



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

Via delivery to:

The Secretary
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and,

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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To Whom It May Concern:

**Re: CSA Notice and Request for Comment
Proposed amendments to NI 31-103 and CP 31-103CP
Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)**

As participants in the securities markets in Canada for the last 37 years, we appreciate this opportunity to dialog with the members of the Canadian Securities Administrators (CSA) as they work toward

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creating a regulatory framework that helps to foster capital markets while providing a high level of investor protection. Considering and incorporating stakeholder commentary is a crucial aspect of developing a regulatory system that is both functional and fair for all parties involved.

In regards to the proposed amendments to both National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP, Registration Requirements, Exemptions and Ongoing Registrant Obligations in relation to the Reforms to Enhance the Client-Registrant Relationship, we have the following comments:

1. In the CSA Notice and Request for Comment regarding the proposed amendments to National Instrument 31-103 and Companion Policy 31-103CP, the description of consultations with stakeholders makes no mention of the inclusion of members of the Private Capital Markets Association of Canada, or participation by registrants in the exempt market industry. If the CSA is considering amending current or future legislation, receiving input from the broadest range of stakeholders available is essential to the process. By encouraging participation in a competitive marketplace where a diverse range of quality investment products, including institutional, as well as independent or local market offerings, are available, regulators have an opportunity to both foster capital markets and place the interests of clients first.
2. In regards to the “Key Concerns” outlined in the Request for Comment (which are shown in italics below) we believe that the CSA should consider the following:
 - ***Clients are not getting the value or returns they could reasonably expect from investing: in their suitability analysis, some registrants fail to consider all of the factors relevant to helping clients meet their investing goals.***
The proposed recommendations for increased disclosure by registrants can provide clients with relevant information that can be used to make better informed investing decisions.
 - ***Expectations gap: clients often have misplaced reliance on or trust in their registrants, which exacerbates the agency problem inherent in the client-registrant relationship and can result in sub-optimal investment decisions.***
Increased emphasis on improving suitability determinations can reduce the number of transactions that are completed without adequate disclosure or consideration of material factors by registrants.
 - ***Conflicts of Interest: the application in practice of the current rules is, in many instances, less effective than intended in mitigating conflicts of interest.***
The proposed increased disclosure requirements would not be an impediment to market participation by registrants. Enhanced emphasis on compliance with current regulations by the members of the CSA could also provide improved outcomes for clients.
 - ***Information asymmetry: the current regulatory framework is, in many instances, less effective than intended in mitigating the consequences of the information and financial literacy asymmetry between clients and registrants.***
The consequences of the financial literacy asymmetry between clients and registrants can be mitigated by the use of clear, understandable communications as to the client’s expectations regarding the registrant’s investment recommendations. As well, a clear and consistent regulatory framework can assist in mitigation of financial literacy asymmetry.

- ***Clients are not getting outcomes that the regulatory system is designed to give them: this over-arching concern is to a large extent due to the combined effect of the concerns listed above.***

With greater emphasis placed on compliance with current regulations by the members of the CSA, clients' outcomes could improve. It should be considered that constant alteration of the regulatory framework requires an ever-increasing amount of resources to be directed toward the compliance regimen of registrants. Unfortunately, these costs are often borne by clients in the form of increasing fees, which in turn erode the value of returns they would reasonably expect from investing.

Regarding the questions posed beginning on page 17 of the Notice, we submit the following answers:

Question 1: *Exempt market dealers often have transactional or "episodic" relationships with their clients, in contrast to the ongoing character of client relationships in other categories. Would the Proposed Amendments pose implementation challenges unique to transactional relationships, or would they have other unintended consequences related to them?*

Response: The enhanced KYC requirements proposed represent a more detailed level of financial disclosure on the client's behalf. With "episodic" client/registrant relationships, these enhanced requirements could make the collection of KYC data more challenging, as the client's increased concerns with protecting the privacy of their financial information could make them less inclined to participate in this higher level of disclosure.

Question 2: *Are there other specific conflicts of interest that cannot be addressed in the client's best interest and must be avoided?*

Response: If there are conflicts of interest that cannot be addressed in the client's best interest, the enhanced disclosure requirements proposed would provide both the client and the registrant the opportunity to avoid proceeding with the transaction.

Question 3: *Does prohibiting a registrant from paying a referral fee to a non-registrant limit investors' access to securities related services? Would narrowing section 13.8.1 [Limitation on referral fees] to permit only the payment of a nominal one-time referral fee enhance investor protection?*

Response: Investors' access to securities related services would be limited by prohibiting a registrant from paying a referral fee to a non-registrant. Referrals by non-registrants can provide clients with an opportunity to invest in securities that may be suitable. Ultimately, it is the responsibility of the registrant to determine the suitability of the investment for the client. By adhering to the recommendations of the regulations that are in place to make that determination, and if the referral fee is fully disclosed to the client, the referral has no bearing upon the transaction.

We appreciate the opportunity to provide our input and trust that the members of the CSA will consider our commentary in their decision making process.

Regards,



John A. W. Kearley,
President, UDP