



BY EMAIL

September 30, 2016

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

Attention :

<p>Josée Turcotte, Secretary Ontario Securities Commission 20 Queen Street West, 22nd Floor Toronto, Ontario M5H 3S8 E-mail: comments@osc.gov.on.ca</p>	<p>Me Anne-Marie Beaudoin, Corporate Secretary Autorité des marchés financiers 800, rue du Square-Victoria, 22e étage C.P. 246, tour de la Bourse Montréal, Québec H4Z 1G3 E-mail: consultation-en-cours@lautorite.gc.ca</p>
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Dear Sirs / Mesdames:

Re : iA Financial Group comments on CSA Consultation Paper 33-404 – *Proposals to enhance the obligations of advisers, dealers, and representatives toward their clients*

iA Financial Group appreciates this opportunity to submit comments on CSA Consultation Paper 33-404 – Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients (the “**Consultation Paper**”).

Founded in 1892, iA Financial Group offers life and health insurance products, mutual and segregated funds, savings and retirement plans, securities, auto and home insurance, mortgages and car loans and other financial products and services for both individuals and groups. iA Financial Group serves over four million clients and employs more than 5,100 people. At December 31, 2015, the Company was managing and administering over \$115 billion in assets. It is one of the four largest life and health insurance companies in Canada and among the largest publicly-traded companies in the country.

Normand Pépin, FSA, FCIA

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The Wealth Management subsidiaries of iA Financial Group include the following:

- FundEX Investments Inc., a mutual fund dealer and a member of the Mutual Fund Dealers Association of Canada (“MFDA”);
- Investia Financial Services Inc., a mutual fund dealer and a member of the MFDA;
- Industrial Alliance Securities Inc., a full service securities brokerage and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”);
- IA Clarington Investments Inc., an investment fund manager;
- iA Investment Counsel Inc., a discretionary portfolio management firm focusing on high net worth private clients;
- Forstrong Global Asset Management Inc., a discretionary portfolio management firm that uses only exchange traded funds to build its clients’ portfolios; and
- iA Investment Management Inc., a discretionary portfolio management firm providing services to permitted clients only.

OVERVIEW COMMENTS

We would like to recognize the role of the CSA and applaud them in their commitment to improving the relationship between clients and their advisers, dealers and representatives. We recognize that changes aligned with the best interest of our clients are beneficial for the entire industry. However, we do want to highlight the fact that the industry is already in the midst of tremendous change with initiatives such as Point of Sale (“POS”) and Phase 2 of the Client Relationship Model (“CRM2”); the full implications of these changes have yet to be assessed or realized. We are concerned that some of the changes contemplated in the Consultation Paper could have unforeseeable impacts when combined with those already in progress and the result could potentially diminish or distort some of the desired outcomes. Our suggestion would be to pause to allow the industry along with the regulators to assess the changes that have already been made. We believe there has already been a natural evolution within the industry, which will accelerate as the changes relating to POS and CRM2 are fully implemented.

We believe strongly in the critical role of the financial adviser and their delivery of advice to the Canadian consumer. With today’s unprecedented market conditions, the role of the financial adviser in helping clients maximize their wealth and reach their financial goals has never been more important. We believe the current system in Canada, while perhaps not perfect, is working well for the majority of investors.

The proposals set out in the Consultation Paper seem to assume that all investors require the same level of service: for example, the development of a full financial plan or tax planning services. However, not all investors desire the provision of full services at all stages of their investments, nor do all investors wish to disclose all of the details of their financial circumstances in all instances. Investors should have the opportunity to select the particular level of service that is appropriate for their particular circumstances. The proposals require a level of service that will come at a relatively higher cost, regardless of the size of the investor’s account or their investment needs. As costs increase, investors with smaller account sizes could find that they are unable or unwilling to obtain investment advice. An approach that allows investors to obtain the services they require at a cost they can afford would be of greater benefit to investors than an approach that provides investors with services that they do not necessarily need or are not prepared to pay for.

Set out below are our responses to the questions in the Consultation Paper, grouped by the proposed targeted reform. We have also grouped certain of the Consultation Paper's questions and responded to a series of questions together where appropriate below.

RESPONSES TO CONSULTATION PAPER'S QUESTIONS

Conflicts of Interest

2) Is the requirement to respond to conflicts "in a manner that prioritizes the interest of the client ahead of the interests of the firm and/or representative" clear enough to provide a meaningful code of conduct? If not, how could the requirement be clarified?

