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June 8, 2017

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

The Secretary	Me Anne-Marie Beaudoin
Ontario Securities Commission	Corporate Secretary
20 Queen Street West	Autorité des marchés financiers
19 th Floor, Box 55	800, square Victoria, 22e étage
Toronto, Ontario M5H 3S8	C.P. 246, tour de la Bourse
	Montréal (Québec) H4Z 1G3

Re: CSA Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions

Dear Sirs/Mesdames:

Citibank Canada Investment Funds Limited (“CCIFL”) appreciates the opportunity to provide comments to the Canadian Securities Administrators (the “CSA”) on CSA Consultation Paper 81-408 – *Consultation on the Option of Discontinuing Embedded Commissions* (the “Consultation Paper”).

About Citibank Canada Investment Funds Limited

CCIFL is a wholly-owned subsidiary of Citibank Canada, a Canadian chartered bank, which is in turn an indirect subsidiary of Citigroup, Inc. CCIFL is a registered portfolio manager and exempt market dealer in eight of the provinces of Canada, and a registered mutual fund dealer in Ontario and British Columbia. CCIFL sells securities of pooled investment funds to institutional and high net worth individual clients of Citibank Canada on a private placement basis and through accounts managed by CCIFL under the terms of an investment management agreement.



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Comments on the Consultation Paper

CCIFL recognizes the potential investor protection and market efficiency issues arising from the prevailing practice of remunerating dealers and their representatives for mutual fund sales through commissions, including sales and trailing commissions, paid by investment fund managers (“**embedded commissions**”) and supports the consideration of different compensation models. However, CCIFL submits that the potential option of discontinuing embedded commissions and transitioning to direct pay arrangements should not apply: (i) to investment funds sold in the exempt market under the accredited investor exemption set out in section 2.3 of National Instrument 45-106 *Prospectus Exemptions* (the “**Accredited Investor Exemption**”); (ii) in particular, to investment funds that are sold under the Accredited Investor Exemption to the category of investors defined as “permitted clients” in section 1.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“**NI 31-103**”) (“**Permitted Clients**”); and (iii) above all, to exempt foreign investment funds sold to Permitted Clients.

The focus of the discussion in the Consultation Paper is on “mutual funds that are reporting issuers and members of the organization of such mutual funds”. CCIFL supports the consideration of alternative fee arrangements for mutual funds that are Canadian reporting issuers. All such funds are subject to the same regulations, and, therefore, a change in compensation arrangements will apply to all issuers equally and would be unlikely to have an adverse effect on competition, investor access to these mutual funds or to investment advice from dealers of these mutual funds. However, the Consultation Paper also states (*emphasis added*):

Recognizing that the fee structure of various types of investment funds and structured notes commonly includes embedded commissions, and with the aim of promoting a level playing field amongst comparable investment products and limiting opportunities for regulatory arbitrage, we currently anticipate that any regulatory proposal to discontinue embedded commissions would affect:

- an “investment fund”, as defined under securities legislation and
- structured notes,

whether sold under a prospectus or in the exempt market under a prospectus exemption.

Accredited Investor Exemption

CCIFL submits that any discontinuation of embedded commissions should not apply to investment funds sold in the exempt market under the Accredited Investor Exemption. The Accredited Investor Exemption only allows sales to sophisticated, typically institutional, investors with sufficient financial knowledge and investment experience to understand and take on the risks associated with certain investment offerings. These investors have access to complex and higher-risk investments that are not available to a typical retail investor. As such, CCIFL believes that the objectives of promoting a level playing field amongst comparable investment products and limiting opportunities for regulatory arbitrage would not be undermined by permitting embedded commissions for investment funds sold in the exempt market



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Exempt Foreign Investment Funds

CCIFL submits that any discontinuation of embedded commissions should, above all, not apply to foreign investment funds that are sold to Permitted Clients in the exempt market. Foreign investment funds that are not Canadian reporting issuers are not subject to Canadian regulations and may be permitted to continue embedded commissions pursuant to regulations in their home jurisdiction. The discontinuation of embedded commissions will prevent sophisticated Canadian investors who fall into the category of Permitted Clients from investing in such foreign investment funds, limiting their available foreign investment options.

It is desirable for Permitted Clients in Canada to have cost-effective access to global investment products, thereby necessitating effective access to the brokers and dealers entitled to trade and provide advice in respect of such investment products. These brokers and dealers may be regulated in foreign jurisdictions, many of which permit embedded commissions as a form of compensation. By discontinuing embedded commissions on investment funds sold to Permitted Clients under the Accredited Investor Exemption, the CSA will effectively preclude access to certain foreign investment products and to the advice of brokers and dealers entitled to trade such investment products.

The CSA has recognized that over the years there has been an increasing interest in, and opportunities for, investment in foreign securities by sophisticated Canadian investors. For example, with the implementation of NI 31-103 in 2009, a structure was put in place for facilitating access by sophisticated clients to trading of foreign securities through foreign dealers that satisfy the international dealer registration exemption in section 8.18 of NI 31-103. CCIFL submits that discontinuing embedded commissions on foreign investment funds would limit the investment products available to Permitted Clients in Canada and may prevent such Permitted Clients from accessing the expertise of foreign dealers of such investment funds.

CCIFL submits that certain benefits of embedded commissions, such as access to advice of foreign dealers and heightened competition for foreign investment funds, may outweigh the issues or harms of embedded commissions in these particular circumstances.

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CCIFL appreciates the opportunity to submit these comments to the CSA on the Consultation Paper. If CSA staff has any questions concerning the matters discussed in this letter, please contact Robert McGuire, Chief Executive Officer, at (416) 947-4147 or robertj.mcguire@citi.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert J. McGuire".

Robert J. McGuire
Chief Executive Officer