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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
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, Square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Re: Canadian Securities Administrators (“CSA”) Notice and Request for Comment dated June 21, 2018 – Reforms to Enhance the Client-Registrant Relationship (“Client Focused Reforms”)

On behalf of Investment Planning Counsel Inc. (IPC), we thank the CSA for the opportunity to provide comments on the Client Focused Reforms.

Our company

IPC is an integrated financial services company focused on providing Canadians with high-quality financial products, services and advice through our network of independent financial advisors.

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IPC operates on a national platform with over \$27.8 billion in assets under administration (as at August 31, 2018) on behalf of approximately 300,000 investors across all provinces. Its subsidiaries include IPC Investment Corporation (IPCIC), an MFDA member firm, IPC Securities Corporation (IPCSC), an IIROC member firm and Counsel Portfolio Services Inc., (Counsel), an investment fund manager.

IPC is part of IGM Financial Inc., which is a member of the Power Financial Corporation (PFC) group of companies.

Founded in 1996, IPC has always adhered to the philosophy that clients are best served through the comprehensive services of an independent financial advisor. Personal savings is a key component to the accumulation of financial wealth and retirement readiness. Among other things, households who have and keep an advisor (i) are twice as likely to save for retirement at all ages; (ii) have significantly higher levels of investable assets at all ages; (iii) improve their regular saving for retirement at all income levels; (iv) rate themselves as more financially knowledgeable; and (v) are more confident in their ability to achieve a comfortable retirement.¹ We also know that investors' primary source of financial information comes from their advisers.²

General Comments

IPC has a strong interest in the discussion set forth in the Client Focused Reforms. Overall, we are very supportive of the CSA's objectives in the Client Focused Reforms and want to provide our feedback to assist the CSA in meeting these objectives.

In this letter we are seeking clarification on certain aspects of the Client Focused Reforms and expressing our concerns regarding potential unintended consequences of the proposed reforms:

1. *Inhibition on Competition and Innovation.* It is our view the KYP and Conflict of Interest reforms have the unintended consequence of inhibiting competition and innovation for certain firms, which ultimately lessens investor choice. At IPC, innovation and the ability to evolve our business model is fundamental to IPC's business philosophy and how we best serve our clients.
2. *Diminished Investor Choice.* We are concerned some aspects of the new KYP and KYC requirements may significantly diminish the degree of choice of investment products and the accessibility and affordability of financial advice to Canadians by the financial services industry in Canada.
3. *Referrals.* We believe the limitation on referrals in the proposed reforms has the unintended consequence of limiting referrals that are in the best interest of clients. For example, referral of a client by a mortgage lender to a registrant (advisor) when the client's needs and objectives support such referral.

¹ Sources: CIRANO, *Econometric Models on the Value of Advice of a Financial Advisor* (2012) and *The Gamma Factor and the Value of Financial Advice* (2016). All advised households, at all age levels, is found to save at approximately double the rate of non-advised households, with advised households having higher net worth than non-advised households across all ages and income levels (Source: IFIC *The Value of Advice*, 2011).

² Key Highlights CSA Investor Education Study 2016 prepared for the CSA by Innovative Research Group, Inc. (April 2016)

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We would encourage the CSA to continue to work closely with the Self-Regulatory Organizations (SROs), MFDA and IIROC, on these Client Focused Reforms to achieve a harmonized standard for all registrants in Canada on a consistent basis.

Comments on Specific Client Focused Reforms

1. Know Your Client (KYC)

We would encourage the CSA to clarify the proposed KYC requirements to ensure there is consistency between the new requirements and the guidance offered to firms in the final rule and companion policy. For example, we request specific clarification on the guidance with respect to “*thoroughly understanding*” the client and obtaining “*meaningful understanding*” of investment needs of clients, as well as what types of categories would satisfy the KYC requirements if not those listed in the guidance.

Annex C, which highlights the changes to the Companion Policy of National Instrument 31-103 (Annex C), states that extensive KYC information will be required for full service offerings. However, Annex C also suggests tailoring KYC would be appropriate based on the firm’s business model. It is our view that the new approach to KYC is not appropriate for all clients in all circumstances, and accordingly support tailoring of KYC based on the client’s needs and investment objectives and not on a firm’s business model.

The CSA should be flexible when making the determination of what would satisfy the KYC requirements, or provide specific KYC templates for firms, so the requirements are clear and imposed equally across all firms to ensure the same standard applies to all clients and firms have a clear understanding of the KYC requirements.

We are also concerned that proposed KYC standards fall outside the scope of proficiency requirements for some registrants. Not all firm’s registrants have a broader financial proficiency of financial planning, for example, which at our firm is an outside business activity. In the absence of proficiency standards for all registrants, it may be outside registrant ability to comply with the broadened KYC and suitability requirements proposed in the Client Focused Reforms. It is our view that proficiency standards should be introduced in tandem with heightened KYC expectations placed on registrants.

