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British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marches 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

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marches financiers
800, Square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec
H4Z 1G3

Re: Canadian Securities Administrators ("CSA") Notice and Request for Comment dated June 21, 2018 – Reforms to Enhance the Client-Registrant Relationship ("Client Focused Reforms")

We are pleased to provide comments on behalf of Investors Group Inc. ("IG Wealth Management") on the proposals outlined in the Client Focused Reforms, which seek to better align the interests of securities advisers, dealers and representatives ("registrants") with the interests of their clients, to improve outcomes for clients, and to make clearer to clients the nature and term of their relationship with registrants.

Our Company

IG Wealth Management 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. We are part of IGM Financial Inc. ("IGM"), which is a member of the Power Financial Corporation group of companies.

IG Wealth Management carries out its distribution activities through its subsidiaries Investors Group Financial Services Inc. and Investors Group Securities Inc., which are members of the Mutual Fund Dealers Association of Canada ("MFDA") and the Investment Industry Regulatory Organization of Canada ("IIROC"). IG Wealth Management also carries out insurance advisory services through I.G. Insurance Services Inc. We are committed to comprehensive planning delivered through long-term client and advisor relationships. The company provides advice and services through a network of advisors, whom we call "Consultants", located across Canada to nearly one million clients. As at September 30, 2018, IG Wealth Management has assets under management of approximately $89 billion.

We strive to be Canada's financial partner of choice. We have taken action in a number of key areas to enhance our clients' experience – analyzing our products, advisor network and business processes – to create a stronger model that will help inspire financial confidence in our clients at all stages of their lives. We have also introduced client advisory councils to give our clients a forum to share their insights and ideas with senior leadership.

At the foundation of our value proposition is our mission to provide our clients with better Gamma, which comes from creating and enacting a well-constructed financial plan. This is in addition to our mission to provide better Beta and better Alpha. Better Beta describes the benefit of a well constructed portfolio – one that provides clients the same expected return for the lowest possible amount of risk. Better Alpha, the value of active investment management, is created by maximizing returns compared to what a client would see in a similar, passively managed portfolio.

General Comments

We support the intended outcomes of the Client Focused Reforms, which align with our commitment to instill financial confidence in our clients and to help them make informed decisions that ensure their financial needs are met throughout their lives. It is from this viewpoint that we provide our feedback on the proposals.

In our letter, we comment in certain instances where we seek greater clarification, or what we see as some potential unintended consequences arising from the reforms, and have provided some alternative suggestions where possible. We have also highlighted in our letter two of the proposals in the Client Focused Reforms – on titles and referral arrangements – not previously published in CSA Consultation Paper 33-404, which we strongly believe require further consultation before the CSA proceeds. This is particularly true for the rule amendments on titles, given that the CSA has a separate project underway reviewing titles and designations, which will likely result in further significant rule changes.

Comments on Specific Aspects of the Client Focused Reforms

i. Know Your Client

We support the know-your-client ("KYC") rule proposals as well as the proposed guidance, which we believe sets clear expectations for the collection and assessment of KYC information. We believe the guidance pertaining to the collection of information such as the investment knowledge and risk profile of a client will ensure a better understanding of client needs and objectives, resulting in more accurate suitability assessments for clients. We also believe that the proposed timeframes and circumstances that trigger a review of KYC information are reasonable and will create consistency across the industry. Overall, we believe we are very well positioned to meet these enhanced requirements.

We do, however, encourage the CSA to use consistent language in the guidance when conveying expectations for a registrant's understanding of their client. Currently, the guidance references "thoroughly understanding" as well as a "meaningful understanding" to convey, what we expect is, substantially the same standard. We also ask the CSA to provide further guidance regarding how registrants may evidence a review of KYC information, and to specifically allow registrants the flexibility to document their interaction with the client by, for example, maintaining notes in a client file, and not by requiring a client signature in all cases to ease any potential burden on the client.

ii. Know Your Product

We support the know-your-product ("KYP") proposals. As a proprietary firm, our Consultants are able to meet the CSA's heightened expectations with respect to knowledge of our product 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. There are a few aspects of the proposals, however, that we wish to provide specific feedback on, and seek further clarification.

