September 28, 2016

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

Attention:

Josée Turcotte, Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
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Me Anne-Marie Beaudoin, Corporate Secretary
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Dear Sirs / Madames:

Re: CSA Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward Their Clients ("Consultation Paper").

Primerica Financial Services (Primerica) appreciates the opportunity to submit comments on the Canadian Securities Administrators' ("CSA") Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward Their Clients.

About Primerica

Primerica is a leading distributor of basic savings and protection products to middle-income households throughout Canada. Our Canadian corporate group includes a mutual fund dealer (PFSL Investments Canada Ltd.), a mutual fund manager (PFSL Fund Management Ltd.) and a life insurance company (Primerica Life Insurance Company of Canada). Primerica has been serving the Canadian public since 1986. Our mutual fund dealer contracts with the largest independent mutual fund sales force in the country, with nearly 6,000 agents, which administers over $8 billion of client investments, the vast majority of which serve the savings needs of middle-income Canadians. Our life insurance company contracts with over 10,000 licensed life insurance agents across the country; protecting Canadian families with over $100 billion of term life insurance in-force.

While smaller-sized financial transactions with relatively high operational cost - typical of low-and-middle-income investors - have forced many financial services companies to focus on more affluent consumers, Primerica's business model is designed to allow us to provide exceptional service to this segment. Our model enables our representatives to concentrate on smaller transactions and provides clients access to investment opportunities for as little as $50 each month. Primerica has helped hundreds of thousands of households whose financial circumstances never would have attracted the attention of most financial planners or advisors. Many of our clients would not have the savings needed for retirement had they not met a Primerica representative.

Our representatives reflect and serve the communities in which they live. We actively bring new entrants into the industry, many from underrepresented communities. We are proud of the diversity of our salesforce, and it's near equal ratio of men and women. While we actively work to add more millennials to our salesforce to help serve the next generation of investors, we welcome people of all ages and backgrounds to better reflect the make-up of the middle-income market in Canada.

We vet and limit investment products on our shelf to relatively simple and mainstream products that are appropriate for our client base. We offer mutual funds from well-known and respected companies. The vast majority of our Assets under Management (AUM) are in registered savings vehicles. Our investment products and principles help middle-income Canadians establish a long-term savings plan for retirement, education and other needs. Our experience in serving middle-income Canadians has shown us investors without advice start late, save less, neglect tax-advantaged opportunities and are less prepared for their retirement and other life events. We believe that we play a fundamental role in our clients setting and achieving their financial objectives by instilling a savings culture through face to face meetings at their kitchen table.

General Comments on CSA Consultation Paper 33-404

We understand the challenging task that regulators have in trying to address consumer protection in a growing marketplace with new products, and we support their efforts in this regard. As an active member of the Investment Funds Institute of Canada (IFIC), we have supported a number of regulatory reforms to improve investor protection and increase transparency to our clients. A recent major example of such reform is Client Relationship Model-Phase 2 (CRM2). We urge the CSA to give these and other significant consumer protection initiatives an opportunity to be fully implemented and their impact both on investors and the industry observed before embarking on additional reforms that attempt to address the same concerns. As well, there are various business models within the industry, each addressing the needs of a different group of investors. Regulatory reforms should not impose a prescriptive, one-size-fits-all solution to a diverse industry that has served both investors' needs and our economy well to date. Nor should changes create an un-level playing field, advantaging one type of service delivery model over another.

We are supportive of changes that strengthen client protection and increase investor knowledge, but proposed changes need to carefully weigh the impact on those providing the services, as well as on investors. Creating a regulatory environment where the cost of servicing modest investors becomes prohibitive does not serve people who need financial advice. Initiatives including Continuing Education (CE) requirements for representatives, and introducing a client engagement letter that would set out the parameters of the advisor/ client relationship could achieve many of the goals of the targeted reforms, without as significant an impact on the cost of delivering

these services. When considered alongside the Point of Sale (POS) and CRM2 reforms, these additional changes will address many of the key concerns identified by the CSA. Having a clear and precise engagement letter with each customer would address any confusion regarding the services a firm provides and what services they should expect from their advisor. As well, outlining the client's responsibilities and questions to direct at their advisor would go a long way in empowering investors.

We encourage ongoing dialogue and a measured approach to regulatory reform to protect both investors and our vibrant industry.

