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September 30, 2016

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Autorité des marchés financiers
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The Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
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Re: Canadian Securities Administrators (CSA) Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward Their Clients (Consultation Paper)

We are pleased to provide comments on behalf of Investors Group Inc. (Investors Group) on the CSA's Consultation Paper dated April 28, 2016, which sets out regulatory amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) proposed by all the CSA jurisdictions (the targeted reforms), as well as a regulatory best interest standard (the best interest standard) which all the CSA jurisdictions, except the British Columbia Securities Commission (BCSC), are consulting on.

Our company

Investors Group is a diversified financial services company and one of Canada's largest managers and distributors of mutual funds, including the exclusive distributor of its own products. It carries out its distribution activities through its subsidiaries Investors Group

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Financial Services Inc. (IGFS) and Investors Group Securities Inc. (IGSI), which are members of the Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC), respectively, with assets under management of over $76 billion as at June 30, 2016. Serving our clients since 1926, Investors Group distributes its products and offers financial planning through 114 region offices, represented by over 5,300 advisors to approximately one million clients across Canada.

Investors Group is part of IGM Financial Inc., which is a member of the Power Financial Corporation group of companies.

General Comments

We support the CSA's consultative process. Investors Group agrees with the CSA in the desire to ensure continued access to high quality financial products, services and financial advice for all Canadians.

We believe in the value of our proprietary business model and view the CSA's proposals with respect to the client-registrant relationship as aligned with our vision to improve our clients' financial well-being. Our advisors are focused on long-term, comprehensive financial planning that includes investments, retirement, tax planning, estate planning, insurance and mortgages. We encourage and provide financial support to advisors to obtain the Certified Financial Planner (CFP) designation or, in Québec, the Planification Financière (F.Pl.) certification, which we believe instills high standards of competence and professionalism through rigorous requirements of education, experience and ethics. We further provide our advisors with financial planning support and training through comprehensive financial planning tools and access to financial planning, investment planning, retirement, mortgage, securities, tax and insurance specialists. As at June 30, 2016, approximately 1,543 Investors Group advisors hold a CFP or F.Pl. designation, and another 874 are working toward their certification.

Given our long history in the industry and the important role Investors Group has in Canada's capital markets in providing access to financial products and services and comprehensive financial planning and advice, we believe we are well positioned to comment on the Consultation Paper.

Before commenting specifically on the targeted reforms and the best interest standard, we wish to convey some over-arching principles that we believe should guide the CSA in their decision-making process.

Principle 1 - The importance of preserving financial advice for Canadians

Personal savings is a key component to the accumulation of financial wealth and retirement readiness. In this regard, the role of financial advice is a critical element, contributing positively

and significantly to the retirement readiness of Canadians.[1] According to Investor Economics, 61% of the $3.6T in personal financial assets is held in accounts where a financial advisor is engaged.[2] Research indicates financial advice is not only used by the wealthy. Approximately 47% of households in Canada with less than $100,000 in assets use financial advice, compared to approximately 56% of households with greater than $100,000 in assets.[3] This is significantly greater than other countries, such as Australia and the U.K.[4]

As the CSA has noted, evidence shows that the average individual's knowledge of basic financial products and concepts is quite limited. In fact, in the just released CSA Investor Education Study 2016,[5] it was found that investors' primary source of investment information comes from their advisors. Research has demonstrated the significant value of the advice model to the investing public, at all demographic, income and asset levels. Among other things, advised households (i) are twice as likely to save for retirement at all ages (ii) have significantly higher levels of investable assets at all ages (iii) improve their regular saving for retirement at all income levels (iv) rate themselves as more financially knowledgeable, and (v) are more confident in their ability to achieve a comfortable retirement.[6]

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[1]Canada's retirement system is well balanced and effective, with 83% of Canadian households on track for retirement. Of the mid- to high- income households with no employer pension plan, "savers" (i.e. households with an above-average savings rate) are far more prepared for retirement than "non-savers" (i.e. households with a below-average savings rate). "Savers" are almost twice as likely to use financial advice and significantly more likely to use tax-advantaged savings vehicles such as RRSPs and TFSAs than non-savers – both of which are linked to increased financial security in retirement (Source: McKinsey & Company, *Building on Canada's Strong Retirement Readiness,* Feb 2015). Canadians over 65 rank 7th highest among OECD countries in terms of relative income compared to the national mean income of the total population, and have the 11th lowest poverty rate – on both measures, ranking better than the USA, UK and Australia. (Source: OECD, *Pensions at a Glance*, 2013).

[2] Investor Economics, *Household Balance Sheet*, 2015.

[3] Ipsos Reid, *Canadians & Financial Advice*, 2015.

[4] In Australia, only about 10 percent of the population receives advice in a given year (Source: Rand Corporation, *Financial Advice Markets – A Cross Country Comparison,* 2015). In the U.K., approximately 17% of the population currently uses advice (Source: BlackRock, *Global Investor Pulse Survey,* 2015).

[5] Key Highlights CSA Investor Education Study 2016 prepared for the CSA by Innovative Research Group, Inc., April 2016.

[6] Advised households are not only more likely to save but save at twice the rate of non-advised, passive households (8.6% compared to only 4.3%) and among the behavioural disciplines, savings is the most affected by the presence of advice. Controlling for all other explanatory variables, having a financial advisor has been found to increase the probability of a respondent declaring confidence in achieving a comfortable retirement by more than 13% relative to a similarly situated non-advised respondent (Sources: CIRANO, *Econometric Models on the Value of Advice of a Financial Advisor*, 2012 and *The Gamma Factor and the Value of Financial Advice,* 2016. Advised households, at all age levels, are twice as likely to save regularly for retirement than non-advised households, with

The value of financial advice is not simply the value of selecting securities to invest in. The value proposition includes providing ongoing financial education, making appropriate investment policy decisions around portfolio construction and regular rebalancing, tax planning and most importantly, in providing behavioural advice and coaching with respect to client habits around savings and market discipline.[7] The importance of these aspects of the client-registrant relationship should not be underestimated. As part of the CSA's deliberations, the CSA should be mindful of not proceeding with regulatory changes that may diminish the level of advice provided to Canadians.

