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ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Dear Mr. Corner:

Re: "Client Relationship Model – Phase 2 Performance Reporting and Fee/Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1"

The Investment Industry Association of Canada (the "IIAC") and its member firms support the client-focused objectives of IIROC's enhanced disclosure and reporting requirements, as set out in "Client Relationship Model – Phase 2 Performance Reporting and Fee/Charge Disclosure Amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1" (the "IIROC Rules"). We are committed to the implementation of the IIROC Rules by Dealer Members that offer services to retail investors and to providing meaningful reporting that their clients value.

We appreciate the opportunity to meet with IIROC Staff as our members continue to work through details of the disclosure and reporting changes. As well, we appreciate IIROC's recognition that the IIROC Rules will have a material impact on Dealer Member operations and on other stakeholders, including clients.

CRM2 has been called "the most important wealth management industry development in decades". It is, in fact, a consolidation of a good number of changes, each of which is significant. Accordingly, the IIAC formed a CRM2 Implementation Working Group and several related committees to tackle and co-ordinate implementation, and to work toward a consistent experience for retail investors. There are now over 100 people from 30 Dealer Members on the Working Group and related committees, and we have found it necessary to hold several meetings weekly to help address all of the issues.

As is the case with other complex change initiatives, the key to achieving successful outcomes that meet the regulators', industry's and investors' objectives is successful implementation. CRM2's multi-stage, multi-entity implementation requires extensive planning, development and scheduling for the analysis, business requirement writing, systems development, testing and training phases. This is due to:

- the numerous computer interface changes required to report client transactions. Unlike with respect to many regulatory initiatives, these changes extend well beyond the necessary systems changes to each Dealer Member's own programs/servers. These changes impact both systems within some control of Dealer Members (for example, computer interfaces with service providers, carrying brokers, vendors and infrastructure (e.g., FundSERV)), and systems entirely outside of the control of Dealer Members (such as interfaces with investment fund managers and their own service providers and vendors).

- the need to implement a series of large and small systems changes while maintaining uninterrupted services to Canadian retail clients throughout the implementation period. This will be complicated as implementation is taking place in an ever-changing environment of market developments, with increasing federal, provincial and other tax, legal and securities regulatory requirements, and shifting client needs and preferences.

- CRM2's high visibility among and impact on investors, the reputational risk of any errors, and the consequential effect on market confidence.

- the necessity to consider the impact of these changes on investors, especially given the number of other regulatory changes that will be introduced and impact investors within the same time-frames. We recognize the importance of not overwhelming investors with new information, without adequately supporting them through their advisors. Accordingly, the series of CRM2 implementations will require extensive staff training and communications to ensure investors receive the intended disclosure benefits of CRM2 without undue risk of confusion

Our member firms and their staff take pride in the services they provide to investors, and believe the IIROC Rules are designed for, and should be assessed in the context of, the client. The results of the OSC Investor Advisory Panel and Investor Education Fund study show that 88% of respondents agreed with the statement "I generally trust the advice I receive from my financial advisor". Also, the IIAC's Advisor Impact survey results found that 86% of IIROC dealers' clients responded favourably to the question – "How satisfied are you with your advisor?" and 25% of these reported satisfaction as 10 out of 10. IIROC Staff as well should recognize that while the media's and other regulators' post-2008 focus may have been on Canadian banks' stalwart performance, we believe the Dealer Members and registered representatives that IIROC regulates also weathered this time of great market challenge, and served their retail clients, as well as or better than elsewhere. In order to continue to build on our collective success, our Dealer Members are striving to implement CM2 in a way that maintains and heightens the trust of their clients.

In order to continue to meet client expectations, and to plan for and comply effectively with the IIROC Rules, immediately below are the two highest priority issues we have identified regarding the IIROC Rules.

High Priority Issues

1. CSA Exemption of IIROC Registrants from NI 31-103 Section 14 Provisions

Background: Although CRM2-related parts of National Instrument (NI) 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations (the "CSA Rules") are final, and detailed analysis and implementation of the IIROC Rules are underway, Dealer Members' CRM2 implementation may be impeded if there are further changes to the CSA Rules nine months into the three-year implementation period, or if a different understanding of requirements is presented by IIROC or CSA Staff.

We understand that if the Canadian Securities Administrators ("CSA") are satisfied that the IIROC Rules are materially harmonized with the CSA Rules, then the CSA will exempt IIROC Dealer Members from the relevant portions of the CSA Rules. We believe that IIROC and CSA Staff worked closely together on the CRM2 initiative, and hope that this provides comfort around shared goals.