We believe caution is warranted so that Canada does not end up with outcomes similar to the UK after the Retail Distribution Reforms (RDR) were implemented a few years ago. In March 2016 the Financial Conduct Authority issued a report on the UK's Financial Advice Market in light of concerns expressed about an advice gap[1]. The report found that the implementation of the RDR has had positive results for the wealthy, stating that, although the RDR has raised standards of professionalism and enhanced consumer protection, this high standard of advice is "primarily accessible and affordable only for the more affluent in society." The report identifies that the "mass market" has not fared well under RDR. The authors also state that the RDR's lack of clarity with respect to the provision of "regulated advice" has resulted in many firms' unwillingness to give consumers tailored information to support their decision-making as they have a "fear of straying into the provision of advice without having undertaken all the steps necessary to do so in accordance with regulatory requirements."

The report states that before RDR, the economies of scale at firms made it possible to serve consumers with "lower levels of affluence." However, post RDR, most firms have implemented portfolio minimums of more than £100,000 (CAD $170,000) because the cost to provide advice and service an account have increased significantly.

We must avoid a repetition of such mistakes, and are concerned that some of the proposals in The Consultation Paper may lead us down a similar path.

The Consultation Paper identifies client outcomes as one of the concerns that the CSA wishes to examine. However, client outcomes cannot be objectively

[1] https://www.fca.org.uk/publication/corporate/famr-final-report.pdf

regulated. Nor can benefits of advice be exclusively measured by returns and cost.

The value of using a financial advisor is significant and includes:

- Accumulating greater wealth through behavioural changes, learning and maintaining better savings habits as a result of advisor "nudging";
- Making better use of available tax-efficient investment vehicles;
- Establishing and maintaining a focused long-term investment strategy, including proper allocation of investment assets across all client accounts; and
- Protecting against poor financial decisions made by emotional considerations rather than calculated reason, especially during turbulent times.

These benefits of advice apply to all investors, and cannot be delivered by a low-cost computer algorithm a ("Roboadvisor"). Implementing any new requirements that cause a fundamental change in the advisor-client relationship must recognize the full value of having an advisor, and not just look at the impact of the cost of advice on client investment returns. Would certain investors have even started a savings plan absent the nudging of an advisor? Would they take advantage of all the tax beneficial vehicles available to them? Would they save consistently? Would they panic sell at the wrong time? We need to consider all of these factors when we are talking about client outcomes. Low-cost Roboadvisors will find their place in the industry in time, and if they deliver superior results for clients that business model will thrive. We believe that investors should have a choice of service and that smaller investors not be abandoned simply because our advisors can no longer afford to service them. The key element missing in Roboadvice is the "nudge" effect a human advisor offers clients, which is perhaps most critical when dealing with over-burdened middle-income families.

Current CSA, MFDA and IIROC rules already contain significant provisions to protect investors. While there is always room for improvement, we do not believe that we need wholesale changes that would make it uneconomical for firms to serve those with smaller amounts to invest. If Canada ends up with a result similar to the UK, where the mass market has been widely abandoned, the damage to the financial future of the vast majority of Canadians and to the economy will be incalculable.

Best Interest Standard

We share our regulators' goal of building advisor-client relationships that lead to positive investor outcomes. We believe that Canada has a robust regulatory framework that serves investors well, and we would like to work proactively with our regulators to strengthen investor protection further where there is an established need. We agree with the general principle that the best interest of the investor must guide the provision of financial services to clients, and believe that the current standard of conduct for dealers and advisors imposed by various rules and regulations are designed to obtain that outcome for investors. The current regulatory standard of care governing the registrant-client relationship contained in securities rules requires registrants to "act honestly, fairly and in good faith". Further, we believe that acting in the clients' best interests is critical to our business's long-term success. When our customers can see that they are on the path towards achieving their savings goals, they are more likely to remain with us and to refer their friends and family members to us. Our clients' growth and success lead to the growth and success of our investment business, and both depend on us acting in our client's best interests. To a very great extent, the interests of our clients, our advisors and our business are in alignment.

The Consultation Paper does not offer a clear definition of a proposed Standard. Without a precise and consistent definition of "best interest", we are unable to fully assess the impact of such a standard on industry and our clients. There is a real danger that a Regulatory Best Interest Standard could exacerbate the expectation gap that The Consultation Paper references since clients may expect all registrants to have an unqualified duty to act in their best interests without understanding the limitations of the requirement. We agree with British Columbia Securities Commission that this could increase client complacency, creating legal uncertainty. Such uncertainty would not serve investors or the industry.

