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VIA ELECTRONIC MAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers (the « AMF »)
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

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Re: CSA Notice and Request For Comment – Proposed Amendments to NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP (Client Focused Reforms)

We are writing in response to the request for comments on Canadian Securities Administrators ("CSA") Notice and Request For Comment – Proposed Amendments to NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP, published on June 21, 2018 (the "Proposed Amendments"). This letter is being submitted on behalf of National Bank Trust Inc. and Natcan Trust Company, National Bank Investments Inc., National Bank Financial Inc. ("NBF") and its four divisions which include National Bank Independent Network, National Bank Direct Brokerage, Private Banking 1859 and National Bank Financial - Wealth Management.

We appreciate the opportunity to provide our comments on the Proposed Amendments, and commend the efforts of the CSA to better align the interests of representatives and firms with the interests of the clients, to improve outcomes for clients, and to clarify for clients the nature and terms of their relationship with representatives and firms.

While we welcome many of the changes outlined in the Proposed Amendments, we submit a few comments outlined below.

Know Your Client ("KYC")
We understand the importance of KYC and the requirements to collect all relevant information relating to a client's financial situation. That said, some clients are reluctant to share in-depth information with their representatives. As such, we submit that a firm should not be required to "ensure that" it has all relevant information with respect to a client, but rather to use "reasonable efforts" to ascertain all such relevant information. Moreover, the verification of such information should not be required. Also, clients have different ways of managing their assets and liabilities (some like to be leveraged, others, not at all). Thus, the proposed rule should not create a new requirement for firms to recommend how clients should apply their assets toward their liabilities.

The Companion Policy requires a firm to ensure it has sufficient information on a client's risk profile but also to understand the client's risk attitude. The concept of a client's risk attitude is abstract and lacks clarity. We agree that understanding a client's risk profile, including risk tolerance, is an important part of the KYC process. We also understand that a more flexible (no prescribed format), risk-based approach can be used to document the client's risk profile, based on his or her portfolio. However, we believe that adding the concept of a client's risk attitude in the Companion Policy will add burden to the process and will become complex for the representatives, given the generality of the concept. Any element that gives room for interpretation is subjective and more difficult to standardize among representatives (e.g., client's investment knowledge). We believe it is not essential to include the client's risk attitude in the Companion Policy to achieve the CSA's KYC goals. If it is maintained, we seek clarification regarding the concept.

We agree that in some circumstances, meaningful interaction between the representatives and the client is necessary and beneficial for the client. However, we also believe it is not the case for all situations, and feel that some clarification would be required to specify whether meaningful interaction can be achieved in the absence of live interaction with an individual registrant. To facilitate the life of the client as much as possible, the requirements should not apply in the same manner across all services offered. It would go against the improvement of technologies to require meaningful interaction with a live person for an electronically-rendered service (e.g., discount brokerage firm, robo-advising). In some situations, the client has signed up for an online service and expects the service rendered to be simple, fast and efficient and to some degree available 24/7. In these cases, we would expect that meaningful interaction with a live person only occurs if inconsistencies have been identified during the on-boarding or updating process. In other circumstances, the client expects a full and personalized service and meaningful interaction.

We propose a uniform update period for all types of accounts of 3 years. We also suggest that the term "material changes", used in IIROC rules, be used to determine when an update is

required prior to the end of this period. A uniform update period is essential considering that the implementation of operational and system changes will be unduly complex if the update period is not the same in all cases. A uniform process for representatives and firms will be less burdensome for them as well. We believe that it is common practice for IIROC-regulated firms' employees (including portfolio managers) to have at least one annual review with their clients and that changes to the clients' personal situations are discussed (meaningful interaction). Material changes rarely occur on an annual basis and therefore, adding an annual mandatory review will only add undue burden to the process. Clients often ask our representatives to lighten the process of opening and updating accounts; they want to spend more time with them discussing their wealth, investments, life goals and concerns; less time filling out forms.

Exemptions
The Proposed Amendments outline that discount brokers are exempt from the suitability determination and Know Your Product ("KYP") obligations but there is not a similar exemption from certain KYC provisions. Most of the KYC information requirements are related to suitability determination, which discount brokers are prohibited from making. Since the collection of considerable information, such as investment needs and objectives, time horizon, etc. is not applicable to discount brokers, we seek an exemption from section 13.2 of NI 31-103 for discount brokers.

Know Your Product ("KYP")
We understand the importance of KYP and firms' suitability obligations in recommendations to clients that require knowledge of the products sold to those clients. IIROC and MFDA guidance exists for this purpose and members have processes in place to achieve KYP objectives. Firms today, including their representatives and portfolio managers, have obligations that they understand and must follow. As described below, firms already review the products on a risk-based approach, and representatives and portfolio managers also review the products before offering or recommending them to clients.

To meet product due diligence expectations, we have policies and product review committees in place governing the review and approval of products offered to our clients (including the review of proprietary products). The main objectives of these committees are to review and approve new products, to review, approve and establish conditions for the distribution of new products, to review existing product categories periodically, and to establish guidelines regarding the distribution of certain products. We use a risk-based approach. Depending on the assessment, actions may also be taken to address issues and monitoring may be implemented on specific products. From time to time, representatives are also offered training to guide them through the product offering.

Today, we offer more than 90,000 products (including individual securities). With the Proposed Amendments, it will be impossible for the firms to analyze, assess, monitor and update these 90,000 products. Representatives will be unable to know and monitor these 90,000 products and compare them with similar products offered. We would therefore be required to reduce the number of products offered to clients. This decrease in products would not be in the best

interest of clients since they want to have access to a wide variety of products. Each client is different and has various needs. Many clients have a good knowledge of the products and, according to their environment and location, they have different expectations. Our product line must remain diversified to meet clients' needs. This is also necessary to ensure the efficiency of capital markets in Canada.