Principle 2 - The need to have a consistent client experience across financial services and products

As we have noted in prior consultations, it's important to remember that the securities industry is only one part of the financial services sector in Canada. Insurance and deposit products are also significant segments of the industry. For example, deposits and short-term savings vehicles in the bank branch channel account for approximately $1.2T, just slightly less than the approximate $1.4T in mutual fund assets in Canada.[8] We have long advocated that the obligations owed by registrants to their clients should not depend on the legal nature of the product being sold or the licence held by the registrant. As part of the CSA's deliberations, we believe the potential impact of product and regulatory arbitrage cannot be disregarded or discounted.

To fully achieve the CSA's objective to improve outcomes for clients, the same set of rules that apply to securities needs to apply to other retail investment vehicles, such as segregated funds, life insurance products, daily interest accounts and guaranteed investment certificates. Ideally, the best way to achieve the CSA's objectives would be with consistent, concurrent reforms across the securities, insurance and banking sectors. On this note, we welcome the recent paper by the Canadian Council of Insurance Regulators on segregated funds as an initial first step towards a common framework.[9] In the absence of harmonized reforms for the sale of all investment savings products, the CSA should be mindful to ensure that regulatory changes to the securities framework do not result in clients being directed towards products which may not best meet their investment needs and objectives.

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advised households having higher net worth than non-advised households across all ages and income levels (Source: IFIC *The Value of Advice,* 2011).

[7] Beyond active management ("Alpha") and asset allocation ("Beta"), better financial planning decisions ("Gamma") have a significant impact on an investor's retirement outcomes. "Gamma" can increase the arithmetic "Alpha" on a portfolio by approximately 1.59% (Source: Morningstar, *Alpha, Beta and Now... Gamma,* 2012).

[8] Investor Economics, *Household Balance Sheet,* 2015.

[9] Canadian Council of Insurance Regulators, *Segregated Funds Working Group Issues Paper,* May 2016.

Principle 3 - The importance of ensuring advice remains affordable and accessible for modest investors

We support the CSA's consultative process and encourage the CSA to continue to work closely with all stakeholders to ensure that changes to the regulatory framework achieve the desired outcomes while avoiding unintended consequences. In assessing the impact of each of the targeted reforms and the best interest standard, as well as possible regulatory changes to mutual fund fee models in Canada, the CSA has the benefit of looking to the experiences of other jurisdictions which have implemented similar reforms, as well as looking to jurisdictions that have concluded not to implement some or all of the reforms being considered by the CSA. We would strongly encourage the CSA to take advantage of this opportunity. Policy-makers in New Zealand, for example, very recently concluded to focus their regulatory efforts on the conduct of those providing financial advice, rather than imposing a ban or restriction on commissions, concluding that "banning commissions is not a 'silver bullet' that will improve the quality of advice".[10]

While the CSA continues its review of whether to discontinue embedded commissions, the CSA must ensure that the financial planning and advice espoused in the Consultation Paper continues to be accessible and affordable to all Canadians going forward.

Research shows that fewer choices of compensation models can limit access to advice and result in higher overall cost if only fee-based compensation services are available, particularly for households with more modest investment levels.[11] The final report of the Financial Advice Market Review (FAMR) in the U.K. on the implementation of its Retail Distribution Review (RDR) rules has similarly noted a significant reduction in access to advice and affordability of

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[10] Ministry of Business, Innovation & Employment (MBIE), *Factsheet – Review of Financial Advisers and Financial Services Providers Acts*, July 2016 (see also: MBIE, *Review of the Financial Adviser Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008*, July 2016. We also have seen Sweden's minister for Financial Markets and Consumer Affairs indicate that the government will be proposing legislation that will not ban commission-led sales of financial advice and products in order to allow investors to continue to have access to a wide range of products and advice (Source: Investment Europe, *Swedish government proposes not to ban commission-led sales*, May 24, 2016). T

[11] In the United States, the average total cost of fee-based advice is comparable to the cost of advice in Canada (2.00% to 2.20%), however the cost is higher for modest investors with less than $100,000 of financial assets (2.40%) than for high net worth investors (1.70%) (Source: Investor Economics & Strategic Insight, *Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Canada-U.S. Perspective*, 2015). Where regulation has been changed to ban or limit commissions, the absence of embedded compensation has been found to lower the cost of the product, but the cost of advice was seen to go up. It has also been found that in jurisdictions that have moved to fee-based compensation, those with less wealth or income found it more difficult to get advice than others. Ultimately, all forms of compensation affect advice and outcomes and there is not enough evidence indicating that fee-based compensation will lead to better long-term outcomes than commission-based compensation (Source: The Brondesbury Group, *Mutual Fund Fee Research*, 2015).

advice.[12] The barriers to financial advice in the U.K. post-RDR implementation raise legitimate concerns for the CSA to consider as to whether the reforms have improved client outcomes, particularly for more modest investors.

Modest investors (those with under $100K in investible assets), make up 80% of all Canadian households,[13] and we know that in 40% of cases where there is a financial advice relationship it was initiated with financial assets not more than $10,000. In addition, in 70% of such instances, investments were under $50,000 at the start of the relationship.[14] This means nearly three quarters of all advice relationships begin with financial assets of not more than $50,000. The willingness to pay upfront for advice (direct pay arrangements) depends on the level of wealth, formal education and financial knowledge of the investor.[15] We also know that the benefit of advice on wealth accumulation is ongoing and significantly greater the longer the advice relationship.[16] Therefore, it is critical that the regulatory framework continues to promote Canadians' engagement to seek and obtain the delivery of financial advice when they are just beginning to save, by ensuring financial advice remains attainable in terms of cost, administration and delivery.

