

September 30, 2016

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

Delivered to:

Josée Turcotte, Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8

comments@osc.gov.on.ca

M^e Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

consultations-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

RE: CSA Notice and Request for Comments Consultation Paper 33-404 – *Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients* - Published for Comment on April 28, 2016

C.S.T. Consultants Inc. (CSTC) is pleased to provide the members of the Canadian Securities Administrators (CSA) with comments on the proposed regulatory initiatives aimed at improving the relationship between clients and their advisers, dealers and representatives (registrants). CSTC is fully committed to enhancing relationships between our clients and our representatives, and have policies in place to ensure that the interests of our client are placed ahead of the interests of our representatives and our firm where conflicts may exist. To that end, we are supportive of regulatory initiatives which enforce the current rules and those reforms that address any gaps and/or improve the investment process.

CSTC is registered as a scholarship plan dealer (SPD) and investment fund manager (IFM). We are the distributor and manager of the Canadian Scholarship Trust Plans (the Plans or CST Plans), education savings plans which are registerable with the Canada Revenue Agency as Registered Education Savings Plans. Due to the structure of our product and our commitment to return the principal invested in the Plan to the investor at maturity, which generally occurs in the year the beneficiary turns 18, the CSA has imposed restrictions on the investments which may be held by the Plans. In addition, the Plans are governed by the Income Tax Act which limits the lifetime investment in an RESP to \$50,000. Consequentially, we respectfully submit that the various targeted reforms must be tailored by having specific provisions for Scholarship Plan Dealers similar to NI 81-106, NI 31-103 and NI 41-101.

CSTC broadly supports the objectives of the CSA in ensuring that the regulatory regime provides investors with sufficient investor protection. We note, however, that the proposed targeted reforms appear to apply the same rules, guidance and regulatory expectations to all registrants in all circumstances and to all registration categories and do not consider potential or relevant circumstances of each registrant category, which would require more tailored regulation. Many of the concerns outlined in the Consultation

Paper do not apply to our business and business model, and as a result, many of the targeted reforms should not apply to us. Our detailed comments are set out below.

Proposed Targeted Reforms:

Conflicts of Interest – General Obligation

As an IFM, we are required to consider conflicts of interest inherent in our management of the Plans, which we then refer to the Independent Review Committee of the Plans.

As an SPD, we identify conflicts of interest with our clients inherent in the relationships of CSTC as SPD and our various representatives. The Plans are “proprietary” to CSTC – in that the only individuals who can invest in them are clients of CSTC. We do not have any other dealers distributing our plans and we distribute no other “product” or security. Potential subscribers receive very clear disclosure of the relationships and therefore the conflicts inherent in distributing our own products are managed through disclosure. The disclosure is of not only the relationships, but also of the fee revenue we obtain through distribution of the Plans. We do not believe there are any other conflicts that arise out of this relationship that we would have to manage in ways beyond disclosure.

Know Your Client

An outcome of the various recent Scholarship Plan Dealer audits was enhanced Know Your Client (KYC) requirements. The RESP Dealers of Canada (RESPDAC) established guidelines for the collection and assessment of KYC information which include the identification of the client’s objectives, contribution time horizon, financial circumstances including a calculation of disposable income and risk profile. We follow these guidelines, which we understand were provided to the OSC staff for their review and comment. We recommend that future reforms to NI 31-103 reflect these guidelines as tailored requirements for SPDs, if this is considered necessary in recognition of our business and relationships.

Know Your Product

In the event an SPD has multiple product offerings (group and self-determined), Dealing Representatives (DRs) have an obligation to advise clients of the features, benefits, costs and risks of all products. We require all registrants sponsored by CSTC to pass a product knowledge exam prior to registration and maintain ongoing product proficiency. However, we do not do any research beyond our product line see if other products would be suitable for our clients. Given our narrow registration category, this would not seem to be practical or necessary.

