

VIA E-MAIL

comments@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

September 30, 2016

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
The Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan

Attention:

Josée Turcotte, Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Dear Sirs/Mesdames:

RE: Canadian Securities Administrators Consultation(CSA) Paper 33-404: Proposals to Enhance the Obligations of Advisors, Dealers and Representatives towards Their Clients

Thank you for the opportunity to provide comments to the Canadian Securities Administrators Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisors, Dealers and Representatives Towards Their Clients (CP33-404), specifically regarding proposed targeted reforms and a best interest standard proposal.

Background for Bridgehouse Comments

Bridgehouse Asset Managers

Brandes Investment Partners & Co., operating as Bridgehouse Asset Managers (“Bridgehouse”) is registered as Portfolio Manager and Exempt Market Dealer in all provinces and territories, Investment Fund Manager in Ontario, Quebec, and Newfoundland, and Mutual Fund Dealer in all provinces and territories of Canada (except Quebec). Bridgehouse acts primarily as manager to distribute independent multi-manager products and services to financial advisors through IROC and MFDA.

Bridgehouse Perspective: Financial Advisors Can Help Clients Receive the Full Benefit of Investing

Bridgehouse chooses to distribute through financial advisors because we believe that they are best qualified to determine individual investor needs/goals and to build clients' plans to achieve those goals. Advisors provide great value by aligning investor needs with available investment solutions and financial strategies. It is critical that investors who invest in our products and services do so based on what they can do for them over the long term. Any mismatch in expectations can prevent investors from receiving the full benefit of our products and of investing in general.

Bridgehouse Perspective: Investors Benefit from Access and Choice

Bridgehouse believes investors benefit from having product choice from a variety of sources, including proprietary and independent investment firms. The Bridgehouse Independent Platform (not affiliated with any dealer) offers retail clients access (through advisors and directly through Class D) to non-proprietary managers with deep institutional experience. Bridgehouse believes a balance of proprietary and independent firms is necessary to provide advisors and their clients with access and choice.

Bridgehouse Overall Comments

Achieve Intent and Principles of Target Reforms by Building on Existing Industry Strengths

It is from this perspective that we offer our comments. We have reviewed the Original Consultation Paper, Staff Notice and the Consultation Paper 33-404 and are familiar with the references and noted research. We agree with the intent and principles behind the proposed targeted reforms; however, in our view, many are already or can be addressed within the existing regulatory framework and by building on existing industry strengths not identified in CP 33-404.

Undertake Strategic, Client-Centric Reforms

Bridgehouse urges the CSA to undertake reforms that are strategic, client-centric and build on the existing regulatory framework and industry evolution. Over the years, many Canadians have materially benefited from their investments. The industry continues to evolve and regulation should evolve strategically along with it. Bridgehouse strongly discourages any attempt to artificially engineer client outcomes. Rather, the CSA should focus on improving the working process between advisors and clients, which can lead to successful outcomes. This is a strategic process that can take clients from where they are now to achieving their needs/objectives over time.

Avoid Tactical Reforms that Negatively Change the Nature and Quality of Financial Advice

We emphasize the significance of strategy and process because we believe a number of reforms propose tactical "fixes" that could negatively affect the nature and quality of financial advice. Consultation Paper 33-404 is predominantly product-focused (KYP requirements) and reduces the advice proposition to product knowledge and portfolio performance. This perspective fuels a short-term mindset that inevitably works against the best interests of clients. It leaves limited opportunity for advisors to gain a meaningful understanding of their clients' needs as required by their KYC obligations. It also works against an industry-wide movement to differentiate the functions of investment analysis advice from representing product offerings as a means of adding value to clients. The targeted reforms

force advisors to take on analytical and due diligence functions already performed at the firm level by product analysts trained in security analysis.

The CSA can also build on proficiency by working within the existing financial advice credential and designation infrastructure. CP33-404 does not refer to the industry's robust and well-supported education programs. The CSA can find ways to build on this industry strength, which also includes a strong continuing education component (for KYP education) and codes of ethics that cover best interest standards.

Monitor the Big Picture: An Overly Concentrated Industry Restricts Access and Choice

As an independent provider, Bridgehouse is very concerned that Canada's marketplace (distribution and investment manufacturing) is becoming increasingly dominated by large and predominantly public companies. Over time, concentrated market places can lead to limited product selection and higher prices. Concentrated marketplaces can also create barriers to entry, which can inhibit new and smaller entrants who often bring innovation and choice to consumers. In addition, public companies' first obligation, by definition, is to their shareholders. This can create conflicts of interest if a public company puts other divisions ahead of their wealth management arm in order to meet their shareholder obligations.

Bridgehouse cautions the CSA from overly prescriptive firm categories relating to proprietary and non-proprietary product because the unintended consequence may be that firms use the categories to focus on proprietary products and exclude independent products. On the other hand, the CSA should be prescriptive about investor disclosure. Clients and prospects should have a clear understanding of what a firm does and does not offer.

