BY ELECTRONIC MAIL

June 9, 2017

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

Attention:

The Secretary
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Dear Secretaries:

RE: CSA Consultation Paper 81-408: *Consultation on the Option of discontinuing embedded commissions* Published on January 10, 2017 (the "Consultation Paper")

National Bank appreciates the opportunity to comment on the Consultation Paper. We acknowledge that the CSA is examining the potential investor protection and market efficiency issues arising from the prevailing practice of remunerating dealers and their representatives for mutual fund and other product sales through commissions. This includes sales and trailing commissions paid by investment fund managers or product manufacturers. National Bank supports the initiatives of the CSA as well as greater transparency with investors. We also support the intention to rationalize the fund series.

In recent years, the regulators and SROs have provided guidance and introduced many regulatory initiatives which have improved transparency on mutual fund fees and embedded commissions, such as Point of Sale Disclosure and the Client Relationship Model. These key regulatory initiatives benefit investors by enabling them to better understand the costs of investing in mutual funds and other products, and to consequently make more informed investment decisions. National Bank considers that investor protection and fairness must, above all, be the drivers for change.

National Bank is a diverse financial group which: (i) manufactures mutual funds, owns proprietary distribution channels, and supplies services to third party distributers; (ii) operates a discount brokerage firm; and (iii) operates an MFDA-regulated mutual fund dealer and an IIROC-regulated investment dealer throughout Canada. We therefore take great interest in the regulatory initiatives contained in the Consultation Paper and their potential impact on investors, the mutual fund industry, the investment industry, and financial intermediaries. Accordingly, our intention is to share our concerns regarding the regulatory initiatives contained in the Consultation Paper, as well as our experiences. We trust that our comments will be taken into account during the review process, and will also provide a positive and productive contribution to the outcome of the regulatory initiatives proposed in the Consultation Paper.

1. Proposed Regulatory Initiatives Contained in the Consultation Paper

Question 1: Do you agree with the issues described in this Part? Why or why not?

> **Issue 1:** Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors.
> **Issue 2:** Embedded commissions limit investor awareness, understanding and control of dealer compensation costs.
> **Issue 3:** Embedded commissions paid generally do not align with the services provided to investors.

We agree that embedded commissions raise potential conflicts of interest and limit investors' awareness of dealer compensation costs. Certain of these issues have been resolved with the

implementation of CRM2, which increases transparency. As per the 31-103 policy statement, the CSA expects registered firms to provide specific information as to the nature and amounts of actual charges that will apply to clients' purchases.

".... the sales charge or deferred sales charge option available to the client and an explanation as to how such charges work. This means registered firms should advise clients that mutual funds sold on a deferred sales charge basis are subject to charges upon redemption that are applied on a declining rate scale over a specified period of years, until such time as the charges decrease to zero. Any other redemption fees or short-term trading fees that may apply should also be discussed."

"...Registrants should advise clients with managed accounts whether the registrant will receive compensation from third parties, such as trailing commissions, on any securities purchased for the client and, if so, whether the fee paid by the client to the registrant will be affected by this."

Together with these requirements, we have also put time and effort into training our employees so they clearly understand that transparency is embodied in the high quality advice we want to provide to our clients.

This year, clients either already have been or will be issued reports on fees and charges, which specifically indicate the amounts of trailing commissions received by dealers related to those securities owned by clients.

We believe we should first evaluate the results of these latest disclosures prior to implementing even more new ones and new rules. It is important not only to improve transparency and information for clients, but also to evaluate the quality and sufficiency of what is currently being provided. In addition, it is crucial to evaluate if the solution has not already begun to be put in place by the industry. Investors are offered low cost and fee-based solutions for their investment needs which can provide transparency and align the interests of all parties involved. The current significant movement toward fee-based accounts would be interesting to follow in order to determine whether that could fix the issue, or a part of it.

Question 3: Are there significant benefits to embedded commissions such as access to advice, efficiency and cost effectiveness of business models, and heightened competition that may outweigh the issues or harms of embedded commissions in some or all circumstances? Please provide data to support your argument where possible.

Obtaining advice is a significant benefit for all investors. Investments with embedded commissions offer an accessible way for investors, including modest investors, to obtain professional advice from registered representatives.

We do not believe that banning embedded commissions would result in clients massively moving to discount brokerage or robo-advisory firms, nor would it prevent clients from finding advisory services should they actively seek them. But, there are clients who will not be able to obtain advice either due to their inability to afford the costs of advice or their discomfort with technology. Often, these clients have limited investment and financial knowledge.

