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Delivered via e-mail comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

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

ATTN:

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Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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Re: Canadian Securities Administrators Notice and Request for Comment: Proposed Amendments to National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations.* Reforms to Enhance the Client-Registrant Relationship

Dear Sirs/Mesdames:

Serving one in three Canadians, Manulife is a leading financial services organization offering a wide range of protection, estate planning, investment, and banking solutions through a diversified multi-channel distribution network.

Manulife Asset Management Limited and its entities provides a range of investment fund products and a range of services including acting as portfolio manager and investment fund manager and provides comprehensive asset management solutions for institutional investors and investment funds in key markets around the world. This investment expertise extends across a broad range of public, private, and alternative asset classes, as well as asset allocation solutions.

Manulife Investments, a division of Manulife Asset Management Limited, represents the wealth management arm of Manulife's Canadian Division. As one of Canada's leading integrated financial services providers, Manulife Investments offers a variety of products and services including mutual funds, non-redeemable investment funds and exchange traded funds.

Manulife Securities, consisting of the IIROC regulated Manulife Securities Incorporated and the MFDA regulated Manulife Securities Investment Services Inc., are wholly owned subsidiaries of the Manufacturers Life Insurance Company (Manulife). Our advisors and life agents provide investors with access to stocks, bonds, mutual funds, and other investment products as well as a suite of insurance solutions.

We appreciate the opportunity to express our views on CSA Notice and Request for Comment on NI 31-103 and Companion Policy 31-103.

We note that our response intends to complement the submissions made by the Investment Industry Association of Canada (IIAC), the Investment Funds Institute of Canada (IFIC), and the Portfolio Management Association of Canada (PMAC), all of which we generally support. Our submission provides further comment for our distribution concerns.

Overview

As a general comment, we believe that the CSA's overall objective to achieve stronger investment outcomes with enhanced investor protection is a good one.

Our organization recognizes the importance of product knowledge and appreciates the CSA's intent to increase rigour and transparency around the products registrants make available to their clients. While we agree that the KYP Proposals will codify longstanding guidance, it is our view that enhanced clarity on the new requirements is warranted.

We further support the CSA's intent to ensure that registrants follow their obligation to deal fairly, honestly and in good faith with their clients. However, we remain concerned with the approach taken by imposing restrictions on referral arrangements; we anticipate that this will lead to unintended reductions in investors' access to financial services and request that additional study be undertaken.

Below, we set out a more detailed commentary on the possible impacts of introducing the KYP requirements and referral arrangements restrictions.

Know-Your-Product

Due Diligence on Securities Transferred In

We agree that a complete understanding of an investor's holdings is necessary, including an understanding of securities transferred in by new clients. This is necessary for the suitability determination and to ensure appropriate asset allocation tailored to an investor's financial objectives and risk tolerance. It is also essential to monitor for significant changes and understand the impact to a client's portfolio.

If the rules are implemented as currently drafted, we anticipate that registered firms will be discouraged from accepting securities transferred in or allowing client-directed trades in order to evade the requirements of adding them to the product shelf and providing the necessary information to each of their registered individuals to understand each of these securities.

We remain concerned that section 13.2.1 (6) will have unintended consequences for investors should registrants discontinue accepting these securities. We foresee that investors would be forced to either remain with a registrant they no longer wish to invest with, or to accept potentially significant tax consequences by being forced to sell an unapproved holding.

We also believe that firms should have the latitude to transfer-in holdings which have not been reviewed and approved for distribution by the firm on a "redeem only" basis. In such cases the firm will be obliged to review the product to the extent necessary for a determination of suitability.

We therefore recommend that the CSA adopt a risk-based approach in directing firms to evaluate securities transferred-in and securities through client-directed trades.

Referral Arrangements

We believe it is an important exercise to develop regulations that provide the best outcome for investors and support the regulatory approach that favours the client's best interests.

Manulife believes that in accordance with guiding principles, referrals to various financial services are beneficial to investors.

Benefits of Referral Arrangements

Canadian investors are best served when the regulatory framework for securities supports strong investor protection and provides open access to a wide variety of financial experts, services and products essential to provide investors with financial advice that is tailored towards their financial objective, risk preference, and time horizon.

Referral arrangements and the associated referral fee is an effective way to collaboratively manage investors' financial interests. Restricting non-registrants, such as tax experts, accountants, lawyers, or other financial services professionals from receiving a referral fee will hinder the collaborative effort to effectively help investors achieve their financial objectives.

