Harmonized sanction guidelines and more: CIRO releases 2023-2024 enforcement report

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In July 2024, the Canadian Investment Regulatory Organization (CIRO) released its enforcement report for the 2024 fiscal year (April 1, 2023 to March 31, 2024) (the Report). The Report can be found here. This is the second report since CIRO's formation on Jan. 1, 2023 following the amalgamation of its predecessors, the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association (MFDA). The Report covers enforcement procedure, trends and notable decisions for both investment and mutual fund dealers in the past year. CIRO highlights that it "continues the work of harmonizing operations, systems and technologies of the predecessor organizations".

New harmonized guidelines and centralized intake process

Dealers should take note that in 2024, CIRO adopted harmonized Sanction Guidelines, replacing all previous sanctions guidelines for investment dealers and mutual fund dealers. The Sanction Guidelines are non-binding and are consistent with previous IIROC and MFDA sanctions guidelines. The Sanctions Guidelines are intended to assist CIRO Enforcement Staff in negotiating settlement agreements, and to assist hearing panels with considering settlement agreements and ruling on sanctions in disciplinary proceedings.

CIRO also adopted a Centralized Intake Process for all investor complaints against a CIRO dealer or advisor, although it does not comment on unifying the COMSET/METs reporting system for dealers.

Year in review

The Report highlighted that in 2024 CIRO hearing panels imposed over $14 million in fines, disgorgement, and costs for contraventions of CIRO requirements.[1] The Report also notes that there was an increase in enforcement hearings related to contraventions of the Investment Dealer Rules and the Universal Market Integrity Rules (UMIR), which CIRO highlighted was done in an effort to "strengthen market integrity".

CIRO also continued to refer cases to the Canadian Securities Administrators (CSA). In 2024, CIRO referred 59 market-related cases to the CSA, including 23 manipulation cases, 17 insider trading cases, and 19 other *Securities Act* violations.

This year, CIRO highlighted cases on the protection of investors from unfair, improper and fraudulent business practices, and cases on the promotion of market integrity:

- Against Dealers, the Report highlighted several decisions related to breaches of supervisory obligations. Featured decisions included failures to comply with trading supervisory obligations as well as failures to implement adequate complaint handling procedures.
- Against individual regulated persons, the Report highlighted decisions relating to outside business activity, failure to disclose conflicts of interest, and misappropriation of client funds.

Statistics

The Report also includes a detailed summary of statistics on sanctions imposed in 2024, the fine collection rate, CIRO investigations, and enforcement proceedings.

Notably, in 2024 there was a year-over-year decrease in complaints against both investment dealers and mutual fund dealers. However, on the investment dealer side, there were relatively more enforcement proceedings commenced in 2024 than in 2023, while on the mutual fund dealer side, there were significantly fewer proceedings commenced in 2024.

With respect to sanctions, there was a sharp uptick in the quantum of monetary sanctions against investment dealers, with $4,452,000 in fines ordered against investment dealers, as compared to $924,000 in 2023 and $1,370,500 in 2022. The Report also highlights that investment dealers were ordered to disgorge $797,017, indicating that, where CIRO can seek disgorgement as a sanction, they will. In 2022 and 2023, there were no disgorgement orders against investment dealers.

Proceedings

The Report includes a chart outlining all enforcement proceedings against individuals and dealers that were concluded in 2024, including information on the type of proceeding, the date the proceeding was commenced, the contraventions, and the sanction imposed. The chart provides a helpful overview of the decisions that made their way to a hearing panel in 2024.

Conclusion

The 2023-2024 CIRO enforcement report provides helpful information that investment and mutual fund dealers should make note of. If you have any questions about the enforcement report or any other regulatory or securities litigation advice, please reach out to any of the authors or key contacts below.

Footnote

[1] Investment dealer firms were ordered to pay $4,452,500 in fines and $240,000 in costs, while registered individuals were ordered to pay $3,395,461 in fines, and $246,408 in costs. Investment dealer firms were also ordered to disgorge $797,017, while registered individuals were ordered to disgorge $427,997. On the mutual fund side, dealer firms were ordered to pay $300,000 in fines, and $25,000 in costs, while registered individuals were ordered to pay $4,220,881 in fines, and $299,500 in costs.

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