

September 30, 2016

VIA E-MAIL

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

Josée Turcotte, Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
E-mail: comments@osc.gov.on.ca

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.qc.ca

Dear Ms. Turcotte & Me. Beaudoin:

Re: CSA Consultation Paper 33-404 – *Proposals to Enhance the Obligations of Advisers, Dealers and their Representatives Towards their Clients*

Knowledge First Financial Inc. (“Knowledge First” or “We”) is a nationally registered Scholarship Plan Dealer and Investment Fund Manager and is a wholly-owned subsidiary of the Knowledge First Foundation. Knowledge First has been providing peace of mind education savings solutions to Canadians for over 50 years and currently administers over \$3.5 billion in education savings for over 287,000 customers, through a national network of over 350 registered Sales Representatives.

Knowledge First appreciates the opportunity to comment on the Canadian Securities Administrators (“CSA”) Consultation Paper 33-404, *Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Towards Their Clients*, published April 28, 2016 (the “Consultation Paper”). We



Knowledge First Financial Inc.

FORMERLY
USC EDUCATION SAVINGS PLANS INC.

50 Burnhamthorpe Rd. W., Suite 1000, Mississauga, Ontario L5B 4A5
Service: 1-800-363-7377 • Fax: 1-800-668-5007 • E-mail: contact@kff.ca • Head Office: 1-866-701-7001
www.knowledgefirstfinancial.ca

recognize the tremendous significance of the Consultation Paper as an important part of the CSA's efforts to maintain a fair and balanced regulatory environment for market participants and investors alike. As a registered Scholarship Plan Dealer and Investment Fund Manager, we operate in a very specialized niche market within the Canadian securities industry. Our products, Registered Education Savings Plans (RESPs), are highly complex to administer and support, in respect of the regulatory requirements under federal income tax legislation and federal and provincial government grants and incentives related to education savings, in addition to the securities regulatory environment relating to the distribution and investment management of the products. Further, in being directly regulated by the CSA members, we do not have the benefits of a self-regulatory organization to facilitate the development of consistent and transparent rules to support our business.

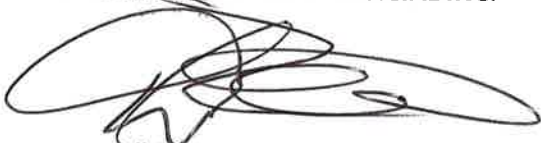
Therefore, while we do appreciate that the Consultation Paper is intended for feedback from all classes of registrants, we encourage you to consider our comments, where indicated, in the context of our standing in the regulatory marketplace as a highly-specialized, niche-market participant and in the furtherance of our business as a viable and successful organization whose singular mandate is to further the successfully post-secondary education endeavors of Canadian students.

Our comments consist of two parts. In Appendix 1, we provide comments to each of the major areas of proposed targeted reforms as set out in the Consultation Paper. In Appendix 2, we include the complete list of the consultation questions set out in Appendix 'A' of the Consultation Paper, with our responses to each of the questions. We ask that you review these two parts together, in the same manner these were presented in the Consultation Paper.

We thank you once again for this opportunity to comment on this important proposal and welcome any questions you may have on our comments.

Sincerely,

KNOWLEDGE FIRST FINANCIAL INC.



Darrell Bartlett, CPA, CA, CIA
Chief Compliance Officer

Encl.

cc: R. George Hopkinson
President & Chief Executive Officer

Knowledge First Financial Inc.

FORMERLY
USC EDUCATION SAVINGS PLANS INC.

50 Burnhamthorpe Rd. W., Suite 1000, Mississauga, Ontario L5B 4A5
Service: 1-800-363-7377 • Fax: 1-800-668-5007 • E-mail: contact@kf.ca • Head Office: 1-866-701-7001
www.knowledgefirstfinancial.ca

APPENDIX 1 – COMMENTS ON PROPOSED TARGETED REFORMS

Conflicts of Interest – General Obligation

The Consultation Paper identifies that the framework for conflicts of interest needs to be enhanced to require firms and representatives to respond to identified material conflicts in a manner that prioritizes the interests of clients. We support the general approach of responding to material conflicts of interest in a manner that prioritizes client interest. However we believe the existing framework for responding to conflicts in National Instrument 31-103 (“NI 31-103”), combined with the registrants’ obligation to “deal fairly, honestly and in good faith with its clients and act in its clients’ best interests” is more than sufficient. As we note in our response to consultation questions 1 and 2, the proposed approach is not optimal as it places the burden of identifying and responding to conflicts solely on the registrant, including conflicts that are common across large segments of the securities industry.

We instead encourage the CSA to utilize the existing conflicts framework and work with registrants to develop responses to common industry conflicts, such as mutual fund operating expenses, certain transaction and account fees and mutual fund wholesaling practices. See also our responses to consultation questions 48 through 51 for more details on these areas.

Appendix ‘A’ of the Consultation Paper also identifies a series of approaches that firms should follow in managing conflicts arising from compensation structures and incentive practices. We support these approaches with the exception of the suggested practice of compensation for a ‘hold’ suitability recommendation. The suggestion that firms develop a compensation structure for representatives who advise a client to “do nothing”, creates a disincentive for servicing the customer and a cost-structure that is without a supporting revenue stream. Even in a fee-based account, to allow such representative compensation, exclusive of providing services to the customer to demonstrate value for the fee-revenue, is counter-productive to the interest of the customer and the firm. We encourage the CSA to reconsider this practice.

Know Your Client

The Consultation Paper identifies what the CSA perceives are a series of gaps in NI 31-103 relating to the KYC obligations, which are subsequently addressed through the proposed reforms. We do not believe the Consultation Paper establishes a strong argument in support of the gaps and thus we question the need for the some of the targeted reforms in this area in general. We believe the existing framework set out in NI 31-103 for registrants to know their clients is more than sufficient. In particular, as noted in our responses to consultation questions 4 and 54, we disagree with the proposal that would require registrants to collect tax information about the client or have an understanding of the clients’ tax position. As noted in our response to consultation question 5, rather than expanding the existing KYC obligations to include elements that we believe are not necessary and outside of the knowledge of our Dealing Representatives, we instead encourage the CSA to work with Knowledge First and other Scholarship Plan Dealers to establish uniform KYC and suitability policies for all Scholarship Plan Dealers that would ensure a level and competitive playing field and equal treatment for all customers.

We have identified other suggestions for responding to the CSA’s KYC concerns in our responses to the applicable consultation questions. Overall we believe the existing KYC framework is more than sufficient and can work effectively if monitored and enforced consistently across registrant groups.

APPENDIX 1 – COMMENTS ON PROPOSED TARGETED REFORMS

Know Your Product – Representative

Knowledge First agrees with the proposed reforms regarding Dealing Representatives' Know Your Product ("KYP") obligations. We believe the obligations represented by these reforms already exist within the existing KYP and suitability obligations in NI 31-103, as well as in various SRO rules and guidance. The proposed reforms give greater clarity to these obligations.

As noted in our response to consultation question 7, the requirements of the proposed reforms are the standard by which Knowledge First Dealing Representatives are trained and expected to conduct their dealing with their customers by. Knowledge First Dealing Representatives are only allowed to recommend products on the firm's approved product list.

Know Your Product – Firm

Knowledge First supports the proposed reforms regarding the firms' KYP obligations, including performing a fair and unbiased market investigation and product comparison for firms that offer non-proprietary products or a mixed shelf of proprietary and non-proprietary products. We believe the proposed reforms in this area are consistent with the existing KYP obligations set out for firms in NI 31-103 and other SRO rules and guidance. We also support the proposed reforms for firms who choose to only offer proprietary products if the firm is able, by virtue of its registration category, to offer both proprietary and non-proprietary products. This will ensure firms cannot simply bypass these obligations by choosing to distribute proprietary products only.

Our overall reason for supporting the proposed reforms is based on the inherent conflict of product manufacturers, particularly mutual fund organizations, when these organizations entice and incentivize registered firms and Dealing Representatives to distribute their products. We believe that the proposed reforms, if performed diligently by the firm and in the spirit of the intended outcome, will definitely contribute to a product shelf that is reasonably consistent with the needs and objectives of the firm's customers. As noted in our responses to consultation question 9, we have concerns with approved product lists of certain dealers that continue to grow in an unchecked, demand-driven manner as we question the ability of these firms to fulfill their existing KYP and suitability obligations. We offer various suggestions in our responses to the consultation questions in this section for the CSA to consider in implementing this requirement.

Suitability

While Knowledge First supports the efforts of the proposed reforms in providing greater clarity around registrants fulfilling their suitability obligation, we question the applicability of certain of the reforms across all registrant classes. For example we do not believe Scholarship Plan Dealers should conduct a 'basic financial suitability' assessment as it is inconsistent with investor outcomes for our customers, who do business with our firm for a very specific reason; the purchase of a RESP and given that we already consider the customer's financial resources and obligations in assessing suitability. We do encourage the CSA however, to apply the 'basic financial suitability' standard to registrants that distribute either higher risk products or allow their Dealing Representatives to engage in high-risk distribution strategies (i.e., borrowing to invest, investing on margin, investing in illiquid exempt securities, investing in derivative securities), these registrants should be required to assess the customer's overall financial situation (assets, liabilities, timing and extent of debt repayments, liquidity of assets, etc.) and conclude whether the customer

APPENDIX 1 – COMMENTS ON PROPOSED TARGETED REFORMS

is financially able to withstand the product or distribution risks of what is recommended.