As well, banning embedded commissions may have greater impact on smaller firms whose lesser scale would render implementation of a fee-based platform or other required technological innovation difficult, if not impossible. Some small dealers may even simply decide not to continue to operate their dealer business, which would lead to fewer service offerings and, thus, decreased competition within the Canadian market.

Clients who seek alternatives to embedded commissions, and who have the financial capacity, can readily take advantage of fee-based platforms or other types of direct payment arrangements that are, and will continue to be, offered by Canadian dealers.

Question 4: For each of the following investment products, whether sold under a prospectus or in the exempt market under a prospectus exemption:

- **mutual fund**
- **non-redeemable investment fund**
- **structured note**

should the product be subject to the discontinuation of embedded commissions?

If discontinuing embedded commissions is going to take place, we think regulators should aim to have a level playing field such that all of these products should be encompassed by the ban. In order to avoid potential or perceived conflicts of interest, it should not be permitted for a registered representative to have the choice between the exempt market (with a commission) and the prospectus regime (without any commission). Regulatory arbitrage can be avoided by subjecting all similar products to comparable regulations. Segregated funds, or other similar products, as well as new issues should be part of a similar regulation to establish that level playing field.

We submit that the exception to the rule should be for so-called "no-load A Series" securities, for which clients pay no up-front commissions and **only** trailing commissions. Maintaining no-load A Series would allow modest investors to continue to have access to advice without having to additionally disburse for these services when provided by their registered representatives. This would benefit both clients and the industry.

Question 5: Are there specific types of mutual funds, non-redeemable investment funds or structured notes that should not be subject to the discontinuation of embedded commissions? Why?

As mentioned previously, we think no-load A Series securities should be excluded from discontinuation of embedded commissions. With CRM2, clients will be clearly informed of the compensation (trailing commissions) received by registered representatives related to these products. Transparency will be achieved, and all types of clients will be able to continue to receive professional advice from their registered representatives without having to disburse fees directly. We believe this will lead many modest clients to continue to seek advice, whereas the discontinuation of embedded commissions would very likely lead them to cease doing so.

Question 7: Do you agree with the discontinuation of all payments made by persons or companies other than the investor in connection with the purchase or continued ownership of an investment fund security or structured note? Why or why not?

As indicated above, we believe that discontinuing embedded commissions would very likely lead many clients, including in particular clients with modest means or smaller investments (<$100k in savings – which is approximately 30% of our clients), to discontinue seeking investment advice. These investors are likely to be more negatively impacted. We understand the CSA shares the view that such an outcome would not be beneficial to Canadians, as evidenced by the research cited by the CSA regarding the value of advice. We therefore submit that retaining a very limited scope of permitted embedded commissions (i.e. no-load A Series securities only) would help the CSA achieve the cited objectives while mitigating the anticipated negative impact on Canadian investors and the investment industry.

Question 8: Are there other fees or payments that we should consider discontinuing in connection with the purchase or continued ownership of an investment fund security or structured note, including: a. the payment of money and the provision of non-monetary benefits by investment fund managers to dealers and representatives in connection with marketing and educational practices under Part 5 of NI 81-105, b. referral fees, and c. underwriting commissions.

Marketing and educational practices: We are in favour of discontinuing payments related to sales communications, conferences, seminars, sponsored events, or other marketing and educational practices. If transparency requirements are the basis for discontinuing embedded commissions, we think they should also apply to all of these marketing practices, of which clients are generally not aware and from which conflicts of interest may arise or be perceived. We respectfully submit that educational practices and seminars are part of a dealer's know-your-product obligations, and products like mutual funds should be treated just like any other type of product.

Referral fees: Referral fees are subject to a mandatory disclosure process under NI 31-103. The rules require full transparency to clients when referral fees are involved. Referral fees are not related to a product but rather to the referral of a client to or from a registered representative – no matter what the product recommended is, or will be. As such, we do not believe discontinuing referral fees should be considered.

Question 9: If payments and non-monetary benefits to dealers and representatives for marketing and educational practices under Part 5 of NI 81-105 are maintained further to the discontinuation of embedded commissions, should we change the scope of those payments and benefits in any way? If so, why?

For the aforementioned reasons, based on transparency and avoidance of conflict of interest principles, we believe such types of payments and benefits should be discontinued.

