October 19, 2018

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 of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Attention:

The Secretary
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Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

Dear Sirs / Madams:

Re: CSA Notice and Request For Comment on Proposed Amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to *Companion* Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*- Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms).

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About Primerica

Primerica is a leading distributor of basic savings and protection products to middle-income households throughout Canada. Our Canadian corporate group includes a mutual fund dealer (PFSL Investments Canada Ltd.), a mutual fund manager (PFSL Fund Management Ltd.) and a life insurance company (Primerica Life Insurance Company of Canada). Primerica has been serving Canadians since 1986. PFSL Investments has the largest sales force of any independent mutual fund dealer in the country, with over 6,800 licensed mutual fund representatives ("representatives"). Total client assets under management ("AUM") at Primerica are $13 billion, the majority of which serve the savings needs of middle-income Canadians.

Our mutual fund dealer has an open shelf, offering many funds from a number of well-known managers. In addition, we offer a proprietary suite of mutual funds. All funds are vetted to ensure they meet the needs of the clients we serve. Over 85% of our AUM is in registered accounts. Our investment products and principles help middle-income Canadians establish a long-term savings plan for retirement, education and other needs. We work with middle-income Canadians to help them avoid the pitfalls of saving and investing: starting late, not saving enough, neglecting tax-advantaged opportunities, and buying and selling at the wrong times. We believe that we play a significant role in our clients setting and achieving their financial objectives by instilling a savings discipline, and as a result, they are better prepared for their retirement and other life events. We do this with our representatives conducting face to face meetings with clients at their kitchen table. Our representatives take a holistic approach to their clients' financial situation; it is far more than just making fund purchase and sale recommendations.

General Comments

Current trends and developments are resulting in rapid changes in the structure of the global financial services industry. We understand the challenging task that regulators have in trying to balance consumer protection enhancements while maintaining an environment for the financial sector to successfully meet investors' needs. The mutual fund industry, including distribution, consists of a diverse range of companies operating in a highly regulated market through the rules and regulations of provincial and territorial securities commissions and Self-Regulatory Organizations (SRO), the Mutual Fund Dealers Association ("MFDA") and Investment Regulatory Organization of Canada ("IIROC"). The industry plays a significant role in Canadians achieving successful financial outcomes.

We appreciate the opportunity to comment on the CSA's proposed Client Focused Reforms and we share their goals of increasing investor protection, while preserving choice and access to a variety of investment products and services, including those provided through the dealer advice model. Following the CSA's Consultation Paper 33-404 *Proposal to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients* and Consultation Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions,* Primerica appreciates that the CSA took into consideration the fund industry's concerns and ultimately decided not to introduce a Regulatory Best Interest Standard and an outright ban all embedded commissions.

We support changes that strengthen investor protection and increased knowledge, but there needs to be a careful assessment of the impact of the proposed changes on the cost of providing the services, as well as potential impact to the availability of access to advice for investors. Creating a regulatory environment where the cost of servicing modest investors becomes prohibitive, or where they cannot find a Registrant[1] to service their needs, marginalizes many who need and deserve personal financial advice.

Summary of Recommendations

To create a workable rule that achieves our shared goals of enhanced consumer protection and preserve consumer choice, we respectfully provide the following recommendations to the CSA:

[1] For the purpose of this paper, we refer to a "Registrant" to mean a registered firm, a registered dealer, a registered adviser, or a registered investment fund manager.

Impact on Investors

- We expect the industry's cost to comply with these additional requirements would be significant. The internal resources devoted to becoming compliant, the total time for implementation and the ongoing regulatory compliance cost of the new proposals could cause a substantial increase in the cost of servicing each account, regardless of size. While certain basic services and compliance requirements apply to all accounts, it could become uneconomic to take on small accounts.

- One size does not fit all when it comes to regulating the industry and there needs to be recognition that smaller accounts may not require all the procedures and compliance oversight that larger accounts may require. This will help ensure that those with smaller amounts to invest are not excluded from participating in the capital markets and nurturing a savings culture.

Know Your Client (KYC)

- Explicitly state in the Companion Policy that the amount of information collected and provided to a client should be scalable, sufficient to develop a suitable investment recommendation and relevant to the nature of the relationship between the client and the Registrant, which may vary across a wide spectrum.