Our challenge as non-SRO members is the lack of consistency between Scholarship Plan Dealers for KYC information and resulting suitability analysis. We encourage the CSA to work with the RESP Dealers Association of Canada (“RESPDAC”) to develop uniform rules and guidance for KYC information suitability assessments that would be applicable to all Scholarship Plan Dealers. This will ensure a level and consistent playing field for all firms in our category. We also encourage the CSA to publish further guidance of the frequency of performing a suitability analysis and to confirm that short-term events or fluctuations in the client’s KYC information should not affect the suitability of products, like Scholarship Plans, that are designed to be held over the long-term.

Relationship Disclosure

We have significant concerns with the proposed reforms in this area. In our view, the proposed relationship disclosure around both proprietary versus non-proprietary products and more importantly, the restricted registration category disclosure, create the impression that restricted dealers and those who only offer proprietary products are of a lesser quality and not able to adequately meet the client’s needs and objectives. For Scholarship Plan Dealers, including Knowledge First, this is not the case.

Knowledge First and their Dealing Representatives are experts in the RESP industry and provide clients with highly effective, value-added advice through the RESP lifecycle. The complexity of income tax rules that govern the contributions to and withdrawals from the customer’s RESP, the rules that govern the maximization of collecting government grants (federal and provincial), the strategies for optimizing the withdrawal of plan contributions and grants and most importantly, the rules governing the eligibility of post-secondary education programs that allow RESP beneficiaries to maximize the value of their plan, are highly complex and ever-changing. Knowledge First and its Dealing Representatives have the training, experience and expertise in dealing with both customers and federal and provincial government agencies and truly make the commitment to understand and apply these rules to the customer’s greatest benefit. Other registrants that offer RESPs may be familiar with some or all of these rules and may even try to match or better Knowledge First in product choice and investment options. However, the primary focus of many non-Scholarship Plan Dealers is the gathering of assets and the investment of contributions and grant monies. RESP customers also understand the value provided by Scholarship Plan Dealers as demonstrated by the fact that while there are only six registered Scholarship Plan Dealers in Canada, they collectively account for approximately 25% of the total assets under management in the RESP industry.

We do not object to disclosing the existence of proprietary products and explaining the resulting conflict arising from this. We also support the requirement for investment dealers and portfolio managers to provide relevant relationship disclosure information. However, we encourage the CSA to reconsider the remainder of the proposed disclosures in this area to avoid the potentially significant negative impact to Knowledge First and other restricted dealers.

Proficiency

In respect of the proposed reforms for proficiency, we do not agree with the underlying premise that heightened proficiency is required for Dealing Representatives to expand the representative’s overall product knowledge for the sole reason that having knowledge about more products is somehow “better”. As noted in our response to

APPENDIX 1 – COMMENTS ON PROPOSED TARGETED REFORMS

consultation question 28, Knowledge First and its Dealing Representatives are experts in the RESP industry, providing highly effective, value-added advice to their customers. We do not believe the Consultation Paper makes a strong case in concluding that “more is better” when it comes to product choice for customers and that full service dealers are better equipped or suited to provide quality advice to RESP customers. Each of our Dealing Representatives must complete a comprehensive regime of industry proficiency and in-depth product training before we submit their application for securities’ registration. Further each Dealing Representative is also required to complete annual training on compliance and product knowledge. As such and already being subject to the continuing education requirements of the CSF in Quebec, we do not object to the proposed reform to establish a continuing education requirement for all Dealing Representatives, to bring consistency to this area of the securities industry.

Knowledge First remains bound by the requirements of National Policy No. 15 with respect to much of its business, including the manner in which RESP contributions are invested. Knowledge First has in recent years, obtained permission from the CSA to expand RESP investments into equity securities. As a condition of obtaining this permission, Knowledge First developed and delivered customized training to its Dealing Representatives to ensure equity investing was understood by customers. As Knowledge First continues to expand its investment strategies, we will continue to ensure our Dealing Representatives are adequately trained to educate and advise customers on the benefits and risks of these strategies.

We also do not agree for heightened proficiency for CCOs and UDPs for the same reasons; that there is not a sufficiently strong argument made to support the premise that “more is better” in terms of product availability and choice. The existing proficiency for CCOs provides a comprehensive set of requirements that addresses the different categories of registration. We recognize that a UDP must have sufficient knowledge and experience in the industry and the firm (and its products, distribution and other functions). We believe this is the function of the firm’s Board of Directors to assess and for the CSA to review in the context of the UDP as a registrant.

Titles & Designations

Knowledge First agrees with the Consultation Paper that limited regulation on title has allowed a proliferation of dozens of confusing and competing titles. We believe registrants and customers can benefit from a more uniform set of requirements for titles that are relevant, consistently applied and promote transparency and understanding for customers. We support the proposed ‘Alternative 3’ as an effective solution to meet this objective. We also encourage the CSA limit the use of confusing and potentially misleading titles such as “Vice President” when the individual is not a named officer of the firm. We also believe that titles should also avoid any reference to an individual’s designations or personal qualifications unless such qualifications are unique to the individual’s category of registration.

Role of UDP and CCO

We disagree with the proposed reforms for the roles of the UDP and CCO, as we believe that reforms go beyond existing practices and should not be proceeded with at this time. The current demands and regulatory expectations placed on UDPs and CCO to ensure and monitor compliance within their firm are significant and sufficient, especially in the context of conflicts of interest. Many of the proposed reforms are problematic at their core due to the ambiguity and uncertainty that they introduce. In particular, the expectation that a UDP “promote consideration and

APPENDIX 1 – COMMENTS ON PROPOSED TARGETED REFORMS

management of conflicts of interest in a manner that prioritizes the interests of the client” is ambiguous, subjective and unclear in scope. As noted in our responses to consultation questions 1, 2 and 3, we believe further study is required, involving the various registrant groups and SROs to best determine how to address conflicts before imposing any further commitments on UDPs and CCO.

Statutory Fiduciary Duty when Client Grants Discretionary Authority

We have not commented on this section as it is not applicable to Knowledge First or other Scholarship Plan Dealers.

Proposed Framework for a Regulatory Best Interest Standard

We disagree with and have significant concerns with the proposed framework for a regulatory best interest standard, as noted in our response to consultation questions 36 and 37. In summary we believe there is too much ambiguity around this proposal to effectively implement it. We also believe that the existing obligation of registrants to “deal fairly, honestly and in good faith with its clients and act in its clients’ best interests” is more than sufficient for regulators to effectively oversee the securities industry. We believe that through continued effective enforcement of existing rules, strong oversight of the two recognized self-regulatory organizations (“SROs”), the MFDA and IROC and meaningful consultations with non-SRO registrants, including Scholarship Plan Dealers to develop uniform policies and procedures, that the CSA can achieve a high level of regulatory effectiveness under the existing framework, without imposing a regulatory best interest standard.

Impact on Investors, Registrants & Capital Markets

With respect to the proposed reforms as a whole, we have identified a considerable number of concerns regarding the compliance costs, impact on investors and impacts on registrants, particularly restricted dealers, including Scholarship Plan Dealers. We instead encourage the CSA to review ours and other comments from other registrants carefully and re-focus its efforts in the manner we have suggested, maintaining the existing regulatory standard of registrants dealing fairly, honestly and in good faith with customers.