Question 10: With respect to internal transfer payments:
a. How effective is NI 81-105 in regulating payments within integrated financial service providers such that there is a level playing field for proprietary funds and third party funds?
b. Should internal transfer payments to dealers within integrated financial service providers that are tied to an investor's purchase or continued ownership of an investment fund security or structured note be discontinued? Why or why not? To what extent do integrated financial service providers

directly or indirectly provide internal transfer payments to their affiliated dealers and their representatives to incent the distribution of their products?

a) In our view, NI 81-105 addresses the potentially problematic issues arising out of payments within integrated financial service providers, while still recognizing that integrated structures are realities of the Canadian marketplace.
b) We believe existing rules (general conduct rules and those relating to conflicts of interest, referral fees, NI 81-105, etc.) already proscribe objectionable behaviours that could arise as the result of internal transfer payments. Furthermore, with full transparency resulting from CRM2 disclosures of costs and fees, we submit that clients now have access to all the information necessary about compensation received by their dealers. Within an integrated financial service provider, a registered representative's incentives are not necessarily tied directly or solely to invested assets under management (as is the case for embedded compensation) such that the individual interacting with clients is unduly incentivized to promote investment products.

Question 11: If we were to discontinue embedded commissions, please comment on whether we should allow investment fund managers or structured note issuers to facilitate investors' payment of dealer compensation by collecting it from the investor's investment and remitting it to the dealer on the investor's behalf.

It is important that clients be offered several payment options and are able to choose from amongst them. We agree that investment fund managers could be involved in order to facilitate the direct payment arrangement a dealer has with a client. Depending on the type of payment arrangement, it could be easier for the client to have the investment fund manager make deductions from purchase amounts or periodic redemptions from the client's account. However, it should be ascertained whether most investment fund managers have the capability to offer this service, and at what cost. We think that small investment fund managers/issuers may not be able to offer such services. This could have an impact on the attractiveness of their products.

Question 12: Based on a consideration of the data and evidence provided in this Part, would a proposal to discontinue embedded commissions address the three key investor protection and market efficiency issues discussed in Part 2?

> **1. Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors;**
> **2. Embedded commissions reduce investor awareness, understanding and control of dealer compensation costs; and**
> **3. Embedded commissions paid generally do not align with the services provided to investors.**

Transparency requiring full disclosure of fees, commissions, and conflicts of interest would address the three key investor protection and market efficiency issues discussed in Part 2. As mentioned in the response to Question 1, employee training and education are also key elements of investor protection.

Question 13: Are there other ways in which the CSA could address these issues that could be introduced in conjunction with, or separate from, the discontinuation of embedded commissions?

Various rules and guidance have been introduced recently with respect to disclosure of fees and compensation as well as conflicts of interest, including CRM2 and POS3. All of these rules have similar objectives, i.e. transparency, disclosure, and the protection of clients. Emphasis should first be put on ascertaining the impact of these rules and guidelines and on enforcing them, in order to thereafter be able to evaluate whether additional regulations really are required.

Question 15: What effect do you think the removal of embedded commissions will have on investor experience and outcomes? In particular:

- **Will investors receive advice and financial services that are more aligned with the fees they pay?**

  Financial services provided by registered representatives have to be aligned with the needs of their clients. Registered representatives have obligations to know their clients and their products, and to observe high standards of ethics and conduct. We do not expect the removal of embedded commissions to lead to more aligned services, as such an obligation is already in place and supervised by dealers.

  It is unlikely that small investors will pay less for being serviced by a registered representative. Investors already pay 100% of the fee, currently in the form of embedded commissions. Switching to a direct service payment system would not change that situation. Investors will have the choice between different types of payment arrangements and will have the opportunity to choose which best aligns with their specific needs.

  Fee-based platforms will be one of these multiple choices. Fee-based platforms could have equivalent fees. However, in some instances, those fees may end up being even higher for relatively the same level of service. As such, we are not convinced this would inevitably lead to better investor outcomes.

  Also, as previously mentioned, we believe some investors will not be able to afford the cost of advice nor will they have the technological knowledge to use robo-advisors. If embedded fees are eliminated, institutions may charge "explicit" fees for services (e.g. $150 to meet your Personal Banker). Such explicit service fees may induce ill-informed investors to switch from mutual funds to GICs which could have long-term impact on the potential of wealth accumulation.