In addition, we believe that additional guidance is necessary regarding the transfer of accounts or when a security is no longer approved by a firm. The CSA's expectations with respect to KYP assessments at the time of making a recommendation to a client are well detailed in the proposals, however additional guidance is necessary on regulatory expectations around the application of these requirements upon a client transferring his or her account from one firm to another (a "transfer in"). Indeed, a client's portfolio having been established previously, some securities may not have been subject to the new firm's KYP process. Further, suitability assessments may lead to recommendations, but it may be in the client's best interest to delay implementation for tax reasons, to avoid redemption fees or otherwise. In such circumstances, we submit that a reasonable transition period, ranging from 6 to 12 months depending on a client's circumstances, should be provided for to allow a client to maintain a position that has not completed the new firm's full KYP process. While the regulation proposes language in this regard, we do not view it as sufficient to allow smooth transitions between firms, which will serve our clients' best interests.

Impacts are also expected on emerging funds and smaller players, whether dealers, issuers or investment fund managers. Indeed, some firms will reduce their product offerings, rendering some smaller issuers less competitive, potentially pushing them to withdraw from the market. This will not be in the best interest of clients nor will it be good for capital markets. It could also cause investors to trade abroad. It is also important to note that this will create an unlevel playing field between similar products, such as segregated funds, which do not have to meet the same requirements, placing our industry at a disadvantage. In addition, reducing the number of securities offered by firms will reduce the possibility for issuers to secure financing through public offerings.

We understand, following an information session held by the AMF, that the intent of the CSAs might not be to require firms to proceed with a security-by-security review and approval but to proceed with a review and approval based on the risk of each category of products. If that is the case, the proposed rules should reflect this risk-based approach. If not, we submit that the proposed rules should be changed to reflect this risk-based approach for the reasons indicated above. In addition, this would harmonize requirements since IIROC currently has a similar rule. We believe that this risk-based approach protects clients and meets their needs by permitting accessibility to a broad offering.

Focus on Cost and Implied Biases

Cost is an important factor that should be considered in the evaluation of a product and in the suitability determination of a security for the client. However, we also believe that other factors are equally important and have to be considered as a whole in the analysis (e.g. risk level,

product structure and features, etc.). As drafted, the Companion Policy seems to indicate that cost should be the distinguishing factor between products. We are of the opinion that the Companion Policy should be modified to reflect the importance of all factors that need to be taken into consideration to maximize favorable client outcomes, not only cost as the primary factor.

Similarly, expectations that recommendations of index-tracking solutions and non-proprietary products will increase imply a very clear bias against active portfolio management and proprietary products. We caution that such an approach may not be warranted in a regulatory context. Active and passive portfolio management approaches each have particular pros and cons. Both approaches can be aligned with a client's interests in any number of circumstances, and such decisions should be left to the professional judgment of registrants, in discussion with their clients. Similarly, we understand that conflicts of interest relating to proprietary products may lead to improper recommendations by certain registrants. However, in our view, implying that proprietary products are inherently flawed and lead to worse client outcomes flies in the face of years of proven track records for a large number of products and clients.

Conflicts of Interest
While we appreciate the necessity to heighten regulation of conflicts of interest, we submit that excluding inconsequential matters, with an approach similar to that taken in National Instrument 81-107 and its companion policy, would likely render a balanced approach, and keep a consistent threshold to conflicts of interest that need to be identified and managed by firms.

Referral Arrangements
We do not agree with the proposal that referral arrangements must be between registrants only. We are of the view that it is frequently in the best interest of clients to be referred by non-registrants. It is important to remember, registrants are subject to applicable rules, such that referral arrangements are reviewed by registrants, with various controls already in place to frame these arrangements. In our opinion, the current framework is sufficient. In addition, most non-registrants are regulated or governed by their own professional order and/or professional code of conduct, with high standards to respect. Others, such as insurance companies and trust companies, are registered but not under NI 31-103. There are also affiliated entities within a corporate group that can be non-registrants. Referral arrangements between these entities are beneficial to the client. We submit that referral arrangements between registrants and non-registrants remain possible to the extent that the non-registrant's activities are otherwise regulated by a widely-recognized or governmental entity. Otherwise, we request that the definition at least be extended to affiliates within a corporate group as well as registrants of other governmental agencies, such as insurance and other financial institutions.

Further, we seek confirmation that the scope of the proposals does not extend to the Quebec Immigrant Investor Program (the "Program"), or that the Program is exempt. The Program was created to help economic growth and contribute to the Quebec economy. Applying these new rules would essentially terminate the Program.

Misleading Communication
We agree that representatives should not use titles that can create confusion and that are misleading for clients. We therefore support the proposals. On the other hand, we want to stress the importance of making sure that the requirements will have a consistent interpretation and application across the industry.

Transition Period
The Proposed Amendments will have a significant impact on our activities and will require technological, operational, human, system, and other changes. We believe that a longer transition period will be required. The same resources will have to be mobilized in all spheres of activity and will not be able to work on all the changes at the same time, while also ensuring adequate conduct of ongoing business. We seek a transition period of at least 3 years in respect of all new requirements or, at the very least, 3 years for KYC, KYP and suitability-related changes.

Thank you for the opportunity to provide our views and recommendations regarding the Proposed Amendments. Should you require any further information or have any concerns regarding the foregoing, please do not hesitate to contact us.

Yours truly,

Martin Gagnon
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