3) Will this requirement present any particular challenges for specific registration categories or business models?

We believe that the current regulatory framework adequately addresses disclosure of conflicts of interest and provides for full disclosure of conflicts. Further increasing the volume of required disclosure will not necessarily lead to better disclosure.

The Consultation Paper seems to assume that negative consequences for clients arise directly from a dealer offering a related product. Our mutual fund dealers and investment dealer have an open product shelf which includes related products; however, we believe that this promotes and enhances client choice and access to quality offerings.

47) Could institutional clients be defined as, or be replaced by, the concept of non-individual permitted clients?

For portfolio managers who deal only with permitted clients, the proposed definition of "Institutional client" would create two categories of clients: those who qualified only as permitted clients and those who qualified as institutional clients and permitted clients. Under the current regime, many such clients have already waived some of the requirements set out in NI 31-103. Introducing a different definition for institutional clients would add another layer of compliance analysis, without value added for the clients. Therefore, institutional clients should simply be defined as non-individual permitted clients and the current exemptions for permitted clients should be preserved.

Know Your Client

4) Do all registrants currently have the proficiency to understand their client's basic tax position? Would requiring collection of this information raise any issues or challenges for registrants or clients?

Representatives currently have the proficiency to understand their client's basic tax position and are currently applying it when recommending specific types of products or regimes. Representatives are quite adept at recognizing the limitations of their registration or expertise and will endeavour to refer clients who need advanced tax advice to a network of tax professionals who are equipped to deal with these situations. This is exactly what we should expect from the adviser as taxation is so complicated.

54) To what extent should the KYC obligation require registrants to collect tax information about the client? For example, what role should basic tax strategies have in respect of the suitability analysis conducted by registrants in respect of their clients?

Requiring more information on a standard format would not be necessary for or even expected by the clients in many situations. It would create an unnecessary burden, which would eventually be translated into additional costs for clients. Additionally, we anticipate that some clients would be unwilling to divulge information of this nature. We also believe that collecting more than basic tax information will result in higher expectations from the clients in regards to the advisers' responsibilities, even though the advisers may not be specialists in this area.

Know Your Product - Representative

7) Is this general approach to regulating how representatives should meet their KYP obligation optimal? If not, what alternative approach would you recommend?

Depending on the depth of a firm's product offering, it would be virtually impossible for an adviser to analyze and understand each product on the firm's product list in the manner proposed, and to compare a recommendation to all other products on the firm's shelf. Advisers do not focus on the full firm product offering, but rather focus on a narrower product offering based on the products with which they are most familiar and have compared favourably to their peer group. The proposal in the Consultation Paper applies whether or not the products are relevant to an adviser's clients, and would therefore be an impractical standard to put into place. This could lead to a narrowing of product shelves in order to meet the requirements, thereby leading to less choice for investors.

For advising representatives working for portfolio managers it is not clear how the requirements to consider the structure, product strategy, features, cost and risks of each security would apply in practice, particularly for those firms dealing only with permitted clients. On a daily basis in real-time, these representatives take many factors into account when managing their investment funds and their clients' portfolios on a discretionary basis, and we believe it would be nearly impossible for an advising representative to document all such considerations.

Know Your Product - Firm

9) Do you think that requiring mixed/non-proprietary firms to select the products they offer in the manner described will contribute to this outcome? If not, why not?

11) Will this requirement raise challenges for firms in general or for specific registration categories or business models? If so, please describe the challenges.

61) Is the expectation that firms complete a market investigation, product comparison or product list optimization in a manner that is "most likely to meet the investment needs and objectives of its clients based on its client profiles" reasonable? If not, please explain your concern.

In practice, the proposed process may not result in the intended outcome of an approved product range (or "shelf") that is "most likely" to meet client investment needs and objectives. In our opinion, the market investigation would be impractical due to the breadth of the "reasonable universe" of products to be canvassed. For example, a mutual fund dealer could be required to

review a universe of thousands of mutual funds. Given the number of available products and the number of new products and structures which are constantly developed and offered in the market, it would be impractical for a firm to canvas the universe of such products. We feel the proposed process may be of limited value for clients whose firms already carry out due diligence exercises to identify a selection of products believed to be suitable for their client bases.