Fresh, Creative Ways to Optimize Existing Industry Strengths and Positive Behaviours

Instead of pursuing tactical reforms, we encourage the CSA to look for fresh and creative ways to optimize strengths and processes already in the industry workflow. We recommend that the CSA re-frame existing regulatory guidelines so they work better for clients, advisors and firms rather than adding additional cost and inefficiency to an industry already undergoing challenge and transition. We respectfully submit the following based on our comments to CP33-404's questions and from the perspective of our business model.

Know Your Client (KYC) Targeted Reforms

Addressing KYC and Targeted reforms through a Client Planning Process and *Client Plan*

When we examine the components of KYC and proposed targeted reforms, we can identify some of the elements of a client planning process; however, the KYC is perceived as a static form that must be completed and updated for compliance and regulatory purposes. This is unfortunate because the KYC information should be the foundation of client planning. We recommend integrating KYC information into a *Client Plan* that also includes the portfolio recommendation and any other financial strategies that support achieving a client's stated needs/objectives. The result would be a consolidated, strategic and directional document that serves the needs of clients, advisors, dealers and the regulators.

Client Plan Addresses Key Investor Protection Concerns

A consolidated *Client Plan* can address key investor protection concerns (as outlined in Part 5 of CSA Consultation Paper 33-404) as well as the proposed targeted reforms:

Investor Protection Concerns

- More fulsome suitability analysis by encouraging comprehensive collection of relevant factors
- Forum for discussion and a plan (record of KYC data and roadmap to achieve needs/objectives) – discussion and documentation helps build understanding and closes expectation gap or misplaced reliance or trust
- Documentation of conflicts of interest and how they are resolved in either the client’s favor or a win/win
- Provides a roadmap to achieve client needs/objectives opens transparency and reduces information asymmetry because the client can use the plan as a reference point to ask additional questions

Client Plan Addresses Proposed Targeted Reforms

- Promotes a thorough understanding of the client and relates this client data to achieving client needs/objectives
- Opportunity to gather more client-centered information re: three key elements:
 - Investment needs/objectives
 - Financial circumstances
 - Risk profile (Bridgehouse holds that risk profile should be differentiated from volatility profile)
- Record of risk profile
- Update once every 12 months or more frequently if there are material changes

Financial Advisors Are Trained to Build Financial Plans

A *Client Plan* would make collecting KYC data more efficient because it can be incorporated into a financial advisor’s current workflow and the activities that many advisors now perform for their clients. Client planning is what advisors are trained to do to meet the requirements of their credentials and designations. <http://www.fpsc.ca/beaplanner/path-to-certification>
https://www.csi.ca/student/en_ca/designations/cim.xhtml

Oversight of a Digital Comprehensive Client Document

A *Client Plan* would also help dealers provide oversight and quality control over advisor/client relationships. Additional CSA prescription would not be necessary because KYC-type information could be built into existing digital financial planning models. The *Client Plan* would be the one-stop source for KYC and product information (where suitability can be verified), disclosure, material changes and client signatures so they are primed to be compliant and able to be proof of compliance to regulators. A *Client Plan* could be managed digitally thereby improving time and cost efficiencies. (This would also make advisors more competitive with digital or robo-alternatives and enable regulators to be fully equitable

by requiring software and fintech alternatives to be subject to the same scrutiny for data collection, suitability, oversight, etc.

A Tangible Roadmap to Encourage Investor Engagement/Discussion

A *Client Plan* could form the basis for the client/advisor engagement and discussions with their advisors. It would be a tangible roadmap of what a client wants to achieve and how the client and advisor will work together to show progress, make trade-offs, and/or portfolio adjustments and incorporate other financial strategies to achieve client objectives.

Scalable, Digital Investor Enhanced Digital Experience

A *Client Plan* would be workable in almost every client situation. The process can be scalable to any size of account and can address short or long-term client needs. The *Client Plan* is an opportunity to create a digital experience with links to client assessment and financial education tools built into the plan. Advisors can use the *Client Plan* to demonstrate additional value that enhances the client/advisor relationship.

A *Client Plan* Transforms KYC into Client-Centric Experience by Incorporating Value of Financial Advice

The process of creating a *Client Plan* provides an opportunity for an advisor to create a dynamic, client-centric experience that goes beyond an isolated KYC data collection exercise:

- Involve the client in the planning process
- Provide an individualized discovery vehicle to collect KYC and confirm unique needs and goals
- Include a variety of assessment tools, including a client's volatility profile
- Review various options and associated risk/reward trade offs
- Incorporate other pertinent strategies: reducing debt, increasing savings, deploying other assets
- Provide a forum for discussions/ investor education
- Review/record conflicts of interest or material notifications
- Align client and advisor expectations
- Record client, advisor and firm approval/acceptance (signatures)
- Provide a foundation for regular client and advisor review and compliance oversight
- Adjust, update and document changes in client circumstances
- Make investing tangible and real
- Provide investors with a sense of control
- Motivate clients and keep them on track
- Encourage healthy investor behaviours
- Make investing concrete and tangible

Shift the Focus from Individual Products to a Client Process

The *Client Plan* creates an opportunity to shift the focus to the client's needs first and then to what products can do to meet client needs (product suitability) rather than to products in isolation. It empowers the investor to view investment products as ingredients that complement and compensate for each other or that serve a specific function in an overall plan. This is an important distinction because it injects a longer-term, portfolio-view of investments and breaks the tendency of many

investors to succumb to product novelty and short-term performance, which is generally not to their benefit.