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
Conflicts of Interest	
Part 7	
<p>1. Is this general approach to regulating how registrants should respond to conflicts optimal? If not, what alternative approach would you recommend?</p> <p>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?</p> <p>3. Will this requirement present any particular challenges for specific registration categories or business models?</p>	<p>Response to Q.1:</p> <p>The Consultation Paper describes the existing framework of responding to material conflicts of interest; avoidance or disclosure and controls. For Knowledge First, the framework operates effectively. Whether through the oversight of our Independent Review Committee, the governance requirements imposed by our Education Assistance Agreements or the restriction of activities of our Dealing Representatives who engage in outside business activities, Knowledge First manages its conflict of interests in proactive and meaningful manner that always puts the customer’s interests first.</p> <p>While we support the proposed approach of responding to material conflicts of interest in a manner that prioritizes client interest (as we currently do), we don’t agree that it is optimal. There are a wide variety of conflicts of interest within the securities industry, with many that are common to large segments of the industry. To place the sole responsibility on individual firms and representatives to respond to all material conflicts, including industry-wide conflicts that exist across many firm, may leave firms and representatives at a competitive disadvantage if they choose to respond to an identified material conflict or at regulatory risk if a material conflict is overlooked. Rather, we believe that a collaborative approach between registrants and regulators is needed, especially in terms of conflicts of interest that are common to large segments of the securities industry.</p>
Appendix A	
<p>44. Is it appropriate that disclosure by firms be the primary tool to respond to a conflict of interest between such firms and their institutional clients?</p> <p>45. Are there other specific situations that should be identified where disclosure could be used as the primary tool by firms in responding to certain conflicts of interests?</p> <p>46. Is this definition of “institutional client” appropriate for its proposed use in the Companion Policy? For example:</p> <p>(i) where financial thresholds are referenced, is \$100 million an appropriate threshold?;</p> <p>(ii) is the differential treatment of institutional clients articulated in the Companion Policy appropriate?; and</p> <p>(iii) does the introduction of the “institutional client” concept, and associated differential treatment, create excessive complexity in the application and enforcement of the</p>	<p>For example, as a Scholarship Plan Dealer, we compete with other registrants who offer other investment products for Registered Education Savings Plans (RESPs). Mutual funds are a product that many investors are sold for their RESP. The mutual fund industry includes many examples of what we believe are material conflicts of interest, whose existence is not in investors’ best interest and creates an uneven playing field for Scholarship Plan Dealers competitively. We describe some of these conflicts in more detail in response to some of the other consultation questions and include matters involving expenses charged to mutual funds and mutual fund wholesaling practices. These are examples of conflicts that the CSA could address directly to ensure all mutual fund organizations resolve these conflicts equally and simultaneously for the betterment of all investors, including those who purchase RESPs (as the CSA is presently doing with its work on mutual fund fees and embedded compensation structures).</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>conflicts provisions under securities legislation? If not, please explain and, if applicable, provide alternative formulations.</p> <p>47. Could institutional clients be defined as, or be replaced by, the concept of non-individual permitted clients?</p> <p>48. Are there other specific examples of sales practices that should be included in the list of sales practices above?</p> <p>49. Are specific prohibitions and limitations on sales practices, such as those found in NI 81-105, appropriate for products outside of the mutual fund context? Is guidance in this area sufficient?</p> <p>50. Are limitations on the use of sales practices more relevant to the distribution of certain types of products, such as pooled investment vehicles, or should they be considered more generally for all types of products?</p> <p>51. Are there other requirements that should be imposed to limit sales practices currently used to incentivize representatives to sell certain products?</p> <p>52. What type of disclosure should be required for sales practices involving the distribution of securities that are not those of a publicly offered mutual fund, which are already subject to specific disclosure requirements?</p> <p>53. Should further guidance be provided regarding specific sales practices and how they should be evaluated in light of a registrant’s general duties to his/her/its clients? If so, please provide detailed examples.</p>	<p>Response to Q.2: The challenge with the standard of responding to conflicts “in a manner that prioritizes the interest of the client ahead of the interests of the firm and/or representative” is noted in our response to Question 1; there are simply too many conflicts, including those that are common to large segments of the securities industry, to make this statement sufficiently clear. Beyond providing specific guidance on the types of conflicts that the CSA believes are not being adequately responded to under the current principle-based model, as noted above, the CSA should take a more proactive role of working with registrants, especially mutual fund organizations and registered dealers who distribute mutual funds, in establishing a collaborative dialogue to resolve common conflicts.</p> <p>Response to Q.3: Yes we believe this approach will pose challenges for registrants. As noted in our response to Question 1, without the CSA taking a proactive lead in working with segments of the securities industry to address conflicts that are common, registrants will either be at a competitive disadvantage if the onus is left on them to respond to identified material conflicts individually or at regulatory risk if a material conflict is overlooked.</p> <p>Responses to Q. 44 to Q.47: These questions do not apply to Scholarship Plan Dealers or to retail securities distribution in general, so Knowledge First Financial has not provided responses to these questions.</p> <p>Response to Q. 48: The context to this question refers to the discussion of mutual fund sales practices and National Instrument 81-105 (“NI 81-105”). While the products distributed by Scholarship Plan Dealers are not mutual funds and not covered by NI 81-105, these questions are relevant as Scholarship Plan Dealer prospective customers often consider mutual funds as an investment alternative when also considering the purchase of a RESP.</p> <p>Knowledge First does not engage in the practices contemplated by NI 81-105. While we support the continued application and enforcement of NI 81-105 to the mutual fund industry, we believe there are other specific examples of mutual fund sales practices that the CSA should consider beyond NI 81-105, such as the following:</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p><u>Risk Tolerance Questionnaires</u> Many mutual fund organizations make available to registrants (primarily Dealing Representatives) questionnaires designed to assist potential investors in determine their personal level of risk tolerance. Completion of the questionnaire by the investor invariably leads to the investor purchasing units of the mutual fund organization that supplied the questionnaire. This potential conflict of interest could be addressed by prohibiting mutual fund organizations from making available such questionnaires and only allowing Dealing Representatives to access such questionnaires from independent organizations as the Canadian Institute of Financial Planners.</p> <p><u>Mutual Fund Operating Expenses</u> In addition to the costs incurred by a mutual fund organization as contemplated by NI 81-105, there are other operating expenses that are often charged by the mutual fund organization against a fund that have no direct relation to the sale of the fund or its underlying management. Audit, legal, regulatory filing, bookkeeping and administrative fees are, in various forms and amounts, often charged to the mutual fund and included in the fund’s management expense ratio.</p> <p>As noted in OSC Staff Notice 33-473, Guidance on Sales Practices, Expense Allocation and Other Relevant Areas Developed from the Results of the Targeted Reviews of Large Investment Fund Managers (“IFM”) (June 19, 2014), “There is an inherent conflict of interest in fund expense allocation.” While Independent Review Committees exist to guide the IFM on the conflicts arising from expense allocation, this is another example of a conflict of interest that is common to a particular segment of the securities industry that could benefit from direct regulatory involvement to resolve the conflict and improve the competitive playing field for Scholarship Plan Dealers.</p> <p>An alternative to charging these types of indirect expenses to the fund is to instead require the Investment Fund Manager (IFM) to pay for these expenses from a single administrative fee that is disclosed, transparent and understood and for which the IFM can be held to account by its unit holders or its regulators.</p> <p><u>Transaction & Account Fees</u> Many mutual fund organizations and registered dealers who</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>distribute mutual funds charge customer various types of transaction and account fees that bear little or no value to the service rendered. Examples include self-directed RRSP administrative fees, fees where household asset levels fall below minimum thresholds and inactive account fees. These fees represent potential conflicts of interest in favor of the mutual fund organization and/or registered dealer without a corresponding benefit or value to the end investor.</p> <p>Response to Q. 49: As Scholarship Plan Dealers who distribute investment funds that are not mutual funds, we support extending NI 81-105 to other types of investment funds, as well as pooled funds, ETFs and any other type of investment vehicle where investor funds are collected together and used for a common purpose (i.e. certain structured product investments). However we only support this if NI 81-105 is expanded as noted in the prior response to address other areas of potential conflict of interest.</p> <p>Response to Q. 50: As noted in response to question 49, restrictions on sales practices should be in place for all types of pooled and structured investment products, as well as for segregated funds sold through the insurance industry. We believe in this as any form of pooled or structured product holding investor funds should have limits on how those funds sold and what expenses are charged to those funds to protect investor interests.