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RE: Rule Consolidation Project – Phase 4

PFSL Investment Canada Ltd. (“PFSL”, “we” or “our”) is pleased to respond to the Canadian Investment Regulatory Organization’s (“CIRO”) consultation regarding Phase 4 of the Proposed Dealer and Consolidated Rules (“DC Rules”). Attached at Appendix A is our response to the 7 questions CIRO specifically requested comments on regarding the DC Rules.

Overview

We support CIRO’s goal to consolidate the investment dealer and mutual fund dealer rules into a single set of harmonized rules that will apply to both categories of CIRO Dealer Members. Further, recognizing CIRO’s primary objectives in achieving harmonization is to ensure:

- Like dealer activities will be regulated in a like manner,
- Minimize regulatory arbitrage between investment dealers and mutual fund dealers,
- Where practical and appropriate, adopt less prescriptive, more principles-based rule requirements to facilitate rules that are scalable and proportionate to the different types and sizes of dealer and their respective business models, and
- Improve access to and clarity of the rules applicable to all CIRO Dealer Members.

PFSL has reviewed CIRO’s **Impact Analysis** and corresponding **Impact Assessment Table** (collectively referred to as the “Analysis”) and more importantly, the **Conclusions** drawn regarding the Proposed DC Rules that were provided in Appendix 4. We disagree with the overall assessment and conclusions drawn.

While CIRO has confirmed there are some negative impacts to mutual fund dealers regarding the Approved Person requirements and corresponding approval process, it also concluded these impacts were outweighed by the overall net-positive impacts of the DC Rules. Our analysis concludes that there are in fact significant impacts to the mutual fund dealer community, some of which are expressed in our responses to the 7 questions and in general on other aspects of the Phase 4 Proposed DC Rules, described in CIRO’s Executive Summary as set out below.

About Primerica

Primerica Financial Services (Canada) Ltd. is a leading distributor of basic financial savings and protection products to middle-income households throughout Canada, serving the Canadian public since 1986. Our Canadian corporate group includes our mutual fund dealer, PFSL Investment Canada Ltd. and our life insurance company, Primerica Life Insurance Company of Canada (“PLICC”). PLICC is represented by more than 10,000 licensed life insurance agents across the country and approximately 60% of our life insurance agents are dually registered as mutual fund representatives. We insure almost 550,000 lives and operate in every province and territory across Canada.

Our products and personal advice help middle-income Canadians establish long-term financial goals. Our representatives guide their clients at life's critical points, helping them avoid common pitfalls to gaining financial independence: higher cost and lower face value insurance that does not protect adequately, starting to save too late, not saving enough and neglecting tax-advantaged savings opportunities, to name a few. Our representatives take a holistic approach with their clients and offer our digital FNA (Financial Needs Assessment), which provides them with a snapshot of their financial situation and a road map to achieve their goals. Our goal is to empower Canadians to make informed financial choices through education and help them set and achieve their financial goals.

We have an exclusive sales force of representatives, which allows us to put supervision, monitoring, controls, and restrictions in place based on trends and risks we identify. We pride ourselves on our high customer satisfaction and retention, our regulatory collaboration as we believe in strong consumer protections, and on our clean compliance record. Primerica's people-first philosophy and our commitment to doing what's right for our clients is evident in the millions of families who trust Primerica for their family's financial needs across North America.

General Comments

Comment Period - Timing

CIRO published for comment Phase 4 of its Rule Consolidation Project on October 17th, 2024, with responses due on February 4th. The Executive Summary included other information references/links and many rules to be considered in responding to the proposed DC Rules. Given the volume, complexity and significance of this Phase of the DC Rules, and that the timing of this request for comment came close to year-end and included the holiday season, more time was required for mutual fund dealers to provide a thorough and substantive response. Additionally, there were many competing industry consultations and CIRO Examinations, and there was not enough time for mutual fund dealers to provide a thorough and substantive response for this consultation.

We appreciate CIRO providing us with an additional few days to complete our response in this instance. We believe a more comprehensive and meaningful consultation process benefits policymaking, provides for more meaningful information exchange, and improves policy outcomes. With this in mind, we highly recommend that future consultations take into consideration all consultations impacting on the industry, including those undertaken by CIRO and other securities regulators.

We recommend CIRO provide stakeholders with no less than 90 days for all future CIRO consultations, and 120 days if the consultation period includes the holidays or the summer months, to ensure adequate time is given to carefully consider CIRO's proposals. This would include publishing the aggregated DC Rules for final review and comment after Phase 5 of this initiative, but prior to the final approval of the DC Rules.

Transition Periods

PFSL recommends a minimum three-year extended implementation period for the proposed new, or materially changed, proficiency requirements for mutual fund dealers' APs, beyond the general effective date of the proposed DC Rules to adjust accordingly and with less disruption overall.