Know Your Product (KYP) Targeted Reforms

Targeted reforms will Negatively Affect the Nature and Quality of Financial Advice

Bridgehouse believes the targeted reforms proposed for KYP remove financial advisors away from their key role as the client interface. They should not be required to be product experts. They *should be required* to be client experts and champions. The product expert role is increasingly assumed by their firms' financial analysts and by third-party organizations like Morningstar, as well as by investment management firms that provide commentary and due diligence, as well as other analytical material.

We strongly recommend that the CSA consider these industry developments. Dealers have recognized the functional differences between *advice* and *analysis* and now have financial analysts, who perform extensive due diligence and product review analysis on behalf of their firms. This frees advisors to focus on understanding their clients' priorities and the suitability of what products can do for *Client Plans* instead of being product specialists.

We agree that financial advisors must understand the products they recommend. The KYP targeted reforms exemplify how the CSA can leverage existing industry strengths. Product knowledge requirements can be addressed through the existing robust continuing education process. To maintain their designations, financial advisors must undertake a minimum of 40 hours of continuing education courses. Many of the courses are product related. (for details, see: <http://www.fpsc.ca/continuing-education>)

We encourage the CSA to work within the existing continuing education system, which involves the SROs, designation sponsors and financial education specialists. To achieve its identified aims, the CSA can include a guideline that a certain percentage of course be dedicated to product knowledge.

Avoid Reforms that Drive Financial Advice Out of the System

The CSA needs to prudently assess the cumulative impact of all regulatory requirements on advisors and firms arising from CRM2, Point of Sale disclosure and proposed reforms outlined in Consultation Paper 33-404. We believe it is a certainty that firms will need to look for efficiencies: including account limits and retaining fewer financial advisors. We have already seen major changes at firms, which have eliminated financial advisors who cannot meet revenue minimums. The consequences are known.

We anticipate that younger investors and those with smaller investible assets and who live in smaller and/or rural communities will be negatively affected by limited access to advice. Financial advice will become one-off, piecemeal, tactical and product- focused instead of a valuable strategic process to help investors meet their financial requirements and long-term needs.

The targeted reforms outlined in CP 33-404 inequitably disadvantage advisors, who are already lightning rods for criticism about an array of macro- industry and investor issues: costs, technology, economic

low-growth, market volatility and individual Canadian shortfalls and diminishing prospects. The intent of CRM2 and Fund Facts may have been disclosure and transparency, but they have prompted a fixation on individual advisor compensation. Lost from this singular perspective are the necessary costs required to support an industry infrastructure with administration, secure technology, systems and an extensive regulatory and investor protection framework. It's a mischaracterization of fees and costs that unfortunately harms financial advisors instead of educating Canadians of the many costs associated with running a sophisticated, safe investment system. Bridgehouse can foresee many advisors will be driven from the industry and investors will suffer as a result.

Rob Carrick, the respected personal finance columnist of the Globe and Mail has concluded in a July 14, 2016 piece that not having a financial advisor is detrimental for many investors. July 14, 2016 [http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/why-wont-canadians-pay-for-investment-advice/article30927394/costs and fees to their readers and recognizing that advice](http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/why-wont-canadians-pay-for-investment-advice/article30927394/costs-and-fees-to-their-readers-and-recognizing-that-advice) – Rob Carrick.

Strategic Reforms that Encourage Higher Standards

Rather than focusing at the tactical level and lowest common denominator, the CSA should encourage best practices at a strategic level that focus on enhancing the client experience. The CSA should promote a process/workflow aimed at achieving client needs/objectives rather than deterring this goal by prescribing regulatory forms divorced from the process of financial planning. We urge the CSA to avoid focusing on isolated product suitability and engineering outcomes. It should take a broader more strategic review of an industry contending with disruption, fee compression and competition with technology firms, all while maintaining focus on providing Canadians with investment solutions that help them reach their personal financial goals.

With respect, please accept our specific comments to your questions.

Yours truly,

Brandes Investment Partners & Co.



Carol Lynde
President and COO

Encl. Appendix A – Responses to detailed questions

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A. REGULATORY BEST INTEREST STANDARD	
CSA Question	Bridgehouse Comment
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37	37
38	38
65	37
66.	38
67.	
68.	