Finally, we note that the proposed KYC standards introduce new requirements for information and suitability which will require back office systems to be updated, requiring significant time to implement. This should be in mind for the transition period implemented by the CSA.

2. Suitability

There are many factors in determining the suitability of an investment to meet the needs and investment objectives of a client. We are concerned that the emphasis of *cost* in the proposed suitability requirements and guidance (as well as in KYP and conflicts of interest proposed reforms) is disproportionate relative to other important factors.

The risk of placing too much emphasis on the lowest cost security available (unless there is a reasonable basis for a higher cost security) is that clients may automatically be put in the cheapest products to demonstrate compliance,

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when it may not be in their best interest. Emphasis on price should only come into consideration after addressing other fundamental factors as investment strategy/philosophy, asset class and investment style. Other factors such as firm and advisor confidence in the portfolio management, the depth of the manager's team (including changes of investment personnel), the size of assets under management, as well as in-flows or out-flows of the product, are all factors that can have a significant bearing on the product's risk and results in the short, medium and long term that we believe must also be considered in tandem when developing a product list and in making recommendations to clients. In our view, if firms and advisors are required to focus their evaluation criteria with a heavy emphasis on cost, they would always favour the lowest cost products irrespective of these other important and fundamental considerations.

We also seek clarity on the CSA's expectation of the requirement to consider "a reasonable range of alternative actions available to the registrant through the firm". We would suggest those considerations would be limited to what the registrant is licensed to sell.

3. Conflicts of Interest

a. Use of Proprietary Products

We acknowledge the CSA's assessment that the sale of proprietary products can give rise to a conflict of interest. However, the characterization of this potential conflict does not universally apply across all business models. Accordingly, we are concerned the proposed conflict of interest reforms have an inherent bias against proprietary products and solutions. Firms should have the freedom to determine their own business models and products offered on its shelf. IPC strongly believes in having a "house brand" (Counsel) and a high net worth UMA offering for clients by IPCSC. In our view, Counsel products and solutions are uniquely developed to be suited to the needs of our client base and are not easily comparable to other third-party products and solutions.

Accordingly, we are concerned the current guidance suggests having a higher level of proprietary product in a client's portfolio signals a conflict of interest that is not being addressed in the best interests of the client. High use of Counsel solutions, in our view, signals the suitability of the product relative to our client base. The fact that we may have a higher level of Counsel products in clients' portfolios over third-party products should not lead to a conclusion that clients will have less optimal outcomes. In fact, we note that Counsel provides a portfolio overlay management service hiring the best in class sub-advisors to manage a particular investment mandate. Most sub-advisors to Counsel are at arm's length.

It is also our view that any conflict of interest resulting from a choice between proprietary and non-proprietary products and solutions can be dealt with by ensuring that there are no compensation incentives for proprietary products, and including the same KYP and suitability requirements and processes for all products a firm offers (proprietary and non-proprietary); and by ensuring the required relationship disclosure is provided to the client.

We note that many other industries offer in house products, which provide for greater overall choice and competition to benefit the end consumer. For these reasons, we disagree with the bias in the Client Focused Reforms that recommending proprietary product is inherently at odds with a requirement to put the client's interest first, and suggest that the accessibility of these products serves to satisfy these ends.

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In our view, the current guidance related to managing conflicts for firms (that offer both proprietary and non-proprietary products) will negatively impact a firm's choice of business model in limiting its ability to choose its product offering, evolve and be innovative. This unintended consequence will then result in lessening of investor choice. Both firms and clients should be able to choose their respective business models and product selection to meet the client's investment needs and objectives.

b. Compensation

We believe it is important in the guidance, with respect to internal compensation and the weight of such targets on sales activity or revenue generation, for the CSA to acknowledge that it is reasonable for firms to incentive their staff and reward performance that contributes to the firm's success³. As drafted the guidance says, "overly aggressive" without clarity as to what the CSA views as overly aggressive is not particularly helpful. Further, we believe that if we have compensation that does not bias recommendations, with the heightened reforms of KYC, KYP, Suitability and proper supervision, this should be more than sufficient to mitigate potential mis-selling. Theoretically, compensation based on sales activity or revenue generation aligns with the reforms, as product agnostic.

We do not believe it is the role of the CSA to regulate how registered firms manage the performance of their registered individuals. We agree that sales incentives programs may create conflicts of interest, however firms should have flexibility in managing those conflicts of interest appropriately without being concerned that performance management issues could be regulatory compliance matters.

Unless there is greater clarity by the CSA on how a firm with a mixed product list will be able to effectively demonstrate KYP compliance when a proprietary product is chosen, we do not see how we will be able to effectively sustain a mixed product shelf. As we have noted, at risk is that this will lead to some firms with a mixed product list simply choosing to become a proprietary firm, while others may unduly limit proprietary products from their product list that would otherwise meet the needs of their clients. Neither scenario, we submit, achieves the CSA's objective of improved outcomes for clients.