Proposed Framework for the Proposed Targeted Reforms - Summary of Key Comments

In our letter, we comment in a number of instances where the CSA has differentiated requirements for registrants based on whether the firm is proprietary or not. We do not agree that this distinction in the targeted reforms is warranted. In our letter, we have also commented on what we see as some potential unintended consequences arising from the targeted reforms that may negatively impact Canadian investors. We have provided some alternative suggestions

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[12] U.K. Financial Conduct Authority, *Financial Advice Market Review – Final Report*, March 2016. The percentage of the U.K. population receiving financial advice fell from between 10-13% prior to RDR to 7-10% post-RDR (Source: Fundscape, *Navigating the post-RDR landscape in the U.K.*, 2014) while the percentage of firms who ask for a minimum portfolio of more than £100,000 has more than doubled between 2013 to 2015 (Source: Blue & Green Tomorrow, Voice of the Advisor Survey, 2016). The proportion of new investments since RDR has also declined significantly in the lower wealth levels (£20,000 - £100,000) and the number of advisors has dropped by 23% (Source: Europe Economics, *Retail Distribution Review – Post Implementation Review*, 2014).

[13] Investor Economics, *Household Balance Sheet*, 2015.

[14] IFIC & Pollara, *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry*, 2015. These percentages have been nearly identical for the last three years.

[15] Michael S. Finke, Sandra J. Huston and Danielle D. Winchester, *Financial Advice: Who Pays* (Association for Financial Counselling and Planning Education, 2011).

[16] Advice has a sizeable and ongoing, positive impact on financial assets that increases with the tenure of the advice relationship, controlling for all other variables: the ratio of advised to non-advised financial assets was found to be 1.7 early in the advice relationship, growing to 3.6 for relationships 15 years or longer (Source: CIRANO, *The Gamma Factor and the Value of Financial Advice*, 2016).

where possible. Below we've summarized the themes of the comments you'll see throughout our letter.

Registrants must be treated the same, whether the firm is proprietary or not

We strongly believe the issues the CSA has identified in the Consultation Paper are relevant to all registrants and affect all clients equally, and should therefore be addressed in a consistent way without being negatively inclined towards a proprietary business model. As we discuss in greater detail, all advisors have limitations in the breadth of products they offer to their clients, whether imposed by the firm's approved product list or by their own self-selection process.[17] We also note that firm product lists, proprietary or not, vary significantly, as can the proficiency of individual registrants within a category of registration.[18]

In our view, what's critical is the ability of the firm and its advisors to achieve good long-term outcomes for their clients. At Investors Group, our proprietary shelf and accompanying training facilitates heightened product knowledge by advisors, which in turn provide them with the ability to compare and assess the suitability of our products, making use of product specific asset allocation and rebalancing tools and specialized support. With this in mind, we strongly believe that firms and advisors subject to the same proficiency requirements and standards of conduct should be treated the same, no matter the product shelf. This is particularly significant as the CSA has chosen not to restrict proprietary business models.

Flexibility is important to preserve client engagement and product choices

As we discuss in greater detail, we strongly believe that firms and advisors need flexibility to collect the client information and conduct the suitability analysis that is relevant to the particular investment objectives and needs of the individual client. In the absence of such flexibility, we are concerned that the know-your-client and suitability obligations, as drafted, may be a barrier for clients seeking more streamlined services or financial advice of a more limited nature.

In our letter we also discuss the need for greater flexibility in how a firm establishes its product list, and clarity in what products on a firm's shelf a representative should reasonably be expected to understand. Without greater flexibility and clarity, we anticipate some firms may be inclined to significantly reduce their product lists to meet the know-your-product requirements. This, we believe, would be to the detriment of Canadian investors, who may lose access to a broader range of products, particularly more innovative and discrete, targeted products, as firms

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[17] Advisers are decreasing the number of fund companies they are working with. While this trend has been evident for many years, it appears to be accelerating in recent years (Source: 2015 Adviser Perceptions in Canada: A focus on the Future & Consumers, Environics Research).

[18] For example, the MFDA has recently proposed new minimum standards in respect of proficiency solely for MFDA approved persons trading in ETFs (See: MFDA Bulletin #0695 – P: Proposed New MFDA Policy No. 8 – Proficiency Standard for Approved Persons Selling Exchange Traded Funds, June 30, 2016).

will look to products that meet the investment needs and objectives of the broadest possible segment of their client base.

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In our view the targeted reforms, applied consistently to registrants and business models, and with flexibility in the framework to recognize client engagements will vary in scope and services, can achieve positive outcomes for Canadian investors. It is with this backdrop that we provide our more specific comments below.

Proposed Framework – Comments on Specific Targeted Reforms

Conflicts of Interest

The guidance in the Consultation Paper sets out a fairly robust framework for a conflict management system, as well as how to consider compensation, sales practices and referrals under the proposed conflicts of interest requirements. What's not clear from the guidance is how conflicts of interest that have to date been identified and addressed either in the regulations (e.g., NI 81-102, NI 81-105 and NI 81-107) or through discretionary relief, will now be viewed by the CSA. We would presume that the current provisions in the national instruments and any current exemptions would satisfy the CSA that the conflict of interest is appropriately controlled within the meaning of the new requirement. However, we seek further clarity by the CSA on this.

Today we identify and respond to material conflicts of interest through avoidance, controls and timely disclosure. This includes disclosure related to our proprietary business model. We fully support the CSA's proposal that material conflicts of interest must be responded to in a manner that prioritizes the interests of the client. What we strongly disagree with, is the characterization and singling out by the CSA in the general guidance that for firms that trade in or advise on proprietary products, the incentive to recommend the proprietary product increases the likelihood that the firm or representative will recommend a product that is not suitable for the client.

All advisors have the potential incentive to only recommend what is on their firm's product list, whether the firm is proprietary or not.

