



BY EMAIL

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Re: CSA Staff Notice and Request for comment 25-304 *Application for Recognition of new Self-Regulatory Organization*

Investia Financial Services Inc. (Investia) and iA Private Wealth Inc. (iAPW) (together, iA Wealth) appreciate the opportunity to comment on the CSA Staff Notice and request for comment 25-304 along with the materials related to the application for recognition and draft recognition order for the new Self-Regulatory Organization (New SRO) published on May 12, 2022.

Investia is registered as a mutual fund dealer in all provinces and territories of Canada. It is a dealer member of the MDFA and a wholly owned subsidiary of Industrial Alliance Insurance and Financial Services Inc.

iAPW is registered as an investment dealer in all provinces and territories of Canada and a derivatives dealer in the Province of Quebec. It is a dealer member of IIROC and a wholly owned subsidiary of Industrial Alliance Insurance and Financial Services Inc.

While iA Wealth appreciates that the goal of the New SRO is efficient and effective regulation, which includes the goal of industry efficiency, iA Wealth would like to ask for clarification on and share our concerns about certain aspects of the draft interim rules of the New SRO, in particular the interim investment dealer and partially consolidated rules (the New Investment Dealer Rules) and the Mutual Fund Dealer Rules (New Mutual Fund Dealer Rules).

iA Wealth supports the positions set out by IIAC and CFIQ in the comment letters submitted in response to this CSA Staff Notice and Request for comment. In particular, iA Wealth shares the concerns set out in these comment letters about the New SRO's relegation of industry participation in the decision-making processes.

Rules that apply to a dual-registered firm

On their websites, IIROC and the MFDA have released a response to frequently asked questions on the New Investment Dealer Rules and New Mutual Fund Dealer Rules (FAQ). In its response to the question “What rules apply to a dual-registered firm and their employees and Approved persons?”, the FAQ states that dual-registered firms and Approved Persons must comply with the New Investment Dealer Rules, and where there is no corresponding requirement in the New Investment Dealer Rules, the New Mutual Fund Dealer Rules.

For certainty, iA Wealth asks that information in this FAQ response be incorporated into the New Investment Dealer Rules and the New Mutual Fund Dealers Rules, including a clarification of which set of rules apply to a mutual fund only dealing representative registered at a dual-registered firm, and in the definitions of corporation requirements, dealer members, and regulated persons.

Direct commission payments

The FAQ states that individuals registered as a “dealing representative, mutual fund dealer”, including mutual fund only representatives at dual-registered firms, will be permitted to continue to direct commission payments to unregistered corporations. iA Wealth supports this decision, but for certainty and efficiency, it believes that commission redirection should be incorporated into the New Investment Dealer Rules and the New Mutual Fund Dealer Rules. Additionally, iA Wealth takes the position that direct commission payments should be allowed for all categories of representatives.

If under the new SRO there are proposed changes to the direct commission payments as set out in the New Mutual Fund Rules, there should be an extensive public consultation period given the impact to the dealing representatives at a mutual fund dealer/dual-registered firm.

Different proficiency and training requirements for mutual fund representatives depending on dealer registration category

Under the New Investment Dealer Rules, a mutual fund only dealing representative registered with a dual-registered dealer must complete the CSC, CPH and undergo a 90-day training period. Currently, the same proficiency requirements do not exist for a mutual fund representative registered at a mutual fund dealer and there is no indication that these requirements will change with the creation of the New SRO. iA Wealth’s position is that the same position at a different category of dealer should not require different proficiencies and training. We are not aware of any identified concerns related to the current mutual fund dealer training. It would be premature to introduce new proficiency requirements during the transition period.

Expansion of ETF products sold by mutual funds only registrants

Under the New Investment Dealer Rules 2603(1)-(2), in certain circumstances, a Registered Representative or Investment Representative dealing in mutual funds only will be permitted to trade in exchange-traded funds (ETFs) that meet the definition of a mutual fund if the individual was either permitted to trade in ETFs within 90 days of the New Rules coming into effect or has successfully completed a prescribed ETF course.

In comparing the proficiency requirements for approval of registration in other categories of registration set out in New Rule 2602, it appears that the mutual fund only representative will be trained at a level similar to or higher than other categories, as set out below:

- Registered Representative or Investment Representative at a dual-registered course must complete the CSC (or a similar course) and the CPH. The Registered Representative must undergo a 90-day training program while the Investment Representative must undergo a 30-day training program
- Registered Representative dealing with retail clients must complete the CSC (or Level 1 or higher of the CFA) and the CPH, and undergo a 90-day training program
- Registered Representative dealing with institutional clients must complete the CSC (or Level 1 or higher of the CFA) and the CPH
- Investment Representative dealing with retail clients must complete the CSC (or Level 1 or higher of the CFA) and the CPH, and undergo a 30-day training program
- Investment Representative dealing with institutional clients must only complete the CSC (or Level 1 or higher of the CFA) and the CPH

Since the proficiency requirements for a mutual fund only Registered Representatives are similar or greater than those for other categories that allow for a greater breadth of product to be sold, iA Wealth is of the view that the mutual fund only Registered Representatives at dual-registered firms should also be able to sell ETFs that are comprised of managed solutions like unified managed accounts, separately managed accounts and pooled funds.

Additionally, it is worth noting that the current requirements discourage registrants from remaining registered as a mutual fund only representative, since someone who has met the mutual fund only qualifications by taking the CSC has also met the qualifications for other investment dealer categories.

Custodial issues for dual-registered firms

For investment and mutual fund dealers who intend on seeking dual-registration, iA Wealth seeks clarification about the application of the custodial rules.