Impact

While the Analysis purports to have some minor negative, neutral, or minor positive impacts to mutual fund dealers, we submit that CIRO has not fully considered the impact of the application of such amendments. This would include updating policies and procedures, bulletins and memos to Approved Persons, training, changes to forms including disclosures, paper vs electronic, software, and systems – all of which require time, resources and extra cost. As an example, CIRO Analysis notes personal financial dealings as a "Minor Positive" impact, yet DC Rules have expanded the Rules to include employees, information that is most likely not currently known to mutual fund dealers as there was no regulatory prohibition or requirement for employees to disclose personal financial dealings (i.e. control or authority over a client's affairs, being named as beneficiary etc.) to mutual fund dealers prior to the proposed DC Rules.

CIRO Guidance

PFSL recommends MFDA Member Staff Notices remain in effect, where applicable, until such a time CIRO provides guidance on the final DC Rules. The DC Rules have mostly adopted IDPC Rules. In keeping with CIRO harmonization objectives, specifically to "ensure like dealer activities will be regulated in a like manner", the Guidance must be tailored to the final DC Rules. CIRO should not simply rely on or adopt IDPC Rules Guidance.

PFSL recommends CIRO undertake a project that includes public consultation when considering conforming changes to the existing interim guidance to create the guidance to be used for the final DC Rules. The final DC Rules should not come into force until a consolidated guidance is finalized after public consultation.

Supervision – Former Branch Manager/Alternate Branch Manager

In the proposed DC Rules, the mutual fund dealer, Approved Person ("AP") category of Branch Manager is being replaced with Supervisor. We note that the Supervisor is not subject to registration under securities legislation. Branch Managers and Alternate Branch Managers are, however, required to meet former MFDA Rule 2.5.5, which includes proficiency and experience requirements. The DC Rules and corresponding questions do not specifically speak to the role of the Supervisor, in particular, if the existing mutual fund dealer Branch Manager and/or Alternate Branch Manager, which has differing experience requirements, will be grandfathered into the new Supervisor category. PFSL recommends grandfathering the

former mutual fund dealer AP Branch Managers and Alternate Branch Managers under the new Supervisor category. The grandfathering provision would reduce the regulatory burden by eliminating the need to review and approve those individuals already acting in a supervisory capacity and would create less disruption for mutual fund dealers.

In addition, PFSL supports the DC Rules to adopt a principles-based approach to supervision and agrees that mutual fund dealers do not require a physical location to fulfill the supervisory responsibilities.

PFSL further agrees that the DC Rules with respect to daily and monthly trade supervision are better situated in guidance rather than in the DC Rules.

Proportionality for increased documentation and suitability

Primerica believes strongly in CIRO's efforts to protect consumers and make sure that they get recommended products that suit their needs. Most of Primerica's assets under management are registered, prioritizing tax-advantaged and tax-deferred accounts that benefit Canadians. Rules regarding suitability and documentation should be proportional to the products and risks. Proportionality in regulation is key to ensuring that simpler products and basic advisory services remain available to modest income consumers. Added layers of suitability determination and documentation will increase the cost and complexity of offering mutual funds and may discourage advisors from providing services to clients with modest investable assets.

Conclusion

PFSL appreciates the opportunity to provide our comments to the CIRO on Phase 4 of its Rule Consolidation Project. In finalizing its Consolidated Rules, we encourage CIRO to ensure that the rules are principles-based, scalable and proportionate to ensure that access to mutual funds and the accompanying financial advice remains accessible to all Canadians.

Sincerely,

[Original Signed By]

John A. Adams CPA, CA
Chief Executive Officer

cc:

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CIRO Rule Consolidation Project - Phase 4 Consultation Questions

Question #1 - Definition and application of “investment product”

Will the revised definition, and application of the term “investment product” provide additional clarity to the scope of Dealer Member obligations to clients?

What additional investment products should we consider obtaining Board approval to include in this definition?

Are there different products that should be added for different regulatory purposes?

PFSL agrees that the revised definition and application of “investment product” will provide greater clarity to the scope of Dealer Member obligations to clients/perspective clients, provided that CIRO’s Board is required to request stakeholder comments and obtain Canadian Securities Administrators (CSA) approval in advance of any changes to the list of investment products.

PFSL does not recommend any other investment products that CIRO should consider obtaining Board approval to be included in this definition.

PFSL does not recommend any other products that should be added within the definition of “investment product”, for different regulatory purposes.

Question #2 - Applying CFO requirements to mutual fund dealers

We recognize that requiring mutual fund dealers to appoint a CFO may be a significant material change to the governance and resourcing requirements of many such dealers.