- **What effect will the proposal have on the growth of automated advice? Is this likely to be beneficial to investors?**

  Robo-advisory services are currently limited in Canada. We do not expect that discontinuing embedded commissions will have as dramatic an impact on automated advice as is foreseen by the CSA. Clients who want and need personal advice will not necessarily move to discount brokerage firms or robo-advisory firms. If they can afford it, investors will likely accept direct payment arrangements with advisory firms. Advice is not just product related. It also includes advice on types of accounts, tax issues, financial strategy, etc. Those seeking advice for these

elements, which are more and more popular in the wealth management approach, will not be satisfied by switching to a discount brokerage firm or a robo-advisory firm.

- **Is discretionary advice likely to increase in Canada as we have seen in the other markets that have transitioned away from embedded commissions and, if so, would this shift be positive or negative for investors?**

  Fee-based and discretionary fee-based service offerings will increase, even without the proposed ban of embedded commissions. We expect the type of clients who will seek a new service offering are those who need advice but who also want to be involved in the decisions affecting their portfolios. For this reason, we anticipate that fee-based accounts will grow faster than fee-based discretionary accounts.

- **What effect will the proposal have on the growth of the online/discount brokerage channel and cost of fund products offered in this channel? Is this likely to be beneficial to investors?**

  On a short-term basis, we do not expect any significant changes. However, business models and compensation grids may have to be adapted. Discount brokerage evolves rapidly, and its history demonstrates that changes in pricing can occur very quickly.

- **What effect will the proposal have on the cost and scope of advice provided to specific investor segments?**

  Dealers (most likely small dealers) may want to reconsider their global offerings, i.e. what type of clients they want to serve. The possibility of having fewer service providers should be carefully considered by regulators. As mentioned by the CSA in the Consultation Paper, "*Some dealers and their representatives may decide to refocus their business on high net worth fund investors and/or charge a fee for advisory services that some investors may not be able to afford, thus increasing the potential for certain investors to lose access to advisory services.*"

  Some clients who could use discount or online brokerage may also consider limiting their investments to products with no/low costs, or to products available to less knowledgeable investors. This would result in less diversified client portfolios and could impact their total returns. Also, such clients would be unable to take advantage of financial planning services.

Question 16: What types of payment arrangements are likely to result if this proposal is adopted? In particular:

- **Would the payment arrangements offered by dealers to investors differ based on investor segment? If so, how and why?**

  Our offering will include fee-based payment arrangements which will be available to all types of investors, including small investors. Depending of their assets under administration, some investors could pay more than others, and may see their annual fees become higher than what they currently pay with the embedded commissions. The switch from the current model to fee-based accounts may not be beneficial for investors, given current industry pricing

(approximately 1.25% for accounts above $100k). It will probably be more costly for smaller accounts, hence no savings.

Question 17: Do you think this proposal will lead to an advice gap? In particular:

- **Which segments of the market are likely to be affected? Please consider segmentation by wealth, geography (size and location of community e.g. remote, small, medium, large), age, technological sophistication, the level of fund ownership across households, etc.**

  Mass-market households ($100,000 or less in investable assets) and mid-market households (between $100,000 and $500,000 in investable assets) could be the most impacted, since most of them will have to choose between different types of payment arrangements with their firms. Many affluent households are already in fee-based arrangements, or may be economically advantaged in doing so.

- **Should we differentiate between an advice gap for face-to-face advice and an advice gap generally?**

  Clients are usually either in face-to-face relationships or in the discount brokerage channel. The differentiation is appropriate.

- **What types of advice or services currently provided today would be most affected by the proposal?**

  We do not anticipate an advice gap *per se*. Clients who currently receive advice will likely continue with a new type of direct payment arrangement. However, on the demand side, some investors will likely be disheartened with having to move to this type of arrangement, or will not be able to afford the costs and will cease to seek advice. This is the outcome we consider to be the most realistic and worrisome.

- **How could a potential advice gap, face-to-face advice gap or financial service gap be mitigated?**

  As discussed previously, we believe that allowing no-load A Series securities to maintain embedded compensation is a measured way to address many of the concerns raised in the Consultation Paper. This would maintain a payment option that remains advantageous for a considerable portion of Canadian investors.

- **Do you think that online advice could mitigate an advice gap? If so, how?**

  As discussed previously, we believe it is unlikely that investors wishing to have face-to-face advice will be satisfied with automated advice.

