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

September 30, 2016

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

Attention:

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

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

Dear Sirs/Mesdames:

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

Capital International Asset Management (Canada), Inc. ("CIAM") is writing in response to the CSA's consultation paper 33-404 (the "Consultation") regarding proposals to enhance the obligations of advisers, dealers and representatives toward their clients.

As background, CIAM is part of The Capital Group Companies, Inc. ("Capital Group"), a global investment management firm which originated in 1931. The firm has extensive

experience in many countries and with various global regulatory authorities. CIAM serves as the manager and trustee to the Capital Group mutual funds, which are subadvised by its U.S. affiliates, Capital Research and Management Company and Capital Guardian Trust Company, which are both wholly-owned subsidiaries of Capital Group. CIAM is currently registered as an investment fund manager and portfolio manager in Ontario as well as an exempt market dealer in the provinces of Ontario, Quebec, Alberta, British Columbia and Nova Scotia.

As an overall comment, we acknowledge and commend the CSA's efforts to improve the client-advisor relationship through the proposed implementation of a best interest standard and targeted reforms referenced in the Consultation.

We generally support the comments submitted by the Investment Funds Institute of Canada (the "IFIC letter") in their letter dated September 20, 2016 and have the following additional comments in response to the Consultation.

Consistent with the comments in the IFIC letter, we strongly support placing the interests of clients ahead of the interests of registrants, where those interests may conflict. We believe this objective can be met by enforcing and/or enhancing the existing reforms as well as implementing a standard of care for registered dealers and advisers that is fair, objective and clear in its practical application.

In this regard, our letter is organized into two parts: (1) considerations for a regulatory best interest standard; and (2) comments on the key aspects of certain targeted reforms.

Part 1: Considerations for a Regulatory Best Interest Standard

We support many of the CSA's comments in Part 8 of the Consultation regarding its intended proposed framework for introducing a regulatory best interest standard including the guiding principles and formulating such standard as a "regulatory conduct standard" as opposed to a fiduciary duty. While we agree with the implementation of an "objective, client- centered standard of care", we are concerned that the phrase "best interest" may not necessarily meet this test. Acting in the "best interests" of a client can be interpreted as a subjective standard leading to potential confusion for investors and registrants in its practical application. To help address and mitigate some of the potential conflicts in the client-advisor relationship, we believe that the focus should be on the conduct of the advisor and support the introduction of a "regulatory conduct standard".

The Consultation asks whether there are any reasons not to impose a statutory fiduciary duty when a client grants discretionary authority. Similar to the IFIC letter, we agree that provincial securities legislation should be amended to introduce a fiduciary duty for managed accounts, where one does not already exist. We also believe that the client-advisor relationship, when making investment decisions for fully managed accounts or providing investment advice for retail non-discretionary clients, is similar. Both relationships involve the advisor who is

ultimately making investment decisions and recommendations for his/her client and accordingly should be subject to a higher standard to ensure that the client's interests are prioritized ahead of the advisor's interests. Existing requirements are already in place for other registrant categories such as investment fund managers who are subject to a fiduciary standard when making day-to-day operating decisions on behalf of investment funds.

The introduction of a regulatory conduct standard could be beneficial for both investors and their advisors. Acting in their clients' best interests will encourage sales of products most appropriate for the client's needs based on prudent, unbiased considerations, which could include proprietary and non-proprietary product selections. This would result in a wider array of products available to clients, ones which may be better aligned with the client's individual circumstances.

While we do not believe that the implementation of a regulatory conduct standard would necessarily eliminate all conflicts in the client-registration relationship, we believe a regulatory conduct standard, if implemented, in addition to the enhancements to certain targeted reforms (as discussed in Part 2 below) would serve to mitigate many of the conflict concerns related to commission-based compensation, allowing investors to have a choice of fee model. The research findings from the Brondesbury report referenced in the Consultation speak to issues with representatives' biases and conduct when making investment recommendations. Implementing a regulatory conduct standard would help to mitigate some of the behavioural biases of representatives as discussed in the Consultation, leading to better outcomes for investors.

Due to the wide range of investors and financial circumstances, we believe it is in the investors' best interests to have the opportunity to choose their preferred method of paying fees, whether through embedded compensation or a fee-based approach. There are potential conflicts inherent in every compensation system. We are concerned with the Consultation's narrow focus on the value of advice and agree with comments in the IFIC letter regarding the benefits of working with an advisor, particularly for investors with smaller amounts to invest. Banning embedded commissions will inevitably reduce choice for investors creating an advice gap for those with smaller amounts to invest and who may stand to benefit the most from access to advice. This was evidenced in the U.K., where regulators have identified an advice gap resulting from their decision to ban embedded commissions. Similar concerns were shared by the industry and consumers in New Zealand which resulted in a decision not to ban commissions in that country. In addition, based on research conducted by Investor Economics and other firms, investors do not necessarily gain cost efficiencies through unbundled fees. Investors with smaller amounts to invest may actually see an increase in their costs by switching to fee-based accounts.