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<p>sophistication of the firm and its clients is similar, such as when firms deal with institutional clients?</p>	<p>65 N/A 66 N/A 67 N/A 68 N/A</p>
<p>B. CONFLICTS OF INTEREST</p>	
<p>CSA Question</p>	<p>Bridgehouse Comment</p>
<p>1 Is this general approach to regulating how registrants should respond to conflicts optimal? If not, what alternative approach would you recommend?</p>	<p>1 The important requirement is to disclose any conflicts, discuss any impact on the client and record the outcome of the discussion in the Client Plan. Conflicts should be disclosed and discussed as they relate to the Client Plan (see upfront comments for explanation of Client Plan). It can be difficult to assume what is in the best interest of a client without discussing the conflict and possible trade-offs. In some instances a conflict of interest may not matter to a client. Some conflicts of interest carry a middle ground and a win/win solution between client/advisor/firm can be determined.</p>
<p>2 Is the requirement to respond to conflicts “in a manner that prioritizes the interest of the client ahead of the interests of the firm and/or representative” clear enough to provide a meaningful code of conduct? If not, how could the requirement be clarified?</p>	<p>In other words, a best interest priority cannot be determined or assigned without discussion with the client.</p>
<p>3 Will this requirement present any particular challenges for specific registration categories or business models?</p>	<p>2 No. Some conflicts of interest carry a middle ground. In some instances a conflict of interest may not matter to a client and in some instances there can be a win/win solution between client/advisor/firm so it can be difficult to assign a best interest priority without discussion. The important requirement is to disclose any conflicts, discuss any impact on the client and record the outcome of the discussion in the Client Plan.</p>
<p>44 Is it appropriate that disclosure by firms be the primary tool to respond to a conflict of interest between such firms and their institutional clients?</p>	
<p>45 Are there other specific situations that should be identified where disclosure could be used as the primary tool by firms in responding to certain conflicts of interests?</p>	
<p>46. Is this definition of “institutional client” appropriate for its proposed use in the Companion Policy? For example: where financial thresholds are referenced, is \$100 million an</p>	<p>3 Clients have a better chance of understanding any implications of conflicts of interest if conflicts are disclosed and discussed during client planning and results recorded in the Client’s Plan.</p>

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<p>appropriate threshold?; (ii) is the differential treatment of institutional clients articulated in the Companion Policy appropriate?; and (iii) does the introduction of the “institutional client” concept, and associated differential treatment, create excessive complexity in the application and enforcement of the conflicts provisions under securities legislation? If not, please explain and, if applicable, provide alternative formulations.</p> <p>47. Could institutional clients be defined as, or be replaced by, the concept of non-individual permitted clients?</p> <p>48. Are there other specific examples of sales practices that should be included in the list of sales practices above?</p> <p>49. Are specific prohibitions and limitations on sales practices, such as those found in NI 81-105, appropriate for products outside of the mutual fund context? Is guidance in this area sufficient?</p> <p>50. Are limitations on the use of sales practices more relevant to the distribution of certain types of products, such as pooled investment vehicles, or should they be considered more generally for all types of products?</p> <p>51. Are there other requirements that should be imposed to limit sales practices currently used to incentivize representatives to sell certain products?</p> <p>52. What type of disclosure should be required for sales practices involving the distribution of securities that are not those of a publicly offered mutual fund, which are already subject to</p>	<p>44 N/A</p> <p>45 N/A</p> <p>46 N/A</p> <p>47 N/A</p> <p>48 N/A</p> <p>49 N/A</p> <p>50 N/A</p> <p>51 N/A</p> <p>52 N/A</p> <p>53 N/A</p>
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<p>specific disclosure requirements?</p> <p>53. Should further guidance be provided regarding specific sales practices and how they should be evaluated in light of a registrant's general duties to his/her/its clients? If so, please provide detailed examples.</p>	
<p>C. KNOW YOUR CLIENT</p>	
<p>CSA Question</p>	
<p>4 Do all registrants currently have the proficiency to understand their client's basic tax position? Would requiring collection of this information raise any issues or challenges for registrants or clients?</p> <p>5 Should the CSA also codify the specific form of the document, or new account application form, that is used to collect the prescribed KYC content?</p> <p>6 Should the KYC form also be signed by the representative's supervisor?</p> <p>54 To what extent should the KYC obligation require registrants to collect tax information about the client? For example, what role should basic tax strategies have in respect of the suitability analysis conducted by registrants in respect of their clients?</p> <p>55 To what extent should a representative be allowed to open a new client account or move forward with a securities transaction if he or she is missing some or all of the client's KYC information? Should there be certain minimum elements of the KYC information that must be provided by the client</p>	<p style="text-align: center;">Bridgehouse Comment</p> <p>4. Education curricula for financial advice credentials (for CIM, FCSI, CFP designations) cover basic tax concepts. Advisors should be aware of their client's basic tax position for planning purposes. Any involvement beyond this, such as reporting or checking with an accountant should be left up to the client and advisor.</p> <p>Advisors may find collecting client tax information difficult because clients may not wish to share this information or they may view it as a duplication of their accountants' duties.</p> <p>For clients with complicated tax situations, advisors can elect to follow the Investment Counsellor's example of collecting a clients' accountants contact information and asking clients if they want their accountants to receive copies of statements or other tax information. Private clients can also grant their Investment Counsellors permission to discuss tax implications with their accountants.</p> <p>5 No. The CSA should avoid prescriptive and stand-alone KYC requirements and instead require advisors to integrate KYC information into a Client Plan for reasons discussed in the upfront section of the Bridgehouse submission.</p> <p>6. Client Plans should be signed by the representative's supervisor. There is</p>