4. Know Your Product (KYP)

There are many aspects of the KYP proposals that we wish to provide feedback to the CSA and request further consideration and clarification.

First, we seek clarity on the degree of understanding the "essential elements" of the securities and comparison required by firms of similar securities available in the market, especially with respect to equity securities. Our IIROC and MFDA member firms, IPCSC and IPCIC, have access to products and securities through our carrying brokers. With National Bank Correspondent Network (NBCN), for example, IPCSC has access to over 30,000 separate fund codes and over 200 product manufacturers on our product shelf. This is in addition to banking and deposit products from

³ As the MFDA did in Bulletin #0705-C Review of Compensation, Incentives and Conflicts of Interest (December 15, 2015).

over 20 financial institutions and securities listed on the major exchanges. We look for clarification on how firms will be expected to conduct the level of detailed KYP analysis as currently set out in the guidance and the market comparison for each security without significantly decreasing our product shelves. Also, the requirement of ongoing monitoring of each security may also make it impossible for firms to comply with unless firms substantially shrink product shelves, resulting in fewer product choices and solutions for clients.

Our product list is constantly evolving to promote new and innovative products for our clients. For IPC, we have grown our business through acquisitions of different independent IIROC and MFDA firms, whose advisors have a range of investment philosophies and client profiles. To preserve product choice on a firm's shelf, but also facilitate compliance by individual advisors, we recommend to the CSA that the guidance specifically clarify for firms that the KYP process (including comparability) can be tailored, just as permitted in KYC, to reflect the degree of complexity of the security. In this regard, we would encourage the CSA to have the KYP obligations aligned with the existing guidance provided by the SROs, which applies a more principle based application of the firm KYP requirement. SRO guidance outlines that a firm's review of a product should be more rigorous depending on the nature of the product, such that a traditional prospectus qualified mutual fund not be subject to the same evaluation criteria as an exempt market offering.

Related to significant changes in product shelf construction, we are also concerned about transition requirements and seek clarity on how the CSA expects to reflect the new rules as of a certain date, or whether these reforms will apply on a go forward basis. We note that depending on the significance of the final changes to KYP, firms could need significant time to modify their shelves accordingly. Registrants will also have to consider, depending on CSA guidance, whether client portfolios will have to be changed based on changes to the firm's approved product list.

5. Referral Arrangements

We are very concerned the proposed restrictions on referral arrangements will limit legitimate referral arrangements that are in the best interests of a client.

In particular, we question why the CSA has proposed outright limits on both the duration and amount of a referral fee without any exception or consideration for the substance of the arrangement. In our view, referral arrangements should not be limited if: registrants can demonstrate ongoing services are provided to clients in exchange for a referral fee; supervision is performed; all fees are clearly disclosed to clients; and clients explicitly consent to the referral. If these conditions are complied with, we see no reason why integrated firms like ours, that have both MFDA and IIROC registrant dealer firms, should be subject to the proposed limitations. Within our organization, we believe that these referrals are in the best interest of our clients as they allow our clients to gain access to a broader range of securities and investment products, while at the same time continuing to receive ongoing financial planning support.

Further, we believe that the proposed restrictions will adversely impact referrals to non-registrants, such as mortgage lenders when such reference would best serve the client. We are supportive of prohibiting payment of referral fees by registrants to non-registrants, but not if the referral is paid by the non-registrant to the registrant for a product which fits a clients' needs and objectives.

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We believe the CSA must articulate its policy concerns and target those specific referral arrangements that are problematic and not in the best interest of clients. We strongly encourage the CSA to continue to consult on referral arrangements and not limit firm's feedback to the comment period provided for in the Client Focused Reforms.

6. Transition

We contemplate that increased reliance on technology will be necessary to comply with these Client Focused Reforms, which can be especially challenging for established firms with legacy systems in place. As noted in the CSA's Regulatory Impact Analysis⁴, the cost of transition will be significant for firms adapting their systems, and will require significant time to build and implement these new systems.

Due to the substantive compliance changes and system updates which will be required to implement these Client Focused Reforms, in addition to the corresponding education required for registered individuals and compliance registrants, we believe a longer period for transition will be required. We would recommend a 3-year period.

Conclusion

Thank you for the opportunity to provide comments on the Client Focused Reforms. Please feel free to contact me, or Matthew Onyeaju, Vice-President Advisor Services Compliance & Chief Compliance Officer (IPCIC) at 905-212-9799 (ext. 3073), if you wish to discuss this further or require additional information.

Investment Planning Counsel Inc.



Reginald Alvares
Executive Vice-President,
Operations and Information Services

⁴ See Annex F of CSA Notice and Request for Comment Proposed Amendments to National Instrument 81-105 Mutual Funds Sales Practices and Related Consequential Amendments (September 13, 2018).