

October 18, 2018

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

Delivered to:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Box 55
Toronto, ON M5H 3S8
comments@osc.gov.on.ca

M^e Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, Square-Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

RE: CSA Notice and Request for Comment Proposed Amendments to National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms) - Published for Comment on June 21, 2018 (the Proposed Amendments)

C.S.T. Consultants Inc. (CSTC) is pleased to provide the members of the Canadian Securities Administrators (CSA) with comments on the proposed regulatory initiatives aimed at improving the relationship between clients and their advisers, dealers and representatives (registrants). CSTC is fully committed to enhancing relationships between our clients and our representatives, and have policies in place to ensure that the interests of our clients are placed ahead of the interests of our representatives and our firm where conflicts may exist. To that end, we are supportive of regulatory initiatives which enforce the current rules and those reforms that improve the investment process.

CSTC is registered as a scholarship plan dealer and investment fund manager. We are the distributor and manager of the Canadian Scholarship Trust Plans (the Plans or CST Plans), education savings plans which are registerable with the Canada Revenue Agency as Registered Education Savings Plans. In addition to being reporting issuers, the Plans are governed by the *Income Tax Act* (Canada).

CSTC generally supports the objectives of the CSA in ensuring that registrant conduct aligns with the interest of clients. In our view, a rule should be principle-based and the companion policy provide guidance and best practice. As currently written, the draft Companion Policy for the Proposed Amendments is often more prescriptive than the rule in setting out the requirements. We would submit that registrants should have some flexibility in their implementation of the new Client Focused Reform requirements dependent upon their product line and business model. In addition, some of the proposed amendments are not

practical for the scholarship plan product and business model, and as a result, we would request the introduction of industry specific amendments. Our detailed comments are set out below.

Proposed Amendments:

Know Your Client (Part 13, Division 1, Section 13.2)

While we inherently agree with the importance of collecting and assessing information about the client and the new requirements, we would request that the CSA provide dealers with the ability to tailor the process to reflect their business models and the nature of their relationships with clients. For Scholarship Plan Dealers, codifying a requirement where Know Your Client (KYC) information must be updated every 12 months or 36 months would be onerous and without any benefit to the client or the dealer given the nature of the Plans. Subscribers (investors) enter into contracts for the purchase of a CST Plan at account opening which they fund over a period of time based upon the contribution schedule selected. Both the suitability and affordability of the investment are assessed at point of sale. Processes are in place to update the KYC information when there is a significant event in the subscriber's life, a new or additional purchase or when the subscriber's account is transferred to a new dealing representative. As such, we would request that the CSA allow exceptions to the update requirement based on the type and nature of the product.

Know Your Product (Part 13, Division 1, Section 13.2.1)

We believe that the Proposed Amendment requiring a dealer's representatives to have detailed knowledge of competitors' scholarship plan products to be unnecessary and onerous for a captive distribution network permitted to sell only its sponsoring dealer's products. Our dealing representatives only offer the CST Plans and do not have the proficiency to sell any other investments. Training is provided to the dealing representatives so that they have a general understanding of similar products available in the market. This information, however, is not used in our sales presentation other than to advise investors to ask specific questions about the investment products offered by other scholarship plan dealers, mutual fund dealers and the banks.

Suitability Determination (Part 13, Division 1, Section 13.3)

While we generally support the Proposed Amendments, we would request that the CSA provide dealers, particularly Scholarship Plan Dealers, with the ability to tailor the collection and assessment of relevant KYC information based on the type and nature of their products. The CST Plans are education savings plans which may be registered with the Canada Revenue Agency as Registered Education Savings Plans. Given the nature of our product, subscribers contribute monies based on their selected contribution schedule for a period of up to 17 years. When the plan beneficiary is age 18 and ready to attend post-secondary education, the principal (contributions less sales charges and applicable fees) may be returned to the subscriber and the income is eligible to be withdrawn as education assistance payments for the beneficiary. Liquidity is not a concern at the client level until the beneficiary attends post-secondary education. The CST Plans are invested in an asset mix based on the manager's asset-liability modelling, which considers when the liabilities come due such that the Plans meet their investment objectives of protecting the subscribers' principal and delivering a reasonable positive return on investment over a long-term investment horizon. In addition, portfolio-level concentration is also considered at the CST Plan level when setting the asset mix as subscribers are not able to select the underlying investments to create individual portfolios. Due to the nature of our product, client specific components of the plan can be reassessed and solutions proposed only when triggering events, such as a request to change the contribution schedule or terminate the plan, occur.

Conflicts of Interest (Part 13, Division 2)

We consider the current practice of disclosing material conflicts of interest to be adequate. Disclosing all existing and reasonably foreseeable conflicts of interest would be cumbersome and not practical for both the management and disclosure of these conflicts. The provision of disclosures of all conflicts would not

necessarily be meaningful to the investor. We would request that the CSA focus on the disclosures of material conflicts of interest, both existing and potential, that would be relevant to a reasonable investor. In addition, dealers should be required to manage conflicts of interest using documented policies, controls and disclosures which address these situations in the best interest of the client and in proportion to the risk the conflict poses to the affected investor. Currently, conflicts of interest related to all dealing representatives, such as compensation, are required to be disclosed in the Scholarship Plan Dealer's Relationship Disclosure Information document and material conflicts specific to a dealing representative are disclosed separately. This documentation is provided to the investor by our dealing representatives at point of sale. The provision of additional documentation of conflicts of interest would be duplicative and potentially confusing to the investor. We would submit that registrants should be required to have rigorous processes and controls in place to ensure the timely reporting of current and potential conflicts of interest and disclosure of material conflicts.

Referral Arrangements (Part 13, Division 3)

We have concerns about the restrictions on referral arrangements and the broad definition applied. As a dealer, we have entered into marketing partnerships and arrangements which allow CST to promote itself as the dealer of the CST Plans. Our partners, who are not registrants, collect the names and contact information of individuals who have requested that CST contact them to provide more information about our Plans. These partners are paid a one-time nominal fee per name for the collection, aggregation and distribution of the information belonging to individuals who have consented to be contacted and this fee does not create any regulatory arbitrage. We believe that the prohibition of a registrant from paying a nominal fee to a non-registrant in this situation would limit potential investors' access to information about RESPs and the offerings of CST which they have requested and/or expressed an interest. We would recommend that the CSA amend the limitation on referral fees to permit the acquisition of consent based leads (names and contact information of interested individuals) and the payment of a nominal one-time fee to a non-registrant in connection with each lead.

We support the extension of a registrant's duty to deal fairly, honestly and in good faith with clients and believe that the result of a higher standard of conduct is beneficial to investors. We look forward to participating in further dialogue about how the Client Focused Reforms can be tailored to fit with our registration category and the restrictions applicable to our Plans and our representatives. Should you have any questions or wish to discuss our comments, please contact me at carole.matear@cst.org or 416-391-6891.

Yours very truly,



Carole Matear CPA, CA
Chief Compliance Officer