We are seeking feedback on several points regarding this proposal:

- ***For mutual fund dealers who do not support the implementation of this requirement (and in particular, any mutual fund dealer who do not currently have a CFO), we inquire as to who, at an individual level, fulfills their existing financial obligations under MFD Rule section 3 (which broadly assigns the obligations to the ‘Member’ instead of an individual), including a description of who oversees financial risk to clients and the organization on a regular (i.e. daily) basis.***
- ***To what extent, and on what basis, should the proposed CFO requirement reflect the Rule Consolidation Project objective of scalability? For instance, should the requirement for a Dealer Member to designate a CFO only apply to mutual fund dealers in certain scenarios, such as:***
 - ***Based on a certain minimum AUM (and what should that threshold AUM be),***
 - ***If a mutual fund dealer has a corporate governance and/or Executive structure beyond a single UDP/CCO, and/or***

- *Based on the complexity of products or services offered (and if so, which products and/or services require the financial expertise of a CFO)?*
- *Whether there are significant concerns regarding the potential scarcity of CFO candidates in the mutual fund industry and/or the anticipated time horizon to hire a CFO candidate at a mutual fund dealer.*

PFSL would not be impacted by the implementation of this requirement. PFSL has a CFO that fulfills the financial obligations as set out in MFD Rule section 3. Though PFSL will not be impacted by the proposed rule changes, we believe that it is crucial for the mutual fund dealer network to thrive.

CFO services as laid out in the rules can be done as a shared service or in an oversight capacity. The proposal which requires that all mutual fund dealers appoint a CFO is a significant and material change to the governance and resourcing requirements of many mutual fund dealers.

We share the concern in the sector that adding a CFO requirement will bring increased demand and competition for CFOs, when there is already scarcity in the mutual fund industry. We encourage CIRO to allow for dealer members to retain a part-time CFO, who will fulfill the MFD rule obligations.

Further, the proposed changes if implemented, will introduce another barrier for MFDs and increase costs in recruiting or retaining qualified CFO's. As indicated in CIRO's Impact Analysis of Phase 4, CIRO notes that while it is unable to quantify the financial impact of the phase 4 Proposed DC Rules, CIRO has confirmed that with the harmonization of the CFO requirements many mutual fund dealers will be required to hire for a new position.

Given the concerns identified, we strongly encourage CIRO to extend the transition period to at least 2 years to allow mutual fund dealers to adjust and meet the requirements, and grandfathering provisions to those individuals that have senior or executive finance experience that demonstrate the skills and judgement required of the CFO within the mutual fund dealer.

It's worth noting that imposing such a requirement would be inconsistent with CIRO's primary objectives, specifically, *"to facilitate rules that are scalable and proportionate to the different types and sizes of dealers and their respective business models"*.

Question #3 – Proficiency requirements and the Approved Person regime for UDP of mutual fund dealers

To avoid an overly burdensome approval process, we proposed that mutual fund dealer sponsored individuals that are registered in the appropriate registration category under securities legislation should be automatically approved as an Approved Person under the DC Rules.

However, an important distinction exists between the CCO and Dealing Representative categories, which rely on a review process by relevant securities regulatory authorities and minimum proficiency requirements to obtain registration, versus the UDP, which is also reviewed but not required to meet minimum proficiency requirements.

- *Given that the UDP has the highest level of liability and oversight in a Dealer Member, is it reasonable to impose the CIRO approval process as is currently set out in the IDPC Rules (including the successful completion of courses, examinations, and minimum experience) in addition to the registration required by securities legislation?*
- *If the answer to the above is ‘yes,’ this may be disruptive to mutual fund dealers whose UDP does not currently meet the proficiency requirements set out in the IDPC Rules. To what extent is it appropriate to exempt these existing UDPs from these requirements, or alternatively, to provide a longer time horizon (beyond the general implementation date) for them to complete their proficiency requirements?*

As set out in MFD Rule 900 - Continuing Education (“CE”) Requirements, UDP’s are required to comply with and complete continuing education credits. Generally, UDP’s have comprehensive operational and regulatory experience as well as a strong knowledge and understanding of regulatory requirements.

PFSL proposes CIRO grandfather and automatically approve existing UDP’s who are registered in the appropriate registration category under existing securities legislation. Thereby avoiding an overly burdensome and unnecessary approval process as noted above.

We recommend that CIRO develop an equivalent standard for UDPs who have industry related experience and knowledge, thus exempting them from any added registration requirements.

Question #4 – Implementation for existing (unregistered) Approved Persons of Mutual Fund Dealer Members

With respect to the categories of Approved Persons of mutual fund dealers that are not subject to a registration requirement under securities legislation, we have generally proposed these Approved Persons conform to CIRO’s Approved Person regime and corresponding proficiency requirements. Our view is that these roles have significant oversight responsibilities that justify this potential additional regulatory burden on mutual fund dealers.