Comparison of "similar securities"

With respect to the requirement for a firm to take reasonable steps to understand how a security compares to "similar securities" available in the market (and the corresponding requirement for advisors to compare securities available through the firm), we believe greater clarity is needed as to what constitutes "similar securities". In our view, "similar" must be based on comparable fundamental attributes and structure. This means, for investment funds, a comparison of funds with similar investment objectives, strategies, asset classes, portfolio mix, geographic allocation, liquidity, leverage, expected return, risk profile and product structure. For example, a comparison between two actively managed Canadian equity conventional mutual funds. We believe that the fund categories identified by the Canadian Investment Funds Standards Committee ("CIFSC") can be used as an instructional tool to assist firms in determining the similarity between like funds.

The emphasis on the impact of "costs" associated with a security and the impact of those costs in the KYP and the suitability proposals, seems to infer a negative bias against actively managed funds. With respect to comparisons of "similar securities", we do not believe it would be appropriate for the CSA to expect comparisons between active and passive funds, as part of KYP, even when invested in similar asset classes, given that the expected return characteristics and risks will often be very different, such as the potential to outperform a market or offer downside protection in a market downturn.

Similarly, due to their structural differences, we do not believe that conventional mutual funds should be compared to exchange-traded funds ("ETFs"), even when the respective funds have similar investment objectives and asset classes. An ETF must take into account the liquidity of its portfolio holdings to manage the costs associated with its creation/redemption process and the associated bid/ask spread of its trading price, which are directly influenced by portfolio liquidity. Importantly, these portfolio liquidity considerations can also impact the individual portfolio holdings, which can in turn impact expected performance and risks of the ETF relative to a conventional mutual fund counterpart. For example, a conventional fund may have greater opportunity to invest in less liquid securities that have a greater expected return potential and higher risk profile.

When it comes to the proposal that firms must take reasonable steps to compare the securities it makes available to clients with similar securities in the market, we seek clarity that this comparison applies only with respect to the types of securities accessible at the firm.

A final point of clarification that we have identified is with respect to terminology. The proposed guidance requires firms to consider the overall competitiveness of the security as compared to a "reasonable range of similar investment opportunities", while the rule proposes a comparison of "similar securities". We urge the CSA to review the terminology used throughout the guidance and rule amendments to align the language.

Due diligence and security approval process for equities and bonds

Further guidance and clarity is also required regarding the CSA's expectation for how a firm's due diligence and security approval process applies for listed public equities and fixed income products, such as government or corporate issued bonds. Given the sheer size of the investment universe for these types of products, which span North American and Global markets, we question how it will be possible for firms to practically employ the prescriptive analysis proposed by the CSA for each security without significantly limiting the availability of these types of securities to investors.

While we support the CSA's guidance that the extent of the KYP process will depend on the structure and features of a security, as well as the recognition that complex investment products may require a more extensive review than more straightforward securities, we believe it is inconsistent with, and is undermined by, other aspects of the proposals. Specifically, the guidance that a firm cannot approve a security based solely on the representations, information, documentation, analyses or reports received from issuers or other third parties. We question what type of further analysis the CSA expects beyond information provided by the issuer as well as analysis completed by reputable, independent third-parties. We also note that much of the information provided by issuers is provided pursuant to the CSA's public offering and continuous disclosure regime, which is information that the CSA has deemed sufficient for an end investor to make an informed decision.

Given the foregoing, we encourage the CSA to specifically permit firms to have the flexibility and discretion to significantly tailor their due diligence and approval process, consistent with the guidance the CSA provides for tailoring the KYC process. This would allow firms to rely on factual information and disclosure documents provided by issuers, as well as analysis of securities completed by independent third-parties.

Securities that are "transferred-in"

At IG Wealth Management, our approach to financial planning is to obtain a broad view of our clients' financial life and well-being (i.e. their overall financial picture). Once we have a thorough understanding of our client's investment needs and goals, we will proceed to develop a financial plan

tailored for the client. Only once we have completed these key steps will we begin to recommend securities. In practice, therefore, the KYP process, including with respect to securities that have been transferred-in by a client from another firm, occurs at a later stage in the relationship.

The proposals require that, for both client-directed trades and for securities transferred-in by a client from another firm, that are not otherwise available at the firm, the firm and the advisor must employ the same KYP analysis required in the normal course. While we understand the CSA's intent to ensure that firms and advisors understand the security well enough to meet suitability, we are concerned that holding these types of securities to the same KYP analysis as securities approved on the firm's product shelf, may have the unintended effect of discouraging transfers-in, as it may not be operationally feasible for firms to employ the rigorous analysis for securities that will otherwise not be made available. To the extent a firm does not permit a transfer, clients may end up having fragmented accounts with several different firms and/or advisors, or investors may sell securities that would otherwise be beneficial for them to hold, potentially leading to negative tax consequences, such as the crystallization of capital gains tax and undesirable investment outcomes, such as investment losses. We do not believe these examples give rise to good client experiences or outcomes.