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<p>without which a representative cannot open an account or process a securities transaction?</p> <p>56 Should additional guidance be provided in respect of risk profiles?</p> <p>57. Are there circumstances where it may be appropriate for a representative to collect less detailed KYC information? If so, should there be additional guidance about whether more or less detailed KYC information may need to be collected, depending on the context?</p>	<p>no value in a supervisor signing a client's information unless it is accompanied by a Client Plan. The intent should be to use the KYC data as the basis of preparing a Client Plan as opposed to only collecting it for regulatory purposes.</p> <p>54 See Comments: 4 and 5</p> <p>55 In a transactional relationship, the client is making their own planning decisions. In that case, a representative should not be obliged to provide full service.</p> <p>56 We believe clients have a risk profile and a volatility profile and the industry should educate clients about the difference between the two profiles. Real risk is a long-term concept associated with a client experiencing a permanent loss of capital and/or not achieving needs/objectives. A risk profile should measure the impact of investments or financial strategies not achieving the needs/objectives of the client. In fact, a client may need to take on more risk -- not less -- to ensure they meet their needs/objectives.</p> <p>On the other hand, volatility is a short-term concept associated with the ups and downs of the market. A volatility profile assesses if a client can tolerate the day-to-day ups and downs of gains and losses.</p> <p>The implication of bundling these two concepts into one risk profile is that it does not assess an accurate picture of a client. If an advisor has a client with a high risk of not meeting their needs/objectives, the advisor will need to recommend taking on more risky investments and/or extending the investing horizon or supplementing with additional financial strategies. An advisor's recommendation could be very different for a client who cannot tolerate day-to-day volatility than it is for one who can</p>
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	<p>The distinction between risk and volatility profiles for investors points out why it is difficult for the CSA to be prescriptive.</p> <p>Bridgehouse believes a client’s profile can only be accurate and meaningful within the process of building a financial plan.</p> <p>57 Yes. In a transactional relationship, clients make their own planning decisions. In that case, a representative should not be obliged to provide full service or collect KYC information.</p>
<p>D. KNOW YOUR PRODUCT – REPRESENTATIVE</p>	
<p>CSA Question</p> <p>7. Is this general approach to regulating how representatives should meet their KYP obligation optimal? If not, what alternative approach would you recommend?</p>	<p>Bridgehouse Comment</p> <p>7 The KYP target reforms are an example of how the CSA can leverage existing strengths within the industry. To maintain their designations, financial advisors must undertake a minimum of 40 hours of continuing education courses. Many of the courses are product related. http://www.fpssc.ca/continuing-education</p> <p>We encourage the CSA to work within the existing continuing education system, which involves the SROs, designation sponsors and financial education specialists. The CSA can perhaps suggest a guideline that a certain percentage of course be dedicated to product knowledge.</p> <p>Resources for suitability analysis exist and a quick consultation with third-party services such as Morningstar will confirm that advisors and dealers use product information extensively. In addition, investment managers dedicate significant resources to educate advisors and dealers on product by way of webcast, presentations, infographics and videos.</p>