</p> <p>Response to Q. 51: Aside from sales practices as contemplated by NI 81-105, another practice that incentivizes representatives to sell certain products is the concept of a ‘Mutual Fund Wholesaler’. This individual, who is employed by a mutual fund organization, is charged with promoting the organization’s funds by making and maintaining contacts and relationships at the Dealing Representative level. Mutual Fund Wholesalers seek audiences with Dealing Representatives, often under the premise to assist the representative to grow their business. However the discussion often turns to why the Dealing Representative should sell the funds of the Wholesaler’s particular mutual fund organization. The Wholesaler may also attempt to incentivize the Dealing Representative with non-monetary benefits. While we recognize the need for mutual fund organizations to promote their products across the distribution industry, the Wholesaler’s role and these</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>related practices are an example of a potential conflict of interest that both can lead to outcomes that are not always in the investor’s best interest and create an uneven playing field for Scholarship Plan Dealers.</p> <p>Response to Q. 52: The nature of and extent of disclosure of sales practices that exists for a publicly traded mutual fund should be extended to any other investment fund, pooled fund or structured product that sales practices are developed for. Scholarship Plan Dealers, using a Detailed Prospectus and Plan Summary, already meet disclosure requirements similar to mutual funds and this type of disclosure regime should be extended to other investment products mentioned above, including segregated funds sold under insurance legislation.</p> <p>Response to Q. 53: Given the difficult and subjective nature of assessing how an individual or firm registrant performed in responding to a particular conflict of interest situation, it would be difficult to develop further guidance in this area that would be meaningful and applicable to all types of products and distribution arrangements. Instead the CSA should focus on what has been suggested above, expanding NI 81-105 to include other types of sales practices and applying the expanded version consistently across other investment funds, pooled funds, structured products and segregated funds.</p>
Know Your Client	
<p>Part 7</p> <p>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?</p> <p>5. Should the CSA also codify the specific form of the document, or new account application form, that is used to collect the prescribed KYC content?</p> <p>6. Should the KYC form also be signed by the representative’s supervisor?</p>	<p>Response to Q.4: Dealing Representatives of Knowledge First are not required to be knowledgeable of or have a proficiency in, basic personal income tax laws. The standard industry practice is that issues regarding taxes are referred to experts on the subject matter such as tax accountants.</p> <p>Outside of collecting information regarding the customer’s basic tax position, Knowledge First either already collects much the information specified for the three proposed KYC elements when completing a customer’s KYC profile. Given the low risk nature of its Scholarship Plans, we question the need to gather information supporting a client’s ‘risk profile’, unless we expand our product offering in the future to include investment options with differing risk profiles. Otherwise, Knowledge First’s existing policies for collecting and analyzing KYC information in connection with the</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>Appendix B</p> <p>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?</p> <p>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 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?</p> <p>56. Should additional guidance be provided in respect of risk profiles?</p> <p>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?</p>	<p>suitability assessment of a proposed RESP purchase are fulsome and directly related to the products we offer.</p> <p>Response to Q.5: Given the lack of clarity and consistency between Scholarship Plan Dealers regarding KYC and suitability policies (of which Knowledge First’s are the most conservative of our peer group), we encourage the CSA to establish uniform requirements in this area. It will be difficult to extend these requirements to an actual new account application form however, as the KYC and suitability components are only a section of a comprehensive application form that forms part of the contract with the customer for the purchase of the RESP. However, the CSA could still establish uniform KYC and suitability policies for all Scholarship Plan Dealers that would ensure a level and competitive playing field and equal treatment for all customers.</p> <p>Response to Q.6: Knowledge First already requires its branch managers to approve each new RESP enrolment including attestations by the branch manager to the completeness and analysis of the KYC information and the overall suitability assessment. Knowledge First fully supports extending this requirement to all supervisors of Dealing Representatives.</p> <p>Response to Q.54: We believe that the only role for Knowledge First Dealing Representatives in collecting tax information is to ask the client about any outstanding taxes as part of collecting information on outstanding liabilities and debt servicing to assess security purchase affordability. The provision of tax advice by the Dealing Representative is inconsistent with the investor’s expected outcome – the investor is coming to the securities firm for securities transactions not taxation analysis or advice. There is sufficient information in our detailed product disclosure documents regarding general tax implications of Scholarship Plans. Dealing Representatives can remind clients to seek tax advice with respect to their investments but shouldn’t be expected to give such general advice, even if proficiency could be created for such advice.</p> <p>Response to Q.55: Knowledge First supervisors and Head Office Compliance staff members are instructed not to approve an enrollment in a new</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>RESP if any of the KYC information is missing or not fully described, as appropriate. This ensures a complete and thorough analysis of KYC information can be completed as part of assessing the suitability of the new RESP. We urge the CSA to establish this same standard for all registrants. We recognize that what constitutes all required KYC information for each class of registrant may vary and that the two recognized SROs, the MFDA and IIROC, are best suited to determine what constitutes required KYC information for their member firms. Similarly, we'd encourage the CSA to work with Scholarship Plan Dealers (through the RESP Dealers Association of Canada, "RESPDAC") to establish uniform and consistent KYC information for our peer group. However once 'all required KYC information' is established for each class of registrants, individual registrant firms should be required to insist that all such required information be collected as a condition of considering a new account for approval.</p> <p>Response to Q.56: As previously noted, Knowledge First Scholarship Plans are low risk investments. However, if we expand our product offering in the future to include investment options with differing risk profiles, we would agree for the need to determine the client's relationship towards investment risk (the client's "risk profile") carefully and in a fulsome manner. We do not oppose in principal to the elements of a client risk profile, as suggested in Appendix B. As earlier noted, we encourage the CSA to limit the ability of mutual fund organizations from supplying questionnaires and other tools designed to assist Dealing Representatives in determining risk profile as such tools often lead to the representative recommending the funds of the organization that supplied the questionnaire. We caution the CSA from taking a 'one size fits all' approach to this and instead recognizing the differences in registrant classes and, in the case of Scholarship Plan Dealers, working directly with our peer group to develop a uniform and competitively consistent approach to this very important KYC element.</p> <p>Response to Q.57: As previously noted, we believe that once 'all required KYC information' is defined for a particular registrant group, the registrant should be required to collect all of the information as a condition of considering a new account for approval. If there is a material change in any of the customer's KYC information, Knowledge First Dealing Representatives are required to collect</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>the updated information and complete an updated suitability assessment as part of submitting for approval a subsequent transaction in the customer’s plan. Setting aside the process for following up with a customer to determine whether the customer’s existing KYC information is up to date (i.e., no material changes), we do not believe there are any instances where collecting anything less than ‘all required information’ is appropriate if the registrant is fulfilling their obligations to assess suitability in each case.</p>
Know Your Product – Representative	
<p>Part 7/Appendix C</p> <p>7. Is this general approach to regulating how representatives should meet their KYP obligation optimal? If not, what alternative approach would you recommend?</p>	<p>Response to Q.7:</p> <p>We agree that the proposed approach regarding the Dealing Representative’s KYP obligation is reasonable. This is in fact the standard by which Knowledge First Dealing Representatives are trained and expected to conduct their dealing with their customers by. Knowledge First Dealing Representatives are only allowed to recommend products on the firm’s approved product list.</p>
Know Your Product – Firm	
<p>Part 7</p> <p>8. The intended outcome of the requirement for mixed/non-proprietary firms to engage in a market investigation and product comparison is to ensure the range of products offered by firms that present themselves as offering more than proprietary products is representative of a broad range of products suitable for their client base. Do you agree or disagree with this intended outcome? Please provide an explanation.</p> <p>9. Do you think that requiring mixed/nonproprietary firms to select the products they offer in the manner described will contribute to this outcome? If not, why not?</p> <p>10. Are there other policy approaches that might better achieve this outcome?</p> <p>11. Will this requirement raise challenges for firms in general or for specific registration categories or business models? If so, please describe the challenges.</p>	<p>Response to Q.8:</p> <p>Knowledge First supports the proposal of performing a fair and unbiased market investigation and product comparison for firms that offer non-proprietary products or a mixed shelf of proprietary and non-proprietary products. Our reason for supporting is based on the inherent conflict of product manufacturers, particularly mutual fund organizations, when these organizations entice and incentivize registered firms and Dealing Representatives to distribute their products. These product manufacturers have no in-depth knowledge of the firm’s customer base or Dealing Representatives; instead their focus is solely on growing sales of the products for the benefit of the manufacturer. While certain product manufacturers offer tools and information for customers directly and indirectly to be used by firms and Dealing Representatives, there is no accountability to the manufacturers to consider how their products may meet the needs of the firm’s customers.