It should also be recognized that non-registrants involved in clients' financial planning are generally governed by a code of ethics in their respective professions that require them to protect their clients' interests.

Limitation on Non-Registrants

It is also important to consider that the giving of financial advice is based on proper KYC and suitability analysis which the receiving firm must undertake to ensure it can properly service the referred client. In other words, there are already safeguards in place to ensure protection against inappropriate referrals, whether from either non-registered or registered firms and individuals.

We have confidence that a registrant's obligations of transparency and acting in the best interests of their clients should be sufficient to prevent non-registrant referrals from posing any risk to potential investors. With appropriate disclosure, referral fees paid to non-registrants do not prejudice the client as all clients are subject to the same regulatory protections and will receive the same level of service.

It would be beneficial if the CSA shared its evaluation on how registered firms and individuals are more qualified to provide referrals than non-registrants. It would also assist if the CSA provided guidance on the standards measuring whether a referral was made in the best interest of the client. In the absence of such guidance, it will be difficult to ensure that referrals continue to be made in the best interest of the client.

Manulife further encourages the CSA to undertake an analysis of clients' confidence in and opinion of their referral experiences by those that were referred by a registrant and those of non-registrants as it would assist in understanding the rationale of the prohibition of referral fees on non-registrants.

Considering Market Conduct

To preserve investor protection and stay committed to our clients' financial interests, we believe it is best practice to prohibit the receipt of any referral fees from individuals with prior market conduct related sanctions.

Manulife would be receptive if the CSA adopted a principles-based interpretation to outline the expectation that ongoing referral arrangements be subject to an ongoing "good conduct" requirement from the professional making the referral.

Value Added Services

Referral fees reflect the continued efforts of the referring firm or individual to the client to, among other things, evaluate whether the referral remains appropriate for the client's financial needs and objectives; and to provide auxiliary services that complement the services of the registrants.

We believe referral fees are appropriate provided the investor is receiving value added services from the referring individual through an ongoing relationship.

Manulife encourages a principles-based approach for referral arrangements involving non-registrants and registrants on the condition that there is value added services to the investor.

Potential Outcomes of Time Limitation

We are concerned that limiting referral payments to 36 months will unduly increase the risk of "churning" at the end of each 36-month period, which would fail to be in the client's best interest. We also believe that this limitation period will incentivize the referring firm or individual to use other client solutions where there are no such restrictions, and which may be of a higher cost.

The effectiveness of a 36-month cap on referral fees is unclear and we encourage the CSA to conduct further analysis of its rationale.

Alternatives to the 36-Month Limitation

Rather than terminating referral fees at 36-months as proposed, Manulife believes it would be more appropriate to mandate a periodic review of the referral arrangements to ensure there is an ongoing reason to support a referral fee. This would increase investor control and ensure the investor is satisfied with the services they receive from the professional who initiated the referral.

As the opportunity to reevaluate the merits of the referral fees would be maintained throughout the client-advisor relationship, we recommend that the CSA differentiate between an initial referral fee and a trailing referral fee.

25% Cap

Provided that the referral fee does not increase the amount of fees or commissions to the client pursuant to section 13.8.1 (c), it is not clear why referral fees may not exceed 25% of the total compensation collected from the client.

The referral fees paid out to advisors reflect a business model and cost structure. Manulife believes that the allocated percentage for a referral fee is a business decision and a competitive consideration. With appropriate disclosure provided to clients, we believe that the best interests of the client remain a primary value.

Reduced Investor Choice

It is significant that the proposed restrictions of disincentivizing non-registrants to make referrals will reduce the number of referrals made by them. On this note, we encourage the CSA to evaluate how Canadian investors will be informed and educated on the various financial services available to them. Our concern is that the proposed restrictions on non-registrants will significantly narrow clients' access to financial services.

Decreased Investor Experience

With respect to the impact on registered firms and individuals, we encourage the CSA to evaluate the alternative solutions and associated costs registrants may undertake to acquire new clients. We anticipate decreased customer experience following a firm's depleted focus to provide personalized financial service.

Concerns with Proposed Timeline

As we believe that further consultation is required for the proposed restrictions on referral fees to non-registrants, we do not feel that the proposed transition timeline is appropriate. We encourage the CSA to work in concert with provincial and national regulatory organizations and government bodies to address the practical concerns of these proposed restrictions prior to implementation.

Conclusion

Manulife appreciates the opportunity to provide commends on the Proposals. We would be pleased to discuss this matter further and provide any additional comments that may be necessary.

Yours very truly,

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