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CIRO's Proposed Integrated Fee Model

On April 25, 2024, the Canadian Investment Regulatory Organization (**CIRO**) proposed a new integrated fee model for investment dealers and mutual fund dealers, to be effective **April 1, 2025**. The model is comprised of three components: the Annual Dealer Member Fee, Fees for Membership Applications and Dealer Member Business Changes, and the Qualified Market Maker Discount.

Significant proposed changes are as follows:

- Mutual fund dealer fees will be based on dealer revenue instead of assets under administration;
- The minimum fee will increase significantly (+56% for investment dealers);
- Increased fees for an application to become a dual registered dealer (+60%);
- New fee for a material change to business application (\$15,000 for an investment dealer);
- New fee for applications considered to use “excessive” amounts of CIRO resources; and
- The Qualified Market Maker Discount will be eliminated.

CIRO also poses some specific questions for comment. Dealer members and stakeholders should review the proposals carefully. Undoubtedly, there will be additional cost burden at an industry level for CIRO member dealers.

Annual Dealer Member Fee Increases for Most Dealer Members

The Annual Dealer Member Fee is CIRO's primary method of recovering cost from dealer members. CIRO is proposing that the Annual Dealer Member Fee for all dealer members be based on a combination of total dealer revenue and the number of Approved Persons, subject to a minimum fee.

While the methodology being proposed is not substantially different from the current investment dealer fee model, it does represent a material change in methodology for mutual fund dealers.

CIRO projects annual fees will increase for a majority of dealer members. Individual dealer members should consider how the proposed fee model will impact them. CIRO intends to contact each dealer member to advise of the directional change projected for their annual fees.

The Mechanics

The proposed Annual Dealer Member Fee will be the greater of the minimum fee component, and the sum of the revenue component and the Approved Person fee component.

The revenue component is an amount equal to the product of the total revenue of the dealer member for the previous calendar year and the annual rate for the revenue “tier” applied to the dealer.

Mutual fund dealers with assets under administration over \$1 billion will be subject to a minimum threshold amount. The minimum amount will be calculated in relation to the median amount of revenue from all mutual fund dealers. Those dealers with revenue below the threshold will have their revenue for fee purposes adjusted upward to align with the minimum threshold amount. This is described as a “normalization factor”. The reason for adopting this approach is to accommodate for some mutual fund dealers who report lower revenues due to “cost sharing or transfer pricing arrangements amongst a corporate group”.

Dealer members will need to pay an Approved Person fee of \$250 per Approved Person based on their average number of Approved Persons over the previous calendar year.

The minimum fee is payable if the sum of the revenue component and the Approved Person component is less than the set minimum fee amount. The minimum fees are proposed to be increased as follows: MFD Member - Level 1-3 – from \$1,500 to \$5,000 (+233%), MFD Member - Level 4 -from \$10,000 to \$15,000 (+50%), and ID Member or Dual Registered Dealer Member- from \$16,000 to \$25,000 (+56%).

The fee model will not initially apply to mutual fund dealers registered only in Québec. Mutual fund dealers registered in Québec and other provinces will receive a proportional reduction of their fee in recognition of the fact that not all CIRO services are yet provided in Québec. The fee model will apply as the transition of those dealers to CIRO occurs.

Increased Membership Application Fees and New Fees for Dealer Member Business Changes

CIRO is proposing to raise fees for membership applications. It will also introduce new fees for reorganizations and material changes to a dealer’s business, and new fees to reimburse the cost of applications that require “excessive” time and resources.

CIRO considers an application to be “excessive” if it takes more than six (6) months to complete a “compliance review”. The additional fee is an amount equal to one sixth (1/6) of the application fee for each month or partial month after the conclusion of six (6) months of review by CIRO.

The following are examples of the proposed fees:

- the cost of a new investment dealer or dual registered member application will increase to \$40,000 from \$25,000 (+60%);
- the additional fee for an investment dealer membership application that takes more than six months to complete will be \$6,666.67 for each additional month of work; and
- the cost of an application by an investment dealer regarding a material change to business activities will be \$15,000.

Members and stakeholders should carefully review and assess the proposed fees and consider commenting.

Qualified Market Maker Discount Eliminated

CIRO is proposing to amend its Equity Market Regulation Fee Model to eliminate the per trade fee discount currently provided to Qualified Market Makers. The proposed changes would remove both the definition of Qualified Market Maker and the Trade Fee Discount applicable to trades by Qualified Market Makers.

Discussion Questions

CIRO is seeking industry comment on the following questions:

1. Does the proposed integrated fee model or any aspect thereof materially conflict with a guiding principle?
2. Does the proposed integrated fee model appropriately allocate costs to Dealer Members in proportion to their size and impact, and their use of regulatory resources?
3. Is the methodology easy to understand?
4. Are there other adjustments or factors that need to be considered that would not add additional complexity to the calculation or require additional and auditable reporting from firms, while continuing to meet the guiding principles?
5. Does the proposed integrated fee model create unreasonable barriers to entry or access to advice?
6. Will the proposed integrated fee model continue to apply as the industry evolves and transforms?
7. Are there other stakeholders that could unfairly benefit or be adversely impacted?

Conclusion

CIRO dealer members and stakeholders should thoroughly review the proposed fee model changes and consider the impact to their firm. Mutual fund dealers should note their annual membership fee calculation methodology will change significantly. Also, there are increased and new fees for applications and reviews by CIRO, and the Qualified Market Maker Discount is being eliminated. Undoubtedly there will be additional cost burden at an industry level for CIRO member dealers. Dealer members should assess the implications of the new fee model for their business and consider commenting and replying to the questions posed by CIRO. The comment period closes on **June 24, 2024**.



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