New Investment Dealer Rules 2401 – 2480 set out the New SRO's requirements for arrangements a dealer member may enter into:

- New Investment Dealer Rule 2403 allows for a mutual fund dealer who wants to become an introducing broker to enter a Type 1-4 arrangement with an investment dealer
- New Investment Dealer Rules 2404 – 2407 set out additional conditions that apply to an introducing and carrying broker under Type 1-4 arrangements, including where the introducing broker is a mutual fund dealer
- New Investment Dealer Rules 2410 – 2425 set out specific requirements for Types 1-4 arrangements, and do not reference mutual fund dealers other than to state that in regards to margin lending, where the introducing broker is a mutual funder dealer, client purchase of securities/investment products must be fully paid for and any other margin/credit lending is not permitted other than allowed under New Mutual Fund Dealer Rule 3.2.1.

- The fact that New Investment Dealer Rules 2410 – 2425 carve out an exception for margin lending where the introducing broker is a mutual fund dealer suggests that the remaining sections of these rules apply to a mutual fund dealer.
- New Investment Dealer Rule 2430 states that the New SRO can determine based on the *portion* of a mutual fund dealer’s business that has been introduced to an investment dealer carrying broker that the mutual fund dealer is acting as a mutual fund dealer or is acting in effect as an investment dealer. If the New SRO determines the latter, the mutual fund dealer will be subject to the New Investment Dealer Rules rather than the New Mutual Fund Dealer Rules.

As drafted, New Investment Dealer Rule 2430 suggests that the New Investment Dealer Rules, including the Type 1-4 arrangements requirements, do not apply to a mutual fund dealer unless the new SRO has determined it is in effect an investment dealer; however, New Investment Dealer Rules 2404 -2407 refer to obligations for mutual fund dealers and the way that New Rules 2410-2425 are drafted, it also suggests mutual fund dealers are subject to the New Investment Dealer Rules in these types of arrangements.

Since it is a time consuming and expensive exercise to change custodians or to use two different custodians, in iA Wealth’s view, the rules governing such arrangements set out under the New Mutual Fund Rules should apply to a mutual fund dealer who acts as an introducing broker. This principle should also apply to a mutual fund arm that is part of a dual-registered firm.

New Rule 2430: introducing/carrying broker arrangements

iA Wealth supports the proposal to allow arrangements whereby mutual fund dealers may act as introducing brokers to investment dealers. However, iA Wealth has concerns about New Investment Dealer Rule 2430, which states that if the New SRO determines that a significant portion of the mutual fund dealer’s business is introduced to one or more carrying brokers and the mutual fund dealer is in substance operating in the same manner as an investment dealer, the mutual fund dealer will be subject to and must comply with the New Investment Dealer Rules.

The FAQ includes more information, providing that in the case where a significant portion of a mutual fund dealer’s business is carried by an investment dealer, the mutual fund dealer will be subject to the New Investment Dealer Rules. The FAQ further explains in making its decision on whether to approve such an arrangement, the New SRO will determine what is “significant” based on the consideration of numerous factors, including the economic value of the carried business and the percentage of the mutual fund dealer’s business that is represented by the carried business.

The proposed factors, with a focus on the volume of business dedicated to a certain product, defeat the purpose of the proposed introducing/carrying arrangements. iA Wealth is concerned that the vagueness of what is “significant” results in too much uncertainty for a mutual fund dealer’s product offerings. The rule as it is drafted could result in a potential conflict of interest, where the mutual fund dealer and its advisors are influenced by the potential consequence of being subject to the New Investment Dealer Rules.

Quebec-specific harmonization issues

iA Wealth would like to commend the CSA and the Autorité des marchés financiers (AMF), and IIROC Quebec for their efforts to protect many Quebec specific elements under the New SRO. iA Wealth recognizes that the Chambre de la sécurité financière is a separate and distinct entity, but it is important for the New SRO to prioritize its efforts to work in concert with the Chambre so that the Quebec representatives and investors also benefit from the changes being implemented by the new SRO.

With respect to the New SRO's Schedule 4 – Quebec requirements, which recognizes the AMF's specific regulatory framework for the management of complaints and disputes shall continue upon the creation of the New SRO, in iA Wealth's view, it is important that the complaint processes applicable to investment dealer firms across Canada be harmonized across the different securities regulators and jurisdictions. It would be costly and inefficient to impose new complaint processes during the interim period when the New Investment Dealer Rules/New Mutual Fund Dealer Rules are in effect.

In September 2021, the AMF published proposed amendments to its complaint process. In December 2021, iA Wealth submitted a comment letter in response to the proposed amendments. In January 2022, IIROC published proposed amendments to the complaint process. In April 2022, iAPW submitted a comment letter in response to those proposed amendments.

If the proposed amendments are still being considered by IIROC and the AMF, iA Wealth's position on the subject remains as set out in its December 2021 and April 2022 comment letters. If the proposed amendments are being considered for implementation in the New SRO, there should be a consultation period that allows both investment and mutual fund dealers and registrants to comment after the final integrated rule book comes into force.

Implementation of new SRO branding

iA Wealth requests that there be a transitional period of at minimum 6 months to allow investment and mutual fund dealers to update any client-facing document or system with the New SRO's information.

Yours sincerely,

iA Private Wealth Inc.

"Julie Gallagher"

Julie Gallagher
Senior Vice-President and Chief Compliance Officer

Investia Financial Services Inc.

"Stéphane Blanchette"

Stéphane Blanchette
Executive Vice President and Chief Compliance Officer

iA Private Wealth and iA Capital Markets are tradenames under which iA Private Wealth Inc. operates. iA Capital Markets is a business division of iA Private Wealth Inc.

Investia Financial Services Inc. is a wholly owned subsidiary of Industrial Alliance Insurance and Financial Services Inc., a life and health insurance company founded in 1892 that operates under the trade name iA Financial Group