Vanguard Investments Canada Inc.
Bay Adelaide Centre
22 Adelaide Street West
Suite 2500
Toronto, ON M5H 4E3

September 30, 2016

DELIVERED BY EMAIL

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:

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, ON M5H 3S8
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
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Consultation Paper 33-404 *Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Towards Their Clients* – published for comment April 28, 2016

Vanguard Investments Canada Inc. (Vanguard) is pleased to provide the various members of the Canadian Securities Administrators (CSA) with feedback on the above-noted Consultation Paper. We reviewed the Consultation Paper with much interest with a view to determining not only the potential impact of the targeted reforms on the Canadian financial services market-place, but also to focus on the potential impact of those reforms on our business.

Vanguard is a wholly owned indirect subsidiary of The Vanguard Group, Inc. (VGI) and manages more than CAD $9 billion in assets invested in publicly offered Canadian-domiciled exchange-traded funds (ETFs). VGI is the world's largest mutual fund manager, one of the world's largest investment management companies and a leading provider of company-sponsored retirement plan services. VGI manages USD$3.8 trillion in global assets, including

over USD$500 billion in global ETF assets (as of June 30, 2016). VGI has offices in the United States, Canada, Europe, Australia and Asia. The organization offers more than 350 funds, including ETFs, to its more than 20 million investors worldwide.

VGI operates under a unique operating structure. Unlike firms that are publicly held or owned by a small group of individuals, VGI is owned by Vanguard's U.S.-domiciled funds and ETFs. Those funds, in turn, are owned by VGI clients. Vanguard considers that this unique mutual structure aligns Vanguard's interests with those of its investors and drives the culture, philosophy, and policies throughout the Vanguard organization worldwide, including in Canada.

By way of background, we consider it relevant to understand our Canadian business, given the potential impact on the Canadian market-place and consequently our business if the targeted reforms discussed in the Consultation Paper come into force. Vanguard was created in November 2010 and launched its business in December 2011 with the listing of its first group of ETFs on the Toronto Stock Exchange. Its principal business is to act as investment fund manager for the Vanguard ETFs and pooled funds, but Vanguard also acts, from time to time, as an exempt market dealer in respect of private placements of U.S. investment funds managed by VGI to certain institutional investors in Canada, and acts as an exempt market dealer in respect of securities of investment funds (pooled funds) managed by Vanguard that have been created and are distributed to certain institutional investors pursuant to exemptions from the prospectus requirement. Vanguard may also offer additional public investment funds in the future.

Vanguard is currently registered with certain Canadian securities regulatory authorities as follows:

- as an investment fund manager, portfolio manager, commodity trading manager and exempt market dealer in Ontario;

- as an investment fund manager and exempt market dealer in Quebec and Newfoundland and Labrador; and

- as an exempt market dealer in all other provinces of Canada.

As the investment fund manager of the Vanguard ETFs, Vanguard currently advertises the Vanguard ETFs to the general public and promotes the Vanguard ETFs to registered investment dealers. Investors purchase the Vanguard ETFs through their registered investment dealers, which include full service investment advisors and discount brokerages.

Vanguard's comments on the Consultation Paper are informed by the Vanguard corporate culture and philosophy, as well as our Canadian business in the context of the relationships inherent in the Canadian market-place. We completely support regulatory initiatives, including CRM2, that we believe will enhance transparency to investors, while also solidifying the relationships between advisors and their clients, which are investors in our ETFs. There is much in the Consultation Paper that we support and applaud (subject to reviewing the actual proposed rules and guidance once they are finalized by the CSA), including enhanced disclosure, the desirability of minimizing confusion to investors around titles and designations and management of conflicts of interest.

We recognize that the CSA is very attuned to unintended consequences of regulatory reforms. We are conscious that the targeted reforms, particularly around the KYC, KYP and suitability

enhancements, may impact dealers who today have a large and wide-open shelf (approved products), but may seek to curtail the breadth of their shelf in order to allow for manageable compliance with the CSA's expectations in the above-noted areas. This may, in turn impact Vanguard and potential investors who wish to invest in our ETFs, as our ETFs need to be on the approved products list of these dealers. It is worth emphasizing that at the present time, the only way that an investor can invest in our ETFs is through contacting a registered dealer, including an IIROC firm which is a discount brokerage firm. We consider that any limitations placed on dealers, must consider the potential impact on investors and must not make it more difficult for investors to make investments in products, both ours and those of other manufacturers, that may be attractive to them and entirely suitable for their investment needs.

Our comments on the Consultation Paper, in the context of our existing principal business are provided with this perspective in mind.