- Modify the wording in the Companion Policy to reflect that while it is preferable that updated KYC information be obtained within the specified timeframes under the rule, recognition that a Registrant's reasonable and documented attempts to contact the client to update and refresh KYC information would be sufficient to meet the requirement.

Know Your Product (KYP)

- Reconsider aspects of the current KYP proposals such as:
    - Significantly expanding a Registrant's requirement for analyzing a the structure, feature and risks of a security as proposed in 13.2.1(1)(a)(i)
    - Significantly expanding a Registrant's requirement for understanding a security's initial and ongoing cost and impact of a security as proposed in 13.2.1(1)(a)(ii)
    - Significantly expanding a Registrant's requirement for understanding how a security compares to a similar security available in the market as proposed in 13.2.1(1)(a)(iii)

  These Proposals, due to their complexity, could result in Registrants reducing the size of their product shelves in order to comply, in turn reducing consumer choice and product availability.

- Explicitly acknowledge that existing SRO guidance provides a reasonable process to meet KYP obligations.

- Recognize that documentation, issued pursuant to regulation, be sufficient material for Registrants to use in training, and for Registered Individuals[2] to meet KYP requirements for common publicly traded investment products such as mutual funds and ETFs.

[2] For the purpose of this paper, we refer to a "Registered Individual(s)" to mean an individual who is registered in a category that authorizes the individual to act as a dealer or an adviser on behalf of a registered firm.

- Do not require a Registrant to conduct an in-depth KYP assessment after the transfer of a security from other financial institutions unless the security in question is going to be added to the Registrant's list of approved products list. An overview of the product should be sufficient, particularly in the case of mutual funds and ETF's.

Suitability

- Clarify that a Registered Individual may consider other relevant factors such as a product manufacturer's reputation, a fund manager's track record, a particular security's performance etc., in addition to costs, when determining suitability.

- Explicitly clarify the concept of "client interest's first" to recognize that the setting of prices, be it commissions, fees or otherwise, should be properly explained and be transparent to the customer.

Conflicts of Interest

- Amend the Proposals so that the disclosure of conflicts of interest apply only to those that are *material*.

- Amend the Proposals to state explicitly that disclosure can be effectively used to mitigate certain conflicts of interest. Registrants must exercise due diligence and professional judgment to determine which material conflicts cannot be properly managed through disclosure alone and must take additional measures in those circumstances.

- Compliance with specific rules will provide Registrants with a "safe harbour", implying that they are acting in their clients' best interest.

Following are our detailed comments and our concerns with some of the proposals put forward by the CSA and some constructive alternatives we believe would help meet the CSA's objectives while enabling investors of modest means to continue to receive personal financial advice.

Impact on Investors

The Canadian securities industry consists of diverse business models operating in a highly regulated market. We recognize that the primary mandate of regulation is public protection and we support this. We believe that a well-regulated industry is good for investors and good for business. However, we strongly believe that the DSC ban proposed in 81-408 coupled with the proposed Client Focused Reforms could significantly impact the advisory model and access to financial products and advice for the underserved investor of modest means. The imposition of detailed Client Focused Reforms, such as those currently being proposed by the CSA, should not result in reduced investor choice, both in product and in how it is delivered to them.

We are of the view that cumbersome KYP requirements will discourage Registrants from providing a wide range of financial products for a variety of needs and limit the capacity of Registrants to innovate and respond agilely to future needs. Registrants are working hard to develop more financial products to

appeal to a broader range of investors. A lack of regulatory flexibility could limit investor access to a Registered Individual and to a wide variety of investment products.

The cost to comply with these additional regulations could be significant to the industry. The internal resources devoted to becoming compliant, the total time for implementation and then ongoing regulatory compliance costs of the proposals could be substantial. Certain work and compliance requirements would be required for accounts regardless of their size and if the cost of these requirements increases, those with less to invest could be abandoned at increasing rates. As a whole, our concern about the disproportionate impact on small investors is at the heart of many of the recommendations we have emphasized in subsequent sections.

