

September 26, 2016

Alberta Securities Commission  
Autorité des marchés financiers  
British Columbia Securities Commission  
The Manitoba Securities Commission  
Financial and Consumer Services Commission (New Brunswick)  
Nova Scotia Securities Commission  
Ontario Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan

c/o Josée Turcotte, Secretary  
Ontario Securities Commission  
20 Queen Street West, 22nd Floor  
Toronto, Ontario M5H 3S8

Sent by email to [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Re: Comments Regarding CSA Consultation Paper 33-404: *Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients*

Dear Sirs/Mesdames -

The Responsible Investment Association (RIA) welcomes the opportunity to provide feedback on the CSA Consultation Paper 33-404, and commends the Canadian Securities Administrators for soliciting public input on this important consumer protection initiative.

The RIA is a national, nonprofit, membership-based organization composed of financial institutions, mutual fund companies, investment firms, financial advisors, and various organizations and individuals who practice and support responsible investing. Responsible investing refers to the integration of environmental, social, and governance (ESG) criteria into the selection and management of investments. The RIA and its members strongly believe that responsible investment is a valuable investment tool to enhance returns, reduce risk, and catalyze positive societal change.

Please accept our comments on your “Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients.”

#### 1) Know Your Client

The RIA supports an enhanced Know Your Client (KYC) process, specifically, the incorporation of environmental, social and governance (ESG) considerations into the KYC obligation (Section 13.2 of NI 31-103). We are encouraged by the CSA’s reference to responsible investment in the description of potential guidance provided in Appendix B of this consultation paper, and believe the language could be further strengthened.

There is growing demand from Canadian retail investors for products that integrate environmental, social and governance considerations into the investment process. A recent study<sup>1</sup> has shown that three out of four Canadians expect ESG factors to be considered in their investments and 92 percent of Canadians say that it is important to choose investment products that are consistent with their values. This growth is driven in part by the emergence of millennial investors (born between 1984 and 2004), who are more aware of and interested in including ESG considerations in their investment decision-making than prior generations.<sup>2</sup>

We believe that until now, the lack of advisor inquiry into ESG concerns by clients has represented an important gap in the KYC process. It is critical that advisors determine client preferences on ESG issues so that they can recommend appropriate investment products based on these preferences, in conjunction with their other investment considerations.

With regard to the specific language for KYC guidance proposed in Appendix B to this consultation paper, we recommend replacing the terminology of “social responsible investment and religious constraints” with “environmental, social and governance considerations,” as follows:

To meet their KYC obligation, firms and representatives must take reasonable steps to obtain sufficient information about their clients’... investment needs and objectives, including the client’s time horizon for their investments and applicable investment constraints and preferences, ~~for example socially responsible investing and religious constraints~~ **including environmental, social and governance considerations.**

This change would explicitly clarify advisor obligations to match appropriate investments with their clients’ ESG preferences.

## 2) Know Your Product – Representative & Firm

Currently there is no expectation that each advisor be fully knowledgeable about each product on their firm’s product shelf. We believe that a rule requiring such knowledge for all representatives working within a firm would be neither appropriate nor practical. The capacity of an advisor to understand every product in relation to every other product on a shelf is limited.

We believe that requiring advisors to understand and consider the product characteristics of every product on the shelf would lead to the unintended consequence of having firms narrow their shelves to a level they feel they can safely defend when facing a regulatory review. This means that clients will have fewer product choices.

Our primary concern is that such a requirement could induce smaller firms to reduce, or even eliminate, the responsible investment products on their shelves to cut down on significant and costly additional training for advisors.

It is not in the clients’ best interest to constrain the products and services the firm can recommend or make available. Rather, it is important that advisors have knowledge of, and access to, the available products that are suitable for their clients.

If an advisor determines that their client needs a particular product, such as one that integrates ESG considerations, and they do not have access to such a product, the remedy would be to refer the client to someone who has access to the appropriate ESG solution.

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<sup>1</sup> NEI and Environics, *Investors and Responsible Investment: What Advisors Need to Know*, 2014

<sup>2</sup> Responsible Investment Association, *Millennials, Women, and the Future of Responsible Investing*, 2016.  
<https://riacanada.ca/millennials-women/>

In conclusion, the Responsible Investment Association on behalf of the responsible investment industry expresses its support for the principle of placing the interests of the client ahead of the interests of the registrant. We believe that this objective can better be met through requiring advisors to understand the ESG considerations of their clients, and to have knowledge of suitable products that address those considerations.

We thank you for the opportunity to provide comments. Should you have any questions regarding this letter, please do not hesitate to contact me.

Sincerely,



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