Question 18: Given some of the changes we have seen in the industry over the past few years (fee reductions, introduction of DIY series, streamlining of fund series, automatic fee reductions increasing access to fee-based options etc.), what is the likelihood that the fund industry will transition away from embedded commissions without regulatory action? In particular:

- **Will the industry continue to transition away from embedded commissions if the CSA does not move forward with the proposal?**

  We believe so. The DSC option is less available, and continues to be distributed by fewer and fewer dealers all the time. F Series are more common and favoured, given the popularity of fee-based accounts. Some manufacturers are reducing management and administration fees, and others are also eliminating deferred sales charges. Transparency has improved with CRM2 and POS3, such that clients have become more aware of the fees and commissions they pay. They now receive an annual report on fees and charges to this effect. This awareness will lead the industry to greater transparency and to continually reduce fees.

Question 20: We note that the distribution of fee-based series is still relatively limited in Canada versus other markets. Are there obstacles (structural, operational, regulatory, investor demand, etc.) specific to Canada limiting the use of fee-based series by dealers?

We do not see any regulatory obstacles to this effect. The only obstacle we can see is related to the significant investments that implementation of fee-based platforms require, or their limited availability for firms. However, we do see strong growth for fee-based series.

Question 21: Please describe how discontinuing embedded commissions will affect competition and market structure and whether you agree with the analysis set out in Part 4?

- **Do you think the proposal will have an impact on the level of industry consolidation or integration? What about with respect to the concentration of mass-market investor assets held in investment products managed by deposit-taker owned firms?**

  We expect that smaller dealers may face more challenges with the discontinuance of embedded commissions. If smaller dealers have to modify their business plans and let go of their mass-market household clients, they would likely have to deal with losses in revenue. Some of them may decide to end their businesses entirely, or to merge with another firm. In such cases, the Canadian brokerage industry would experience diminished competition, which would lead to a reduced service offering to Canadian investors.

- **What opportunities and what challenges do you think the proposal would introduce for specific industry stakeholder groups?**
  - **o Independent dealers?**
  - **o Independent fund manufacturers?**
  - **o Integrated financial service providers?**
  - **o Mutual fund dealers?**
  - **o IIROC dealers?**
  - **o Online/discount brokers?**

Some dealers may have to invest in technology in order to develop fee-based platforms. For those who believe there will be a movement toward robo-advisors, there will also be a need to develop, buy, or enter into service agreements with providers of such technology or capabilities. Merger opportunities may also result from this proposal.

We do not anticipate a massive flow toward discount brokerage firms, but these firms may have to re-evaluate their pricing grids if embedded commissions are no longer paid.

- **What is the likelihood and magnitude of regulatory arbitrage across similar financial products such as segregated funds and deposit-taker products?**

  We strongly support regulations ensuring that all products with embedded commissions have similar constraints, in order to avoid regulatory arbitrage between products.

- **What would be the impact on dually-licensed mutual fund dealers and insurance agents?**

  To avoid conflicts of interest and product arbitrage, products such as segregated funds should be under the same obligations as mutual funds.

- **Will the proposal lead new, lower-cost entrants to the market? Why and how?**

  We do not expect new entrants.

- **What are the potential effects on competition of the rise in online advice? Are these effects likely to be large and positive?**

  For clients wanting face-to-face advice, robo-advisors are not an attractive alternative. This proposal will not be a source of competition between face-to-face advice providers and robo-advisors.

Question 22: What impact will the proposal have on back office service processes at the investment fund manager or at the fund dealer? In particular:

- **Is there any specific operational or technological impact that we should take into consideration?**

  A fee-based platform requires additional staff for coding and maintaining the program rules, which many small firms might not be able to afford. For this reason, we support maintaining embedded commissions in no-load A Series securities, thereby eliminating a barrier to entry for dealers and maintaining accessibility to advice for investors.

Question 23: The payment of embedded commissions requires the dealer and the investment fund manager to implement controls and oversight (with associated compliance costs) in order to mitigate the inherent conflicts of interest today.

- **Would the transition to direct pay arrangements alleviate the need for some of these controls and oversight?**
- **To what extent, if any, does the use of direct pay arrangements by representatives today (e.g. when a representative provides services under a fee-based arrangement) alleviate the need for some of these controls and oversight?**

Most of the compliance controls related to conflicts of interest will need to remain in place. Dealers have obligations to mitigate and to supervise material conflicts of interest. Also, different direct payment options may require additional supervision. All dealers will have to decide what option(s) they will offer and what supervision will be needed in order to comply with applicable regulations. Dealers will have to evaluate whether the type(s) of direct payment arrangement(s) chosen by clients is/are the best available in the dealer's offer. This is an ongoing obligation that will require continuous re-evaluation.