Recommendations:

We request the CSA:

- Consider the anticipated and significant cost on industry to comply with these additional requirements. The internal resources devoted to becoming compliant, the total time for implementation and the ongoing regulatory compliance cost of the new proposals could cause a substantial increase in the cost of servicing each account, regardless of size. While certain basic services and compliance requirements apply to all accounts, it could become uneconomic to take on small accounts.

- Consider that a one size does not fit all when it comes to regulating the industry and that there needs to be recognition that smaller accounts may not require all the procedures and compliance oversight that larger accounts may require. This will help ensure that those with smaller amounts to invest are not excluded from participating in the capital markets and nurturing a savings culture.

Know Your Client

We acknowledge and agree with the Companion Policy's recognition that the extent of KYC required should be commensurate with the varied the business models and the nature of the relationship with the client. We agree that the extent of information a Registrant needs to determine the suitability of a trade will depend on the client's circumstances, type of security, client's relationship to the Registrant and the Registrant's business model. The Companion Policy properly recognizes that a Registrant may need less KYC information, for example, if the Registrant is only occasionally dealing with a client who makes small investments relative to their overall financial position. Our comments below regarding various aspects of the KYC process seek to further apply and clarify this principle.

To cost-effectively and efficiently meet the new requirements we ask the CSA to use clear and consistent language throughout the National Instrument (NI 31-103) and the Companion Policy (31-103CP), where the same meaning is being conveyed. For example, the proposals refer to "a meaningful understanding of the client" as well as "a thorough understanding of the client" in discussing a Registrant's KYC obligation. In either case "a meaningful" or "thorough understanding" of the client should always be linked to the important principle that the extent of KYC information varies with models and relationships.

Client's Financial Circumstances

The Companion Policy advises that a detailed breakdown of financial assets, including deposits and type of securities such as mutual funds, listed securities, exempt securities, and net worth be collected in order to determine the client's financial circumstances, which will assist the Registrant in their suitability determination of any investment made.

Although comprehensive financial advice may be sought by some investors, it is not sought by all. In addition, it may be sought at different times of their life and financial cycles. Currently, the proposed reforms do not take into account investor needs, preferences, the nature of a financial life cycle and knowledge acquisition. Canada's Task Force on Financial Literacy found that 'teachable moments' are most likely to occur when information is specifically relevant to [client] circumstances[3]. Likewise, similar research has shown that financial education needs to be just in time and germane to a specific context to be effective[4]. In other words, while we support the CSA's proposed rules that require greater emphasis on assessing a client's risk tolerance, a more comprehensive analysis and complete information gathering may not be necessary during an investor's first exposure to investment products and services. A client starting with TFSA, RRSP or RESP contributions as low as $50 per month may be uninterested, unable, or intimidated by the process. In fact, consumers may be resistant to provide very detailed information for simple transactions. The proposed changes may overwhelm investors with yet more documents and information to review and digest at unwanted times and in unwanted circumstances.

The Companion Policy provides that, depending upon the circumstances, a Registrant should enquire about the client's other investments or holdings elsewhere in order to inform a suitability determination. These circumstances include the type of relationship with the client, the type of securities and the amount of the client's investments in proportion to their other investments or holdings.

We agree that a Registrant need not enquire about a client's other investments or holdings in all circumstances.

We also agree there are circumstances where more detailed information related to the client's financial circumstances is warranted, for example in situations where a client is using high-risk strategies like leveraging or speculative investing strategies including short term buying and selling. However, for most investment accounts holding mutual funds, the approach is one of long term buy and hold in well known, publically traded products. As a result, a higher-level understanding of the client's financial situation is sufficient. There is no need to have *specific* details about client holdings in accounts at other financial institutions to assess the suitability of the client's account at our firm.

In our experience, we have often found many clients reluctant to share specific details about their assets or investments held outside our firm. They are generally willing to provide us with an overall understanding of their financial position, but for privacy reasons resist against providing more detailed information about outside investments. We believe that any specific information collected from a client

[3] *See* Task Force on Financial Literacy (2005). Canadians and Their Money: Building a brighter financial future, Page 30

[4] *See* Latif, E., Ly, K., Chetty, O., and Soman, D. (2015). *Improving Financial Inclusion and Wellbeing.* University of Toronto, Rotman School of Management. Toronto: Research Report Series: Behavioural Economics in Action, Page 5.

should be limited to those facts relevant to the client's activities with our firm and the suitability assessment.

