

June 20, 2007

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Superintendent of Securities, Newfoundland and Labrador  
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Dear Sirs/Mesdames:

**Re: Proposed NI 31-103 *Registration Requirements***

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We are writing to provide the comments of Industrial Alliance Insurance and Financial Services Inc. (Industrial Alliance) on the Notice and Request for Comment dated February 27, 2007 ("the Notice"), on Proposed National Instrument 31-103 *Registration Requirements*, Proposed Companion Policy 31-103CP and Proposed Amendments to Multilateral Instrument 33-109 *Registration Information* published for public comment by the Canadian Securities Administrators ("CSA") (respectively, the "Proposed Instrument" and the Proposed Companion Policy" and collectively, the "Proposal").

Industrial Alliance has a national footprint in the distribution of financial services in Canada. Through our three broker-dealers: IA Securities Inc., a nationally registered securities dealer and IDA member, as well as FundEX Investments Inc. and Investia Financial Services Inc., both of which are nationally registered mutual fund dealers and members of the MFDA, we currently represent over 2000 licensed advisors. We will limit our comments to those that we feel will specifically affect the way in which our advisors and our firm will be able to service our more than 300,000 clients.

At a high level, Industrial Alliance is in complete support of regulatory proposals that provide consistent treatment of the consumer experience, greater clarity and consistency of rules, and efficiencies in process.

Industrial Alliance fully endorses the CSA's stated aim of the Proposal - "to create a flexible and administratively efficient [registration] regime with reduced regulatory burden". We also commend the CSA for its efforts in achieving the level of uniformity and harmonisation of the current myriad of registration-related rules. Given the historical differing positions taken by the various CSA members on registrant regulation, the Proposals are indeed a welcome achievement on the part of the CSA.

We support the objective of the Proposed Instrument to harmonise, streamline and modernise the registration regime for dealers and advisors across the CSA jurisdictions. In addition, we would note the importance of achieving greater harmony in the rules, and application of rules, of the Self Regulatory Organizations ("SROs"), whose role will be critical to the shaping of a consistent investor experience.

There are elements of the Proposal, however, that are of concern to us. The three broad areas of concern that we touch on from this perspective include: dealer-advisor registration; compliance and suitability; and the Client Relationship Model.

On the proposals relating to dealer registration, we support the retention of the Mutual Fund Dealer category. We further support the proposals to ensure adequate transition periods and the permission of grandfathering of proficiency requirements where appropriate.

The Proposed Instrument appears to confine the business of a Mutual Fund Dealer, a position that does not properly reflect the realities of the distribution business, which has broadened significantly in scope in recent years. We are concerned by the language in the Proposal restricting mutual fund dealers and their advisors "solely" to the distribution of mutual funds. Professional financial advisors are engaged in the analysis of the financial situations of their clients, and in recommending solutions for their investment needs from a wide array of products including GICs, Principal-Protected Notes, Mutual Funds, and Segregated Funds. The Proposal's language should be modified to reflect these realities.

The Proposal introduces a new category of registration: the Exempt Market Dealer. We require more discussion about the regulatory oversight structure that would be faced by mutual fund dealers that also distribute exempt market products. It is our view that the registration regime should recognise the higher level of oversight that membership in an SRO brings, and accordingly MFDA Members should be permitted to sell exempt market products without the additional requirement to register as Exempt Market Dealers. As a first step, however, we urge the CSA to commit to providing a nationally harmonised definition of "Exempt Market Product".