</p> <p>Response to Q.9:</p> <p>We believe that this framework, if done diligently and in the spirit of the intended outcome, will definitely contribute to a product shelf that is reasonably consistent with the needs and objectives of the firm’s customers. A firm can simply not allow its approved product list to grow, on the basis of product demand from customers and Dealing Representatives, demand of which is often based on short-term investment return performance, and expect</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>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?</p> <p>13. Could these requirements create incentives for firms to stop offering non-proprietary products so that they can fit the definition of proprietary firm?</p> <p>14. Should proprietary firms be required to engage in a market investigation and product comparison process or to offer non-proprietary products?</p> <p>15. Do you think that categorizing product lists as either proprietary and mixed/non-proprietary is an optimal distinction amongst firm types? Should there be other characteristics that differentiate firms that should be identified or taken into account in the requirements relating to product list development?</p> <p>Appendix D</p> <p>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?</p> <p>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.</p> <p>60. Would labels other than “proprietary product list” and “mixed/non-proprietary product list” be more effective? If so, please provide suggestions.</p>	<p>that the firm and its Dealing Representatives can fulfill their suitability obligations on an ongoing basis.</p> <p>To effectively implement the requirement for performing a fair and unbiased market investigation and the resulting analysis to the firm’s own products, firms should be required to engage a qualified and experienced arms’ length third party that could assist the firm, in whole or in part, in performing this investigation and producing a credible result.</p> <p>Response to Q.10: As to other possible policy approaches to better achieve this outcome, it is difficult to determine any other choices for registrants as the most effective result of these procedures has to include an in-depth analysis of the firm’s customer base and product shelf. Each investigation will have to be customized to those factors for each firm, so it would be hard to foresee another approach to this.</p> <p>The one other area the CSA could consider towards this outcome is to exercise some form of regulatory oversight over Fundserv, the organization whose activities facilitate the order processing and settlement within the mutual fund industry. As the gateway to the mutual fund industry, Fundserv is in a unique position to participate in the review of mutual funds for consideration of customer interests through its granting of the “Fundserv code” that allows mutual funds to be transacted electronically.</p> <p>Response to Q.11: The challenge this approach will raise for each firm will be dependent on the extent of each firm’s existing approved product shelf. We believe that many mutual fund dealers likely perform limited due diligence on publicly offered mutual funds when deciding to add these products to the approved list. What diligence is performed is often based on the size and breadth of the mutual fund organization, which invariably leads to approving large numbers of funds from that organization when the initial request was only for a single fund. This approach will force firms to be judicious in considering the nature and extent of their approved product shelf in managing the costs and resources needed to conduct the market investigation and subsequent product comparison. However, the end result, if performed well, will be a more relevant product shelf for the firm’s customers.</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>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.</p>	<p>Response to Q.12: Whether the outcome of this process results in firm’s offering more or fewer products is secondary to the primary objective; having a product shelf that is reasonably expected to meet the investment needs and objectives of the firm’s customers. This primary objective should be the end result if this process is followed diligently and in the spirit of the proposal.</p> <p>Response to Q.13: For certain small firms, this process may lead to the firm deciding not to offer non-proprietary products. However, where the firm is able (by virtue of its registration) to include non-proprietary products on its approved shelf but <u>chooses not</u> to avoid the effort associated with the process, that firm’s remaining proprietary products should also be evaluated in the same manner; performing a fair and unbiased market investigation and assessment of the results. If the result is that the firm’s proprietary products do not reasonably expect to meet the needs and objectives of customers, then the firm should be required to address that gap with the inclusion of non-proprietary products.</p> <p>Response to Q.14: As noted in response to question 13, where the firm is able to offer non-proprietary products but chooses not to, the firm should be required to conduct a similar market investigation and customer analysis to determine if the proprietary products are reasonably expected to meet the investment needs and objectives of the firm’s customers. As Scholarship Plan Dealers, our products are unique to each of our firms and are not available for distribution among other firms, including other Scholarship Plan Dealers. Given the fact that our firms offer products that have unique features and characteristics that we each believe are consistent with the customers investment needs and best interests and the related unique and proprietary systems that support these products, we are not able to offer or distribute each other’s products. For this reason and the very small size of our industry, we do not believe there is a requirement for Scholarship Plan Dealers to perform a market investigation, customer analysis and product shelf optimization.</p> <p>Response to Q.15: We agree there are other methods by which products can be classified beyond proprietary vs. non-proprietary. Categorization by product type or, in the case of mutual fund dealers, by asset</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>class, would also allow for a product shelf that would be sufficiently representative to reasonably meet the needs and investment objectives of the firm’s customers. Another choice, alone or in connection with product type/asset class would be to classify products by fee structures. This would also allow for a representative product shelf that could meet the needs of a broad range of firm customers. However, any of these methods should be <i>in conjunction with</i> and not in place of an analysis of proprietary vs. non-proprietary as this distinction, in our view, creates the greatest potential for conflicts of interest that if not adequately addressed can lead to negative investor outcomes.</p> <p>Response to Q.58: We believe that every registrant, regardless of size, that distributes products to retail investors should have both an approved product list and a robust approval process for adding and removing products from this list. The approval process should include both initial and ongoing due diligence procedures that are designed to reasonably ensure the firms’ products meet the needs and investment objectives of its customers.</p> <p>Response to Q.59: Certainly providing more guidance to the CSA’s view on what constitutes a “fair and unbiased market investigation” would assist registrants in meeting this requirement. The CSA should solicit input from the securities industry (distribution and manufacturing interests) as well as from independent qualified and experienced third parties to ensure the standards of “fair and unbiased” are kept in the forefront of discussions.</p> <p>Response to Q.60: As noted in our response to question 15, there are other methods and labels by which products, especially mutual funds, can be classified. However, the distinction between proprietary and non-proprietary is important to maintain to help investors understand the implications for the registrant of a customer transacting in a proprietary versus non-proprietary product.</p> <p>Response to Q.61: We believe that the requirements of a firm to complete a market investigation, product comparison or product list optimization in the CSA’s described manner, is reasonable. As noted in our response to question 9, left unchecked, a demand-driven approved product list can grow so large that it is virtually impossible for firms</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	and their Dealing Representatives to effectively fulfill their ongoing suitability obligations.
Suitability	
<p>Part 7</p> <p>16. Do you agree with the requirement to consider other basic financial strategies?</p> <p>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?</p> <p>18. Should there be more specific requirements around what makes an investment “suitable”?</p> <p>19. Will the requirement to perform a suitability assessment when accepting an instruction to hold a security raise any challenges for registrants?</p> <p>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?</p> <p>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?</p> <p>22. Will the requirement to perform a suitability review for a recommendation <i>not</i> to purchase, sell, hold or exchange a security be problematic for registrants?</p>	<p>Response to Q.16:</p> <p>For Scholarship Plan Dealers, Knowledge First does not agree with the requirement to consider ‘other basic financial strategies’ as it is inconsistent with investor outcomes for our customers. Our customers do business with our firm for a very specific reason; the purchase of a RESP. Our business model and overall value proposition is that we are experts in the RESP industry helping customers achieve post-secondary education success. Advising customers on saving towards the cost of post-secondary education is only one component of our value proposition. We provide low risk, professionally managed education savings products, advise on maximizing and available federal and provincial grants and optimizing the withdrawal of contributions, grants and income when the student attends post-secondary education. We also ensure that each customer who enrolls in a RESP with Knowledge First can afford to do so by applying some of the most comprehensive and conservative financial criteria for assessing suitability and affordability. It would both inconsistent to our customers’ expectations and beyond the scope of our collective proficiency to subject our customers to an analysis of other financial strategies when the focus is on saving for post-secondary education.</p> <p>For other classes of registrants that distribute either higher risk products or allow their Dealing Representatives to engage in high-risk distribution strategies (i.e., borrowing to invest, investing on margin, investing in illiquid exempt securities, investing in derivative securities), these registrants should be required to assess the customer’s overall financial situation (assets, liabilities, timing and extent of debt repayments, liquidity of assets, etc.) and conclude whether the customer is financially able to withstand the product or distribution risks of what is recommended. This would be in addition to the KYP and suitability obligations that the firm and its Dealing Representatives would have to also fulfill.</p> <p>Response to Q.17:</p> <p>Knowledge First believes that a requirement that a purchase, sale, hold or exchange of a product is the “most likely” to achieve the client’s investment needs and objectives is workable provided there is a clear and separate distinction between those elements that are within the control of the distribution firm and its Dealing</p>
Appendix E	