We believe the Companion Policy should also recognize that clients may not wish to disclose other assets and specify that the Registrant is only responsible for the assets invested with that Registrant and has no obligation to monitor or remain apprised of other outside investments.

Client's Investment Objectives

The Companion Policy notes that when assessing a client's investment objectives, Registrants should consider setting out an investment return that would be required to meet the client's financial goals, taking into account the client's risk profile. The Companion Policy goes on to note that consideration should be given to providing explanations to the client as to whether the outcome of their account or portfolio is on track. Finally, the Companion Policy notes that alternate strategies such as paying down debt should be considered and discussed.

We believe the amount of information collected should be commensurate with the client's circumstances and what the client intends to invest in. In many cases a client's goals are not yet fully defined; they may only be at the point where they understand that they need to start saving for their retirement.

If the client has engaged a Registrant in a more detailed financial planning service then we agree that things such as setting an expected rate of return, tracking progress towards goals, and the consideration of other alternatives to investing should be part of the service offering. If, on the other hand, the client is not explicitly engaging in financial planning services then there should be no requirement or expectation for this kind of information to be provided to the client.

Currency of KYC Information

The draft rules and Companion Policy set out expectations that client KYC information should be kept up to date in order to meet the suitability determination obligation. This means that the Registrant should review and refresh the information after an interaction with the client which is appropriate for the business model and the nature of the relationship with the client.

We are in agreement that up to date client information is the best way to ensure the ongoing suitability of a client's investment account and we have a process to do so. However, for accounts that are relatively inactive, at times we have found clients reluctant to meet to update their information.

Recommendations:

We request the CSA:

- Explicitly state in the Companion Policy that the amount of information collected and provided to a client should be scalable, sufficient to develop a suitable investment recommendation and relevant to the nature of the relationship between the client and the Registrant, which may vary.

- Modify the wording in the Companion Policy to reflect that, while it is preferable that updated KYC information be obtained within the specified timeframes under the rule, a Registrant's reasonable and documented attempts to contact the client to update and refresh KYC information would be sufficient to meet the Registrants' obligations under the rule.

Know Your Product

Overarching Comments

We believe the CSA's KYP proposals represent one of the most complex and cumbersome aspects of the proposed Client Focused Reforms. The financial services industry offers a vast array of products and service delivery models to suit all investor types. Registrants choose which products to add to their shelves in order to offer the most competitive array of suitable products to serve their client base. Investors, in turn, choose their Registrant and Registered Individual. It is a free marketplace, albeit one that is robustly regulated. If the rules are implemented as written, we believe they could have the unintended consequence of Registrants being forced to narrow their product shelves to cope with the amount of work required to approve and monitor new securities. We also believe it could stifle product innovation by preventing new financial products from being considered for addition to Registrants' approved product lists, thereby reducing consumer choice.

We agree with the Companion Policy statements that the extent of the KYP process required for a security will depend on the structure and features of that security, and that a Registrants' policies and procedures should set out different levels of review for different types of securities, as appropriate. We believe each of the proposed rules and Companion Policy should ensure this concept is clear and consistent throughout.

For example, the Companion Policy properly recognizes that complex investment products including those that are novel, not transparent in structure or involve leverage, options or other derivatives may require a more extensive review than more straightforward securities. Similarly, according to the Companion Policy, securities sold under a prospectus exemption may require a more extensive review because of the limited disclosure available about them and the less liquid nature of the securities. We believe that mutual funds are an example of products not necessitating a "more extensive review" and suggest that this be more clearly stated.

Currently, Registrants have internal policies that comply with SRO requirements and are designed to establish their product shelves based on their own business model, expertise, capabilities, and client needs and characteristics. In order to meet their expanded KYP obligations including their education and/or oversight of their Registered Individuals, Registrants could look to narrow their product shelf. Those with proprietary products may create fewer products, and those with mixed shelves could be much more selective when deciding which third-party funds they will carry. This could result in investors having fewer product choices.