**It is imperative that the playing field, in terms of advisors being able to recommend various products and services to their clientele, be level. We would strongly urge that it be mandated by the CSA that this new category of registration should have a mandatory requirement to become a member of a Self Regulatory Organisation (SRO). The MFDA is already well positioned to act as the SRO for this new registration category as a large number of its membership (FundEX included) already distribute exempt products to their respective client bases.**

**These issues are compounded when other regulatory restrictions on Mutual Fund Dealers are also taken into consideration. The current Proposal does not address a situation that currently exists whereby some registrants that distribute Mutual Funds operate with a competitive advantage over other registrants. MFDA members are prohibited from benefiting from the use of Net-Free client balances as well as being able to earn interest in their respective trust accounts. IDA members are not subject to these restrictions. Although a sincere effort has been made to create a harmonised regulatory environment, we are disappointed that an issue as large as this has been omitted from the Proposal.**

We would also support a modular, product-specific approach to proficiency requirements for dealers and advisors who wish to distribute exempt market products. We believe that a modular approach to proficiency will provide more targeted courses and result in more informed advisors enabled to better serve their clients.

With respect to the compliance areas, Industrial Alliance supports regulatory direction to look at suitability from the level of the portfolio rather than the product. We would like to further discuss the requirements for ongoing suitability obligations that will be implemented at the SRO level. It is imperative that all dealers be subject to the same rules to ensure that there is consistency in investor protection.

We also require clarification of the term "Branch" as this registration category has been removed from the Proposed Instrument and replaced by the term "Regional Supervisor". We believe that taking a principles-based approach will better accommodate the different distribution models and their associated risks.

We also desire more discussion with you on the potential limitations to the scope of the activities that will require registration under the business trigger, as well as how this business trigger will be defined; and more importantly, how it will be interpreted by the enforcement arms of the MFDA, IDA and provincial securities regulators.

**We strongly urge the CSA to use this initiative to attempt to bring in "Financial Planning" under the scope of regulatory oversight. Situations currently exist whereby a Fee-for-Service advisor that meets with a client, provides financial planning advice, recommends a particular asset mix and receives remuneration for this advice/recommendation. Surely this type of activity should be captured under the proposed "business trigger".**

With respect to the Client Relationship Model, it is important that we do a better job as an industry in creating an environment of greater clarity and transparency in the client-advisor relationship. The industry has evolved to the point where many financial advisors have voluntarily incorporated into their financial planning practice the concepts of investment policy statements, client service commitment guarantees, written financial plans, and separate point of sale disclosure documents on how they are compensated. The Proposal introduces a new concept called the Relationship Disclosure Document (RDD) which will make these practices the norm.

While we support the additional clarity and transparency that the RDD would bring to the account opening process, we note that it is being introduced at the same time as a parallel initiative to revamp Point of Sale disclosure is being introduced by the Joint Forum. Clearly there is overlap between the principles of the RDD and the POS initiative. As such, we are requesting that these two initiatives be integrated and that they be conducted with a full review of all disclosure presently required and provided over the course of the client-advisor relationship, with the aim of understanding where the gaps are and where duplication can be eliminated.

Although we fully support the direction that this new RDD takes us, it should not be implemented until such time as a thorough Cost Benefit Analysis has been completed, bearing a clear articulation of regulatory objectives, along with consultations with dealers and advisors about the range of business models, supported by relationships and disclosures that exist. Furthermore, what needs to be defined are the areas that should be probed in a client survey, in-field testing with clear objectives and language that will elicit responses that can inform regulatory decisions.

Regarding complaint handling, it is important that the Proposed Companion Policy be directional, less prescriptive, and concordant with the requirements of existing complaint handling systems to avoid client confusion. We wish to have further discussions with you regarding the structure of an appropriate complaint resolution process.

Finally, although the Proposal does not provide specific rules with respect to incorporated salespersons, we strongly urge the CSA to provide regulatory support for the MFDA's proposal to continue to permit the principal-agent model with directed commissions, that maintains the benefits of incorporation to salespersons without compromising investor protection. In this regard, we would like more discussions on the possible interpretations of this relationship by other stakeholders.

We thank you for providing us with the opportunity to comment on the Proposal. Don't hesitate to call us directly should you have any questions or wish to discuss these comments.

Yours truly,

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