The CSA acknowledges this in the guidance on KYP, by stating that the firms' approved product list is in almost all cases determinative for the advisors' recommendations to clients. As we have noted, increasingly advisors of firms with non-proprietary product lists are decreasing the number of fund companies they work with,[19] further narrowing the range of products a registrant is choosing from amongst the firm's product shelf for a particular client. The CSA has also identified that incentive practices may exist at any firm that can inappropriately influence how advisors deal with their clients. We submit that no matter the product list, firms and advisors must comply with registrant conduct requirements, including suitability. Therefore, if the CSA

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[19] 2015 Advisor Perceptions in Canada: A focus on the Future & Consumers, Environics Research.

has a concern that there exists an incentive to recommend products on a firm's shelf that may not be suitable for a client, this exists for all registrants. Accordingly, we would urge the CSA to amend the general guidance to focus on the issue, and not simply on firms that have a proprietary product list.

We believe it is very important that the targeted reforms, and particularly the proposed conflicts of interest requirements, not be negatively inclined towards firms with a proprietary shelf. At Investors Group, our advisors are compensated once on sales with no re-commissioning on switches (sales) into other funds, eliminating the conflict of interest or incentive to churn. Advisors are able to have a thorough knowledge of our product list with the benefit of product-specific asset allocation and rebalancing tools and support because of the proprietary nature of our shelf. All of which, we would argue, supports our advisors providing suitable product recommendations.

With respect to the CSA's expectation of when firms provide disclosure to clients of material conflicts of interest, we seek clarity from the CSA that the guidance does not now require Investors Group advisors to have to reiterate the proprietary nature of our product list to clients before each and every transaction. Like the Apple store, we do not believe there is any misconception by our clients that Investors Group offers a proprietary shelf. It is, frankly, evident by the name of our funds and all disclosure and marketing materials. Consistent with the requirements in NI 31-103, today we provide clients with a list of related and connected issuers (which identifies the nature of our proprietary business model) on account opening in our relationship disclosure document, and on an annual basis. We believe our current practices are suffient to inform our clients that we offer a proprietary shelf. Therefore, while the proposed disclosure may be relevant for firms with a mixed product list, we would submit that for proprietary firms, there is no need for additional disclosure regarding the recommendation of a proprietary product on a transactional basis.

It is also not clear to us what the CSA expects beyond today's documentation by firms and advisors to demonstrate that they have a "reasonable basis" for believing that clients fully understand the disclosure being provided.

We note that a registrant could meet the existing disclosure requirements and yet still not have certainty that a client fully understands the disclosure. As drafted, the expectation that registrants have a "reasonable basis" for believing their clients understand the disclosure being provided seems to be an objective test that requires a subjective determination as to a client's state of mind. This is particularly challenging especially given the CSA's own acknowledgement of the counter-intuitive results that may occur with conflicts of interest disclosure. We are also concerned that such wording may increase a firm's or advisor's liability from clients who may later complain or allege that they lacked a full understanding of the implications and consequences of the conflict at the time of the trade or advice. This, in turn, may lead some advisors to become reluctant to advise clients who fail to demonstrate some degree of financial acumen; arguably, the very investors who most benefit from having financial advice. Greater specificity in the guidance by the CSA is needed.

Know Your Client (KYC)

Some of the new elements of information now proposed to be collected as part of the client's investment needs and objectives and financial circumstances seem to fall directly within the broader spectrum of financial planning services and advice, such as an understanding of the amount and nature of all assets and debt of the client and the client's tax position.

As we have indicated, we strongly believe in and support financial planning and recognize the importance of a financial plan to the financial well-being of Canadian investors. In fact, we believe Investors Group is unique in the Canadian financial services industry in our encouragement and financial support to advisors to obtain the CFP designation or, in Québec, the F.Pl. certification, and in the financial planning support and training we provide to our advisors. However, we would recommend the CSA build in enough flexibility to the KYC requirements to allow registrants to tailor the information that must be collected to meet the investment needs and objectives of the individual client.

Not all investors who seek an advisor have the same investment needs and objectives.

It is difficult to draw a precise line between financial advice and financial planning activities. Financial advice is provided on a continuum which ranges from basic information and financial concepts, to a formal needs analysis, to modular and comprehensive written financial plans, all customized to meet the needs of a specific client. In our view, the elements of the KYC information collected under investment needs and objectives and financial circumstances should depend on the nature of the client-registrant relationship and the products or services being provided. In practice, we find that there are some clients who may initially only wish to engage with an advisor on a transactional basis, or with only a certain sum of money. The nature of the client-registrant relationship often develops and changes over time, as the client's investment needs and objectives evolve.

We agree with the CSA's expectation that KYC must be conducted on an individual basis, and that it be an ongoing process. The Investors Group model is based on long-term financial planning solutions that reflect the client's specific needs, supported by strong and ongoing interaction with our clients. This process, however, must be practicable and predicated on some degree of client engagement. Just as we have identified that the CSA should provide enough flexibility in the collection of information under KYC to allow firms and advisors to tailor the request for information to what's needed to determine suitability for a particular client at a particular time, so too should the targeted reforms recognize that some clients will simply choose not to provide some of the enhanced KYC information proposed, or will choose not to respond to requests to update KYC. We find, for example, that some clients simply do not want to share certain financial information with their advisor, such as the nature of their indebtedness or net worth, their tax situation or spousal and dependent status.

At Investors Group, the implementation of this new KYC standard for all advisors will require changes and have cost implications to compliance and supervisory systems, including account opening documentation, client information systems, compliance trade review systems and financial planning support programs. We will also need to review and refine our training and

support programs for advisors. Further consideration and guidance will therefore be needed as to what the CSA would expect regarding transition to this new KYC standard with respect to each client, and whether or how advisors will be required to demonstrate they've completed a suitability analysis of each client's portfolio in light of the new information collected.

