to the six most important items affecting our advisors, clients and our dealership. Given a longer timeframe to respond, we would have gladly commented on other items we have identified as being potentially impactful.



Conclusion

We would like to thank the CSA for the opportunity and forum to comment on the Proposed Framework and would request the ability to review and comment on any changes to the proposed framework that may be considered after the CSA has the time to review the comments received.

Sincerely,

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