Watt Carmichael Inc.

Via Email: comments@osc.gov.on.ca

September 30, 2016

To: Ontario Securities Commission
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
Financial and Consumer Affairs Authority of Saskatchewan

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

Watt Carmichael Inc. is an independent full service investment management firm that has been offering a wide range of investment products to its clients since 1971. The firm's objective is to offer personalized client service through customized wealth management solutions utilizing non-proprietary products.

We are writing in response to the CSA's request for comments with respect to consultation paper 33-404 regarding "Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients". We thank the CSA for this opportunity to provide comments.

We would first like to emphasize that we fully support the Investment Industry Association of Canada (IIAC) in its representation of the broker dealer community regarding these targeted reforms and the adoption of a regulatory best interest standard.

Upon review of these proposals, our initial concern is with the CSA's intention to proceed without a full review of the resulting impact and a cost-benefit analysis of the recently implemented Client Relationship Model – Phase 2 (CRM2) and Point of Sale Disclosure (POS) reforms. These "client focused" initiatives are the result of many years of industry consultation and research by both firms and regulators, and have been implemented at great expense and effort by all industry participates.

It is our belief that the full impact and consequences of these two recent initiatives, which have not yet been fully implemented, should be known, understood, and considered before further reforms are enacted. To do so otherwise, in a "one size fits all" manner, is very likely to have significant unintended consequences for investors, investment firms and regulators. These unintended consequences will result in, as other jurisdictions (Australia, UK) have reported, restricted access to financial advice for less wealthy investors, limited product choices, and increased cost of advice to the detriment of both investors and independent investment firms such as Watt Carmichael Inc..

Further, there is a disproportionate burden and cost between large bank owned firms and smaller non-bank owned firms in implementing the proposed regulations. The result may be less choice for clients in the firms that they can deal with, as well as less time available for Advisors to meet with and advise clients.

The following targeted reforms are of particular concern:

Best Interest Standard: In light of the current statutory duty to act "honestly, fairly and in good faith", we do not believe a regulatory best interest standard is required or necessary. The current standard is sufficient to meet regulatory objectives and fully protect clients while taking into account various industry business models under IIROC oversight across all jurisdictions. Introducing a best interest standard will compound unintended consequences and regulatory complexity, directly impacting capital markets in Canada and increasing the cost of advice to clients. This is especially so without a full cost-benefit analysis of the targeted reforms and the client protection that the CSA feels is required.

While we fully support robust compliance standards, we feel a best interest standard is not in the best interest of the client, the Canadian investment industry, or Canadian capital markets in general.

As noted earlier in this comment letter, we fully support IIAC and its comments around the implementation of a best interest standard and other CSA targeted reforms.

Conflicts of Interest: Firms are currently subject to IIROC Rule 42 that clearly stipulates conflicts must be addressed in a "fair, equitable and transparent manner that is consistent with the best interest of clients." This recognises that it is not always possible to address conflicts in the best interest of each client when the conflict involves completing interests. The proposed requirement is a general statement that is too vague to provide meaningful guidance or interpretation when firms are confronted with such conflicts of interest.

Know your Client: A specific "one size fits all" CSA mandated client document tailored to capture all client data necessary for *every* type of investment product would result in an overwhelmingly large New Client Application Form (NCAF). This NCAF will be extremely time-consuming for clients to complete and expensive for firms to apply, to ensure is complete and correct, and to update on an annual basis. The collection of this more detailed KYC data such as status of dependants, tax position, and total indebtedness would also be extremely challenging to collect.

Clients often refuse to provide such detailed personal information as it is, especially in light of heightened concerns around privacy issues and identity theft. Firms are already subject to clear KYC requirements in Rule 1300 and Rule 2500. These rules allow firms to tailor their NCAF's around their individual business models and product offerings, doing away with needless documentation, reducing frustration for clients and Advisors, plus reducing the effects of information overload that many clients experience when completing new account applications.

Know your Product: We feel it would be impossible for Advisors to "understand and consider the structure, product strategy, features, cost and risk of *each* product in a firm's product offering." This requirement would be particularly punishing to small firms.

The need to manage such a product list and ensure that each Advisor has the required knowledge of each product that a firm provides irrespective of whether or not the Advisor believes the product is appropriate for his clients would result in an exceptionally limited product offering. This would reduce investment diversification, would likely require the imposition of minimum account sizes, lead to higher fees to offset higher costs, and an overall reduction in portfolio options available to clients.

As well, the requirement for firms to complete an annual investigation, product comparison and engage in a optimization review process every twelve months would further increase the cost of financial advice to clients and reduce product offerings.

In our opinion, these requirements would also result in the demise of many smaller mutual fund companies as they would need to compete to be included on firm product listings. This would result in many small specialized mutual funds being excluded from numerous investment firm offerings.

Relationship Disclosure: IIROC members have made significant changes to the "Client Relationship Document" as a result of CRM2. We do not feel additional changes are required at this time. The CSA should at least wait until the full effect of CRM2 is known. With respect to evidencing client understanding of the Relationship Disclosure, many clients will blindly sign off, only to later deny any understanding of the issue at hand in the event of a claim.

Thank you for your consideration of our comments.

Sincerely,

Stephen R. Cameron
Chief Compliance Officer
Watt Carmichael Inc.

Harry J. Carmichael
Chief Executive Officer and UDP
Watt Carmichael Inc.