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>62. What, if any, unintended consequences could result from setting an expectation in the context of the suitability obligation that registrants must identify products both that are suitable and that are the most likely to achieve the investment needs and objectives of the client? If unintended consequences exist, do the benefits of this proposal outweigh such consequences?</p> <p>63. Should we provide further guidance on the suitability requirement in connection with ongoing decisions to hold a position?</p> <p>64. Should we provide further guidance on the frequency of the suitability analysis in connection with those registrant business models that may be based on one-time transactions? For example, when should a person or entity in such a relationship no longer be a client of the registrant for purposes of this ongoing obligation to conduct suitability reviews of the client’s account?</p>	<p>Representatives and those that are not. Even with the best KYP knowledge and understanding at the point of recommendation, or at any time during the time the customer maintains a position in a security, there is no way for a firm or Dealing Representative to know all that may go on that can affect the value of the security. For mutual funds, for example, ongoing portfolio management decisions, market volatility and even fees and expenses charged to a fund can all affect the fund’s overall value. If the firm and Dealing Representative are held to a standard that equates “achieving the client’s investment needs and objectives” to overall fund performance, the result is one that is unfair to the registrant. We understand the need for firms and Dealing Representatives to monitor customer’s security positions and advise customers when it appears the value and/or overall asset mix of the customer’s portfolio may be trending away from the stated goals and objectives. However, we believe it would be unfair and unreasonable to hold distribution firms and Dealing Representatives directly accountable for the decisions and actions of either portfolio managers or the management of individual companies.</p> <p>Response to Q.18: We agree for the need for more specific requirements regarding investment suitability. As Scholarship Plan Dealers do not belong to a recognized self-regulatory organization, we have not had the opportunity to develop rules and guidance as a collective group for investment suitability. As such detailed rule-making for a small group of registrants is not typically performed by the CSA, we are left with rules and policies that are inconsistent among our firms, often developed in response to individual regulatory examinations and/or resulting from guidance from CSA-imposed external compliance consultants. We suggest the CSA work with RESPDAC in allowing it to develop rules and guidance for suitability that would be applicable to all Scholarship Plan Dealers.</p> <p>Response to Q.19: We believe there can be short-term fluctuations in client financial and life circumstances that may unduly affect a suitability assessment for someone who wants to continue to hold a security that is typically expected to be held long-term such as scholarship plan or mutual fund.</p> <p>Response to Q.20: We believe that for Scholarship Plan Dealers, the requirement to</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>both proactively seek to update the customer’s KYC information (Part 7, <i>Know Your Client</i>) and/or perform a suitability analysis at least once every 12 months is not necessary and not consistent with investor expectations, given most clients are simply following a fixed contribution schedule in building up their RESP. Further, given that the maximum federal education savings grant is reached at an annual contribution of \$2,500, most customers contribute only a small amount to their plan each month, with a typical contribution of between \$50 and \$100 monthly.</p> <p>The requirement for a suitability assessment should only be triggered when there is a new transaction, a material change in the client’s KYC information or if there is a material market event that significantly impacts the value of the security (latter to be clearly defined). However, a suitability analysis for an RESP at least once every 12 months would provide no added value to Scholarship Plan Dealer clients.</p> <p>Response to Q.21: We agree that where it makes sense for a representative to complete this work (we oppose this for Scholarship Plan Dealers on the basis that the alternatives set out for our registrant group in NI 31-103 are uniquely effective), the client should receive copy of completed work.</p> <p>Response to Q.22: We do not believe the requirement to perform a suitability review for a recommendation <i>not</i> to transact in a security will be problematic, provided it is done objectively such as the affordability analysis completed by Scholarship Plan Dealers. Clients can still proceed on a ‘client-directed’ basis if they choose to.</p> <p>Response to Q.62: Each registered Scholarship Plan Dealer maintains a proprietary product shelf and Dealing Representatives at each firm are expected to be proficient in assessing the suitability of the proprietary products offered by their particular firm. Therefore, a significant unintended consequence of the expectations referred to in this question would be to place Scholarship Plan Dealer Dealing Representatives in a position where they must evaluate the suitability of products that they are not, nor expected to be proficient in (i.e. RESPs offered by other SPDs and/or financial institutions). Since an RESP is intended to achieve a very specific</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>investment need and objective (i.e. saving for post-secondary education of the designated beneficiary) and at Knowledge First and other SPDs, Dealing Representatives offer specialized advice to maximize grants and optimize the administration of the RESP, in addition to the underlying investments, there is no real added benefit to the clients from this proposed expectation as it relates to SPDs.</p> <p>Response to Q.63: We agree that further guidance should be provided and that the additional guidance should be that short-term events or fluctuations in client KYC should not affect a suitability assessment for products that are designed to be held over the long-term. That said, Knowledge First does require an updated suitability assessment for a customer’s RESP if there has been a material change in the customer’s KYC information. If the assessment questions the customer’s ability to continue to afford the ongoing commitments of the plan (i.e., to continue to ‘hold’ the security), the Dealing Representative will advise the customer on various options to address this concern without requiring the customer to cancel his/her plan outright.</p> <p>We agree that further guidance should be provided on the frequency of suitability analysis. We believe that suitability assessments should not be performed on a set frequency just to perform them; the trigger for an assessment should be a material change in KYC information or if there is a material market event that significantly impacts the value of the security (latter to be clearly defined). See our response to question 20.</p>
Relationship Disclosure	
<p>Part 7</p> <p>23. Do you agree with the proposed disclosure required for firms registered in restricted categories of registration? Why or why not?</p> <p>24. Do you agree with the proposed disclosure required for firms that offer only proprietary products? Why or why not?</p> <p>25. Is the proposed disclosure for restricted registration categories workable for all categories identified?</p> <p>26. Should there be similar disclosure for</p>	<p>Response to Q.23: Knowledge First does not agree with the proposed restricted registration category disclosure. The proposed disclosure implies that restricted dealers, including Scholarship Plan Dealers, who may not offer as broad of a range of products as full-service, non-restricted dealers, are of a lesser quality and not able to adequately meet the client’s needs and objectives. For Scholarship Plan Dealers, including Knowledge First, this is not the case.</p> <p>Knowledge First and their Dealing Representatives are experts in the RESP industry and provide clients with highly effective, value-added advice through the RESP lifecycle. The complexity of income tax rules that govern the contributions to and withdrawals from the customer’s RESP, the rules that govern the maximization of</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>investment dealers or portfolio managers?</p> <p>27. Would additional guidance about how to make disclosure about the relationship easier to understand for clients be helpful?</p>	<p>collecting government grants (federal and provincial), the strategies for optimizing the withdrawal of plan contributions and grants and most importantly, the rules governing the eligibility of post-secondary education programs that allow RESP beneficiaries to maximize the value of their plan, are highly complex and ever-changing. Knowledge First and its Dealing Representatives have the training, experience and expertise in dealing with both customers and federal and provincial government agencies and truly make the commitment to understand and apply these rules to the customer’s greatest benefit. Other registrants that offer RESPs may be familiar with some or all of these rules and may even try to match or better Knowledge First in product choice and investment options. However, the primary focus of many non-Scholarship Plan Dealers is the gathering of asset and the investment of contributions and grant monies. RESP customers also understand the value provided by Scholarship Plan Dealers as demonstrated by the fact that while there are only six registered Scholarship Plan Dealers in Canada, they collectively account for approximately 25% of the total assets under management in the RESP industry.</p> <p>As a result, while Knowledge First does not object to identifying itself as a “restricted dealer” for purposes of relationship disclosure, that disclosure should be limited to what being a restricted dealer means without reference to the extent of the firm’s product offerings. Ensuring that Knowledge First is offering a suite of products that would be reasonably expected to meet the investment needs and objectives of its customers is more important and more relevant than making a broad generalization that restricted dealers, by definition, are somewhat less relevant or less valuable to their customers simply by the size and extent of their product shelf.</p> <p>Response to Q.24: We only agree with the proposed disclosure to a limited extent. We do not object to disclosing the existence of proprietary products and explaining the resulting conflict arising from this. However, as noted in our response to Question 23, we do not agree with disclosing the proportion of proprietary and non-proprietary or the limitations on suitability from offering proprietary products as this is both redundant and implies that offering proprietary products only is a worse alternative than offering a mixed shelf of products.</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>Response to Q.25: In our view, the proposed relationship disclosure is not workable for Knowledge First as it inaccurately implies that such dealers are inferior to full service firms that offer RESPs.</p> <p>Response to Q.26: We agree that similar relationship disclosure would be useful and effective for investment dealers and portfolio managers. However, the disclosure should be modified as described above for restricted dealers; disclosure of the existence of proprietary products and the resulting conflict is fine but not the fact that the offering of proprietary products only is inferior or not able to meet the client’s needs and objectives the same way that a shelf of mixed products can.</p> <p>Response to Q.27: We agree that any additional guidance provided to customers directly by the CSA, similar to what the SEC provides, would be useful and helpful as it would be viewed as independent, unbiased and more reliable.</p>
Proficiency	
<p>Part 7</p> <p>28. To what extent should the CSA explicitly heighten the proficiency requirements set out under Canadian securities legislation?</p> <p>29. Should any heightening of the proficiency requirements for representatives be accompanied by a heightening of the proficiency requirements for CCOs and UDPs?</p>	<p>Response to Q.28: We do not agree with the underlying premise that heightened proficiency is required for Dealing Representatives to expand the representative’s overall product knowledge for the sole reason that having knowledge about more products is somehow “better”. As noted in our response to question 23, Knowledge First and its Dealing Representatives are experts in the RESP industry, providing highly effective, value-added advice to their customers. We do not believe the Consultation Paper makes a strong case in concluding that “more is better” when it comes to product choice for customers and that full service dealers are better equipped or suited to provide quality advice to RESP customers.</p> <p>Knowledge First remains bound by the requirements of National Policy No. 15 with respect to much of its business, including the manner in which RESP contributions are invested. Knowledge First has in recent years, obtained permission from the CSA to expand RESP investments into equity securities. As a condition of obtaining this permission, Knowledge First developed and delivered customized training to its Dealing Representatives to ensure equity investing was understood by customers. As Knowledge First, in conjunction with the CSA, continues to expand its investment strategies, we will continue to ensure our Dealing Representatives</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>are adequately trained to educate and advise customers on the benefits and risks of these strategies. As a result, we do not agree with the need for heightened proficiency for Scholarship Plan Dealer Dealing Representatives unless it is in conjunction with a corresponding change in the firm’s products.</p> <p>Response to Q.29: We do not agree for heightened proficiency for CCOs and UDPs for the same reasons set out in the response to question 28; that there is not a sufficiently strong argument made to support the premise that “more is better” in terms of product availability and choice. The existing proficiency for CCOs as set out in National Instrument 31-103 already provides a comprehensive set of requirements that addresses the different categories of registration. Further, separate proficiency is not required for UDPs either as UDPs do not perform compliance or supervisory duties. We recognize that a UDP must have sufficient knowledge and experience in both the industry in which he/she operates and the firm (and its products, distribution and other functions) for which he/she works for. However, this is the function of the firm’s Board of Directors to assess and for the CSA to review in the context of the UDP as a registrant. There are many combinations of education, experience and technical training that a successful and effective UDP can have and if the CSA, in reviewing the UDP’s application for registration, questions the appropriateness or depth of the UDP’s background or skills, that is the forum in which to discuss and answer these questions.</p>
