



BY EMAIL

October 19, 2018

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 of 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 Territory
Superintendent of Securities, Nunavut

Attention:

The Secretary

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

Dear Sirs / Mesdames:

Re: iA Financial Group comments on Proposed Amendments to National Instrument 31-103 and Companion Policy 31-103CP - *Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)*

iA Financial Group appreciates this opportunity to submit comments on the proposed amendments to National Instrument 31-103 and Companion Policy 31-103CP - *Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)* (the “**Proposed Amendments**”).

**Industrial Alliance
Insurance and
Financial Services Inc.**

About iA Financial Group

Founded in 1892, iA Financial Group is one of the largest insurance and wealth management companies in Canada, with operations in the United States. It is also one of Canada’s largest public companies and is listed on the Toronto Stock Exchange. iA Financial Group serves over four million clients and employs more than 6,100 people. At December 31, 2017, the Company had nearly \$170 billion in assets under management and administration.

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ia.ca

The Wealth subsidiaries of iA Financial Group include the following:

- FundEX Investments Inc., a mutual fund dealer, exempt market dealer and a member of the Mutual Fund Dealers Association of Canada (“MFDA”);
- Investia Financial Services Inc., a mutual fund dealer, exempt market dealer and a member of the MFDA;
- Industrial Alliance Securities Inc., a full-service securities brokerage and a member of the Investment Industry Regulatory Organization of Canada (“IIROC”);
- IA Clarington Investments Inc., an investment fund manager and exempt market dealer;
- iA Investment Counsel Inc., a discretionary portfolio management firm focusing on high net worth private clients; and
- Forstrong Global Asset Management Inc., a discretionary portfolio management firm that uses only exchange traded funds to build its clients’ portfolios.

The iA Wealth companies focus on creating and preserving wealth for individual Canadians by working with independent advisors. We believe strongly in the critical role of the financial advisor and their delivery of advice to Canadian investors. Creating and preserving wealth spans across many life stages from childhood, education, forming a family, career development, before retirement and at retirement. With today’s unprecedented market conditions along with the changing needs during these life stages, the role of the financial advisor in helping clients create and preserve their wealth and reach their financial goals has never been more important. To that end, our dealers offer an open and comprehensive product shelf to provide our advisors flexibility to create personalized advice solutions.

Comments

As members of The Investment Funds Institute of Canada (“IFIC”), we have reviewed and support the comments provided by IFIC in response to the Proposed Amendments. In particular, we support and echo the IFIC comments and recommendations around:

- (i) ensuring the Proposed Amendments are scalable and can be implemented in a manner suited to different business models;
- (ii) reflecting existing SRO guidelines relating to a risk based product due diligence process under the know your product requirements, the collection of know your client information for multiple accounts, and the approach to addressing material conflicts of interest;
- (iii) using consistent language when intending to convey the same meaning;
- (iv) confirming that registered firms can fulfil the know your product training obligations by relying on available disclosure documents and continuing to work with investment fund managers;
- (v) recognizing disclosure as an effective mitigant; and
- (vi) clarifying acceptable referral arrangements and undertaking further consultation on appropriate time limits on referral fees.

In addition, we set out below our comments on areas of the Proposed Amendments that have a more specific impact to our business model and clients. We acknowledge the key investor protection concerns identified by the Canadian Securities Administrators (“CSA”), and we support many of the concepts behind the Proposed Amendments. However, we believe some of the obligations and expectations set out in the Proposed Amendments require further consideration as they may lead to unintended consequences.

Recognizing the value of financial advice

Financial advisors help investors create and preserve their wealth. As set out in research conducted by IFIC, Canadian mutual fund investors greatly value the advice they receive from their financial advisors. Advisors help investors develop disciplined savings habits and avoid behavioural pitfalls. The benefits of receiving financial advice at early stages beginning with the development of savings habits when savings amounts are small are widely documented. The increasing regulatory and compliance demands on dealers and advisors resulting from the implementation of the Proposed Amendments will lead to increased costs of delivering services and advice. This will result in fewer investors having access to advice, with the largest risk being to smaller accounts. Without this access, the risk of insufficient retirement savings increases, at a time when people are living longer. We support our advisors who provide advice to Canadians with a range of account sizes, from those starting to invest to those with large established accounts. We believe the Proposed Amendments will necessitate changes to business practices that risk leaving investors with smaller accounts without the benefit of financial advice, which will ultimately lead to less favourable outcomes for investors.

Low cost and low fees are among several factors that result in client outcomes

The Proposed Amendments appear to be based on a belief that better investment outcomes for investors can only be achieved through low-cost products and lower fees for services. We do not agree that lower costs are the primary or only factor that leads to better outcomes for investors, and we believe this view does not appropriately consider the value of financial advice and other product features. In making recommendations to investors, cost is only one factor that is considered by an advisor. Other factors that must also be considered are qualitative factors relating to the investment product, such as the nature and quality of the provider's services and the firm's reputation. If security selection is made entirely based on cost, the unintended consequence will be the avoidance of alternative viable solutions and the potential for compromised client outcomes. The selection of individual securities, mutual funds or any other investment opportunities consists of an array of factors and cannot be constrained to cost only. We request that the CSA clarify that cost is only one factor to be taken into consideration, and that other factors aside from costs are legitimate factors to be considered when an advisor makes a recommendation.

