



BY EMAIL

October 4, 2021

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

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario
M5H 3S8
E-mail: comments@osc.gov.on.ca

Me Philippe Lebel, Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Quebec, Québec G1V 5C1
E-mail : consultation-en-cours@lautorite.qc.ca

Subject: IA Financial Group Comments on CSA Position Paper 25-404 - New Self-Regulatory Organization Framework

Dear Sir/Madam:

iA Financial Group appreciates this opportunity to submit comments on CSA Position Paper 25-404 – New Self-Regulatory Organization Framework.

About iA Financial Group

iA Financial Group is one of the largest insurance and wealth management groups in Canada, with operations in the United States. Founded in 1892, it is one of Canada’s largest public companies and is listed on the Toronto Stock Exchange.

The Wealth subsidiaries of iA Financial Group include the following:

- Investia Financial Services Inc., a mutual fund dealer and exempt market dealer registered with l’Autorité des marchés financiers and a member of the MFDA;

- IA Private Wealth, a full-service securities brokerage, and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and;
- IA Clarington Investments Inc., an investment fund manager and exempt market dealer.

The iA Wealth dealer companies focus on creating and preserving wealth for individual Canadians by working with independent advisors. We believe strongly in the critical role of the financial advisor and their delivery of advice to Canadian investors. To that end, our dealers offer an open and comprehensive product shelf to provide our advisors flexibility to create personalized advice solutions.

Comments

As mentioned in our comment letter dated October 23, 2020, we support the idea of a new SRO framework in the securities industry in Canada and acknowledge its potential benefits and strengths. We reiterate our belief that the specialized industry expertise of the SROs and their proximity to the industry are beneficial to both industry participants and to investors and that the national scope of SROs provides a more uniform level of regulation and supervision. We also believe that embarking upon such a major industry transformation will be a great opportunity to adjust and enhance key principles that are the foundation of our industry such as investor protection, cost reduction, market surveillance and access to advice, just to name a few.

As the new SRO takes shape and more specifics or details emerge through future consultation, we believe it is necessary to highlight some of the general concerns or questions we have around this initial position paper. We also believe that not addressing these issues while our industry is undergoing this major overall would be a mistake and would continue to create confusion in the marketplace. In a world of fast-changing environments, it is important to show the public and industry participants that we are serious about this complex exercise.

Before providing you with our concerns and/or questions around each of the specific solutions proposed to support the new SRO, we have a few general questions which would help us understand the difference between Phase 1 and Phase 2:

1. Does this mean that advisors/dealers will be regulated by the new SRO as well as their current one and will this not increase the regulatory burden for both?
2. Does this mean that Portfolio Managers and Exempt Market dealers will have different regulatory obligations which could potentially impact their current business model?
3. Should we plan a Regulatory arbitrage process to avoid temporary non-competitive proposals which would not be in the best interest of clients?

Below is a list of concerns and/or questions we have with respect to the proposed solutions to support the new SRO:

1. Improving Governance

- We agree that there should be clear communication with respect to a public interest mandate to mitigate and clarify expectations;
- As the province of Quebec has a unique legislative environment in Canada, we recommend adequate representation for the province of Quebec at the board of directors of the new SRO;

- In the formation of the new SRO board, it should embrace and adhere to the same level of reporting and transparency as publicly traded corporations, in particular encompassing independence requirements and geographic representation as outlined;
- Independence, transparency, and the inclusion of different members of the industry, as well as a limited mandate, will be critical for the governance model of the new SRO.

2. Strengthening Proficiency

- We support the fact that the need to amend or repeal the IIROC proficiency upgrade requirement is likely lessened as the new SRO supports separate mutual fund and investment dealer business within a single member entity;
- We agree with the proposed solution, however, we feel that the discussion should also include the CSF educational program for Quebec advisors who are also insurance licensed. This will require clarity around how the CSF would supervise and train.

3. Enhancing Investor Education

- We support the idea of a separate investor office within the new SRO that is prominently positioned and supports policy development, and which is easily identifiable and accessible to investors;
- We fully support the view that investor education is a central pillar to achieving investor protection, however, it must be balanced with investor accountability;
- Concerning coordination with CSA Investor Education and Communication groups on joint efforts to expand the reach and impact of investor education in promoting investor protection, we recommend a positive industry message in favor of the value of advice and not presenting the industry as a “shark” for investors.

4. Increasing Access to Advice

- There seems to be a bias towards equating “Access to Advice” with “Access to a broad range of investment products”. It is important to keep in mind that 81-102 products package things like equities, options, ETF’s and may actually provide them in a more risk effective structure to the investor;
- While the solutions contemplate guidance that would enable more part time advisors, parameters should be established to ensure that as an advisor builds their business, there comes a point where part time could not possibly ensure the provisioning of comprehensive advice and service to individual clients;
- As explained in the footnote at the bottom of page 17 of your document, the current regulatory framework allows introducing/carrying broker arrangements between mutual fund dealers and investment dealers and, as a result, ETFs are now offered by mutual fund dealers. Modifications introduced to the current framework also gives mutual fund advisors access to liquid alt funds;
- Platform costs are lower for mutual fund dealers than for IIROC dealers and allow a mutual fund dealer to settle trades via Fundserv. Mutual fund back office providers are primarily privately owned. The new SRO will increase the concentration of dealers using the services of bank subsidiaries managing current IIROC back office platforms, which will translate to higher trading costs for mutual fund products, which represent a significant portion of the Canadian market. The increased system/platform costs may eliminate the potential cost savings or efficiency gains of regrouping legal entities. In addition, this concentration will negatively impact small dealers in the industry, and potentially reduce the capacity to attract new members;
- The proposal of a rule to require the transfer of historical data upon request by the receiving dealer is not practical at the moment and/or will be very costly. In the past, we had rebuilt