As a high-level concept, we agree a Registrant and a Registered Individual should understand the essential characteristics of any security offered including the appropriateness of the type of product, the company offering the security, and the specific characteristics of the security itself. It is vitally important that the new KYP rules be adaptable, flexible, scalable, and appropriate based on the types of products being considered and whether similar types of products have already been added to the available product shelf. Mutual funds, for example, are well-recognized, widely held, publically traded and highly

regulated securities and as a result, meeting the KYP requirements should require less work and investigation than most other investment products.

Specific Comments

General Obligations of Registrants

In the Companion Policy, the CSA states that a Registrant makes a security available to clients by purchasing or selling it for a client. We do not believe the act of *selling* a security held by a client constitutes "making it available", thereby triggering the KYP due diligence process. Products that have been removed from the product shelf, though still held by some clients, need not be re-assessed because a client has liquidated an investment.

Understanding the Securities Made Available to Clients

We agree that Registrants need to be knowledgeable about the products that they offer their clients. Furthermore, ensuring a thorough understanding of a limited number of products purchased, sold and recommended by a Registered Individual is more achievable and more useful to the investor than demonstrating a general level of understanding for a wider range of products.

The information in the Companion Policy sets out a significant amount of information that must be collected and assessed prior to approving a security for general distribution by a Registrant. Registrants have a wide client base whose personal and financial circumstances and relationships with their Registered Individuals differ. We do not believe this depth of analysis is necessary in order to approve a product for potential sale. It is when the client and representative are choosing products to invest in that the essential features of the product – cost, performance, types of investment returns provided, risk – are considered. Reviewing these characteristics is part of the suitability assessment performed by the Registered Individual that is specific to each investor.

We believe that the assessment of whether a security should be offered should be limited to a 'reasonableness test', where reasonable due diligence has established that (i) the product type is appropriate for the Registrant; (ii) the company offering the security should be approved due to its qualifications, and (iii) the individual security is appropriate and may be suitable for one (or more) of a Registrants' clients. The factors to be considered in determining the appropriateness of the product for distribution should vary with the type of product, with fewer factors applicable to more widely distributed, known, and publically traded products such as mutual funds.

The amendments to the Companion Policy currently provide that as part of its KYP process, a Registrant must understand how that security compares with similar securities available in the market and must take this into account in determining whether or not to approve the security to be made available to its clients. We believe that for a comparison to be meaningful the products being compared must have the identical fundamental features and attributes.

The amendments to the Companion Policy also state that Registrants are expected to monitor the performance of securities made available to clients as well as client outcomes and any complaints related to the securities as part of their overall obligation to monitor and reassess securities that been approved by the Registrant to confirm they remain appropriate over time. The Companion Policy expects that this monitoring and reassessment will include an assessment of the continued "competitiveness" of the securities that a Registrant makes available to its clients, as compared to

similar securities available in the market, whether or not the Registrant has made such similar securities available to client. We assume that "competitiveness" is referring to performance and costs and express caution as to either of those factors being overly prominent in the broader required assessment, particularly a short-term view of performance.

Our comments regarding the factors that should be applicable to product approval at first instance including our concerns regarding the role of performance particularly in the short term continue to apply to proposed reforms regarding ongoing monitoring. The ongoing review of the appropriateness of a product, including its performance relative to an investor's needs and expectations, forms part of a Registered Individual's ongoing suitability assessment which is specific to and individualized for any given investor.

Due Diligence

In the Companion Policy, the CSA maintains that the due diligence process cannot be based solely on representations, information, documentation, analyses or reports received from issuers or other third parties. We find this statement problematic and encourage the regulator to amend the proposed product due diligence requirements in the Companion Policy. The primary source of any assessment of a new product is, by its very nature, going to be by a review for reasonableness of the offering documents of the security in question. By definition, these documents must include full, true and plain disclosure. If we cannot rely on the information contained in these offering documents, what source of information does the CSA expect us to use to conduct our due diligence? Similarly, current SRO requirements recognize that more complex products are subject to a more in-depth inquiry by the Registrant. The CSA should allow for issuer-documentation to be sufficient for simple, widely held, publically traded or well-known products and not require Registrants to conduct an independent and supplementary review for these products.

Transfers of Securities From Other Financial Institutions

The draft rule proposes that the KYP obligations under subsections (1) and (3) will apply in situations where a client transfers-in a security from another financial institution, and that a Registrant (and individual) must not permit the transfer to take place prior to this assessment /understanding being completed.