To facilitate the financial planning and advice process of registrants envisaged by the Client Focused Reforms, and to avoid unintended negative outcomes, we recommend the CSA also allow for a tailored KYP process to apply in these instances. That is, allow firms to undertake reasonable due-diligence commensurate with the risks that various products may pose, without the full inquiry and ongoing assessment required of a product placed on a firm's shelf in the normal course for client-directed trades and for securities transferred-in, particularly if the firm intends to restrict subsequent purchases of such securities. In practice, we suggest that it be permissible to accept traditional investment funds and conventional listed public equities and fixed income products, on the basis that they are prospectus qualified and subject to ongoing regulatory scrutiny. We believe this same tailored approach to KYP should also apply for portfolio securities held in client's portfolios that may no longer be approved as a result of the implementation of the reforms. We speak further about this later when we comment on transition.

iii. Conflicts of Interest – Misleading Titles & Designations

The proposals in the Client Focused Reforms will require firms to review and consider their frameworks with respect to titles. Given the CSA has underway a separate project to review titles and designations, including the significant consideration of the use of the term "advisor", which will likely result in significant rule amendments, we do not believe it is appropriate for the CSA to proceed with partial rule proposals at this time.

At IG Wealth Management, we supervise and approve a limited number of client-facing business titles for our Consultants.[1] 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.

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[1] We allow for the use of only 7 titles, based on specific criteria, including if the Consultant has a Certified Financial Planner ("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.

We believe that if the CSA moves forward as currently proposed, firms will incur additional operational and compliance costs from responding to multiple rule proposal changes. For context, any change to titles will result in significant expenditures as multiple client-facing and internal documents, as well as regulatory documents, will need to be revised.[2] More significantly, multiple changes to client-facing titles and regulatory documents may result in confusion for clients and a poor client experience, an outcome that we strongly wish to avoid.

Accordingly, we strongly urge the CSA to not proceed with the title proposals at this time, but rather wait until the full title regime that is currently under consideration is proposed. In the interim, we would be very supportive of the CSA as well as IIROC and the MFDA, continuing to provide guidance to registrants to help them assess whether their title framework may be misleading, and whether, in their view, changes should be made.

iv. Relationship Disclosure Information ("RDI")

We fully support clients having clarity of what they should expect from their registrants. As we have noted in prior comment letters, we believe in the value of our proprietary business model and, like the Apple store, we do not believe there is any misconception by our clients that IG Wealth Management offers a proprietary shelf. It is evident in the names of our funds, and in all of our disclosure and marketing materials.

We do, however, disagree with the RDI proposal that firms include an explanation of the impact on a client's investment returns from any restrictions on products or services a registrant provides to clients. In our view, this type of an explanation should only be included if the firm has assessed that client investment returns will be impacted, having regard to the breadth of their product shelf and client base. We object to any suggestion or characterization that our proprietary shelf, or any shelf with some restrictions on products or services, necessarily impacts a client's investment returns.

The question of whether investment returns will be impacted is not simply based on whether there are restrictions on a product shelf, but rather on the nature of the product shelf itself. At IG Wealth Management, we offer a broad range of funds with coverage across all of the major CIFSC fund categories; meaning our funds invest in a variety of different asset classes and sectors throughout North America and Globally. We also employ the expertise of a wide variety of third-party managers, a number of which are non-affiliate third-party portfolio managers, to sub-advise on many of our investment mandates. Given the range of products we offer as well as the range of portfolio management expertise, we do not believe that the proprietary nature of our shelf will impact investment returns.

Additionally, in our view, the enhanced KYP proposals will require all firms to ensure that their product shelf is competitive. Similarly, the emphasis on "costs" throughout the proposals underscores the importance of considering the investment returns to clients and heightens the need for all firms to have a competitive product shelf. Accordingly, we ask that the CSA eliminate this disclosure proposal, or, revise the requirement to specifically leave the analysis to the firm of whether its product or service restrictions will lead to an impact on a client's investment returns.

[2] These documents include, for example, the prospectus, annual information form, marketing materials, compliance manuals, compensation manuals, training materials, business cards, and client forms and disclosures including the relationship disclosure.

v. Referral Arrangements – Limitations

The proposals on referral arrangements were not in CSA Consultation Paper 33-404. We are concerned that the CSA has moved forward with these rule amendments with only limited discussion and engagement with stakeholders, and without clearly articulating its policy concerns with referral arrangements. Based on our initial review, we believe that the proposals are overly broad, and will have the unintended consequence of limiting referral arrangements where there is no clear policy rational to do so.