We would recommend the CSA consult and collaborate with the SROs as to what explicit proficiency or educational requirements may be needed across all registrant categories to meet the KYC obligation. While we would encourage the CSA to consider mandating a financial planning designation, in our experience, it takes a representative a minimum of 2 years, but generally closer to 5 years while working, to obtain their CFP or F.Pl..

Firms must, in our view, also be allowed the flexibility to develop the KYC and risk profile practices that are relevant and meaningful to its client base, and to the products and services they offer.

At Investors Group, we are proud of our financial planning and risk profiling process, portfolio-based investment suitability model and product-specific asset allocation and rebalancing tools which we believe are consistent with global best practices.[20] We believe very strongly that it is important that the KYC requirements permit firms to retain the flexibility to develop and implement KYC practices, including the firm's KYC form, which is customized to the firm's client base and the products and services the firm offers. A decision by the CSA to codify a specific form of the KYC document, or new account application form, would in our view have further systems and costs implementations as well as an impact on corresponding financial planning software, which could be unduly burdensome for many firms and their clients.

As we've already discussed under the topic of conflicts of interest, the issue as to the CSA's expectation for firms and advisors to evidence that they have confirmed the client has a "reasonable understanding" of the disclosure being provided, in this case the KYC form, including its completed content and the outcome of the KYC process, requires greater clarity and guidance from the CSA.

Finally, we are very supportive of the CSA's guidance that registrants exercise particular care concerning more vulnerable and less sophisticated clients. At Investors Group, we have a multidisciplinary team who provide support to our advisors who have questions or encounter issues related to senior and vulnerable clients. To fully achieve this "gatekeeper" objective, we would urge the CSA to consider as part of the targeted reforms including rules that will give registrants the ability to effectively respond to issues associated with the financial exploitation of seniors and other vulnerable adults. For example, creating a "privacy safe harbor" that would allow a firm or advisor to contact a client's trusted contact person (perhaps identified on the KYC form) not listed on the account, or allow for a mechanism by which firms and advisors can delay disbursements, in instances where cognitive impairment or a scam is suspected. To this end, we believe the CSA can build upon recent guidance by the SROs, as well as look to recent

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[20]PlanPlus Inc., *Current Practices for Risk Profiling in Canada and Review of Global Best Practices*, October, 2015.

publications by the North American Securities Administrators Association (NASAA) and the Financial Industry Regulatory Authority (FINRA).

Know Your Product (KYP)

For the Representative

Currently the Consultation Paper refers to a firm's product "shelf", "product list" and "approved product list". The use of different terminology creates some confusion and we seek greater clarity from the CSA in this regard.

As a proprietary firm, our advisors are able to meet the CSA's expectation of having a thorough knowledge of the approximately 115 Investors Group publicly offered mutual funds currently on our shelf and how they compare to each other, with the benefit of our product-specific asset allocation and rebalancing tools and dedicated product support and training. The exclusivity of our product list promotes a deep understanding of the specific structure, features, product strategy, costs and risk of each of our products.

What is not clear from the targeted reforms, is whether the CSA is proposing that this KYP requirement for advisors extend more broadly, to what may be accessible through the firm's carrying broker generally (and here the use of the term "shelf", "product list" or "approved list" is critical). For example, our advisors have access to approximately 17,000 fund codes on the IGFS and IGSI nominee platform. This is in addition to listed securities and deposit products on the IGSI platform. This access allows for enough flexibility for advisors to consider other securities products that are not on the Investors Group exclusive product list under specific circumstances. For example, when a new client's current portfolio of securities products are not on the firm's product list or the client requests the advisor consider a specific third-party securities product. To expect any advisor to have sufficient knowledge of this many products and securities is quite simply, unrealistic and impracticable. Therefore, we strongly urge the CSA to clarify that the KYP requirement for advisors is limited to the products on their firm's 'approved' product list.

For the Firm

We support the firm ensuring that their advisors have the information and ability, through policies and procedures, training tools, guides and other methods to comply with their KYP obligations. With our exclusive proprietary product list, Investors Group undertakes this today.

We also certainly agree with clients knowing the nature of the firm's product list. Our concern with the requirement to identify whether we have a proprietary or mixed/non-proprietary product list is with what we see as the negative implications in the targeted reforms which result from identifying as a proprietary firm, particularly with respect to titles and disclosure. We believe the targeted reforms, as drafted, will cause clients to be wary of Investors Group, as somehow not being able to offer the same breadth of products, access to third-party portfolio management and financial planning services as other firms. As drafted, the targeted reforms also give an inaccurate impression that the proficiency of our advisors, many of whom have professional

designations by certification bodies in Canada, such as the Financial Planning Standards Council or, in Québec, Institut Québécois de Planification Financière, in addition to meeting the requirements for their category of registration, are somehow inferior to other advisors with the same registration.

A proprietary product list can be much more nuanced in its offerings than simply one or two proprietary products.

Of the 115 mutual funds on our shelf, as at June 30, 2016 over 30% are sub-advised by 18 third-party managers, which include a number of non-affiliate third-party portfolio managers. For this reason, we would strongly object to any suggestion or characterization of our proprietary product list as "restricted" or "limited", or any reform that would impose an obligation to offer non-proprietary products.

We suggest a more effective way to label firms (should the CSA continue to pursue this proposal) would be to differentiate firms by the breadth of the product shelf, access to third-party portfolio management and the financial services offered, whether proprietary or not. It is currently not clear from the targeted reforms, for example, what the CSA would consider to be a sufficient range or diversity of products for a firm to identify itself as having a mixed product list. Does the firm need a certain percentage of non-proprietary products? Without greater differentiation, the false connotation associated with firms with the label of "proprietary" as not having as comprehensive a product list as firms with a mixed/non-proprietary list we submit will remain. In our view, a real strength of our proprietary business model is that it enables us to be responsive and develop products in a timely way for our clients, based on a direct understanding of our client profiles and their experiences. If we do not have the requisite expertise in-house, we then proceed to engage third-party portfolio management.