Issue: As we mentioned earlier, there are many complexities in implementing the significant technical modifications needed to respond to the CRM2 amendments. Systems, procedures, documentation, training and communication changes need to take place sequentially. As well, the changes require co-operation with mutual fund and exempt market dealers; industry service providers, vendors, and central transaction, clearing and settlement infrastructure entities; and companies in other parts of the financial sector, such as mutual fund and portfolio managers. Given the tight timelines and extensive systems, operational and people issues facing Dealer Members in the CRM2 implementation, it is crucial for Dealer Members to have certainty immediately that the CSA will both approve the IIROC Rules and exempt Dealer Members from the relevant portions of the CSA Rules. Our members cannot reasonably finalize planning and implementation with IIROC Rules that remain open to change a mere five months before the first implementation deadline. While the change, six weeks after the IIROC Rules were released, to require delivery of performance-benchmark-related information in 2014 (instead of 2016) appears minor, it raises the question of whether additional changes may follow that may further impact firms' ability to meet these new disclosure obligations within the defined implementation timelines.

Recommendations:

1. ***We request immediate confirmation that the CSA will exempt IIROC Dealer Members from the CSA Rules.*** While we recognize that this is an unusual request, we are facing unusual circumstances and require this certainty in order to proceed toward successful implementation.

This confirmation would allow Dealer Members to focus their attention and planning on a single set of requirements, rather than forcing them to address multiple and slightly different requirements in a way that could impact both timely compliance and a client experience that is consistent with confidence in Canadian capital markets. We understand that, should material changes be proposed by IIROC as a result of the current consultation process, the CSA would have to consider these changes independently. However, confirmation from the CSA that IIROC's Rules as currently proposed are substantially similar to the NI 31-103 amendments, such that Dealer Members will be exempt, is very important to meeting CRM2 deadlines. We believe that the industry's need for immediate certainty is understandable and a reasonable request. As well, although the requirements to be implemented in mid-2015 and mid-2016 may seem to offer a longer timeline, key technology and solution decisions for these larger and significantly more complex changes must be made as soon as possible (i.e., in the coming months), as they require the broadest cross-industry co-operation, integration and testing.

2. ***We ask IIROC Staff and CSA Staff to indicate whether amendments to the CRM2 aspects of, respectively, the CSA Rules and the IIROC Rules are to be made or are being contemplated.*** For the reasons we have pointed out, the many significant changes needed to meet the CRM2 deadlines require near-term decisions to be made by Dealer Members. If regulatory requirements change, it will be very difficult to undo the decisions already made and to re-direct resources successfully within the required time-frames.

3. ***We would like to arrange a meeting(s) in the next few weeks to discuss other regulatory considerations with IIROC and CSA Staff***. Our members are concerned that proceeding with additional regulatory measures under consideration (including changing the fund risk rating methodology, the potential unbundling of fees, and other issues) could unnecessarily jeopardize smooth implementation of all regulatory changes (including CRM2) that are designed to benefit retail investors.

   We know that the CSA and IIROC are aware that the volume and pace of securities regulatory change that has taken place over the past five years, and the implementations slated for at least the next three years, are considerable. During that same period of time, the industry also has faced, and continues to face, substantial changes in tax, money-laundering, anti-spam and other legislative requirements. Some Dealer Members have exited the industry in the past few years, at least partly due to the high regulatory demands on staff resources and cost associated with new regulation, including for technology, specialized consultants, and fees. Reasonable regulation is important for investor protection and strong capital markets; however, sufficient timelines are required to ensure that regulation is implemented effectively, and with risks that are manageable.

Introducing additional substantial regulatory requirements will draw on already stretched Dealer Member legal, compliance, accounting, technology and senior management resources assigned to implement CRM2. Importantly, investors and their advisors are also only able to deal with a certain amount of change. As an industry, we want the laudable objectives of CRM2 to be met, and we believe that introducing additional regulatory changes before CRM2 requirements can be fully implemented may undermine these goals.

We raise securities regulatory requirements with the Canada Revenue Agency and other government bodies where there is a conflict in the Dealer Members' ability to securely implement client-facing systems and procedural changes required by securities regulators and those regulators on occasion have provided relief. We hope that securities regulators understand that Dealer Members are also subject to equally high-priority demands from these other entities. We believe it will be helpful to have all stakeholders aware of ongoing and expected non-securities rule changes required over the CRM2 implementation period – changes that are needed to help investors meet their legal requirements (for example, with respect to taxes) and for dealers to comply with the law.

2. Subparagraph 200.2(I)(v)(C) – Trade Confirmation Disclosure of Debt Security Compensation

Background: Dealer Members already disclose yield to maturity, net of remuneration, on debt security trade purchase confirmations issued to clients in accordance with IIROC Rules. This allows the client to compare the return on a bond with that of either the same bond being sold by another Dealer Member or another bond. Dealer Members also are required to meet the best execution requirements for clients, and do so by sourcing bonds from either the marketplace or directly from internal inventories, as appropriate. As currently required, Dealer Members already indicate on all debt security trade confirmations issued to retail clients that the Dealer Member's remuneration on such transactions has been added to or deducted from, respectively, the value of a purchase or sale. The IIROC Rules, following the provisions of the CSA Rules, require different debt confirmation disclosure, as of July 15, 2014, of either "total compensation" or of "gross commission" plus a broader disclosure statement.