With respect to question 65 in Appendix H of the Consultation regarding the potential application of a standard of care to unregistered firms, we do not believe this is necessary. The policy intention of the exemption afforded in National Instrument 31-103 was to exempt such firms on the basis that they are subject to regulation in their home jurisdiction and

perform limited registrable activities in Canada. Additionally, exempt international firms (or unregistered firms) are also subject to specific notice requirements including providing disclosures to clients of their unregistered status, among other things. Accordingly, such exempt international firms should not be subject to the same requirements as fully-registered firms. From a practical standpoint, it is unclear how Canadian regulators would be able to enforce such a standard for firms that reside outside of Canada.

Part 2: Comments on Key Aspects of Certain Targeted Reforms

Part 7 of the Consultation discusses the proposed targeted reforms under consideration. Listed below are our comments on certain targeted reforms that are significantly concerning to us, as discussed below:

Conflicts of Interest: As referenced above, potential conflicts are unavoidable in the advisor- client relationship, particularly with respect to compensation. In helping to control some of the conflicts, the guidance in Appendix A of the Consultation sets out a number of key elements of a "reasonable conflict management system" for firms. We support practices designed to help mitigate or control material conflicts, and believe the existing requirements in securities legislation, SRO rules, including NI 31-103, NI 81-102, NI 81-105, NI 81-107 and the new whistleblower requirements are sufficient in responding to such conflicts. To ensure consistent and efficient compliance oversight by registrant firms, we urge the CSA to provide specific guidance on the practical application of some of the key elements of a conflict management system including, but not limited to, the "proactive and systematic identification of conflicts", escalation of "potential or actual material conflicts" by employees and agents, and "periodic testing" of the system.

With respect to the discussion regarding sales practices and compensation arrangements in Appendix A, we believe both NI 31-103 and NI 81-105 can be enhanced to clarify and provide clear guidance on conflicts related to compensation and incentive practices. Since its initial implementation in 1998 and aside from technical amendments resulting from NI 31- 103, NI 81-105 has not been amended to reflect the sale of products other than publicly offered mutual funds. Accordingly, rather than implementing separate conflict requirements, some of which could also be addressed through the introduction of a regulatory conduct standard, we believe it is appropriate to enhance the existing requirements contained in NI 31-103 and NI 81-105.

Know Your Product & Suitability: As previously discussed and consistent with IFIC's letter, we believe it is in the clients' best interests to have access to advice and flexibility of choice.

In terms of KYP, the Consultation states that there is no explicit requirement for representatives to know about all the products on their firm's product lists. The Consultation further comments on the absence of a requirement for representatives to recommend products that are "most likely" to meet the client's investment needs and objectives as

another gap in existing requirements. For advisors who may only serve a particular segment of the investing public, we do not believe it is practically possible for them to be required to know the full array of the firm's products which may not be relevant to their client segment or to be able to recommend ones that are "most likely" to meet the client's needs. We are concerned that imposing this type of onerous requirement would result in fewer product choices for investors as firms look to reduce their product shelves to be able to comply with the requirement. This could also result in a reduction of qualified, experienced advisors available to service a wide range of investors.

As evidenced in the U.S., in contemplation of the new fiduciary rules introduced by the Department of Labor, at least one major brokerage firm in the U.S. has recently publicly announced that they would stop offering commission-based mutual funds and exchange- traded funds in retirement accounts. According to an article on the Wall Street Journal dated August 18, 2016 on this topic, approximately 4 million retirement account investors at the
U.S. brokerage firm will need to decide on whether they wish to remain in funds (which will only be available in a fee-based account) or move their retirement assets out of mutual funds and exchange-traded funds if they wish to continue with a lower cost, commission-based account. Thus, the concerns regarding a possible loss of choice for investors, are already being realized.

With respect to the proposed additional suitability requirements suggested in the Consultation, we do not believe these would benefit nor be palatable for all types of investors. We encourage the CSA to look to the SRO rules in this regard and potentially amend NI 31-103 to include similar requirements. We are also concerned with the proposed requirement to conduct a suitability assessment after a "significant market event affecting capital markets to which the client is exposed". In efforts to comply with this subjective requirement, we believe both firms and investors could be adversely impacted leading to a potential increase in short-term trades rather than maintaining a disciplined 'buy and hold' strategy.

Concluding comments

We strongly support the CSA's efforts in introducing enhanced disclosure requirements through CRM2 and the Point of Sale. The impact of these transformative reforms are currently being realized and absorbed in the industry. Once fully implemented, investors will benefit from increased transparency on fees and compensation as well as other key aspects of their investment portfolios. We also commend the CSA's efforts to review and measure the outcomes of these two significant initiatives through the multi-year research project which is expected to be completed in 2021.

We believe that the findings from the multi-year project will be instructive and urge the CSA to postpone the implementation of significant new reforms in advance of research results

from the multi-year study. In the interim, we believe that the CSA should consider and closely monitor the outcome of similar international reforms to help guide future rule amendments based on the best interests of investors.

Thank you for the opportunity to provide our comments. If you have any questions, please feel free to contact the undersigned.

Yours truly,

CAPITAL INTERNATIONAL ASSET MANAGEMENT
(CANADA), INC.

(signed) "Mark Tiffin" Mark
Tiffin
President