We have also identified some issues with the approach the CSA articulates with respect to each of the requirements for market investigation, product comparison (and benchmarking) and product optimization in the development of a mixed/non-proprietary product list that we wish to comment on.

We strongly recommend that the CSA allow firms the flexibility in their product list development process to define a more narrow universe of products consistent with a firm's business model and/or investment philosophy, provided the firm can still demonstrate its product list meets the investment needs and objectives of its clients based on its client profiles.

As currently drafted, it is unclear what the CSA would consider to be a broad range and diversity of products to demonstrate a "fair and unbiased" product universe for a market investigation, as well as for the product list optimization process. We believe a firm should be able to exclude certain types of products, such as exchange-traded funds for example, that the firm is registered to trade in or advise on, provided that the firm can still identify products that are "most likely" to meet the investment needs and objectives of its clients. This is consistent with the CSA's guidance that there can be several strategies or products that are equally suitable and that are equally effective in meeting the needs of the client.

We anticipate that what will be especially challenging in the product list development process will be for firms with a mixed product list to demonstrate a "fair and unbiased" market investigation when the firm chooses their proprietary products for its shelf. Given the perceived material conflict of interest inherent in choosing a proprietary product, it is difficult to contemplate how a firm will evidence to the satisfaction of the CSA that the firm's choice of the proprietary product on its shelf complies with the requirement to prioritize the interests of the client ahead of the interests of the firm.

We expect that the pressures of the KYP requirements for advisors and firms with a mixed/non-proprietary product list may lead these firms to significantly narrow their product shelf in order to facilitate KYP compliance. For firms with a mixed product list, given the perceived difficultly for these firms to evidence their choice of a proprietary product, we expect that some of them may further consider simply choosing to move to a proprietary firm model. Any pressure on these firms to narrow their product lists will result in fewer product choices for the clients of these firms (as the firms move towards products that meet the investment needs and objectives of the broadest segment of their client base), as well as create competitive pressures on third-party fund manufacturers, who likely will now be contending for even less shelf space.

We would also caution the CSA with putting too much emphasis in considering the outperformance or underperformance as part of a firm's benchmarking exercise in product comparison, a requirement for all firms. In our view a firm's product list and an advisor's product recommendations should generally not chase short-term performance.[21] It is also unclear in the guidance what is expected by firms for new products with no performance metrics. Benchmarking on cost and performance as part of a firm's product comparison also fails, in our view, to recognize the importance of ensuring a product list maintains the ability to provide advisors and their clients with a range and variety of products for portfolio diversification, asset allocation and risk mitigation.

We anticipate that firms with a mixed/non-proprietary product list will provide further comment on the proposed KYP product list development process.

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[21] A study of the universe of active U.S. equity mutual funds available in any of the nine equity style boxes in Morningstar's database during the 10 years ended December 31, 2013 and that existed for a minimum of three calendar years during the analysis period, showed buy-and-hold was superior to a performance-chasing strategy across the board for client account outcomes (Source: Vanguard, *Quantifying the Impact of Chasing Fund Performance*, July 2014).

Suitability

Basic Financial Suitability

We support the CSA's objective to move away from a "trade" based analysis to a suitability analysis of the portfolio of securities in the client's account. As strong advocates of financial services and planning, we agree with the importance of a consideration of the elements identified under basic financial suitability. However, as we've previously discussed under KYC, not all firms and advisors will likely have the necessary proficiency and/or tools and support in place today to properly consider these broader financial circumstances. Absent accompanying clarification by the CSA of the explicit proficiency or educational requirements expected, we query the appropriateness of requiring all categories of registrants to effectively consider financial strategies that may be outside of the standards of proficiency for their category of registration today.

As we also indicate in our comments under KYC, the regulatory framework must be flexible enough to accommodate the specific investment needs and objectives of individual clients at a moment in time, and clients who choose not to share certain financial information or their entire financial circumstances with their advisor. This is extremely relevant given the current general guidance that indicates a proposed investment be considered in the context of the client's entire financial circumstances. While we recognize that there is some guidance that references that the scope and nature of the client engagement and a client's investment needs and objectives will be central to the breadth of the analysis required, we strongly urge the CSA to give more emphasis and greater specificity to this guidance to ensure that there's enough clarity for registrants to be comfortable that they can tailor their suitability analysis to the particular investment needs and objectives of a client, without fear of non-compliance. This fear of non-compliance to provide more streamlined advice at a particular point in time for a client is one of the causes of the barriers to financial advice in the UK post-RDR implementation, which the U.K. Financial Conduct Authority has recognized needs to be addressed.[22]

Investment Strategy Suitability

We do not believe it is appropriate as part of the suitability analysis to require that registrants must identify a target rate of return clients will need to achieve their investment needs and objectives.

In our view, the starting point is not to establish (as currently set out by the CSA in the guidance) what is the asset allocation strategy needed to generate a target rate of return, but rather, to first identify the client's risk profile, followed by a determination of an appropriate asset allocation strategy. The objective of the process is to determine the asset allocation strategy that provides the client with the highest potential rate of return without exceeding the client's risk tolerance and capacity.

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[22] U.K. Financial Conduct Authority, *Financial Advice Market Review – Final Report,* March 2016.

In our experience, some clients may not have a specific time bound goal or, as we have already discussed, may have a very specific investment need or objective at a particular moment in time. In these instances, we do not believe a target rate of return should be mandated. We also caution that insisting on a target rate of return could have the unintended consequence of clients focused on the short-term performance of their portfolio, misunderstanding the long-term nature of the target, to the detriment of their long-term outcomes. This may in turn have the effect of increasing a firm's or advisor's liability to clients who may later complain or allege that they did not understand the "target" was not a guarantee.