However, the same rationale may not apply for Directors. We expect that directors of mutual fund dealers who were not previously subject to proficiency requirements may not be ‘actively engaged’ in the activities of the business of the mutual fund dealer and do not play an operational, oversight nor managerial role in the dealer’s business. Under the current proposals in Phase 4, these mutual fund dealer Directors would be subject to a CIRO approval process and net-new proficiency requirements.

To what extent would it be appropriate to grandfather the existing Directors of mutual fund dealers into the Approved Person regime? Please advise if there are significant concerns regarding this approach, particularly regarding the lack of minimum proficiency requirements of existing mutual fund dealer Directors and whether this could undermine investor confidence in mutual fund dealer as compared to investment dealers.

PFSL believes that it would be appropriate to grandfather the existing Directors of mutual fund dealers into the Approved Person regime. We do not view grandfathering the existing regime for Directors as a risk to the investing public, as there is a history of the investing public working with dealers under the existing proficiency regime that has not required Directors to meet Approved Person proficiency requirements.

Question #5 – Transition period for Approved Person categories where new requirements are introduced or existing requirements have been materially changed

We recognize that we have proposed significant changes, including net-new Approved Person categories and corresponding proficiency obligations, to the Approved Person regime for mutual fund dealers. As a result, existing Approved Persons sponsored by mutual fund dealers, as well as individuals who are not currently considered Approved Persons but will be caught by the proposed DC Rules, may be required to attain additional proficiencies. This may be a time-consuming process and might result in individuals incurring additional professional expenses.

Given the above considerations, should the proposed proficiency requirements for mutual fund dealers' Approved Persons be subject to an extended transition period beyond the general effective date for the DC Rules, and if so, what is an appropriate extended transition period?

Given the proposed significant changes identified above (time and resource commitments, additional proficiencies required) PFSL recommends extending the transition period beyond the general effective date of the DC Rules, but no less than three years. As set out in CIRO's Impact Analysis and Impact Assessment Table, this will increase the administrative work that will be required of CIRO to process the applications (review and approvals).

While Branch Managers were not subject to an underlying securities legislation registration requirement, the former MFDA Rules required Branch Managers and Alternate Branch to comply with MFDA proficiency and experience requirements. With the change to Approved Person categories, specifically from Branch Manager and Alternate Branch Manager to Supervisor, the proposed DC Rule changes will require applicants to be reviewed by CIRO in advance of that individual being able to act in a Supervisory capacity. PFSL recommends grandfathering these individuals under the Supervisor category reducing regulatory burden and limiting the disruption to mutual fund dealers.

Question #6 - Prohibition on accepting certain positions of control or authority over client affairs

Does the addition of the prohibition on an Approved Person or employee accepting a position of power of attorney, trustee, executor or otherwise having full or partial control of the affairs of a client have implications in respect of the relationship between the client and the Approved Person or employee?

Should there be exceptions to this prohibition, and if so, under what circumstances?

To date, employees of Mutual Fund Dealers have not been prohibited from taking on such control or authority and as a result, may have limited information or most likely no information about such instances.

Consideration must be given to the practical and potential legal implications in identifying and unwinding these cases.

We believe the scope of the Rule to extend to employees beyond Approved Persons is unnecessary and PFSL highly recommends the Rule apply to Approved Persons only.

Question #7 – Prohibition on being named as beneficiary

Is it appropriate to prohibit an employee or Approved Person from accepting the status of a beneficiary of a client’s estate or receiving a bequest from a client’s estate upon learning of such status unless they are a member of the client’s immediate family?

While CIRO proposes to “add a new restriction to prohibit Approved Persons and employees from accepting beneficiary status or bequests from a client’s estate **except** where the client is an immediate family member, and in the case of Associate Portfolio Managers, Portfolio Managers, Investment Representatives and Registered Representatives, the proposed status or bequest is disclosed to and approved in writing by the Dealer Member. We propose to define “immediate family” as parents, grandparents, mother-in-law or father-in-law, spouse or domestic partner, brother or sister, brother-in-law or sister-in-law, son-in law or daughter-in-law, children, grandchildren, cousin, aunt or uncle, or niece or nephew, and any other person who resides in the same household as the Approved Person or employee and the Approved Person or employee financially supports, directly or indirectly, to a material extent. The term includes step and adoptive relationships. We are using the term “immediate family” rather than “Related Person” in this provision to ensure the exemption is appropriately targeted to the specific familial relationships that are commonplace in estate related circumstances, and generally do not give rise to conflict-of-interest concerns. (DC Rule clause 3110(2) (vi))”, the ability to apply the exception would be rather complex and challenging at best and as mentioned above in our response to #6 above, PFSL is of the view that CIRO DC Rules prohibiting Approved Persons or employees from being named as a beneficiary is far too broad.