In addition, and as discussed below in response to Consultation Paper's question 17, "most likely" seems to be an absolute standard. In practice, it could prove very challenging and impractical for a firm to assemble a shelf "most likely" to meet the needs of their clients. Most firms will have multiple client profiles and, accordingly, in practice they will be unable to meet this requirement, or will have to cater only to a smaller subset of clients.

Most investment dealers offering full advisory services offer a wide range of products including stocks, ETFs, a variety of mutual funds, GICs and bonds in addition to other more specialized products suitable for specific clientele such as flow through shares, structured notes or leveraged products. As they offer a variety of investments sufficient to attain the clients' objectives, we do not believe that the imposition of a new burden for the firm to demonstrate that the firm "conducted a meaningful market investigation" would be of added value for clients.

For a portfolio manager dealing only with permitted clients, the requirement to define a product list does not seem to be applicable. Each representative is responsible for knowing the product they trade in. An advising representative, in order to comply with the client's requirement set out in its investment policy, generally has to deal with hundreds of different products annually. These may be specialized products in which the representative is particularly knowledgeable, for instance when the client's needs are very specific (such as a European bond portfolio). It is not practical to centralize this knowledge at a firm level. Not only is it not useful, as most representatives might never have to deal with specialized products that other representatives at the firm have to deal with daily, but it would likely restrict significantly the array of products the firm authorizes its representatives to trade in. Such limits would prevent representatives from complying with their client's needs and investment policies.

Portfolio managers provide active portfolio management services, and thus market investigations are made continually. Provided a firm is comfortable that its existing shelf offers the variety necessary to construct suitable client portfolios in changing market conditions, any reduction or expansion of the shelf should be an organic exercise undertaken when the firm identifies gaps in the types of products or asset classes it purchases on behalf of its clients.

12) Will this requirement cause any unintended consequences? For example, could this requirement result in firms offering fewer products? Could it result in firms offering more products?

We believe that this requirement will result in firms offering fewer products and therefore in less choice for investors. The burden of the proposed KYP would reduce the range of products being offered, as the task of analyzing each product and continuously monitoring the selected products in the way contemplated in the Consultation Paper will be difficult to achieve. It may also create an inaccurate impression that once a product has been vetted as the "most likely to achieve goals", other relevant factors such as the KYC components, adviser-client relationship, value of advice and the importance of the behavioural aspects (such as savings discipline) have less bearing on the outcome.

Suitability

16) Do you agree with the requirement to consider other basic financial strategies?

Not all clients desire sophisticated advice or full financial planning services, nor do all clients wish to disclose details of their broader financial circumstances in all instances. In addition, different business models will offer different services. In the case of mutual fund dealers, advisers already collect basic financial information relevant to the advice they are providing their clients, with a focus on long term investment horizons. However, portfolio managers who are bound by specific and targeted investment policies would be guided by the client's investment policy rather than basic financial strategies such as paying down debt.

17) Will there be challenges in complying with the requirement to ensure that a purchase, sale, hold or exchange of a product is the "most likely" to achieve the client's investment needs and objectives?

We believe so. Despite the proposed general suitability guidance in Appendix E, we feel this language essentially imposes an absolute standard, which is too certain for an exercise in judgment that can only be evaluated after the fact. We also believe that the "most likely" standard will create more client confusion, as clients may equate "most likely" with guaranteed returns.

18) Should there be more specific requirements around what makes an investment "suitable"?

We are concerned that an overly prescriptive approach will inadequately recognize the importance of taking a portfolio view. For portfolio managers, the entire portfolio or investment strategy must be suitable for a client. Performing a prescribed suitability assessment for each security transaction, in isolation from examining that security's role within a portfolio, may not be the best way to build suitable client portfolios. Rather, we consider the existing requirement (and regulatory guidance) – namely, that the registrant must ensure each transaction is "suitable for the client" – to be sufficient, because it gives registrants flexibility to take into account portfolio theory and any other factors relevant to a specific client.

19) Will the requirement to perform a suitability assessment when accepting an instruction to hold a security raise any challenges for registrants?

63) Should we provide further guidance on the suitability requirement in connection with ongoing decisions to hold a position?