We believe the appropriate place to consider an expected rate of return is as part of a client's comprehensive financial plan, conducted by an advisor with the appropriate proficiency and firm support. At Investors Group, in addition to our support to advisors to obtain the CFP designation or, in Québec, the F.Pl. certification, we provide our advisors with financial planning assistance and training through comprehensive tools and access to financial planning specialists. Ultimately, if the client and registrant find that the expected rate of return of the chosen asset allocation strategy, based on the client's risk profile, is not sufficient to meet the articulated goals of the client, the appropriate response which we advocate is for there to be a discussion on the other aspects of the client's financial plan that can be reconsidered, such as retirement income expectations, retirement date or possibly the client's savings behaviours, in order to achieve their goal.

Frequency

We request more clarity by the CSA on the expectation of when such decisions to "hold" will trigger a suitability analysis, particularly in a buy-and-hold strategy. We encourage the CSA to work with the SROs so that there is consistent guidance on this topic. We further suggest that with respect to this "hold" trigger, as well as with the frequency of performing a suitability analysis generally, the CSA consider some type of proportionality threshold with respect to the investment relative to the client's overall financial position.

With respect to the triggering events that will prompt a mandatory suitability analysis, it's not clear to us in what circumstances the CSA envisions a registrant "reasonably should have known" of a material change in the client's KYC information. While our model is based on our advisors having a strong and ongoing interaction with their clients so as to be attuned to possible material changes in the client's KYC information, we would recommend the trigger be when the client informs the registrant of a material change.

We also do not believe there is a need for a suitability analysis to be automatically triggered in all instances where there is a significant market event affecting capital markets in which the client is exposed. We submit that with proper KYC, which includes a risk profile that considers both the level of risk the client is willing and able to take, as well as the client's capacity for loss, exposure to the markets in times of fluctuation or distress should be consistent with the client's suitability. Similarly, a material change in the risk profile of an issuer should not, in a portfolio that is suitable, be cause for an immediate suitability analysis in all instances. The portfolio will either be sufficiently diversified to mitigate the impact of a material change in the risk profile of a

single issuer, or the portfolio concentration and the potential risk caused by a material change in the risk profile of a single issuer will be consistent with the client's risk capacity. We would therefore recommend to the CSA that these triggers be given as examples, but not mandated.

Relationship Disclosure

As we've indicated in our comments under KYP, it is important that the CSA avoid mandating disclosure that implies a negative connotation towards proprietary firms. This is particularly significant as the CSA has chosen not to restrict proprietary business models.

In our view, there is no reason why the CSA should differentiate between firms with a proprietary product list and those with a mixed/non-proprietary product list with respect to disclosure that indicates to clients that the suitability analysis of advisors generally does not consider products not on the firm's product list. As we've discussed, all firms' product lists will have limitations that define the parameters of a suitability analysis. So too will a representative's own preferences of the number of fund companies they are working with. Similarly, whether or not a firm has a restricted category of registration, a firm may not offer the full range of products it is registered to trade in or advise on. Accordingly, we believe disclosure that indicates to clients that the firm only offers a limited range of products should apply to all firms, regardless of registrant category. If a representative is not considering all products on a firm's shelf, then we believe this too should be disclosed.

Finally, as we have indicated elsewhere in our comments, we do not understand what the CSA expects beyond today's documentation by registrants in order to demonstrate they have a "reasonable basis" for concluding that a client fully understands the disclosure being provided. For all of the new disclosure proposed under the various targeted reforms, we would also strongly urge the CSA to consider the requirements holistically as well as existing disclosure (including the obligations under POS and CRM2), and to look for opportunities to harmonize and simplify the information so that it is meaningful and accessible, and not duplicative. A better understanding by the CSA of the effectiveness of the new POS and CRM2 disclosures could help to inform the development of any new disclosures.

Proficiency

We support ensuring that advisors are provided with the necessary education to meet the new knowledge elements required with the proposed targeted reforms, and that advisors be subject to a continuing education obligation. As we've indicated, not all firms and categories of registrants may have the necessary proficiency, tools or support in place today to consider what we see as the broader financial planning elements captured in KYC and suitability. It will be important for the CSA to consult and work collaboratively with the SROs, so that we achieve a harmonized approach to proficiency and continuing education across registrant categories.

As currently drafted, the increased proficiency requirements for advisors would seem to extend to a general knowledge of all types of products and securities, including exempt products and scholarship plan securities, whether or not the advisor is even registered to trade in or advise on such products, such products are on the firm shelf and even if the products or securities do not

meet the investment needs and objectives of their client profiles. While we agree with advisors having a general understanding of all types of securities, we would recommend that any new proficiency requirements relate to the category and type of registrant and the products they're registered to trade in or advise on. An understanding of the broader securities environment and securities generally can be gained through continuing education.

We would also agree that any proficiency requirements for CCOs must appropriately align with the proficiency requirements imposed on advisors. With respect to UDPs, however, we would submit they are able to fulfil the responsibilities of their role, namely, to supervise the activities of the firm that are directed towards ensuring compliance and promoting compliance by the firm, without the need to have the same proficiency as advisors and CCOs.

As discussed under KYC, we would encourage the CSA to consider mandating a financial planning designation. We strongly believe the CFP designation or, in Québec, the F.Pl. certification, should be recognized by the CSA as providing advisors with the appropriate standard of education needed to meet the new knowledge elements of KYC and suitability in the targeted reforms.

Titles

Titles for the same category of registrants, subject to the same conduct requirements, must be the same.

At Investors Group, we supervise and approve a limited number of client-facing business titles that may be used by our advisors, whom we refer to as Consultants.[23] We also believe that only those registrants that hold the financial planning designation through an approved credentialing organization should be able to hold themselves out as financial planners. Therefore, while we support the CSA's aim to reduce the proliferation of titles by strictly regulating their use, we strongly believe that any mandated titles must be based on the representative's proficiency or registrant category, and not based on the nature of the firm's product list which, as we've discussed under KYP, is not as straightforward as the CSA's label of "proprietary" would imply.