Caution should be taken with Moving Forward with the Enhancements to KYC, KYP and Suitability

While we agree with these principles, that have long been part of the applicable Canadian regulatory regime (SROs and CSA), we are concerned that the additional compliance burdens inherent in the targeted reforms, particularly for firms that distribute a Mixed or a Non-Proprietary shelf of products may lead to much smaller shelves – with more emphasis on proprietary products than third-party managed products. We do not consider that a narrower product line-up will be a "good thing" for investors, who may not otherwise have access to a product that they wish to invest in – and that may be the "best product" for their particular circumstances.

We urge the CSA to reconsider some of the compliance burdens on firms that wish to offer more than proprietary products or consider what incentives can be provided to firms to encourage them to retain an open or mixed shelf. We know that many in the industry, including the various trade associations will be providing specific and detailed comments on the specific enhanced compliance burdens, and we want to add our voice towards requesting that the CSA reconsider to ensure that Canadian investors have the widest possible range of choice of investment options.

Cautious Support for the Proposed Best Interest Standard

Vanguard's mission worldwide is "To take a stand for investors, to treat them fairly, and to give them the best chance for investment success." The very essence of our firm is that investors interests must be paramount in all that we do. For this reason, we are cautiously supportive of the best interest standard proposed by the Ontario Securities Commission and the Consumer Services Commission of New Brunswick as part of the targeted reforms. We are supportive of this concept because we fully agree that those that provide investment advice to a client should act as professionals, should be proficient and should be providing advice that is not only suitable for that client's circumstances, but also should be advice that maximizes the client's interest. We are cautious simply because the proposed guidance remains vague, undefined and/or too complex for practical compliance. For instance, there is no definition of what "best interest" of a client means, nor is there any discussion of what it will mean to "prioritize a client's interest" and not the firms' interest. We do not know how these concepts could be properly translated into compliance programs or policies and procedures of registrants, without a significant amount of review, which may mean a complete overall of clients' compliance systems to ensure appropriate focus on this concept. In addition, it is not clear how an industry standard would be developed. We would like greater clarity before providing our full support.

Recommendations for Tailored Application of the Targeted Reforms to EMDs

While there is much we can agree on with the targeted reforms as they apply to mutual fund dealers and investment dealers (members of the MFDA and IIROC), we find the application of the enhanced concepts and particularly the enhanced and detailed guidance to have little to no application to our business as a registered EMD. We plan to use our EMD registration to primarily distribute our private pooled funds to institutional and other accredited investors. In our view, we should be required (as we are today) to Know Our Clients (and collect sufficient information as may be required for AML purposes) and to Know Our Products and to make recommendations that are suitable for the clients who are unable or who have not waived suitability – but we do not believe the following would have any application to our business:

- The discussion around conflicts of interest inherent in recommending "proprietary products". We give our clients clear disclosure of our relationship with the funds, as manager and as EMD. Would this not be a sufficient method to manage this conflict? Some of the discussion in the conflicts of interest schedule suggests otherwise.

- The additional KYC that the CSA propose firms collect is very close to what a financial planner would collect from his/her client. As an EMD, we do not need to know our client's basic tax position, their liquidity needs and whether they have religious constraints or socially conscious investment principles. Particularly if we are dealing with a client that today waives suitability – we believe that none of this additional guidance should apply to us in our capacity as EMD.

- Because we distribute our own pooled funds as EMD, there is much in the KYP (firm) guidance that will not apply to us, but even still the additional compliance expected of a "proprietary" firm will be beyond what we believe is necessary given our clients and what we distribute.

- The additional suitability guidance again is far more than we do today – and also is far more than we consider necessary. The considerations such as setting an asset allocation strategy for the client, including a risk-adjusted rate of return, concentration restrictions, targeted rates of return – are not relevant to and should not apply to an EMD with our limited business.

- Updating KYC and doing suitability assessments at the defined intervals required under the targeted reforms are problematic when we do not have a continuing relationship with our clients – that is, they may make one single lump sum investment. We don't believe that it is necessary to go back to these investors on at least an annual basis and work with them to update KYC and reassess the suitability of continuing to invest in our funds.

- We disagree with the notion that our dealing representatives must call themselves "securities salespersons". They should be able to continue to use the term "advisor" or dealing representative or representative. All of these terms are accurate, plain language and not confusing to the sophisticated investors we deal with in our EMD capacity.

We thank you again for allowing us this opportunity to have advance consultation on the CSA's targeted reforms. We would be pleased to discuss our comments with CSA staff at your convenience and we would be happy to attend one of the Roundtables scheduled for later in the year.

Sincerely,

"Signed Atul Tiwari"

Atul Tiwari
Managing Director
Vanguard Investments Canada Inc.