Registrants implicitly perform suitability assessments for 'hold' decisions in the course of their normal review processes. Imposing an express or formal requirement in respect of 'hold' decisions would be difficult to implement and document in practice. We do not believe that formalizing this process would benefit the client. In addition, we believe that the volume of reviews would reduce the amount of time representatives could spend serving their clients and proactively managing such clients' accounts.

20) Will the requirement to perform a suitability analysis at least once every 12 months raise challenges for specific registrant categories or business models? For example, a client may only have a transactional relationship with a firm. In such cases, what would be a reasonable approach to determining whether a firm should perform ongoing suitability assessments?

There is an important difference between client contact and a suitability assessment/KYC update. The client adviser relationship is one that is deep and founded on trust. Most advisers are in touch with their clients on an annual basis and, for some, more frequently. For most of these clients, KYC information is not changing on an annual basis. Rather, it is more aligned with major life events that will be identified through contact or proactively disclosed to the adviser by the client. Generally, clients are advised on suitable products for a longer term strategy. For investment dealers and mutual fund dealers, the requirement to perform a suitability analysis is based on specific triggers which we believe to be adequate.

While this proposal could be considered a best practice, it may be impractical for some advisers who have a great number of clients to complete a suitability assessment and KYC update every 12 months, given the time this would require. This could lead to the possible unintended consequence that advisers could be forced to become more selective in their clientele and maintain only the wealthiest clients, which could potentially have a negative impact for some clients with fewer assets who would be left without advisers. We believe that the existing guidance provided by the SROs is adequate.

21) Should clients receive a copy of the representative's analysis regarding the client's target rate of return and his or her investment needs and objectives?

Although we appreciate the rationale for codifying a rate of return analysis within the suitability assessment process, we think such an analysis will be problematic in practice. It is likely to mislead clients into expecting guaranteed outcomes, thereby exacerbating the 'expectations gap' that regulators are trying to alleviate. In today's volatile market, even the most respected industry professionals cannot accurately and reliably predict market performance (or security or portfolio returns), particularly over shorter-term periods of approximately 1 to 3 years.

In addition, a written analysis report is often not required or expected by the client, as it is more in line with holistic financial planning exercises. Therefore, it should not be a mandatory requirement.

Titles and Designations

31) Do you prefer any of the proposed alternatives or do you have another suggestion, other than the status quo, to address the concern with client confusion around representatives' roles and responsibilities?

The title should not depend on or refer to the composition of the product shelf, proprietary product or not. Terms such as "restricted", "proprietary" or "mixed non-proprietary" are overly simplistic and do not account for the diversity of business models and product offerings. In addition, registrants in the same registration category will be treated differently depending on whether their firm sells proprietary products. This could lead to more confusion among clients, rather than more clarity.

Regulatory Best Interest Standard

36) Please indicate whether a regulatory best interest standard would be required or beneficial, over and above the proposed targeted reforms, to address the identified regulatory concerns.

37) Please indicate whether you agree or disagree with any of the points raised in support of, or against, the introduction of a regulatory best interest standard and explain why.

We agree that the prioritization of the client's interest must always come first in the delivery of advice, products and all other aspects of the client's financial well being. A general duty to act in the client's best interest as proposed in the Consultation Paper is a vague concept and would likely create more uncertainty regarding the nature of the relationship between the client and his adviser than it would solve.

The CRM2 and POS initiatives are intended to improve communication in the client-registrant relationship around costs and investment performance. Their effectiveness should be measured before we consider a best interest standard.

CONCLUSION

We wish to emphasize the fact that this industry has been built, supported and enhanced by firms and advisers who have always cared deeply about the financial well-being of their clients.

While change is a good thing, too much, too fast, could be counterproductive if we do not have a full understanding of the consequences of the latest changes. We reiterate our suggestion that the industry and the regulators be given time to assess the impact of the changes relating to POS and CRM2 before contemplating further changes to improve the client experience.

The registrants that would be subject to the new requirements have very different business models and clients who have very different needs. Some proposed requirements regarding KYC, KYP, suitability and relationship disclosure do not reflect this diversity. Implementing a uniform solution to issues that manifest themselves differently across the industry may have unintended adverse effects on consumers.

We will be pleased to participate in any further public consultation on this topic or discuss our responses in greater detail with you. We also thank you for giving us this opportunity to provide comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Norman Giff". The signature is fluid and cursive, with a long horizontal stroke at the end.

NP:ir