Titles	
<p>Part 7</p> <p>30. Will more strictly regulating titles raise any issues or challenges for registrants or clients?</p> <p>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?</p> <p>32. Should there be additional guidance regarding the use of titles by representatives who are “dually licensed” (or equivalent)?</p>	<p>Response to Q.30: Knowledge First believes registrants and customers can benefit from a more uniform set of requirements for titles that are relevant, consistently applied and promote transparency and understanding for customers. The latter is essential in this regard; many customers place a great deal of emphasis on a Dealing Representative’s title and can be misled by confusing or inaccurate titles. For example: Dealing Representatives who refer to themselves as ‘Vice President’ when he/she is not a listed officer of the firm. Therefore any changes made by the CSA in this area should be introduced with a sufficient adaptation period for customers and plenty of education and information, directly from the CSA, in an easy to understand readily accessible formats.</p> <p>Response to Q.31: Of the proposals listed, we prefer alternative 3 as it reflects the</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>true nature of the individual’s role, avoids unnecessary attention to the concept of a representative as a “salesperson” and avoids reference to the word “securities” which is difficult for many customers, especially those of Knowledge First to understand. The title ‘Scholarship Plan Representative’ should remain unchanged because it is suitable for this category of representatives.</p> <p>Response to Q.32: We do not believe that additional guidance is required in this area. If the alternative described under question 31 is prioritized, additional guidance regarding the use of these titles should not be necessary. The representative with more than one license will simply have to indicate his registration categories.</p>
Designations	
<p>Part 7 33. Should we regulate the use of specific designations or create a requirement for firms to review and validate the designations used by their representatives?</p>	<p>Response to Q.33: We do not see the need for additional regulation here. Knowledge First already reviews and validates the titles used by its Dealing Representatives. We also believe that titles should also avoid any reference to an individual’s designations or personal qualifications unless such qualifications are unique to the individual’s category of registration.</p>
Role of UDP and CCO	
<p>Part 7 34. Are these proposed clarifying reforms consistent with typical current UDP and CCO practices? If not, please explain.</p>	<p>Response to Q.34: We believe that the proposed clarifying reforms go beyond existing UDP and CCO practices and should not be proceeded with at this time. The current demands and regulatory expectations placed on UDPs and CCO to ensure and monitor compliance within their firm are significant and sufficient, especially in the context of conflicts of interest. Many of the proposed reforms are problematic at their core due to the ambiguity and uncertainty that they introduce. In particular, the expectation that a UDP “promote consideration and management of conflicts of interest in a manner that prioritizes the interests of the client” is ambiguous, subjective and unclear in scope. As noted in our responses to questions 1, 2 and 3, we believe further study is required, involving the various registrant groups and SROs to best determine how to address conflicts before imposing any further commitments on UDPs and CCO.</p>
Statutory Fiduciary Duty When Client Grants Discretionary Authority	
<p>Part 7 35. Is there any reason not to introduce a statutory fiduciary duty on these terms?</p>	<p>Response to Q.35: The context of this question is whether a statutory fiduciary duty should be imposed on firms that manage an investment portfolio through discretionary authority granted by the client. This is not applicable to Knowledge First as it has discretionary authority to manage a client’s investment portfolio.</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
Regulatory Best Interest Standard	
<p>Part 8</p> <p>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.</p> <p>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.</p> <p>38. Please indicate whether there are any other key arguments in support of, or against, the introduction of a regulatory best interest standard that have not been identified above.</p> <p>65. Should the Standard of Care apply to unregistered firms (e.g., international advisers and international dealers) that are not required to be registered by reason of a statutory or discretionary exemption from registration, unless the Standard of Care is expressly waived by the regulator?</p> <p>66. Do you believe that the Standard of Care is inconsistent with any current element of securities legislation? If so, please explain.</p> <p>67. Do you agree that the Standard of Care should not apply to the underwriting activity and corporate finance advisory services described above? If not, please explain.</p> <p>68. Do you think this expectation is appropriate when the level of sophistication of the firm and its clients is similar, such as when firms deal with institutional clients?</p>	<p>Response to Q.36:</p> <p>Knowledge First believes that a regulatory best interest standard is <u>neither required nor beneficial</u>, over and above the targeted reforms (in whatever final form the reforms take), to address regulatory concerns. Our reasons are as follows:</p> <ul style="list-style-type: none"> • a best standard itself is not going to directly affect the behavior or actions of registrants; what will affect behavior and actions are targeted reforms that reflect the unique registration categories that exist and feedback from SROs and individual registrants in developing the reforms; • the CSA’s existing standard for registrants, to deal fairly, honestly and in good faith with its clients and act in its clients best interests’, provides both a sufficiently clear regulatory framework for registrant conduct and rule-making as well as a standard for enforcement; • as the jurisdictions that have concerns with the regulatory best interest standard have noted, it may widen the expectations gap between clients and registrants, such as Knowledge First, which operates in a restricted registration category under a proprietary business model; • having a regulatory best interest standard across an industry with different and unique registration categories and business models is counter-intuitive as it is virtually impossible to establish a consistent and common standard that captures everyone equally and fairly; • the CSA’s approach of targeting areas for reform, such as mutual fund disclosure and mutual fund fees, is far more efficient than an overarching best interest standard as it allows the CSA to understand and focus its efforts on particular problems without disturbing the areas of the industry that operate effectively. <p>Response to Q.37:</p> <p>Knowledge First <u>disagrees</u> with the points raised in the Consultation Paper that are <i>in support</i> of a regulatory best interest standard for the following reasons:</p> <p><i>Point 1: Governing Principle</i></p> <p>We disagree with this as a reason for adopting the best interest standard. We believe the existing governing principles including</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>the duty of registrants to act fairly, honestly and in good faith, creates a sufficient set of principles by which the CSA can effectively administer and enforce securities legislation. The CSA should continue to operate under this principle and instead continue to focus on targeted reforms that address conflicts and harmonize requirements within registrant categories</p> <p><i>Point 2: Closes the expectations gap</i> We disagree that a regulatory best interest standard would close any expectations gap. On the contrary, as noted in our response to question 36, we agree such a standard may widen the gap by creating expectations for certain classes of registrants, such as Knowledge First, that the firm is unable to meet due to its restricted registration category and proprietary business model. Rather, we believe the best way to close the customer expectations gap is through better enforcement of existing legislation, better oversight of the existing SROs and for non-SRO registrants like Knowledge First, a uniform set of compliance rules and policies including KYC and suitability that are consistently applied to ensure a level and competitive playing field.</p> <p><i>Point 3: More objective, client-centered standard of care</i> We disagree that a regulatory best interest standard is more objective. Dealing fairly, honestly and in good faith and clearly defined, well understood terms which benefit from regulatory and judicial precedence and is sufficient for establishing a client-centered standard of care. The term ‘best interest standard’ as noted in the Consultation Paper, is interpreted very differently by different constituents. This is due to the ambiguity of the phrase and the inevitable connection to fiduciary duty, which in itself is ambiguous and not well understood.</p> <p><i>Point 4: Appropriate tone from the top</i> We disagree that a regulatory best interest standard would better enable senior management to develop a strong compliance culture. The current standards including dealing fairly, honestly and in good faith, combined with the expectations of both UDPs and CCOs in NI 31-103 provide ample basis for establishing an effective ‘tone at the top’. If the CSA believes this needs to be enhanced, we believe it can be achieved (as noted in point 2) with better enforcement, better SRO oversight and uniform and consistently applied rules for non-SRO registrants.</p> <p><i>Point 5: A principle-based approach allows greater flexibility for</i></p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p><i>registrants</i></p> <p>We disagree that a regulatory best interest standard allows for better approach in dealing with registrant conduct and the pace of regulatory change. Again a combination of the existing standards, effective targeted reforms that are consistently applied and better enforcement across the industry will, in our view, address registrant conduct more effectively. As to the pace of regulatory change, we believe a regulatory best interest standard may have the opposite effect as it will create an additional threshold by which all regulatory initiatives will have to be evaluated, with such evaluation void of the regulatory and judicial precedence to allow for this to be done in a timely manner.</p> <p><i>Point 6: Investors responsible for investing to fund their retirement</i></p> <p>We disagree with this point simply for the reason that we do not see how a regulatory best interest standard acknowledges the importance of retirement savings. If the connection is to demonstrate that the importance of retirements savings to Canadians requires registrants to conduct themselves in such a way that they deal fairly, honestly and in good faith with their customers, we can understand that. However the challenges with the best interest standard – its ambiguity, potential inconsistencies with restricted activities and the possible creation of a fiduciary relationship where one doesn't exist, may make saving for retirement more difficult for Canadians.</p> <p><i>Point 7: Mitigates client-registrant-information gap and validates clients' significant trust in registrants</i></p> <p>We disagree with this point for the same reason noted in point 2; that we are not convinced that a best interest standard will reduce the gap and may in fact widen it. As a senior experienced compliance professional, I have seen many instances of customers placing significant trust in registrants as noted. However imposing a further, ambiguous standard on top of the existing regulatory framework will not reduce the instances where this trust is abused by registrants. What will achieve this, in our view, is what we have set out above: more effective enforcement, SRO oversight and meaningful reforms, applied consistently, that reflect feedback from those directly affected by them.</p> <p><i>Point 8: Immediate impact</i></p> <p>We disagree with this point as it ignores the existing standard to deal fairly, honestly and in good faith, which is sufficient for meaningful, client-centric regulatory framework, if the framework</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>is enforced effectively and consistently.</p> <p><i>Point 9: Assists in professionalism of advisers, dealers and representatives</i> We disagree with this point since the existence of a standard – any standard – by itself is not going to contribute to the professionalism of an industry. What will contribute are meaningful regulatory actions and consistency in policy development, reform and enforcement.</p> <p><i>Point 10: Aligns with conduct expectations of key international and domestic standard setters</i> We disagree with the need for this alignment given the uncertainty a regulatory best interest standard would bring to the industry with its ambiguity and potential connection to fiduciary duty. We believe Canadian regulators should act in a manner that is best for Canadian investors and registrants and the existing framework including the requirement to deal fairly, honestly and in good faith, can be effective.</p>