IIROC defines "gross commission" as the commission the Dealer Members charge on debt security trades to reflect the compensation for both the Dealer Member and the registered representative. The disclosure of gross commission addresses the goals of CRM2, to provide clients with information in a consistent way that allows for price comparisons with other Dealer Members' offerings.

Issue: Where gross commission is provided (and total compensation is not provided), the CSA Rules and the IIROC Rules require the trade confirmation to include a notification that is, or is substantially similar to, the following:

> "Dealer firm remuneration has been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount was in addition to any commission this trade confirmation shows was charged to you."

Depending on how the debt security was sourced for the client, and the nature of the client's account, this statement may be inaccurate and/or misleading. There may in fact be no additional remuneration added to the price of the security or, in the case of clients who pay an annual fee for investment services rather than a per-trade commission, there may be no transaction-related commission. We understand that CSA and IIROC Staff were alerted to this issue late last year.

Recommendation: We recommend that the IIROC Rules should be revised to provide flexibility for Dealer Members by requiring a notification that is substantially the same as the above, modified as necessary to ensure accuracy. For example:

> "Dealer firm remuneration ~~has~~ may have been added to the price of this security (in the case of a purchase) or deducted from the price of this security (in the case of a sale). This amount, where applicable, ~~was~~ would be in addition to any commission that may have ~~this trade confirmation shows was~~ been charged to you." *[proposed amendments noted]*

In either case, we believe that there has been no change in the intent or spirit of the CSA or IIROC Rule as it would be neither the CSA's nor IIROC's intention to mandate disclosure that was erroneous or confusing to clients. For this reason, we request that CSA Staff confirm that a change by IIROC along the noted lines would not preclude an exemption for IIROC Dealer Members from the relevant NI 31-103 provision.

Other Issues

3. Section 29.9 – Pre-Trade Disclosure of Charges – Deferred Sales Charges (DSCs)

The IIROC Rules require Dealer Members to provide pre-trade disclosure of DSCs at the point of sale when clients sell mutual funds where a DSC would be applied. A phone call to the fund company is required to determine whether a DSC applies and the amount of the charge. Given that this information is not available to Dealer Members in an electronic fashion (and furthermore that any build to make that information available would be significant), providing pre-trade disclosure of DSCs at the point of sale would be extremely challenging, especially in the case of the online brokerage channel.

Recommendation: The IIAC recommends that Dealer Members be able to comply with the pre-trade disclosure requirements of this section by using alternative means to address the requirement, for example, by providing a generic DSC schedule and a contact number for additional information.

4. Rule 200.2(l)(vi) – Trade Confirmations

Under current Rule 200.1(h)(23), Dealer Members are required to provide over-the-counter traded securities confirmations only to retail clients, and the prescribed notification is only required where a mark-up or mark-down or other service charge was applied by the Dealer Member, but not disclosed on the confirmation. On the basis of comments in IIROC Notice 13-0300, we think that the revisions inadvertently may have removed (i) reference to retail clients (in general, IIROC has limited aspects of the IIROC Rules to retail clients) and (ii) the option to provide the prescribed notification only when it is applicable.

Recommendation: The IIAC suggests that rule 200.2(l)(vi) not be revised, generally leaving the original language that applies the rule to retail clients only with the option to display, only when applicable, the prescribed notification. A black-lined version of our recommended change, which would essentially restore the current wording, is provided below.

> "200.2(l)(vi) In the case of all over-the-counter traded securities other than debt securities, including contracts for difference and foreign exchange contracts, but excluding primary market transactions and over-the-counter derivatives with non-standardized contract terms that are customized to the needs of a particular client and for which there is no secondary market, <u>where the amount of the mark-up or mark-down and other service charges applied by the Dealer Member has not been disclosed on the confirmation sent to retail clients,</u> either of the following: …" *[underlined text re-inserted]*

5. Rule 200.2(d)(ii)(E) and (G) Account Statements – Market Value of Securities

Rule 200.2(d)(ii)(E) and (G) would require account statements to disclose the market value of securities. The IIROC Notice does not clarify that these provisions will be effective only in July 2015, while the NI 31-103 definition of "Market Value" is effective July 2015 and the IIROC implementation table shows it applying effective in 2015.

Recommendation: Please confirm that the market value provisions are effective July 15, 2015 as we believe is the intent.

We believe that our proposals are consistent with the goals of the client relationship model as outlined in the IIROC and CSA Rules. We would be pleased to meet with you to elaborate on our recommendations. Given the tight timelines, we trust that you will be able to provide us with feedback on our recommendations as soon as possible.

We intend to provide comments by April 10, 2014 on the Rules as they pertain to disclosure and reporting requirements to be implemented in 2015 and 2016. These changes are more extensive and complex, so the earliest possible feedback will also be important. We hope to work closely with you to achieve the CRM2 changes that will successfully implement reporting and disclosure in a way that should benefit clients.

Yours sincerely,

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