BY EMAIL

June 9, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention:

The Secretary Ontario Securities Commission 20 Queen Street West, 19th Floor, Box 55 Toronto, Ontario M5H 3S8 comments@osc.gov.on.ca	**Me Anne-Marie Beaudoin, Corporate Secretary** Autorité des marchés financiers 800, square-Victoria, 22e étage C.P. 246, tour de la Bourse Montréal, Québec H4Z 1G3 consultation-en-cours@lautorite.qc.ca

Dear Sirs / Mesdames:

Re : iA Financial Group comments on CSA Consultation Paper 81-408 – *Consultation on the Option of Discontinuing Embedded Commissions*

iA Financial Group appreciates this opportunity to submit comments on CSA Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions (the "**Consultation Paper**").

Industrial Alliance Insurance and Financial Services Inc.

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Quebec City, QC G1K 7M3

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We have reviewed and are supportive of the comments provided by The Investment Funds Institute of Canada in response to the Consultation Paper. In addition, we provide herein our additional comments on the Consultation Paper.

About the iA Financial Group

Founded in 1892, iA Financial Group offers life and health insurance products, mutual and segregated funds, savings and retirement plans, securities, auto and home insurance, mortgages and car loans and other financial products and services for both individuals and groups. iA Financial Group serves over four million clients and employs more than 5,500 people. At December 31, 2016, the Company was managing and administering over $130 billion in assets. It is one of the four largest life and health insurance companies in Canada and among the largest publicly-traded companies in the country.

The Wealth Management subsidiaries of iA Financial Group include the following:

- FundEX Investments Inc., a mutual fund dealer, exempt market dealer and a member of the Mutual Fund Dealers Association of Canada ("MFDA");
- Investia Financial Services Inc., a mutual fund dealer, exempt market dealer and a member of the MFDA;
- Industrial Alliance Securities Inc., a full service securities brokerage and a member of the Investment Industry Regulatory Organization of Canada ("IIROC");
- IA Clarington Investments Inc., an investment fund manager and exempt market dealer;
- iA Investment Counsel Inc., a discretionary portfolio management firm focusing on high net worth private clients;
- Forstrong Global Asset Management Inc., a discretionary portfolio management firm that uses only exchange traded funds to build its clients' portfolios; and
- iA Investment Management Inc., a discretionary portfolio management firm providing services to permitted clients only.

The iA Wealth Management companies believe strongly in the critical role of the financial advisor and their delivery of advice to the Canadian investor. With today's unprecedented market conditions, the role of the financial advisor in helping clients maximize their wealth and reach their financial goals has never been more important. To that end, our dealers' product shelves are not limited to proprietary products, and we offer an open and comprehensive product shelf. We believe the current system in Canada, while perhaps not perfect, is working well for the majority of investors, from mass market retail investors to high net worth investors.

Conflicts of Interest

The Canadian Securities Regulators ("**CSA**") have indicated that conflicts of interest arise as a result of embedded commissions. The singular focus on embedded commissions as the catalyst for misalignment of the interests of investment fund managers, dealers and representatives with investors is extremely narrow in focus. Embedded commissions have been a catalyst for many positive behaviours which have been conspicuously overlooked. For example, embedded commissions facilitate access to advice for new investors as they first start to save and for investors with smaller account sizes, encourage investors to stay invested and provide discipline for long-term investing, and facilitate ongoing advice and services with an advisor.

In addition, a banning of embedded commissions could lead to the rise of a different set of conflicted compensation arrangements. For example, a shift to transactional fees could lead to issues such as non-necessary trading, churning or a shift away from a long term investment approach. A shift to hourly fees could lead to unnecessary work being conducted or excess billing. Any arrangement which involves credence goods and a fee for service (such as financial advisory services or legal services) creates a situation of asymmetrical information and a conflict of interest and potential for abuse. However, the potential for abuse relating to embedded commissions has largely been reduced as the commissions paid across the industry have to a large degree been standardized. As a result, advisors are not financially motivated to recommend one fund over another.

Investor Choice

We strongly believe that choice is of paramount importance to an informed investor. In our view, the banning of certain options to direct or control advisor and client behavior is an extreme response. The current environment provides the investor with alternative fee payment options that address the issues raised in the Consultation Paper: (i) options to pay directly for the acquisition of mutual funds including front-end load, (ii) hourly or flat fee billing, and (iii) fee for service. Regulators have a responsibility to respect the investor's ability to determine their own needs, and should work to preserve choices rather than limit them.

Investor Awareness, Education and Transparency

The CSA has also raised concerns that embedded commissions can limit investor awareness. We believe that a continued focus on transparency of fees and investor education can more directly and efficiently address concerns relating to investor awareness. Our industry, under the guidance of the CSA, has been very proactive in its pursuit of comprehensive disclosure from the point of sale through the life cycle of the product. CRM2 and POS initiatives will be instrumental in creating further visibility of fees, but more time is needed to fully assess their impact.