Impact on Investors, Registrants and Capital Markets	
<p>Part 9</p> <p>39. What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on compliance costs for registrants?</p> <p>40. What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on outcomes for investors?</p> <p>41. What challenges and opportunities could registrants face in operationalizing: (i) proposed targeted reforms? (ii) a regulatory best interest standard?</p> <p>42. How might the proposals impact existing business models? If significant impact is predicted, will other (new or preexisting) business models gain more prominence?</p> <p>43. Do the proposals go far enough in enhancing the obligations of dealers, advisers and their representatives toward</p>	<p>Response to Q.39: We believe the introduction of the proposed targeted reforms as proposed, and/or a regulatory best interest standard would significantly increase compliance costs for all classes of registrants, particularly in the following areas:</p> <p><i>Conflicts of Interest</i> As noted in our response to question 2, there are too many possible conflicts of interest, including conflicts within large segments of the securities industry, to place the entire responsibility for assessing and responding to each one on the registrant community itself. To do so would require a significant increase in both legal and compliance resources to ensure no potential conflict is missed. As we recommended a more practical approach is for the CSA to identify specific areas of conflicts it is immediately concerned with and work with registrants to develop rules and guidance for everyone to follow in addressing these conflicts. The CSA should then engage in further discussions with various registrant classes on other potential conflicts, such those identified in our responses to questions 48 and 51 and develop rules and guidance that would be applicable to all.</p> <p><i>Know Your Client</i> As noted in our response to question 4, Dealing Representatives,</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
<p>their clients?</p>	<p>including those with Knowledge First, are not to be knowledgeable of or have a proficiency in, basic personal income tax laws. The standard industry practice is that issues regarding taxes are referred to experts on the subject matter such as tax accountants. There would be a significant cost in training Dealing Representatives in basic personal income tax laws if the proposed reform was implemented, both in terms of developing training materials and delivering these materials in a uniform manner, to the same standard as other registrant proficiency courses.</p> <p>Another component of the proposed reforms for KYC that would result in significant compliance costs, especially for Knowledge First and other Scholarship Plan Dealers is the requirement to update the client’s KYC information at least every 12 months. As noted in our response to question 20, this is not necessary and not consistent with investor expectations, given most clients are simply following a fixed contribution schedule in building up their RESP. To impose this reform would significantly increase compliance costs, both in terms of human and technical resources to ensure this activity was performed and monitor it through to completion. Knowledge First already has a series of procedures in place to monitor for changes in KYC information and requires its Dealing Representatives to re-perform a suitability assessment if a material change in KYC information is identified. This framework works effectively for us and as noted in our response to question 5, we encourage the CSA to develop uniform KYC policies and procedures for all Scholarship Plan Dealers to maintain a competitive and even playing field.</p> <p><i>Know Your Product – Firm</i></p> <p>As noted in our response to question 8, Knowledge First supports the proposal of performing a fair and unbiased market investigation and product comparison for firms that offer non-proprietary products or a mixed shelf of proprietary and non-proprietary products. We recognize that implementing this reform will result in an increase in compliance costs, especially for larger firms that have comprehensive, demand-driven approved product lists. To help manage this cost, especially the cost of an initial market investigation/product analysis, the CSA could develop guidance for dealers, especially dealers who distribute mutual funds, on balancing the need for a sufficient amount of product choice across different asset classes, geographies and investment styles with placing reasonable limits on the extent of choices within the approved product list. This, combined with the</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>proposed KYP reforms for Dealing Representatives (which we support as noted in response to question 7), will require dealers to optimize the size and extent of their approved product lists.</p> <p><i>Suitability</i> One area of the proposed suitability reforms that will significantly increase compliance costs is the requirement for Dealing Representatives to conduct both a basic financial strategy review and identifying a target rate of return for the customer. As noted in our response to question 16 we do not agree with the concept of performing a basic financial strategy for Scholarship Plan Dealers. The compliance costs of implementing and enforcing policies and procedures around this requirement, especially when there are so many variables in this proposal (what is high interest debt, how much is too much, what are the specific triggers for recommending that cash be directed to a savings account), would be significant.</p> <p>Similarly for establishing a target rate of return for a customer’s portfolio; there are simply too many variables to implement and enforce policies and procedures in a uniform and reasonable manner, let alone to deal with the inevitable complaints when the rate of return is not met. As noted in our response to question 17, there needs to be a clear and separate distinction between those elements that are within the control of the distribution firm and its Dealing Representatives and those that are not. Requiring registered firms and their Dealing Representatives to establish a target rate of return will lead the customer to hold the firm and the representative accountable for the performance of the investments, which is beyond their control.</p> <p><i>Relationship Disclosure</i> We believe there will also be significant compliance costs associated with enforcing the delivery of the restricted registration category disclosure as part of the overall reforms for relationship disclosure. As we noted in our response to question 23, the disclosure as drafted implies that restricted dealers including Scholarship Plan Dealers, who may not offer as broad of a range of products as full-service, non-restricted dealers, are of a lesser quality and not able to adequately meet the client’s needs and objectives. To clearly disclose and explain this to customers will be problematic as it is contrary to why customers seek out restricted dealers like Scholarship Plan Dealers; because the customer can receive a higher quality of customized service and value-added advice. The resulting customer complaints that will inevitably</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>follow this negative disclosure will also lead to increases in compliance costs to investigate and resolve.</p> <p><i>Proficiency</i> As noted in our response to question 28, we do not agree with the underlying premise that heightened proficiency is required for Dealing Representatives to expand the representative’s overall product knowledge for the sole reason that having knowledge about more products is somehow “better”. If implemented as proposed, this reform will significantly increase compliance costs of ensuring Dealing Representatives complete the heightened proficiency and apply the resulting principles in their discussions with customers.</p> <p><i>Titles</i> As noted in our response to question 30, Knowledge First believes registrants and customers can benefit from a more uniform set of requirements for titles that are relevant, consistently applied and promote transparency and understanding for customers. While there will be an initial compliance cost of implementing a uniform set of titles (we recommend), the compliance cost of implementing and overseeing titles as contemplated in Alternative 1 would be significant given the choices within this alternative. This is an example of where ‘less is more’ in terms of maintaining a simple and easy to understand framework, such as is proposed in Alternative 3.</p> <p><i>Regulatory Best Interest Standard</i> The potential compliance costs of implementing a regulatory best interest standard as proposed would be the greatest of all the reforms. This is due to the complexity of interpreting this principle-based standard in a multitude of different fact situations, especially without the benefit of regulatory or judicial precedent. For the reasons set out in our response to question 37, we urge the jurisdictions that are in favor of this standard to reconsider it and instead focus on applying the existing standard of dealing fairly, honestly and in good faith.</p> <p>Response to Q.40: We believe the targeted reforms, if introduced as proposed, will not improve investor outcomes. Rather, the additional disclosure and explanations, the additional KYC and suitability obligations, the negative implications of the restricted dealer relationship disclosure will all leave investors more frustrated and confused</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>than ever before. We urge the CSA, as we have throughout our responses, to continue with its efforts of focusing on specific areas of regulatory concern (mutual fund point of sale disclosure, mutual fund fees), continue to operate under the existing framework of registrant dealing fairly, honestly and in good faith with customers, and continue to effectively enforce securities legislation, oversee SROs and work with non-SRO registrants to develop uniform regulatory requirements to ensure a fair and competitive industry.</p> <p>Response to Q.41: We have described throughout our responses the challenges that Knowledge First and other registrants will face in operationalizing both the targeted reforms and the regulatory best interest standard. Collectively, these will lead to significant uncertainty for registrants in being accountable for a broader set of responsibilities and a significant corresponding increase in legal and compliance costs to implement and enforce these requirements.</p> <p>Response to Q.42: As we have noted in response to various questions, we believe the proposed reforms place restricted dealers, such as Knowledge First, in a negative view, as compared to full-service firms. We believe this is an unintended consequence of the concept that ‘more is better’ when considering best interests of the customer. As noted in our response to question 23, Knowledge First and their Dealing Representatives are experts in the RESP industry and provide clients with highly effective, value-added advice through the RESP lifecycle. The complexity of income tax rules that govern the contributions to and withdrawals from the customer’s RESP, the rules that govern the maximization of collecting government grants (federal and provincial), the strategies for optimizing the withdrawal of plan contributions and grants and most importantly, the rules governing the eligibility of post-secondary education programs that allow RESP beneficiaries to maximize the value of their plan, are highly complex and ever-changing. Knowledge First and its Dealing Representatives have the training, experience and expertise in dealing with both customers and federal and provincial government agencies and truly make the commitment to understand and apply these rules to the customer’s greatest benefit. We encourage the CSA to recognize this and instead work with Knowledge First and other Scholarship Plan Dealers to develop uniform policies for KYC, suitability assessment and disclosure, to maintain an even and competitive playing field.</p>

APPENDIX 2 – RESPONSES TO CONSULTATION QUESTIONS

Consultation Questions	Knowledge First Response
	<p>Response to Q.43: The question of whether the proposed reforms go far enough in enhancing the obligations of registrants towards their clients cannot be answered given the multitude of concerns raised with the various reforms. We instead encourage the CSA to review ours and other comments from other registrants carefully and re-focus its efforts in the manner we have suggested, maintaining the existing regulatory standard of registrants dealing fairly, honestly and in good faith with customers.</p>