We find this subsection problematic from two perspectives. First, it is not possible to prevent a security that has not yet been assessed from being transferred into the Registrant. Any assessments that takes place will, most of the time, occur only after the security has been transferred-in. Second, while we understand that the Registrant and representative should have an obligation to understand the essential features of the security being transferred-in and assess the product's suitability within the customer's account, this can only be done in the context of the client' other holdings in the account, the Registered Individual's other recommendation and the client's instructions. Therefore, any assessment can only take place after the security has been transferred-in and in the context of the Registered Individual's other discussions with the client. We do not think the full KYP assessment of the security at the Registrant level, as currently contemplated by the Companion Policy, is necessary, unless the security in question is going to be added to the approved list. To conduct full KYP assessments for one-off situations, with no plans to make it generally available for purchase, is unwarranted and cost prohibitive.

Recommendations:

We request the CSA:

- Reconsider aspects of the current KYP proposals such as:
    - Significantly expanding a Registrant's requirement for analyzing a the structure, feature and risks of a security as proposed in 13.2.1(1)(a)(i)
    - Significantly expanding a Registrant's requirement for understanding a security's initial and ongoing cost and impact of a security as proposed in 13.2.1(1)(a)(ii)
    - Significantly expanding a Registrant's requirement for understanding how a security compares to a similar security available in the market as proposed in 13.2.1(1)(a)(iii)

  These, due to their complexity, could result in Registrants reducing the size of their product shelves in order to comply, in turn reducing consumer choice and product availability.

- Explicitly acknowledge that existing SRO guidance provides a reasonable KYP process in the product due diligence process.

- Recognize that documentation, issued pursuant to regulation, be sufficient material for Registrants to use in training, and for Registered Individuals to meet KYP requirements for common publicly traded investments such as mutual funds and ETFs.

- Do not require a Registrant to conduct an in-depth KYP assessment after the transfer of a security from other financial institutions unless the security in question is going to be added to the Registrant's list of approved products list. An overview of the product should be sufficient, particularly in the case of mutual funds and ETF's.

Suitability

The proposed enhanced suitability determination is extensive and overly broad. It requires that any investment action be subject to KYC, KYP, a review of costs, concentration, liquidity, and a reasonable range of alternatives, "any other factor that is relevant under the circumstances" and "puts the client's interests first". Due to the extensive and fulsome requirements, it is difficult to imagine what "other factors may be relevant to the circumstances". We suggest that, at a minimum, this phrase and any additional undefined requirement to "put the client interests first" be replaced with clarification that the Registrant is deemed to have put the client's interests first when items in 13.1 (a) (i) through (vii) are met.

The reforms proposed by the CSA could layer on a significant additional cost to Registrants servicing smaller accounts. We believe the added requirements, taken as a whole, may only serve to accelerate the abandonment of small investors, arguably the individuals who need these products and services the most.

As 79% of Canadian households with investable assets have under $100,000 to invest[5], the CSA's current proposal to significantly expand the information required by a Registrant to determine suitability may be

[5] Investor Economics, Household Balance Sheet, 2017 (2016 Data).

excessive. Investors requiring less sophisticated services may resist providing additional information for a relatively simple investment transaction.

The concept of recommending the "lowest cost" security among a range of alternatives fails to recognize that cost is only one factor in assessing what might be the best alternative for the customer. Other factors such as a product manufacturer's reputation, a fund manager's track record, a particular security's performance history (net of costs), and the security's features or investing style are also very relevant considerations when choosing a security. We believe that the suitability of a security for an investor should be established considering all factors and that the lowest cost security is not necessarily always the correct or 'best' answer.

Client's interests are paramount

We understand that one of the main goals of the CSA's targeted reforms is to ensure that, wherever possible, the client's interests are put ahead of the Registrant's and Registered Individual's interests. While this is an important goal, there are some practicalities that need to be considered.

The "client first" concept does not recognize that the relationship between the client and the Registrant is an economic one. That is to say, Registrants are in business to offer products and services to potential clients, and to do so in a commercial and ethical manner. We support the idea of full transparency in any client discussion of a product or service's cost.

