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BY ELECTRONIC MAIL: comments@osc.gov.on.ca , consultation-en-cours@lautorite.qc.ca

British Columbia Securities Commission
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Financial and Consumer Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission

ATTN:

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RE: CSA CONSULTATION PAPER 33-404: PROPOSALS TO ENHANCE THE OBLIGATIONS OF ADVISERS, DEALERS, AND REPRESENTATIVES TOWARD THEIR CLIENTS

Serving one in five Canadians, Manulife is a leading financial services organization offering a wide range of protection, estate planning, investment, and banking solutions through a diversified multi-channel distribution network.

Manulife Securities, consisting of the IIROC regulated Manulife Securities Incorporated and the MFDA regulated Manulife Securities Investment Services Inc., are wholly owned subsidiaries of the Manufacturers Life Insurance Company (Manulife). Our advisors and life agents provide investors with access to stocks, bonds, mutual funds, and other investment products as well as a suite of insurance solutions.

Canadian investors are best served when the regulatory framework for securities supports strong consumer protection and provides open access to a wide-variety of financial services and products.

Complementing the views of the Investment Funds Institute of Canada (IFIC), we recommend that the CSA move forward with a thoughtful, targeted approach to improve and strengthen rules within the existing regulatory framework for firms and representatives. This approach should promote strong consumer protection, recognize the value of



financial advice, and account for concerns with certain aspects of the proposed reforms, specifically regarding workability, utility, and possible impact to the customer.

Our response supports IFIC's submission on the CSA Consultation Paper 33-404. We provide opening remarks below before providing our comments on the proposed regulatory best interest standard and the proposed targeted regulatory reforms, specifically those focusing on Know Your Client, Know Your Product and Suitability.

Opening Comments

It is important that the regulatory framework for securities in Canada continue to recognize the value of financial advice and the important role financial advisors and financial planners play in helping Canadians grow and protect their finances.

Independent studies from organizations such as the [Center for Interuniversity Research and Analysis of Organizations \(CIRANO\)](#) continue to show that individuals who work with an advisor over time benefit from more savings, more confidence in their investment decisions and a more disciplined approach to their savings behavior.

It is also important that the CSA carefully evaluate the effectiveness of its more recent regulatory changes, (i.e. Phase 2 of the Client Relationship Model and Point of Sale), which share a similar objective with the proposals in CSA Consultation Paper 33-404: to improve the client's relationship with their advisor and dealer.

We are encouraged by the announcement that the CSA will launch a multi-year research project to measure the impact of these initiatives. As a long-time supporter of evidence-based policy we recognize the value of this research and hope it can inform future discussions.

Regulatory Best Interest Standard

The regulatory framework for securities should continue to protect the client's interests where there is a conflict.

We share similar reservations to those stated in the Consultation Paper that the proposed regulatory best interest standard could create regulatory, compliance and legal uncertainty and may not sufficiently improve upon the existing regulatory framework for consumer protection.

It would be helpful for the CSA to provide stakeholders with additional guidance to clarify the details of the proposed standard and how it might be implemented.

Targeted Regulatory Reforms

Know Your Client (KYC)

We support the CSA providing guidance on the collection and use of KYC information for advisors and investors. The collection of this information is essential for shaping and guiding the advisor-client relationship and helping investors achieve their personal best-outcomes.

Canadians visit their financial advisor or financial planner for a wide-variety of reasons, ranging from simple investment advice to more complex and comprehensive financial strategies. KYC rules should allow firms to match KYC collection with the service expectations of each individual investor.



We recommend the CSA's guidance on KYC pursue a scalable, "fit-for-purpose" approach that will provide firms with the flexibility to collect and update information as appropriate for the client's personal service needs and expectations. The CSA could identify the categories of information that should be collected and allow the MFDA and IIROC to incorporate this into detailed rules and guidance; with an ongoing emphasis on strengthening the self-regulatory organizations' ability to monitor compliance.

It should also be noted that any additional data that advisors receive from their clients will need to be maintained and housed in systems. This will require firms to develop and implement new systems to open, supervise and manage accounts. Although there may be an opportunity for economies of scale, we would expect the ongoing service for these systems to impact the cost of opening a new client account.

Know Your Product – Representative and Firm

Dealers with mixed/non-proprietary shelves such as the MFDA licensed Manulife Securities Investment Services Inc. and the IIROC licensed Manulife Securities Incorporated provide clients with access to thousands of securities, mutual funds, and other investment products from a variety of manufacturers.

IIROC and the MFDA have specific Rule Notices regarding KYP based on the principal that firms are the gatekeeper of products offered by representatives. These rules outline processes for member due diligence and vetting new products to ensure that their representatives are recommending appropriate products to their client (e.g. [MFDA Staff Notice Know-Your-Product](#) and [IIROC Rule Notice Best practices for product due diligence](#)).

Manulife Securities' internal policies adopt the requirements and best practices issued by the MFDA and IIROC and review products as a result of the identified need of a client/advisor (i.e. demand based).

We are concerned that aspects of the CSA's proposed guidance on KYP could result in firms limiting the number of products available for investors, either by narrowing client choice or moving to a proprietary shelf.

It will be impractical for advisors servicing a mixed/non-proprietary shelf to maintain an in-depth knowledge of each of the thousands of options available in their universe of products and it will also be impractical for dealers to satisfy the requirements to maintain a mixed/non-proprietary "product list".

With these concerns in mind, we recommend the CSA incorporate the MFDA and IIROC's existing KYP rules and guidance and provide additional direction and support for their enforcement.

Suitability

Similar to our comments above on KYC, the proposed suitability requirements to assess "basic financial suitability" and "investment strategy suitability", and the requirement to identify a "targeted rate of return" would create a one-size-fit all approach that lacks the flexibility to fit the personal needs or preferences of individual investors.

The proposed requirement to conduct a suitability assessment following a significant market event is problematic and may not necessarily be in the client's interest. This provision presumes that regulators, advisors and clients can agree on what constitutes such an event, that it can be either predetermined or determined in a timely fashion, and that the event could seriously impact the client's portfolio.



Given these difficulties, we are concerned that this rule change could create confusion in the market, fuel anxiety among investors and advisors, and promote inappropriate or undisciplined investing behaviour.

The MFDA and IIROC have a well-developed and detailed series of suitability rules to ensure registrants' recommendations match their client's investment needs and objectives (e.g. [MFDA Policy No. 2 Minimum Standards for Account Supervision](#)). We recommend that the CSA work with the self-regulatory organizations to incorporate similar suitability requirements into NI 31-103.

Conclusion

Thank you again for the opportunity to provide feedback to proposals in CSA Consultation Paper 33-404. We would be happy to provide further information upon request and answer any questions that you may have.

Sincerely,



Rick Annaert
President & CEO, Manulife Securities