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E. KNOW YOUR PRODUCT – FIRM	
CSA Question	Bridgehouse Comment
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<p>15 investigation and product comparison process or to offer non-proprietary products?</p> <p>Do you think that categorizing product lists as either proprietary and mixed/non-proprietary is an optimal distinction amongst firm types? Should there be other characteristics that differentiate firms that should be identified or taken into account in the requirements relating to product list development?</p> <p>58 Should we explicitly allow firms that do not have a product list to create a product review procedure instead of a shelf or would it be preferable to require such firms to create a product list?</p> <p>59 Would additional guidance with respect to conducting a “fair and unbiased market investigation” be helpful or appreciated? If so, please provide any substantive suggestions you have in this regard.</p> <p>60 Would labels other than “proprietary product list” and “mixed/non-proprietary product list” be more effective? If so, please provide suggestions.</p> <p>61. Is the expectation that firms complete a market investigation, product comparison or product list optimization in a manner that is “most likely to meet the investment needs and objectives of its clients based on its client profiles” reasonable? If not, please explain your concern.</p>	<p>10 The CSA should continue to monitor industry concentration to see if there is evidence of consolidation and a correlation between industry concentration and a focus on proprietary product.</p> <p>11 Clients need to understand that their choices will be limited and competitive comparisons will not occur if they deal with a firm that only offers proprietary product.</p> <p>12 Clients need to understand that their choices will be limited and competitive comparisons will not occur if they deal with a firm that only offers proprietary product.</p> <p>13 Yes. These requirements give firms a reason to remain proprietary, which reduces access and choice for their clients. Instead firms should be encouraged to develop their own product list criteria based on their own analytical review procedures, merits of products and needs of their clients. See comment 10.</p> <p>14 Firms should be encouraged to develop their own product review criteria based on their own analytical process, merits of products and needs of their clients. If firms maintain a proprietary list only, they must disclose so their clients understand clearly that their choices are limited and that competitive comparisons will not occur.</p> <p>15 Product list categorization should build on some of the evolving industry practices, which is to have a recommended list and a general product list. Recommended lists are based on the firm’s analytical insights, product merits and the needs of their clients. This practice enables firms</p>
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	<p>to differentiate their analysis as a value proposition. See Comment 60.</p> <p>58 Neither. Firms should be able to control their business model. Firms already developing recommended lists and product analytical review procedures as a point of value and differentiation. This practice should be encouraged because it will result in better due diligence and offerings for clients.</p> <p>59 No. Most firms have CFA analysts who perform fair and unbiased market investigation. The industry also has many 3rd-party tools such as Morningstar and Zephyr that assist with fair and unbiased competitive analysis.</p> <p>The decisions regarding carrying proprietary product is at the business/firm level as opposed to at a product review and selection level.</p> <p>60 Proprietary is used for different purposes in the industry and can be confusing for investors. Other industries refer to their own products as “house products” or “store brands.” For example, Shopper’s Drug Mart offers Life Brands as its store brand. Their clients understand if they chose a Life Brand, it may be cheaper and not to the same quality as national brands and they make a choice to sacrifice quality for price. On the other hand, Loblaw’s offers PC brands, which can often be more expensive than national brands (even though, in some cases, national brands may manufacture the PC product.) These retailers price, promote and create meaning for their firm brands according to what their clients demand and their business requirements. Similar models occur in other industries.</p> <p>Perhaps “firm products” or “dealer” or “house products” work for the</p>
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	<p>investment industry because these terms are simple, used in other industries and generally well-understood by consumers.</p> <p>61 Dealers and advisors already do this. The CSA should inquire about Morningstar usage and competitive analysis at the dealer level before proceeding with this reform. The CSA will find that thousands of advisors have Morningstar running on their computers all day so they can check product details and make comparisons in addition to the comparisons provided by their own firm analysts.</p>
F. SUITABILITY	
CSA Question	
<p>16 Do you agree with the requirement to consider other basic financial strategies?</p> <p>17 Will there be challenges in complying with the requirement to ensure that a purchase, sale, hold or exchange of a product is the “most likely” to achieve the client’s investment needs and objectives?</p> <p>18 Should there be more specific requirements around what makes an investment “suitable”?</p> <p>19 Will the requirement to perform a suitability assessment when accepting an instruction to hold a security raise any challenges for registrants?</p> <p>20 Will the requirement to perform a suitability analysis at least once every 12 months raise challenges for specific registrant categories or business models? For example, a client may only have a transactional relationship with a firm. In such cases, what would be a reasonable approach to determining whether</p>	<p>16 Yes. Basic financial strategies can work with financial return to help achieve client needs/objectives.</p> <p>Advisors with advice designations are equipped to offer advice in this area because financial strategies are included in their credential education curricula. http://www.fpsc.ca/cfp-professionals</p> <p>17 Yes. This proposed targeted reform is vague and difficult to administer. A single purchase, sale, hold or exchange of products can contribute to achieving a client’s overall goals, but it can’t achieve them. The suitability of an investment should not be measured on its own, but rather measured strategically within the context of a Client Plan. Suitability is not only about the individual product, but rather how that investment interacts with other products in a portfolio over time along with other non-investment strategies within the context of a Client Plan.</p> <p>Through our wholesaling and service teams, Bridgehouse provides extensive information on our products interact and perform within portfolios by offering our own analysis and that of third-party providers such as Zephyr and Morningstar.</p>

