

Submission to : Consultation Paper 33-404

**Proposals to Enhance the Obligations of Advisers, Dealers,
and Representatives toward their Clients**

September 27, 2016

About ETHIQUETTE.CA

Ethiquette.ca is an independant webplateform that seeks to raise awareness, educate and empower individual investors in Canada on issues related to sustainable, responsible and impact investing.

Context

Ethiquette's comments relate to the consumers' rights to the information necessary to judge the appropriateness of an investment strategy and product. This within the context of a growing demand for, and supply of self-declared responsible, green and impact investment products. As declared by the AMF France (the French securities commission) :

"If it is not for the AMF to say which investment is responsible or not, **it is fundamental that the investor has the necessary and sufficient information to judge the compatibility of the proposed strategy with the SRI investment he wants to achieve.** Assuring clear, accurate and not misleading information is

central to the AMF mission, and it is entirely legitimate that the Authority speak in this debate." ¹

In the context of this consultation, it is not the role of the adviser, dealer or representative to say which investment is responsible or not, but as agents regulated by the Securities Commission, it is their role to understand both the consumers wants and the market offering in order to be able to judge the compatibility, and guide appropriately.

Framing the role of the advisers, dealers and representatives on issues related to client ethics, values and risk profiles as well as with respect to fully understanding responsible, green and impact investment strategies and product offering is then also central to the mission of the Securities Commission. Thank you for this timely consultation.

Below, the Ethiquette recommendations follow a brief description of potential guidance and a recapitulation of the consultation questions that the recommendations address.

Description of Potential Guidance -- Know Your Client

Appendix B

...«To meet their KYC obligation, firms and representatives must take reasonable steps to obtain sufficient information about their clients' investment needs and objectives, including the client's time horizon for their investments and applicable investment constraints and preferences, for example socially responsible investing and religious constraints»

Consultation questions

55) To what extent should a representative be allowed to open a new client account or move forward with a securities transaction if he or she is missing some or all of the client's KYC information? Should there be certain minimum

¹ Free translation from <http://www.amf-france.org/Publications/Rapports-etudes-et-analyses/Epargne-et-prestataires.html?docId=workspace%3A%2F%2FSpacesStore%2F25035725-7f26-4821-bbb0-2608c42f0ff0>

elements of the KYC information that must be provided by the client without which a representative cannot open an account or process a securities transaction?

57) Are there circumstances where it may be appropriate for a representative to collect less detailed KYC information? If so, should there be additional guidance about whether more or less detailed KYC information may need to be collected, depending on the context?

ETHIQUETTE.CA Recommendations :

According to the research cited in the report², very few firms validate KYC questionnaires in some manner and only 16% of questionnaires are considered fit for purpose. Also in the proposed potential guidance (Appendix B), it is recommended that constraints and preferences, such as socially responsible investment and religious constraints, should be taken into consideration by representatives. Consequently, Ethiquette recommends the following:

- Questions related to consumer preferences and constraints be explicitly included in KYC questionnaires. Given the fact that an increasing number of consumers are concerned with global risks such as global warming and global supply chain, responsible investment mandated funds can provide a complementary risk management to long-term shareholder and stakeholder value;
- Questions related to preferences be included in the minimum KYC required for account opening, and should be considered a prerequisite to the consumer risk profile assessment;
- KYC questionnaire validation by a third party be included as an explicit requirement in the future guidance;
- If the approved product list of the representative contains no suitable funds according to the consumer preferences and constraints, the consumer has the right to be informed. The product offer must be determined principally

² OSC Investor Advisory Panel Report (2015)

by the consumer KYC and not by what products can be offered by the firm.

Description of Potential Guidance -- Know Your Product -- Representative

Appendix C

...« In order to comply with their KYP obligation, representatives must:

- understand the specific structure, features, product strategy, costs and risks of each product their firm trades or advises on, including an understanding of how the products compare to each other;
- understand the specific structure, features, product strategy, costs and risks of each product that they recommend or that their client purchases or sells; and
- understand the impact of all fees, costs and charges connected to the product, the client's account and the investment strategy»

Consultation questions :

58) Should we explicitly allow firms that do not have a product list to create a product review procedure instead of a shelf or would it be preferable to require such firms to create a product list?

59) Would additional guidance with respect to conducting a "fair and unbiased market investigation" be helpful or appreciated? If so, please provide any substantive suggestions you have in this regard.

Ethiquette Recommendations :

Despite that fact that responsible investment is undeniably on the rise in the retail market³, and given the fact that no specific training on responsible investment strategies or products is currently required by advisers, dealers or representatives; it may be challenging to establish review procedures for such products in order to include them in a product list. It is noteworthy that the responsible investment product offering is very diversified and rarely homogeneous (drawing from multiple paradigms that underlie the concept of socially responsible investing).

Ethiquette recommends:

- That responsible investment be a required part of the core, basic training all advisers, dealers and representatives receive;
- That ongoing continuing education training on responsible investment be required to keep up with this rapidly evolving market;
- That all training on sustainable, responsible and impact investment be independent third party training (no ties with funds providers) and be required for all advisers, dealers and representatives in order to enable a fair market investigation.

For further information, or questions, please contact:

Brenda Plant

Cofounder,

³ The Responsible Investment Association's 2015 Trends report indicates that between 2011 and 2013, the assets under management in retail responsible investment funds grew by 52.3% while the mutual fund industry as a whole grew by only 29.8%.

April 2016 Ipsos Reid study (>1,000 Canadians) entitled [Millenials, women and the future of SRI](#) found :

- Millenials were 65% more likely than babyboomers (age 55+) to consider environmental, social and governance (ESG) factors when making investment decisions;
- Millenials were almost twice as likely as boomers to believe that companies with good social and environment practices are better long-term investments;
- 82% of millennials, 74% of university grads and 60% of all Canadians believe RI will become even more important in the next five years.



Ethiquette.ca

bplant@ellio.ca

Phone: (514) 984-0650