Commercial realities need further recognition in any reforms. As an example, if a client is to be offered a suitable retail mutual fund and it is determined that the client will purchase it on a front-end commission basis, a fund prospectus allows for an up-front sales charge of anywhere from 0% to 5% to be negotiated. If we strictly follow the "client first" concept in the rule, it is always better for a client to pay 0% that more than 0%, and so a Registrant will be required to charge 0%. When extended to the entire business, the ability of a Registrant and its representatives to remain in business over the long run could be significantly impacted by the strict application of this rule.

Recommendations

We request the CSA:

- Clarify that a Registered Individual may consider other relevant factors such as a product manufacturer's reputation, a fund manager's track record, a particular security's performance etc., in addition to costs, when determining suitability.

- Explicitly clarify the concept of "client interest's first" to recognize that the setting of prices, be it commissions, fees or otherwise, should be properly explained and be transparent to the customer.

Conflict of Interest

Our experience in serving middle-income Canadians has shown us that the real challenge is that far too many have simply failed to take the steps necessary to accumulate meaningful savings. This is shown by research that confirms income and net worth are positively correlated with seeking advice. Affluent

households use financial advice and products at a greater rate than lower income households.[6] At issue here is whether the proposed Client Focused Reforms around conflicts of interest will incentivize or disincentivize one-on-one help for these currently underserved families.

We find the regulators' proposal to require Registrants and Registered Individuals to identify and disclose *all* conflicts of interest, both material and non-material, to be problematic. There are substantial rules to deal with conflict of interest situations. IIROC Rule 29.1 requires that Registrants and their representatives must observe high standards of ethics and conduct in the transaction of their business and not engage in any business conduct or practice unbecoming or detrimental to the public interest. MFDA Rule 2.1.4 requires that material conflicts of interest be addressed by the exercise of responsible business judgement influenced only by the interests of the client. We are of the view that disclosure should only apply to material conflicts of interest. Similarly, by definition non-material conflicts of interest imply that they would not influence behaviour, and as such need not be considered.

Prohibition of Misleading Communication

We agree with the regulators that Registrant should manage the use of titles for their Registered Individuals and ensure that they are not misleading. Registrants must not hold themselves out to the public using inappropriate or misleading business designations or titles. Both IIROC and the MFDA currently have in place rules around the use of titles. We are willing to work with regulators to help develop a constructive approach for managing the usage of titles.

Recommendations

We request the CSA:

- Amend the Proposals so that the disclosure of conflicts of interest apply only to those that are *material*.

- Amend the Proposals to state explicitly that disclosure can be effectively used to mitigate certain conflicts of interest. Registrants must exercise due diligence and professional judgment to determine which material conflicts cannot be properly managed through disclosure alone and must take additional measures in those circumstances.

- Compliance with specific rules will provide Registrants with a "safe harbour", implying that they are acting in their clients' best interest.

Conclusion

Primerica supports the CSA's efforts to pursue enhanced investor protection where needed. The mutual fund industry and the independent advice channel are highly regulated and provide significant investor

[6] *See* Bluethgen, R. e. (2008). Financial Advice and Individual Investors' Portfolios. *Working Paper Series*.
See Finke, M., and Langdon, T. (2012). The impact of the broker-dealer fiduciary standard on financial advice. *Journal of Financial Planning, 25*(7), 28-37.
See Tang, N., and Lachance, M.-E. (2012). Financial advice: What about low-income consumers? *Journal of Personal Finance, 11*(2), 121.

protection. They were designed for the investor with modest amounts to invest. We believe it is incumbent on the industry and its regulators to ensure that it continues to serve this segment of the market well, with real choice to help them achieve their financial goals. We are concerned that the proposed Client Focused Reforms may impede the ability of the industry to serve investors of modest means, resulting in reduced choice for investors. We have provided what we believe are constructive recommendations that will meet the CSA's objectives while continuing to allow Registrants to provide choice to a broad range of investors. This is more than a regulatory matter; it is a public policy issue important to the financial well-being of middle-income Canadians.

We appreciate the opportunity to comment on this important issue and look forward to participating in any further public discussion on this topic. Should you have any questions or wish to discuss these comments, please feel free to contact us.

Sincerely,

[*Original Signed by*]

John A. Adams, CPA, CA
Chief Executive Officer