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<p>a firm should perform ongoing suitability assessments?</p> <p>21 Should clients receive a copy of the representative's analysis regarding the client's target rate of return and his or her investment needs and objectives?</p> <p>22 Will the requirements to perform a suitability review for a recommendation not to purchase, sell, hold or exchange a security be problematic for registrants?</p> <p>62 What, if any, unintended consequences could result from setting an expectation in the context of the suitability obligation that registrants must identify products both that are suitable and that are the most likely to achieve the investment needs and objectives of the client? If unintended consequences exist, do the benefits of this proposal outweigh such consequences?</p> <p>63. Should we provide further guidance on the suitability requirement in connection with ongoing decisions to hold a position?</p> <p>64. Should we provide further guidance on the frequency of the suitability analysis in connection with those registrant business models that may be based on one-time transactions? For example, when should a person or entity in such a relationship no longer be a client of the registrant for purposes of this ongoing obligation to conduct suitability reviews of the client's account?</p>	<p>18 The CSA should offer requirements at a strategic rather than a tactical level. A suitability assessment is a tactical requirement that looks at a product in isolation. Product suitability should be determined by a Client Plan that includes KYC information and a total plan of recommendations to achieve the client's needs/objectives, as well as how each product complements, compensates and interacts with other products within the Client Plan.</p> <p>19 One-off suitability requests will be extremely time consuming. Looking at products in isolation does not enable clients to get the full benefit of what products can do over time and in combination with other products in a portfolio and in the context of a Client Plan.</p> <p>Focusing on individual product suitability assessments encourages short-term and tactical thinking. Investing is a long-term and strategic proposition. The CSA should always look for ways to encourage long-term and strategic behavior that will be the best for clients over the long term. Suitability emphasis should be placed on the Client Plan and not on individual products.</p> <p>20 Bridgehouse believes clients should be encouraged to have long-term Client Plans to get the full benefit of investing. Through their financial advice education, advisors are encouraged to engage in financial planning for their clients and to update the plan yearly and when material changes occur. Client Plans are also tangible takeaways that increase investor participation, engagement and their overall experience of working towards achieving their needs/objectives.</p> <p>In a transactional relationship, clients make their own planning decisions. In that case, a representative should not be obliged to provide full service or collect KYC information.</p>
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	<p>21 Clients should receive a Client Plan that bases portfolio recommendations and other financial strategies on their KYC information, needs/objectives and investing horizon.</p> <p>22 This proposed requirement gets into a tactical level of detail and prescription that is unnecessary. Advisors may choose to emphasize a point about a security, but it should not be a requirement.</p> <p>62 The best way to achieve client needs/objectives is to engage in a client planning process that takes into account a thorough understanding of the client's circumstances and build a Client Plan that incorporates financial strategies and a portfolio with products that complement and compensate for each other to achieve the client needs/objectives over the long term.</p> <p>The Client Plan should be updated annually or when there are material changes in the client's circumstances. At that time, the product composition and financial strategies can be updated and fine-tuned. This is the financial planning process that advisors receive in the financial credentials. The regulatory framework should promote this activity at a strategic level.</p> <p>The general focus of CP33-404 on product over process is concerning because it is tactical, point-in-time and emphasizes short-term and historical performance – all activities that will reduce the quality and impact of financial advice and that are counter to successful outcomes for investors.</p> <p>63 No, a Client's Plan will provide the framework for these decisions.</p>
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G. RELATIONSHIP DISCLOSURE		64	N/A
CSA Question		Bridgehouse Comment	
23	Do you agree with the proposed disclosure required for firms registered in restricted categories of registration? Why or why not?	23	Yes. Bridgehouse agrees that firms registered in restricted categories should be required to disclose the nature of the client relationship. Clients should know the limitations of what a firm can and cannot offer them.
24	Do you agree with the proposed disclosure required for firms that offer only proprietary products? Why or why not?	24	Yes. Bridgehouse agrees that firms should be required to disclose that they only offer proprietary products. Clients should know the limitations of what the firm can and cannot offer them.
25	Is the proposed disclosure for restricted registration categories workable for all categories identified?	25	Yes. The CSA should make all efforts to level the playing field for all industry participants.
26	Should there be similar disclosure for investment dealers or portfolio managers?	26	Yes. The CSA should make all efforts to level the playing field for all industry participants.
27	Would additional guidance about how to make disclosure about the relationship easier to understand for clients be helpful?	27	General strategic guidance would be helpful, but tactical and prescriptive language interferes with a firm's ability to position itself.
H. PROFICIENCY		Bridgehouse Comment	
CSA Question		28	
28	To what extent should the CSA explicitly heighten the proficiency requirements set out under Canadian securities legislation?	28	Proficiency is not low. All of the topics listed are covered in existing financial credentials and designations. Industry education, credentialing and designation infrastructure functions well, but it is fragmented and confusing. Investors are confused by the array of industry credentials. The CSA can aid in investor protection by supporting a preferred list of designations that cover the range of client needs. The designations exist and many advisors and industry people have invested in obtaining these credentials and designations. The designations are also supported by
29	Should any heightening of the proficiency requirements for representatives be accompanied by a heightening of the proficiency requirements for CCOs and UDPPs?		

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	<p>robust continuing education requirements that involve the SROs and other parties within the industry. It behooves the CSA to work within this infrastructure, by focus first on providing clarity around preferred designations that signal advisor proficiency to investors.</p> <p>The challenge is the education providers are under different ownership and association structures so there is no cohesive presentation to the public – although several have had significant awareness campaigns promoting them over the years. (It is often referred to as an “Alphabet Soup” of designations.) The provider structure makes it challenging to unite designations together under a financial advice banner like the CPA did with the variety of accounting designations.</p> <p>On the positive side, the range of credentials and designations correspond to the range of investor needs, which spans basic financial planning available at a bank branch (FPF) to integrated financial planning available from the majority of advisors (CFP) to more complex financial planning needs available by IROC advisors (CIM). One size does not fit all and investors can have access to the type of advice that is suitable for their situation. The CSA can help investors by identifying the designations that represent the levels of proficiency financial advice.</p> <p>Bridgehouse recommends the CSA support a list of designations rather than one. No one designation covers the range of individual requires in Canada. We recommend the designations focus on financial planning and advice as opposed to security analysis. Financial advice should be client-centric as opposed to portfolio-centric.</p> <p>29 The CSA should consult the compliance education providers for insight in this area.</p>
I. TITLES AND DESIGNATIONS	

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CSA Question	Bridgehouse Comment
30 Will more strictly regulating titles raise any issues or challenges for registrants or clients?	30 The CSA should not be involved with regulating titles because titles are not related directly to proficiency or education. Titles can change and vary over time. Instead, the CSA should support a preferred list of designations and help the industry promote these designations to Canadians. Like degrees, designations communicate standards, proficiency and rigor tied to education and a profession.
31 Do you prefer any of the proposed alternatives or do you have another suggestion, other than the status quo, to address the concern with client confusion around representatives' roles and responsibilities?	31 Bridgehouse reiterates that the CSA should build on the system already in place. The CSA should not be involved with regulating titles. The CSA should focus on designations, which are associated with proficiency and professional standards. Financial advisors and the industry have invested heavily in credentials and designations. An investigation will indicate that the curricula are up-to-date and well supported. The issue is not the proficiency offered by the education, but rather confusion about the acronyms and the organizations behind them. This makes it difficult for investors to figure out which type of advice or advisor they require for their particular circumstances. The CSA can address this investor need by backing a preferred list of advisor designations that signal to investors what type and level of advice they can expect.
32 Should there be additional guidance regarding the use of titles by representatives who are "dually licensed" (or equivalent)?	32 The CSA should focus on designations because they are related to proficiency, education and raising professional standards.
33 Should we regulate the use of specific designations or create a requirement for firms to review and validate the designations used by their representatives?	33 The CSA should support a preferred list of designations. There is a system in place to validate existing designations. Designation sponsors manage the requirements associated with using their designations. Firms should ensure their representatives hold up-to-date designations.
J. ROLE OF THE UPDP AND CCO	
CSA Question	Bridgehouse Comment
34 Are these proposed clarifying reforms consistent with typical	34 The CSA should consult the compliance education providers for insight in