Collectively, it is our responsibility as an industry (regulators, mutual fund manufacturers, dealers, and advisors) to empower investors to make decisions that are right for them. We feel it is important to remind the CSA that an educated investor will always be in the best position to select the products or services which align with both their needs and their preferred method of payment. Further efforts on the part of all stakeholders are required to enhance the financial literacy of the Canadian investor.

Alignment of Costs with Services

A third area of concern articulated by the CSA is that embedded commissions paid generally do not align with the services provided to investors. While direct pay arrangements may better align with the services provided, they could inadvertently increase fees to the end investor. Both a direct payment and any increase in fees could lead some investors, in particular lower income households, to avoid the direct payment expense. This could have an impact on the long-term financial well being of many Canadians, who, without the benefit of advice, may choose not to invest, or may choose investments that are not suitable for them.

In addition, the natural forces in any mature market should not be discounted. Tremendous shifts have already occurred in our industry, with a natural movement towards fee reduction for the end investor. We have evolved organically from an environment of disproportionate front end loads to the current environment of low-load, front-end zero and fee for service arrangements. With a heightened awareness of fees, many advisors have created pricing tiers for high dollar clients within their fee for service structure. To remain competitive, investment fund managers have launched "preferred pricing" programs which assist investors in navigating the product lineup to ensure the lowest fees possible. All of this has happened in the current environment. In addition, we believe that the additional disclosure arising from CRM2 and POS will be a catalyst for a natural movement towards lower fees for investors, as fees will be visible and discussed more openly.

Unintended Consequences

While well intended, the removal of investor choice through the banning of embedded commissions and DSC could negatively impact the end investor.

We note that the majority of investors holding funds with embedded commissions are those with smaller account sizes (typically those with account sizes of less than $100,000). One unintended consequence of a ban of embedded commissions is that access to financial advice could become limited or unattainable for investors with smaller account sizes or new investors as they first start to save. Given the costs of operating, advisors may naturally move toward investors with larger account sizes, and away from investors with smaller accounts where the commercial value does not justify the costs associated with servicing the business. Fee for service arrangements on smaller client accounts may not be economical, which may create a barrier to entry for new advisors, and ultimately limit access to advice. Additionally, reduced profitability for advisor services may lead to consolidation of the advisory industry, further limiting access to advice.

The pool of trailer fees across an advisor practice has enabled the advisor to provide a myriad of other services which do not directly generate compensation on an individual basis. Working collaboratively with the investor's accountant or lawyer facilitates effective tax planning and estate planning. Helping investors navigate issues and challenges associated with their small businesses is part of a comprehensive financial plan, yet on its own does not generate revenue to the advisor who invests considerable time in these activities. This subsidization draws a direct parallel to our tax system where the consumption of services is possible for all constituents based on the collective revenue received from a broader client base. Disruption will clearly impact today's smaller investors.

As indicated above, a direct fee, a fee for advice that is too high, or reduced access to advisors may lead investors, particularly mass market retail investors with smaller amounts to invest, to migrate away from advice channels and towards a "DIY" approach to investing. Without the benefit of advice, investors may turn to alternative products that do not offer the same level of regulatory protection or towards products that carry risks that are not suitable for the particular investor. In turn, this may result in below average performance based on poor decisions and/or emotional responses, impacting the long-term financial well-being of investors.

Alternative Approaches

We favour a continued focus on transparency of fees and education of the investor. We believe this will be more efficient to address problematic areas and will have the benefit of creating less disruption and less potential for unintended consequences. The effect of current CRM2 and POS initiatives on the industry has not yet been determined, but we believe that market-driven forces are already promoting practices that reduce costs and improve services for investors. In addition, we suggest other forms of legislative intervention be explored, such as:

- standardizing or capping embedded commission by asset class
- requiring a mandatory letter of engagement prior to opening accounts specifying compensation arrangements at the outset, and specifying a complete description of the services to be provided
- a cap on commissions for series offered without advice

Conclusion

We are strong proponents of respecting investor choice, accompanied by transparency and a concentrated effort to educate investors. CSA Consultation Paper 81-408 intervenes in a manner which could potentially mischaracterize reduced investor choice as a benefit with little insight into the impact of a change of this magnitude.

We are not suggesting that the investment industry is void of any opportunities for improvement. On the contrary, the business as it has matured has changed drastically and shifted away from certain behaviours which may have been perceived as conflicted. Current CRM2 and POS initiatives will undoubtedly continue to reshape the business inclusive of all market participants. We feel that it is short sighted to fail to allow the industry the time required to adequately gauge the impact of these initiatives, as well as the impact of other global regulatory initiatives.

We would be pleased to participate in any further public consultation on this topic or discuss our response in greater detail with you. We appreciate the opportunity extended to us to provide our feedback.

Yours truly,

[redacted]

Carl Mustos
Executive Vice-President, Wealth Management