Know Your Product proposals will impact investor choice and market competition

The Proposed Amendments introduce a component to the know your product process that requires a firm to understand how a security generally compares with similar securities available within the market, and extends to securities beyond the approved product offering of the firm. The proliferation of products available within the financial services industry has been tremendous, and there are thousands of securities listed globally on stock exchanges around the world, along with thousands of mutual funds. Even a firm or registrant with a fulsome product review committee will have difficulty fully monitoring or comparing a landscape that is so extensive. New shelf management practices will be developed to comply with the obligations to compare, approve and monitor securities made available to advisors. In order to ensure that they are able to fully meet their regulatory obligations, dealers will likely reduce the number of products they approve and support. This will make it more difficult for new products and new registrants or less well-known registrants to enter and succeed in the market. Product innovation could be stifled as firms may be reluctant to develop new products with the potential uncertainty of approval at the dealer level. This will further lead to a reduction of options and choices for investors.

Conflicts of interest proposals relating to proprietary products will impact business models

As indicated above, the iA Wealth dealer firms have a product shelf which includes, but is not limited to, proprietary products. The Proposed Amendments, particularly the Companion Policy, could be interpreted as indicating that proprietary products constitute such a conflict of interest that they in effect cannot be recommended in a mixed-shelf model. If this interpretation prevails, it could lead to much of the market moving to a proprietary only model, in order to avoid any potential conflict of interest concerns. This would in turn lead to further reduced choice for investors. We believe that a competitive landscape that provides opportunity and respects consumer choice is imperative.

In the iA Wealth business model, many of the proprietary products compete in the marketplace and are offered to both affiliated dealers as well as third party dealers. We believe that there is a place for proprietary products, as there is a place for third party products. In some cases, proprietary products can be more valuable as there is an opportunity to work with advisors and their clients to develop a product that can best meet their needs, which ultimately is in the client's best interest. In addition, having access and proximity to an affiliated firm can provide advisors better quality information about the features, fees, risks and benefits of products or services offered. We suggest that the Proposed Amendments include an acknowledgement that proprietary products are permissible and that business models that integrate proprietary products are a viable and valuable option for investors.

The Proposed Amendments also require that firms monitor the use and level of proprietary products in client portfolios to assist in evaluating whether the conflict is being addressed in the best interest of clients, and also require registered firms to disclose the extent to which proprietary products may be included in client portfolios. These provisions seem to suggest that, for proprietary products, there is a concentration level which must be observed. However, the same concerns relating to product concentration apply to third party products as well. We suggest that this monitoring and disclosure should apply to the use of all products and should be viewed in a manner that focusses on whether the product selection has performed commensurate with the financial goals established by the client and registered individual.

Know your client updates will add to administrative burden for clients

The Proposed Amendments specify that know your client information must be reviewed at specific intervals, including no less than once every 12 months for managed accounts. A full repapering of accounts on an annual basis represents a significant additional administrative burden to both investors and registrants, and could lead to client frustration with the volume of paperwork entailed. We suggest that a more appropriate approach is to require that advisors maintain contact with clients at least annually to confirm any material changes to their circumstances.

Referral Arrangements can be advantageous for clients

We believe that the strategic use of referral agreements can be advantageous and an added value to clients. Referral agreements are often used to provide access to products or services which a firm or professional is not licensed to offer. We support the CSA initiative of identifying and dealing with those individuals who have decided to utilize referral agreements to forgo licensing requirements and servicing responsibilities while still receiving compensation in the form of a perpetual referral payment. However, we recognize that professionals, such as lawyers and accountants, may refer their clients to financial advisors when they identify a need for financial advice. In these situations, compensation is set by the advisors and is fully transparent to the client, much like any "fee for service" arrangement. Through appropriate disclosure, clients are fully aware of their costs and performance. In these cases, the potential to continue to permit these relationships should be considered.

Conclusion

We support the direction of the CSA in refining the regulatory environment on behalf of investors to ensure better investor outcomes. However, we have concerns about potential unintended impacts of the Proposed Amendments to investors and to business models. The costs required to implement the changes envisioned in the Proposed Amendments will be considerable, at a time when there are already significant cost pressures on businesses. Firms and individual registrants will be forced to review and modify their business models, systems and resource requirements in light of the Proposed Amendments. These increased costs to market participants will, at least to some extent, flow through to the end investor. Unintended consequences will range from significantly constrained client offerings to, in certain instances, the departure of currently viable firms. For investors, unintended consequences could lead to reduced access to advice, particularly for those investors with smaller accounts, at a time when Canadian investors are in critical need of savings to address their longer retirement lifespans.

We will be pleased to participate in any further public consultation on this topic or discuss our responses in greater detail with you. We also thank you for giving us this opportunity to provide comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carl Mustos', with a long, sweeping horizontal line extending to the right above it.

Carl Mustos
Executive Vice-President, Wealth Management