

October 23, 2020

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RE: CSA Consultation Paper 25-402: Consultation on the Self-Regulatory Organization Framework

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 from registrants in order to help advance the structure of the current regulatory framework.

Overview

Worldsource is a dual platform Investment Dealer and as a result has the opportunity of dealing 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 need for the introduction of many of the client focused reforms that are in the process of coming to fruition, such as Suitability, Know Your Product (KYP) and Know Your Client (KYC) etc., we also recognize the need for consistency in both interpretation, focus and implementation of reforms amongst all Canadian Self-regulatory Organizations (SROs).

To this end, we will focus our response to Consultation Paper 25-402 on the need for consistency between SROs on the following topics:

1. Ongoing Education Requirements
2. Product Based Regulation and Registration
3. Duplicative operating costs

1. Ongoing Education Requirements

There are three areas of significance between the two SROs with respect to Continuing Education:

A. *The CE Cycle*

- For IIROC the cycle begins on January 1 and runs for two years. Cycle 8 began on January 1, 2020 and ends December 31, 2021.
- In contrast, the MFDA “proposed” education “cycle” means any 24-month period beginning on December 1 of an odd-numbered year. For example, if the cycle had begun on December 1, 2019, it would end on November 30, 2021.

B. *Continuing Education Content and Requirements*

- IIROC licensed individuals who are registered to do retail business and give advice must complete a Compliance course (a minimum of 10 hours) and a Professional Development course (a minimum of 20 hours of study) during each CE cycle.
- In contrast, the MFDA proposal requires the completion of credits in the areas of Ethics (i.e. as part of the Business Conduct credit requirements) and Compliance. Compliance credits are mandatory and supplied by the regulator.
 - Dealing Representative, for each cycle, must complete eight Business Conduct Credits, 20 Professional Development Credits and two MFDA Compliance Credits in accordance with requirements under Proposed Policy No. 9.
 - Chief Compliance Officer, Ultimate Designated Person and Branch Manager, for each cycle, must complete eight Business Conduct Credits and two MFDA Compliance Credits, in accordance with requirements under Proposed Policy No. 9.

C. *Tracking / Reporting*

- IIROC Members must submit each licensed individual’s CE status to IIROC, in order to track and report all registrants’ status annually. IIROC maintains a record of the course completion reported by the Member as part of each individual’s registration records. During the registration renewal process an attestation method is utilized for reporting to IIROC.
- In contrast, the MFDA proposal requires Members and Participants to file, using the SRO’s CE tracking system, detailed reports of completed CE credits for each participant no later than 10 business days following the end of the cycle.

From a dual platform Dealer perspective, the most significant inefficiencies from these 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 will inevitably create difficulties for dual platform Dealers and additionally will create confusion and discrepancies for advisors moving between MFDA and IIROC firms.

2. Product Based Regulation and Registration

While product overlap between Mutual Fund and IIROC Dealers exists, such as Mutual funds, Alternative Mutual Funds, Exchange Traded Funds and Exempt Market Products, there are several examples of the requirement for different registration requirements that govern the sale and offer of these products. For example despite the fact that Mutual funds, Alternative Mutual Funds and Exchange Traded Funds all fall under the auspices of National Instrument 81-102, for Mutual fund Dealers each of these products carry unique licensing criteria. This disparity in the licensing requirements of these products causes confusion amongst industry participants, increases surveillance and compliance costs and most importantly highlights the need for consistency between SROs and the Canadian Securities Administrators who created these specific requirements.

3. Duplicative Operating Costs

Worldsource, as a dual platform Dealer, experiences significant financial costs through the requirement to operate our lines of business separately, including having the appropriate staff to conduct the activities required by each regulator.

In addition to normal operating costs, we are obligated to pay dealer registrations fees to each regulator, as well as registration costs for employees designated to perform registerable activities as defined by either the IIROC or the MFDA.

The creation of a single SRO will enable Worldsource to reduce the financial burden placed on the firm by eliminating the requirement to maintain separate regulatory registrations. This financial savings is not limited to the costs noted above, but also to the systematic costs associated with maintaining separate lines of business. For example, Worldsource is currently required to maintain, and pay for, two separate back office-operating platforms. This results in both duplicate annual costs, as well as additional costs when Dealers are required to execute changes to each operating system.

A single SRO will eliminate the need to maintain separate back office platforms. In addition, one SRO will enable Dealers to maintain a single set of 'rules' with respect to Operations and Compliance. This will translate to a cost-savings for Dealerships by using one vendor, with one system. The cost savings is evident when the SROs create new similar requirements, yet a vendor charges the Dealer twice in order to update the different instances of a back-office platform.

The establishment of a single SRO will enable Dealers to save significant regulatory costs and reinvest any savings into better client servicing platforms. Worldsource's intention, and we believe the intention of other Dealerships, is to use these costs savings to reinvest in our Dealership in order to facilitate our goal of creating a better client experience.

A Final Consideration

In addition to the three areas of focus in our response, we believe that any new or amalgamated entity incorporate the best practices of each of the IIROC and the MFDA and combine those practices in order to create an SRO that provides clear, concise, and consistent policies and rule interpretation. For example, we believe that certain current rules by one regulator have provided significant benefit to Dealers, specifically with respect to the adoption of the Principal/Agent business structure and additionally with documented minimum standards for supervision. Though we acknowledge that a principles based regulator is far preferred over a rules based regulator, we also acknowledge that minimum compliance oversight thresholds do indeed level the playing field for all firms. Our preference would be the establishment of a baseline for all registrants with respect to compliance rules under the new SRO.

Conclusion

Worldsource is a firm that believes in providing both Advisors and Investors with a wide range of product choices, and Advisors with the freedom to provide unbiased advice. From our perspective, the consolidation to a single SRO would free up financial resources thereby allowing us to provide additional support to our Advisors that will ultimately benefit the end client. While we welcome change, we also feel that Canadians will benefit from a greater focus by SROs on a consistent and harmonized approach.

We would like to thank the CSA for the opportunity and forum to comment on these proposals.

Sincerely,

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