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	<p>current UDP and CCO practices? If not, please explain.</p>	<p>this area.</p>
<p>K. STATUTORY FIDUCIARY DUTY WHEN CLIENT GRANTS DISCRETIONARY AUTHORITY</p>		
<p>CSA Question</p>		
<p>35 Is there any reason not to introduce a statutory fiduciary duty on these terms?</p>	<p>35 Yes. Most discretionary managers already hold CFA designation, which includes a fiduciary duty.</p>	<p>Bridgehouse Comment</p>
<p>L. IMPACT ON INVESTORS, REGISTRANTS AND CAPITAL MARKETS</p>		
<p>CSA Question</p>		
<p>39 What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on compliance costs for registrants?</p>	<p>39 The proposed target reforms and/or regulatory best interest standards will increase the number of ad-hoc and one-off activities that run outside of the industry and client/advisor relationship workflow. This will add costs administration, compliance and systems costs at a time when the industry is trying to reduce costs. It will also increase administration for financial advisors reduce the time they have available to spend with clients.</p>	<p>Bridgehouse Comment</p>
<p>40 What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on outcomes for investors?</p>	<p>40 The targeted reforms do not add value to the investor experience. Most of the reforms are already covered in other areas of the system. Some of the target reforms take away from the ability of financial advisors to create financial plans for their clients. Collecting additional KYC information does not make a better financial plan – financial planning and time with a client does.</p>	<p>40</p>
<p>41 What challenges and opportunities could registrants face in operationalizing: (i) proposed targeted reforms? (ii) a regulatory best interest standard?</p>	<p>41 The CSA should consider some fresh and creative ways to incorporate requirements into existing processes to make them more meaningful and useful. Bridgehouse outlined some ways the CSA can incorporate some of the target reforms into existing processes. For example, incorporating the KYC requirements into a Client Plan would make the information useful within a client planning process as opposed to being a stand-alone compliance requirement.</p>	<p>41</p>
<p>42 How might the proposals impact existing business models? If significant impact is predicted, will other (new or preexisting) business models gain more prominence?</p>	<p>42 The targeted reforms do not add value to the investor experience. Most of the reforms are already covered in other areas of the system. Some of the target reforms take away from the ability of financial advisors to create financial plans for their clients. Collecting additional KYC information does not make a better financial plan – financial planning and time with a client does.</p>	<p>42</p>
<p>43 Do the proposals go far enough in enhancing the obligations of dealers, advisers and their representatives toward their clients?</p>	<p>43 The targeted reforms do not add value to the investor experience. Most of the reforms are already covered in other areas of the system. Some of the target reforms take away from the ability of financial advisors to create financial plans for their clients. Collecting additional KYC information does not make a better financial plan – financial planning and time with a client does.</p>	<p>43</p>

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	<p>The targeted reforms around KYP take financial advisors away from their key role as the client interface. Financial advisors should not be required to be product experts. They should be required to be client experts. The product expert role is increasingly being done by the financial analysts in their firms and by third-party firms like Morningstar, as well as the investment management firms who provide commentary and due diligence as well as other analytical material.</p> <p>Further, financial advisors are required to complete approximately 40 hours of continuing education to fulfill their designations. Product knowledge requirements can be addressed through the robust continuing education process already entrenched in the industry.</p> <p>The industry is facing disruption from firms such as fintech firms such as Wealth Simple, are able to innovate quicker because they are not under the same scrutiny as the existing industry. They are able to create a better investor experience because they are not dealing with add-on, ad hoc requirements that add to complexity and bureaucracy.</p> <p>41 The introduction of targeted reforms would take away from core businesses and detract from innovating new and digital ways to interact with clients.</p> <p>42 The CSA needs to look at the cumulative impact of all of the regulatory requirements on advisors and firms with CRM2, Point of Sale and the reforms outlined in Consultation Paper 33-404. Firms will need to look for efficiencies: including account limits and fewer financial advisors. We have already seen large changes at firms that have let Financial Advisors go who do not meet revenue minimums. This will reduce access for clients who have smaller sums and those in rural areas.</p>
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	43 The question should be: Do these proposals improve or detract from the investor experience and/or the dealers/advisors to help investors reach their needs/objectives? The answer to this question is. No. The tactical nature of the proposals will increase administration and activity for compliance purposes and this will take time away from client planning and client relations.
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