We strongly disagree with the starting premise that seems to underlie the targeted reforms that firms that trade in or advise on proprietary products are in effect "sales" models, regardless of the breadth of the product shelf and the financial planning services offered. As we've already discussed, all firms impose limits on their product lists, proprietary or not, and advisors of non-proprietary firms will often limit the number of fund companies they work with. The CSA has also identified that incentive practices may exist at any firm that can inappropriately influence how advisors deal with their clients.

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[23] We allow for the use of only 7 titles, based on specific criteria, including if the Consultant has a CFP designation. For example, at a certain level, an advisor's title may be either Consultant, or if the advisor has the CFP designation, Financial Consultant. In Québec, advisors may only use as their client-facing business title their individual category of registration with the Autorité des marches financiers (AMF).

We believe differentiating titles for registrants whose firms have a proprietary product list as "securities salesperson" or "salesperson" when a similarly registered advisor of a firm with a mixed/non-proprietary product list may use the title "restricted securities advisor" conveys a negative undertone towards a proprietary business model despite the fact that the size and variety of the product list, access to third-party portfolio management and the knowledge of the advisors of the firm's shelf may be superior. We view this as not only diminishing the credibility of Investors Group advisors, many of whom as we've indicated have professional designations in addition to meeting the requirements for their category of registration, but also inaccurate and potentially misleading; the very issues the CSA is trying to address.

We simply do not agree with the titles of "securities salesperson" or "salesperson" for advisors of firms with restricted categories of registration, whether proprietary or not. If the scope of the CSA's targeted reforms and the proposed best interest standard do not differentiate in the conduct expectations for advisors, neither we submit, should the registrant's title. If the CSA insists on differentiating the titles of advisors of firms with restricted categories of registration, whether proprietary or not, from the titles identified in the Consultation Paper, our preference would be for advisors to use their individual category registration, since this differentiates on registration, not whether the firm is proprietary or not.

Designations

We support the inclusion of provisions that will define and enforce the use of designations by advisors. In the absence of mandating a financial planning designation, we believe the CFP designation or, in Québec, the F.Pl. certification, should be strongly encouraged and supported by the CSA, and advisors with such designations should be permitted to use them in all client-facing communications.

We recommend the CSA, working with the SROs, develop a list of approved credentialing organizations that could be amended periodically.

Proposed Framework for a Regulatory Best Interest Standard

We agree with the merits of establishing a principled foundation for the client-registrant relationship.

We believe that the investor protection benefits as articulated in the Consultation Paper for the introduction of a best interest standard are substantially achieved by the proposed targeted reforms. The reforms explicitly introduce a "client first" over-arching principle with a specific conflicts of interest requirement that prioritizes the interests of the client ahead of the firm and advisor; promote a heightened professionalism and standard of conduct in the personalized and comprehensive advice that is envisioned by KYC, suitability and proficiency; establish an expectation of a tone from the top from the UDP and CCO; and provide clarity for investors as to the nature of the client-registrant relationship through the KYP, relationship disclosure and conflicts of interest disclosure requirements.

We would agree that a best interest standard over and above the proposed targeted reforms will lend support to the reforms. As currently proposed, however, we are very concerned with the contrary nomenclature that exists between the targeted reforms and the best interest standard. We do not think it's appropriate that our advisors' role would be recognized as one of providing advice for the purposes of a best interest standard, but be concurrently labeled as "salesperson" in client-facing business titles under the targeted reforms.

Ultimately, should the decision be made to move forward with a best interest standard, we cannot emphasize enough the importance that this standard be national in scope. Absent a standard applicable to all registrants across the CSA, the complexity and legal uncertainty for firms and advisors who carry on business across the country as well as the potential confusion that different standards of conduct could create for investors, in our view significantly negates the potential benefits of such a standard.

Conclusion

We encourage the CSA to engage early and work collaboratively with firms and advisors as well as with the SROs as the consultation process progresses, so that there is a shared appreciation of the needed timeframes for implementation of each of the 11 targeted reforms and the proposed best interest standard. We note that almost all of the reforms will require comprehensive changes to compliance and supervisory systems, including client documentation, policies and procedures, as well as training and support programs for advisors.

We would recommend the CSA consider proceeding with a staged approach to implementation, proceeding with some of the targeted reforms ahead of others. This will give the CSA and registrants the opportunity to dedicate sufficient time and resources to each rule change and ensure a smooth transition for our clients. A staged approach to implementation will also allow the opportunity for the CSA to measure and consider the impact of the POS and CRM2 initiatives. We submit that the full impact of these initiatives in providing greater investor understanding of mutual fund fees, registrants' compensation and individual investment performance should not be underestimated and should inform future regulatory changes.

Notably absent in the Consultation Paper is a discussion of the role of technology in facilitating registrant compliance with the targeted reforms. Increasingly firms and advisors are using technology tools and platforms to assist them in fulfilling their registrant obligations. We have also seen in the last few years the growth of online registrant platforms. More flexibility and CSA guidance on the use of technology by registrants to meet regulatory obligations is critical and we would ask the CSA to address this issue directly and seek further comment on this topic as the consultation process moves forward.

Finally, as we noted at the outset, as the CSA continues its review of whether to discontinued embedded commissions, we urge the CSA to be mindful that any changes to compensation models do not have the effect of limiting access to the client-registrant relationship espoused in the Consultation Paper.

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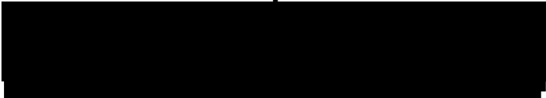
We thank you for the opportunity to provide comments on the Consultation Paper. We look forward to an ongoing collaboration. Please feel free to contact Donald MacDonald, Senior Vice-President, General Counsel & Secretary at (204) 956-8088 or myself, if you wish to discuss this further or require additional information.

Yours truly,

Investors Group



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