historical data for advisors and their clients, and we know from experience that it is very complex and difficult to guarantee the accuracy of the data and the corresponding historical ROR. The new SRO will need to be flexible with respect to the quality of the information coming from the previous dealer and should also impose a standard transaction format as well as a specific industry starting point.

5. Reducing Industry Costs

- We applaud the focus on reducing industry costs that are associated with the complexities of product delivery and the duplicate costs incurred by dual platform dealers, however, we need to highlight the importance of ensuring that the mandate of the new SRO encompasses a review of the costs of the new SRO's delivery of regulatory oversight;
- While the solution contemplates enabling a dual platform dealer to include its MFDA and IIROC businesses within a single entity, true economies of scale could only be realized should the combined entity decide to migrate to a single book of record. This represents a multi-year project with immense effort and significant operational costs.
- As outlined in our October 23, 2020 comment paper, the scope and cadence of recent regulatory reform has brought significant cost and development challenges to the industry's system providers. Consideration must be given to these entities as the move to a new SRO model could marginalize currently viable businesses by creating technical incumbents and inadvertently creating a monopoly. The industry is always better served if there is healthy competition among solution providers who are motivated to continually invest and improve their platforms and the client experience.
- We need clarity on what is meant by "proportionate to registrant's activities" to ensure that this is not interpreted as "proportionate to a firm's ability to pay", which has been a clear pattern particularly as it pertains to enforcement;
- A cost structure which is proportionate but allows for agility and transformation will be key;
- The cost should not be the primary purpose of the new SRO model.

6. Fostering Harmonization and Efficiencies

- We agree with the proposal, however, we are concerned that there is no clarity with respect to the supervision of Quebec domiciled mutual fund advisors currently registered and overseen by the Chambre de la Sécurité Financière (CSF). As you know, IIROC supervises investment brokers as well as advisors, however, for mutual fund activities, dealers and representatives are supervised by the AMF and the CSF respectively. It is critical to clarify the impact to and the recognition of the new SRO by the AMF. In the Addendum "Recognition of the New SRO in Québec" it is written: "This recognition of the new SRO will not affect the mandate, functions and powers of the CSF." It will be very important to clarify in concrete terms the impact to firms and their registered advisors;
- The new SRO should provide clarity on the impact to the training obligations for CSF registered advisors. There are a significant number of mutual funds advisors in Quebec who are also insurance-licensed, creating overlap in that they are also supervised and trained by the CSF;
- Clarity is required to identify the difference between Phase 1 and 2. As an example, does it mean that advisors and dealers registered in the exempt market category will be regulated by the new SRO and the current regulator? If true, this would increase the regulatory burden for representatives and dealers;
- Also, between the implementation of Phase 1 and 2, Portfolio Managers and Exempt Market dealers may need to fulfill different regulatory obligations, which would potentially affect the business model of the financial institution. We should contemplate a plan to address the potential

for a regulatory arbitrage between registration categories. We are concerned that this arbitrage could lead to the creation of a pool of unlicensed advisors who receive referral commissions in perpetuity and provide financial advice with no SRO oversight.

7. Harmonizing Directed Commissions

- It is critical for the mutual fund industry to receive clarity around this issue before engaging in the new SRO implementation. There are thousands of advisors who would be impacted immediately, with longer term implications to business succession for the mutual fund industry. This could also negatively impact recruiting efforts focused on attracting new talent to the industry;
- In addition, some mutual fund advisors registered in Quebec are already at a disadvantage because they are taxed by the province regardless of whether 31-303 allows advisors to direct commissions to a registered corporation. The New SRO working group will need to confirm with the CRA and other provincial tax authorities what consequences there would be for a mutual fund advisor using a registered corporation;
- From our point of view, the only acceptable solution would be to accept the incorporation of sales revenues, similar to what is accepted in the insurance industry.

8. Maintaining Strong Market Surveillance

- We fully support enhanced market surveillance on the trading activity within the Canadian equity markets;
- We also support enhanced enforcement proceedings where abuse or manipulation impacts individual investors.

9. Leveraging Ongoing Related Projects

- We are hesitant to support continuing efforts to make OBSI decisions binding without a clearly defined appeal or review mechanism to ensure informed, fair and equitable recommendations;
- We cannot disagree with this concept, but fear that all these projects would simply increase the workload of an industry that will already have a lot to absorb with the new SRO implementation.

We will be pleased to participate in any further public consultation on this topic and are available to discuss our responses in greater detail with you. We also thank you for giving us this opportunity to provide comments.

Sincerely,

“Sean O’Brien”
Executive Vice-President
iA Wealth

“Louis H. DeConinck”
President
Investia Financial Services

“Stéphan Bourbonnais”
President
IA Private Wealth