Conflicts of Interest - General obligation

As in any commercial arrangement, the client/advisor relationship contains conflicts of interest. It also contains significant alignment of interests, both commercial and personal. The common objective in conflict of interest rules is to put the client's interests ahead of the advisors. The challenge is meeting this objective while determining which conflicts can be managed through disclosure, ensuring that clients understand their implications, and which are so significant that they cannot meet the best interest objective and must be

eliminated. This determination requires significant judgment and rules must be flexible enough to enable this judgment to be exercised.

There are substantial rules to deal with conflict of interest situations. IIROC Rule 29.1 requires that dealers and their representatives must observe high standards of ethics and conduct in the transaction of their business and not engage in any business conduct or practice unbecoming or detrimental to the public interest. MFDA Rule 2.1.4 requires that material conflicts of interest must be addressed by the exercise of responsible business judgment influenced only by the interests of the client. It is important that existing rules be taken into consideration prior to introducing new rules.

A principles-based approach to managing conflicts of interest is most effective as it is impossible to anticipate every scenario that could lead to conflicts nor to eliminate the same. Rigid rules would lead to expensive and burdensome compliance regimes, which may not be any more effective than the current principles based approach. We strongly believe that improved transparency through enhanced meaningful disclosure, better advisor training and investor education are the answers to improving management of conflicts of interest.

Finally, we caution against any broad reforms that may be introduced to eliminate perceived conflicts of interest, which could have unintended consequences harmful to business models serving Canadians with smaller amounts to invest. The perceived conflict and perceived harm must be carefully weighed against the potential to eliminate service altogether. We emphasize again the alignment of interests that exists between investors, their advisors and dealers.

Know Your Client (KYC)

The proposed KYC changes, along with the proposed suitability requirements, seem to contemplate adding elements of financial planning activities for every client, whether they need it, want it, or can afford it.

We would support a reform that requires greater emphasis on assessing a client's risk tolerance. However, more detailed information about a customer's financial situation is not required for basic transactions such as annual RRSP or RESP contributions. In fact, we will very likely find customers resistant to providing granular information for simple transactions. The additional requirements proposed in the reforms may overwhelm clients and

advisors with yet more documents and information to review and digest while the impact on client outcome of such enhancements is unclear.

The proposed reform would apply uniformly without recognizing how clients desire to interact with their advisor and the firm. KYC is a two-way street; the advisor has a responsibility to reach out to their clients on a regular basis while the client needs to inform the advisor of material changes that impact their financial circumstances. The current MFDA rules provide meaningful points of contact between advisors and clients, and set the expectations for the update of KYC information in a reasonable manner:

- Advisors must update the KYC information whenever they become aware of a material change in client information as defined in Rule 2.2.4(a).
- In accordance with Rule 2.2.4(e), advisors must also, on an annual basis; request in writing that clients notify them if there has been any material change in client information.

In our experience, our clients want to discuss financial goals and learn about potential savings plans at the outset of the relationship, and then again when their circumstances change. In many instances, our customer's time horizon is decades out, with a very gradual shift in investing objectives over time and clients contributing small amounts through a Pre-authorized Chequing. Forcing them to sit down and meet with their advisor every 12 months to update KYC may meet with resistance from many of our clients. The current regulatory environment allows the advisor to meet the individual expectations of the client and how they want to interact with their advisor. We support the IFIC proposal that allows for flexibility while recognizing the importance of ensuring clients' needs are met.

Know Your Product (KYP) – Representative and Firm

Current KYP requirements in NI 31-103 are not as comprehensive as those developed by our Self-Regulatory Organization (SROs). We therefore fully support bringing CSA requirements in line with the SRO, in our case the MFDA Rules.

However, the proposed KYP requirements as outlined in The Consultation Paper would be onerous, both on the firm and on the advisor, without necessarily producing a different client outcome. The financial services industry offers a vast array of products to suit all investor types and service

delivery models. Firms choose which products to add to their shelves in order to offer the most competitive and economically feasible products to serve their client base. Investors, in turn, chose their firm and advisor. It is a free marketplace, albeit one that is robustly regulated.

The regulator's role is to protect investors from undue harm and to foster fair and efficient capital markets. It is to ensure that the products and services offered to consumers are appropriate and suitable, to protect the investor from inappropriate advisor behaviour or from being sold fraudulent investments. We are supportive of this mandate.