Suitability

The proposed suitability requirements to assess “financial suitability” and “investment strategy suitability” and identify a “targeted rate of return” should not be applied to SPDs. All SPDs are currently assessing financial suitability, including affordability and sustainability of contractual contributions and determining which product, the group plan and/or self-determined plan if available, is most suitable. Our investment strategies are limited as a result of the investment restrictions set out in the Investment Undertaking between each SPD and the CSA. Due to the requirement to hold the Principal and Grant balances in fixed income, there is little variation between the investments strategies of our products and the investment returns reflect current market yields.

Furthermore we have concerns about the identification of a target rate of return being seen as a guarantee. Similar to the requirement in the Investment Performance Report in NI 31-103, we currently provide clients with an Illustration of Projected Value at Maturity annually which is based on an estimated future rate of return. The title and disclosures for the illustration make it clear that there is no guarantee.

The illustration is helpful in demonstrating the impact of saving at different levels and coupled with information about the cost of education allows the investor to determine whether they should increase their savings in the RESP, subject to the limits of the Income Tax Act.

In addition, the targeted reform seems to monitor the investment outcome which is market driven rather than the investment process. Given the lifetime contribution limit and the low return environment, it is unlikely that an investor's desired objective of funding all of their child's post-secondary education costs in an RESP is feasible; however, we offer no other investment products. In our case, the gap between education savings and the cost of education should initiate conversations with our clients to review and increase their contributions or consider alternate education savings strategies.

Our focus is working with parents and others to allow them to save for their children's education and also to take advantage of the various government grant programs that are available that enhance those savings. In our view, our Plans are suitable to all parents with this goal in mind – the key factor our representatives have to determine is whether or not the subscribers can afford the amounts they wish to invest and will continue to hold our Plans without terminating their agreement (our Plans require investments over time and are long-term investments with consequences – some set by the ITA – upon early termination).

Proficiency

NI 31-103 recognizes the RESPDAC SPD course as the standard for proficiency for our representatives. We consider this an appropriate standard, particularly when it is supplemented by the on-going training we provide our representatives. While we support increased proficiency standards and continuing education for registrants, the standard should reflect the dealer category and nature of the product and service offered. SPD DRs provide limited recommendations (primarily related to affordability and contribution amount). It should also be noted that the level of proficiency required for SPD products does not include providing financial planning services to their clients, despite their needs.

Titles and Designations

We support the standardization of or limitation on the titles used; however, the titles should be understandable to the investor and reflective of the service offered. We are currently using Sales Representative (in lieu of Dealing Representative) and believe that this title accurately reflects the individual's position as a registrant. Securities salesperson is an awkward designation and does not reflect that our representatives represent our firm when they are speaking with potential investors in our Plan.

We are of the opinion that designations should not be used unless it is a professional designation associated with a specific registrant role within an organization. We currently do not allow the use of designations by our sales force.

Best Interest Standard

Securities regulations already require registrants to “act honestly, fairly and in good faith” with clients and to manage conflicts of interest appropriately putting investors interests first. The proposed standard of care requires registrants to also “act in their clients’ best interest”; however, it is unclear what this means and whether it will be interpreted as a fiduciary duty by the courts. We believe there should be a level of investor responsibility when making investment decisions that are recommended by a registrant. The registrant has a duty to provide “plain, full and true disclosure”, including disclosures about the features, benefits, risks, and costs associated with an investment fund, such as the CST Plans and discuss with the client any relevant issues or concerns. It is unclear to us what our representatives would have to do, or what we would have to do as a firm to be able to say we comply with a “best interest” standard of care.

We look forward to participating in further dialogue about how the targeted reforms can be tailored to fit with our registration category and the restrictions applicable to our Plans and our representatives. Should you have any questions or wish to discuss our comments, please contact me at peter.lewis@cst.org or 416-391-6900.

Yours very truly,

A handwritten signature in black ink, appearing to read "P. Lewis". The signature is fluid and cursive, with the first letter "P" being particularly large and stylized.

Peter Lewis
Vice President, Regulatory, Risk and Corporate Affairs