



Via E-mail

November 14, 2012

Robert Keller
Policy Counsel, Market Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9

Dear Mr. Keller:

Re: IIROC Notice 12-0253 – Request for Comments on draft guidance regarding compensation structures for retail investment accounts

We are writing on behalf of RBC Dominion Securities Inc. in response to the request for comments issued by the Investment Industry Regulatory Organization of Canada (IIROC) on the draft Guidance Note regarding compensation structures for retail investment accounts (the Notice). We appreciate the opportunity to provide our comments to IIROC on the proposed guidance outlined in the Notice related to commission and fee-based accounts.

We have participated in the industry group organized by the Investment Industry Association of Canada (IIAC) and contributed comments to the IIAC's submission. In this regard, we support the comments submitted by the IIAC.

General Comments

In light of the evolving types of services available to retail investors, we agree that Dealer Members and Registered Representatives should be mindful of how the specific compensation arrangements that are offered to retail clients can affect their obligations under IIROC Rules. To this end, RBC DS applauds the recent efforts of IIROC to implement the first phase of the Client Relationship Model (CRM). Retail clients will have the means of understanding the fees and services offered by the Dealer Member through the improved account relationship disclosure, enhanced conflicts of interest disclosure as well as the enhanced suitability assessment processes. The performance reporting phase of CRM would further introduce tools for retail clients to assess the fees and charges incurred related to their investments and the performance of their investments. We also wish to highlight our appreciation of the process through which the CRM initiatives took form – specifically, through IIROC's rule amendment procedures, extensive consultation with the industry and provision of supporting research results that substantiated the need for those improvements. Similarly, given that the proposed guidance note corresponds to the enhanced requirements under CRM, we are of the view that IIROC should consider the effects and impact of the implemented CRM requirements before introducing any new requirements.

Specific Comments

1. IIROC's process of introducing new requirements

The Notice sets out IIROC's new expectation that "[w]hen assessing the overall suitability of an account type, one of the key factors that Dealer Members should consider is the account's compensation structure." It further claims that IIROC Notice 12-0109 *Know your client and suitability – Guidance* (IIROC Notice 12-0109) notes that "Dealer Members are expected to assess the suitability of the account type as part of their Rule 1300.1 obligations, and such obligations should extend to the account's compensation structure, since it can be seen as a significant aspect of account type." As a result, we find it difficult to reconcile the Notice and the guidance under IIROC Notice 12-0109 which states that:

"The Dealer Member and Registered Representatives, at the time of account opening, should ensure that the account type (margin, trusts, option accounts, etc.) is appropriate for the client given the client's particular circumstances."

The existing expectation for Dealer Members and Registered Representatives to consider account types is at account opening, but not as part of each suitability assessment.

In principle, we have significant concerns with the introduction of new requirements through the issuance of a "Guidance Notice" especially when IIROC and the industry have recently completed an extensive consultation process regarding the amendments to IIROC Rule 1300.1. To the extent that the Notice now imposes a requirement to assess an account's compensation structure as part of the suitability review of the account type, such new requirement should follow IIROC's existing rule-making process. Our concern with introducing a new requirement in a Guidance Note is twofold: (1) it will create confusion amongst Dealer Members with respect to the creation of their policies and procedures; and (2) how the requirements in a Guidance Note will be enforced by IIROC in accordance with applicable regulatory standards. To that end, we believe that the Notice should be amended to remove any new regulatory requirements and exclude any wording referring to disciplinary action.

Furthermore, in our view, the Canadian Securities Administrators (CSA) have appropriately shifted their focus on adopting a more holistic approach to the client/advisor relationship which includes the CRM initiative and most recently the consultation paper related to a "statutory best interest duty" for advisors and dealers. The concerns outlined in the Notice related to assessing the ongoing suitability of the account's compensation structure should be included as part of the broader discussions rather than being addressed in isolation under a separate IIROC Notice.

2. Assessing suitability of compensation structure

The Notice sets out a number of factors that should be considered when assessing the relative suitability of commission-based vs. fee-based accounts on behalf of retail clients. While we do not have any specific concerns with the factors listed in the Notice, IIROC indicates that any move from a commission-based account to a fee-based account (or vice-versa) must be "demonstrably beneficial" to the client. Notwithstanding our comments under Part 1 of this letter, we are seeking clarification on what IIROC considers "demonstrably beneficial" given that IIROC is suggesting in the Notice that the absence of any demonstrable benefit may give rise to regulatory scrutiny or disciplinary action.

Further, the Notice recommends that Dealer Members document the specific factors that establish the suitability of a new commission-based or fee-based account at account opening or where the client is being switched from one account type to another. We are requesting that IIROC clarify the expectations related to the evidence requirements regarding the suitability assessment of the client's compensation arrangement.

3. Disclosure

As noted above, we do not believe that IIROC should prescribe additional compensation disclosure requirements at this time, as IIROC and the CSA are still implementing/proposing significant regulatory initiatives that include comprehensive compensation disclosures. To elaborate, the relationship disclosure document, to be provided to clients at account opening and on an ongoing basis, will describe the account service fees and charges as well as the charges that the retail client will or may incur in making, disposing and holding investments. As part of the IIROC-CSA performance reporting proposals, it is anticipated that retail clients would receive trade confirmation that outlines the transaction charges and all charges associated with the transactions. Retail clients may also receive annual report on charges and other compensation that sets out the operating charges, transaction charges and other compensation that is relevant to the client's account.

4. Supervision of Account Type

We agree that Dealer Members should have policies and procedures to detect improper trading activity in all types of accounts. While the Notice outlines a number of factors that should be considered as part of the supervision of both commission and fee-based accounts, we are requesting that IIROC provide additional clarification of what are considered "high risk trading activities" in a fee-based account. We further believe that the requirement to monitor "insufficient documentation reflecting the enhanced services normally associated with a fee based account" is redundant given the requirement to provide clients with a relationship disclosure document, both at account opening and on an ongoing basis, describing the services and associated fees that a client may incur with the operation of their account.

5. Double charging

As outlined above, with the implementation of enhanced compensation disclosure requirements under the CRM initiative, the transparency of costs of embedded fee products is greatly improved. Regardless of whether the account is commission or fee-based, we believe the focus should be on the unrestricted access and appropriateness of the product to the client while providing full disclosure of the costs and features associated with each product.

6. Implementation

As pointed out above, the CRM initiative will address a number of issues that have been raised in the Notice, specifically around the disclosure of account types and the associated costs and charges. It should also be noted that the new suitability triggers outlined in the first phase of CRM have required that Dealer Members update their systems in order to track and document the additional suitability triggers. In addition, Dealer Members must establish appropriate policies and procedures to ensure that Registered Representatives are aware of the new regulatory obligations. Consequently, introducing a requirement that Dealer Members evidence the suitability analysis of the client's compensation structure will require that Dealer Members once again update both their systems and policies and procedures to meet such new requirement.

In the event that IIROC proceeds with the proposal at this time, we believe that the implementation date should coincide with the implementation of IIROC's proposed performance reporting requirements under the Client Relationship Model, as both initiatives have an impact on a Dealer Member's account policies and procedures and systems.

Concluding Remarks

Thank you for providing us with the opportunity to provide comments on the Notice. RBC DS would welcome the opportunity to discuss the foregoing with you in further detail. If you have any questions or require further information, please do not hesitate to contact the undersigned.

Sincerely,

"Russell Purre"

Chief Compliance Officer
RBC Dominion Securities Inc. (Retail)

- c. Nicholas Cardinale, Head of Canadian Wealth Management & Latin America Compliance