KYP – Firm

Prescriptive rules that would enforce how and which investment products firms put on their shelves would be unprecedented and delve into the commercial decisions of private sector businesses. They would also inadvertently restrict product choice for investors. The proposed changes could force many smaller firms, and firms with small accounts, into proprietary funds. Firms should continue to exercise a great deal of due diligence in selecting funds that they list and offer choice to their clients based on the market that they are targeting, making commercially viable choices that treat their customers fairly. We are prepared to work with our SROs in fine–tuning current requirements for listing funds if there is indeed evidence of a problem.

KYP - Representative

The proposed reforms would require advisors to understand the structure and features of each investment product on their Dealer's shelf. We agree that advisors need to be knowledgeable about the products that they offer their clients. It is, however, unnecessary and unrealistic to require a mutual fund advisor to understand "each security" on their firms' product list. Many dealers offer thousands of funds, with many specific fund categories outside the realm of suitability for significant numbers of clients. The focus should be on understanding the category of each fund as well as any funds and fund categories that an advisor offers their clients. Current SRO rules require an advisor to understand products the advisor offers to their clients. While this may be able to be improved upon, the requirement as proposed would lead to a narrowing of dealer product shelves.

Suitability

The concept of suitability of investment recommendations is well developed in current SRO rules. The targeted reforms proposed by the CSA The Consultation Paper will layer on significant additional costs to firms, particularly impacting the cost of servicing smaller accounts. We believe the added requirements, taken as a whole, will only serve to accelerate the abandonment of small investors, arguably the individuals who need these services the most.

With regard to "basic financial suitability", individuals face financial choices every day between investing, paying down debt, increasing their savings or simply spending their money on other priorities. The client information required in order to make a suitable recommendation should be flexible enough to reflect the individual client circumstances as they can vary widely from client to client. They should not be prescribed as one standard for all.

Concerning "investment strategy suitability", the existing framework requires firms to conduct a basic asset allocation strategy by ensuring that the investments recommended are consistent with a customer's risk tolerances and investment objectives. The proposed reforms take that one step further by requiring an assessment of the investing goals (future amounts needed and time horizon), available savings, assessment of risk, and the setting of a targeted rate of return necessary to meet those objectives.

With respect to targeted rates of return, we do not believe they add value to the process and it is highly likely using such rates will mislead investors into thinking it is an expected outcome.

Regarding "product selection suitability" we have significant concerns with the implementation of a "most likely to achieve" standard. In practical terms, we are not sure how a firm would demonstrate compliance with this standard, either in a regulatory examination or in the event of a future client complaint. It is highly likely it would set up unrealistic client expectations. When considered together with the KYP requirements above it appears that the CSA is attempting to dictate investment outcomes. While choosing suitable investments is an advisor responsibility, committing to investment outcomes should not.

Further, with regard to the proposed "significant market event" trigger, market events should not be a trigger for a suitability assessment, unless

there has been a change in a client's KYC or in the risk profile of the investment as defined in a fund's prospectus. Suitability assessments should take market fluctuations into account at the outset and place clients into funds that match a client's risk tolerance and their investment horizon.

Relationship Disclosure

We are supportive of full transparency to clients regarding services and products we offer. If the current Relationship Disclosure requirements under the SRO Rules have gaps, we are open to enhancing them and including them in the new Rule.

A well-designed, simple, clear and concise client relationship disclosure document will equip clients with the information necessary to make informed decisions about products, services, fees and potential conflicts of interest.

We do however object to the term "restricted" when describing a firm's registration category. The fact that a firm has chosen a business model to market certain types of financial products should not result in an arbitrary label that provides no clarity to the public as to what the firm does. The label may, for example, imply that the firm's activities are "restricted" by a regulator for inappropriate conduct. We believe the term Mutual Fund Dealer much more clearly defines our category of business then "Restricted Dealer". We believe a description of the types of products and services a firm is registered to provide, as well as a disclosure that there are other types of financial services products that may be available through other firms would be much more effective in informing the customer of their available choices.

Concerning the proposal to require mixed/non-proprietary firms to disclose the proportion of proprietary products they offer, we are unsure what the benefit of this proposal is. How does the firm's proportion of proprietary to non-proprietary sales, assets, or the number of funds across its entire business guide the advisor and client to a suitable investment decision for that particular client's circumstances? Clarifying the intention would be helpful.

Proficiency

Our regulatory framework ensures a base proficiency and demands integrity of representatives to foster confidence in investors.