Question 24: Embedded commissions, especially trailing commissions, provide a steady source of revenue for dealers and their representatives. If embedded commissions were discontinued, would dealers be able to compensate for the loss of this revenue with direct pay arrangements?

Direct payment arrangements will be based on the needs of the clients. Clients will pay for the services they need, or those for which they want to pay or can afford. Clients will have to directly support the costs of advice, the creation of any fee-based platforms, the cost of IT, compliance, etc.

Question 27: How practicable are the mitigation measures discussed and how effective would these measures be at assuring:

- **access to advice for investors,**
- **choice of payment arrangements for all investor segments, and**
- **a level playing field amongst competing investment products?**

We do not think clients will be able to negotiate their direct payment arrangements. Clients will likely be offered a choice of direct payment arrangements, from which they will be able to choose the most appropriate based on their needs or their financial capacity. As mentioned earlier, we strongly encourage regulators to ensure that all products with embedded commissions be subjected to similar regulations in order to avoid regulatory arbitrage between products. Not all dealers will have the resources to modify their information technology systems. Some of them will have to make choices such as mergers, entering into a service agreement, or discontinuing their business.

Question 29: Other than the potential impacts we have identified in Part 4, what other potential unintended consequences, including operational impacts and tax consequences, may arise for fund industry stakeholders and investors further to the discontinuation of embedded commissions? In particular:

a. Would there be a negative tax impact to investors associated with their payment of dealer compensation under direct pay arrangements? In particular, would the investor's payment of dealer compensation through periodic fund redemptions facilitated by the investment fund manager attract tax consequences? Please explain.

Normally, "modest investors" are fully invested (no liquidity available). In order to pay the costs of the dealer compensation and services, they will have to sell units and investments. This might generate tax consequences. If the client holds some liquidity and does not fully invest his money, then the client is not taking advantage of 100% of the market variation.

c. What, if any, measures, regulatory or otherwise, could assist in mitigating potential operational and tax impacts?

Merge of the fund series must be allowed without client consent. No repapering should be requested by the regulators, since clients do not generally want to have to sign new documentation when changes are more operational-related. Since dealers and their registered representatives have obligations to maintain adequate records, operational impacts could be resolved without clients' signatures.

Systems may not be ready for such changes. There will be a financial impact which will likely be passed on to clients. Fee-based platforms are expensive to establish.

Question 32: For each transition option, please tell us how your business (investment fund manager or dealer) would have to operationally change or restructure in terms of systems and processes and the related cost implications. Where possible, please provide data on the estimated costs.

- **Are there unique costs or challenges to specific businesses?**

  Some firms might be more impacted by the technology developments needed and their related costs. All firms will be challenged by the transition period of 36 months. Within this delay, registered representatives will have to communicate with all of their clients to: explain the direct payment options available, obtain all the required consents, and adequately document any changes.

- **What transition period would be appropriate?**

  A transition of 36 months will prove challenging and, therefore, anything less would not be feasible.

- **Should existing redemption schedules for DSC and low-load purchase options be maintained until the redemption schedule is completed, or discontinued at the Transition Date?**

  Existing redemption schedules for DSC and LL should be maintained until the redemption schedule is completed.

Question 33: Which transition option would you prefer? Why? Are there alternative transition options that we should consider?

Please see the answer to Question 32. We prefer existing redemption schedules for DSC and LL being maintained until the redemption schedule is complete.

Question 34: As discussed in Appendix B, the CSA did not retain the option of capping embedded commissions, either as a stand-alone solution to the key issues discussed in Part 2 or as an interim step toward an eventual discontinuation of embedded commissions. Should the CSA further consider using a fee cap as a transition measure? Why?

We believe an interim measure of capping embedded commissions would not help the industry, and would only increase the level of complexity of this proposal. Embedded commissions have been in place for a very long time and we see no benefit to capping them on an interim basis. Clients could also be more confused by implementation of an interim step. The more changes there are, the greater the likelihood of confusion.

Conclusion

National Bank would like to thank you for providing us with an opportunity to comment on this important issue. We look forward to our continued participation in any further public consultation on this topic and would be pleased to discuss our input in greater detail with you. We have expressed our main concerns and our objective is to find solutions that are relevant for, and serve the needs of the Canadian market.

Yours truly,

Martin Gagnon
Executive Vice-President, Wealth Management,
Co-President and Co-Chief Executive Officer National Bank Financial