In particular, we question why the CSA has proposed outright limits on both the duration and amount of a referral fee without any exception or consideration for the substance of the referral arrangement. We believe that referral arrangements should not be limited if registrants can demonstrate ongoing services are provided to clients in exchange for a referral fee, supervision is performed, all fees are clearly disclosed to clients, and clients explicitly consent to the referral. If these conditions are complied with, we see no reason why integrated firms such as IG Wealth Management, that have both MFDA and IIROC registrant firms, should be subject to the proposed limitations for referral arrangements amongst our registered individuals.

We also question why professionals with other types of registrations and/or designations (such as accountants, lawyers, financial planners, mortgage specialists, etc.) should be prohibited from receiving referral fees even on a one-time basis. In our view, this could have the unintended consequence of impeding a client's access to securities related services and/or increasing costs to investors.

To ensure that the proposals on referral arrangements as well as the underlying policy rational is well understood by all market participants, and to limit any negative, unintended consequences, we would encourage the CSA to engage in further discussion and engagement with stakeholders beyond this first comment period.

vi. Transition

Implementation timeframes

Compliance with the KYC, KYP and suitability reforms will require assessments of, and substantial changes to, business practices and processes as well as compliance and supervisory programs including client documentation, policies and procedures. Just the KYP proposals, for example, will require firms to undertake a re-evaluation of their entire product shelf and service offerings, develop renewed policies and procedures for analysis, approval and monitoring of securities, including the review of the overall competitiveness of securities, and to consider additional training and proficiency of advisors to make appropriate suitability determinations. Notably, the CSA's Regulatory Impact Analysis[3] acknowledges that the cost of transitioning to the new suitability approach will be significant for most firms, and identifies costs will likely include the building and implementation of new compliance systems and oversight processes as well as new training for registrants. Such changes will require engagement with industry service providers to ensure system modifications can facilitate the changes.

[3] See Annex F of CSA Notice and Request for Comment Proposed Amendments to National Instrument 81-105 Mutual Funds Sales Practices and Related Consequential Amendments (September 13, 2018).

Collectively, assessing and implementing the required changes to comply with the Client Focused Reforms will require a significant dedication of resources and time to complete. It is also important to not lose sight of the impact these various transitions will have on our clients, who could see changes to account documentation, as well as account, product or service offerings. Taking all of the foregoing together, to minimize disruption and ensure a smooth transition for firms, advisors and clients, we recommend a transition of no less than 3 years for the KYC, KYP, conflicts of interest and suitability proposals. As much of the proposed public disclosure and RDI requirements are predicated on the other aspects of the reforms (particularly KYP), we respectfully submit the transition period for these requirements should also be no less than 3 years.

Portfolio transition issues

Finally, we seek greater clarity on the CSA's expectation on changes to the approved securities of a firm's product shelf as a result of the KYP proposals. We expect that many firms may narrow product shelves as a result of the new requirements. What is not clear in the reforms is whether the CSA expects firms to liquidate client holdings of securities no longer on the approved list as a result of the new requirements. In our view, registrants should be permitted to retain securities otherwise suitable but no longer approved for a firm's product shelf, subsequent to the implementation of the reforms. In the absence of this flexibility, clients may be negatively impacted, with dispositions prematurely triggering gains/losses and/or negative investment consequences. Having a tailored KYP for securities that go from "approved" to "not approved" on a firm's shelf, would be extremely beneficial and, in our view, in the best interest of all clients.

Conclusion

We thank you for the opportunity to provide comments on the proposals outlined in the Client Focused Reforms.

As the CSA moves forward, we believe it will be crucial for the CSA to continue to engage closely with both the MFDA and IIROC to ensure consistency across all rules and guidance. We believe that a harmonized application of all rules and guidance, including with respect to compliance reviews and enforcement matters, will be necessary to ensure the CSA's desired enhanced standards apply for all registrants throughout Canada on a consistent basis.

We would welcome the opportunity to engage with you further on this topic. Please feel free to contact Rhonda Goldberg, Senior Vice-President, General Counsel at Rhonda.Goldberg@igmfinancial.com or myself, if you wish to discuss our feedback further or require additional information.

Yours truly,

IG Wealth Management

Jeffrey R. Carney
President and Chief Executive Officer