We have consistently supported the regulators' goal of ensuring that an adequate entry standard for the industry is established and maintained. We have also continued to advocate for a professionally administered, fair and reliable, entry-level exam to test proficiency. Proficiency requirements must be in line with the representative's duties and obligations. The proficiency standard needs to reflect the products that the license qualifies the representative to offer to the public. For mutual fund licensed advisors, while they should have a basic understanding of all offerings in the marketplace including stocks and bonds, their focus needs to be on mutual funds. These are the only product their license allows them to sell. The advisor should be able to identify the risks and benefits associated with purchasing stocks or bonds and be required to refer the client to someone who is licensed to offer those products.

Primerica is a proponent of CE. It is by CE that advisors' can update their skills and knowledge to meet the needs of their clients and keep up with developments in the marketplace. Currently, the MFDA is in the process of developing a CE program for their members. To avoid duplication, we recommend that any CSA regulations governing CE should be harmonized with SRO rules and guidelines.

Titles

Representatives must not hold themselves out to the public using inappropriate or misleading business designations or titles. IIROC has rules around the use of titles and the MFDA is considering rules at this time. We are supportive of these efforts.

Once again, we object to the term "restricted", particularly when describing individuals recommending products in a mixed/non-proprietary mutual fund dealer. We believe the best titles are ones that are clear, such as Mutual Fund Representative, and consistent across the board. Therefore, harmonization with SRO and other financial services rules is very important to ensure that the public is not confused by conflicting or differing titles.

Designations

Consumers should not be expected to untangle the maze of designations and titles in the marketplace when attempting to get financial services and advice. The public needs clarity on designations and what these designations mean in terms of services and advice that they can expect. If possible, the CSA should

formulate a list of approved designations and have a clear process to approve additional ones as the need arises.

Role of the Ultimate Designated Person (UDP) and Chief Compliance Officer (CCO)

It makes sense to us that the definition of the role of UDP and the CCO may need to change to reflect any Rule changes. We are not certain that proficiency standards would need to change but would welcome a review to ensure that the UDP and CCO can indeed perform their duties in overseeing the firm and its representatives.

Conclusion

Primerica supports the CSA's efforts to pursue enhanced investor protections and we will be proactive supporters of all measured and evidence-based reforms to achieve this mutual goal. At this point in time, we recommend that the CSA should defer adopting most of the recommended targeted reforms within The Consultation Paper until we can assess the impact of POS and CRM2 regulatory changes, the latest elements of which just came into effect in 2016. We are pleased that the CSA has announced a multi-year research project to measure the impact of these important initiatives. Undertaking further major reforms before understanding these outcomes would be premature, costly and may have unintended consequences, particularly on small investors and the economic feasibility of many firms that serve them.

Any reforms need to take into account middle-income Canadians' ability to access financial advice. Advice is shown to support the well-being of Canadians, in particular through its impact on improved savings behaviour. In a 2016 study conducted by the CIRANO Group on the value of having an advisor – the author states[2]:

> *"The positive impact of advice arises from the factors other than better stock picking, such as an increase in savings rates, better portfolio diversification, and more tax-efficient investments. Also, since statistically significant positive coefficients estimates on the tenure dummies are related to compound growth rates, sticking with an advisor induces more disciplined behaviour during periods of market volatility."*

[2] An Econometric Analysis of Value of Advice in Canada, Claude Montmarquette, CIRANO

"A respondent with a financial advisor and a positive savings rate will have a savings rate of 25.8 percentage points higher than an otherwise "comparable" non-advised respondent."

As Canadians are increasingly expected to assume more responsibility for their retirement savings, the importance of affordable and readily-available advisory services, that create a stronger savings discipline, is more important today than ever before.

While we have not commented on the specific questions in the Consultation Paper, we have had the opportunity to review IFIC's responses and are in agreement with their comments. However, we would be more than pleased to provide you commentary on any of the specific questions from our unique business perspective should you ask for our input.

Primerica is dedicated to educating middle-income families about the importance of saving for retirement and other goals such as their children's education. We provide our clients with analysis of their personal financial situation; inform them about tax efficient savings vehicles and mutual funds, and the discipline needed for future financial success. We believe our firm has an important role to play in the financial security of middle-income Canadian families, serving them safely, efficiently and cost effectively.

We appreciate the opportunity to comment on this important issue, and we look forward to participating in any further public discussion on this topic. Should you have any questions, please feel free to contact us.

Sincerely,

John A. Adams, CPA, CA
Chief Executive Officer