



Royal Mutual Funds Inc.  
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Via Email

September 28, 2011

Jason Bennett, Corporate Secretary  
Mutual Fund Dealers Association of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9

and

Anne Hamilton, Senior Legal Counsel  
Capital Markets Regulation Division  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, BC V7Y 1L2

Dear Mr. Bennett and Ms. Hamilton:

**Re: MFDA Bulletin 0487 - Proposed Amendments to MFDA Rule 2.2.1 (“Know Your Client”) and Policy No. 2 *Minimum Standards for Account Supervision***

We are writing on behalf of Royal Mutual Funds Inc. (“RMFI”) and Phillips, Hager & North Investment Funds Ltd. (“PH&N”) in response to the request for comments issued by the Mutual Fund Dealers Association of Canada (“MFDA”) in Bulletin 0487: Proposed Amendments to MFDA Rule 2.2.1 (Know Your Client) and Policy No. 2 *Minimum Standards for Account Supervision* published on July 11, 2011. RMFI and PH&N are separate corporate entities, which are affiliated, and are subsidiaries of Royal Bank of Canada. Both RMFI and PH&N are registered in Quebec as mutual fund dealers and are members of MFDA. We appreciate the opportunity to provide comments on the proposed amendments.

In this proposal, the MFDA seeks to establish the minimum criteria for assessing leverage suitability in Rule 2.2.1 and Policy No. 2 by codifying relevant guidance under MFDA Member Regulation Notice 0069 (Suitability Guidelines) (“MR-0069”) and MFDA’s Leverage Supervision Guide. While we agree that MFDA’s Policies are effective means of ensuring consistent and objective minimum industry standards, RMFI and PH&N strongly believe that the Policies should be principle-based to allow members the flexibility to implement policies and procedures that correspond to their business models and risks.

To begin with, it appears that certain aspects of the proposed amendments to Policy No. 2 are overly prescriptive and would be better suited as guidance to members. In particular, proposed section 4 of *Leverage Suitability* under Part III *Assessing Suitability of Investments and Leveraging Strategies* of Policy No. 2 sets out the documents that members must maintain in order to facilitate proper supervision. Proposed subsection 4(b) provides that supervisory staff must compare the client’s KYC information with all other information received in respect of the loan and follow up on any material inconsistencies. We find that while this level of detail is appropriate in situations where a member or registered salesperson assists the client in completing the loan application, it is not suitable in all cases. Also, proposed subsection 4(c) would require members to maintain details in support of income and net worth calculations required by subsections 1(e) and (f). In our view, the obligation for members to maintain clients’ information relating to all of their existing debt payments and investment loan payments is too onerous to be a requirement in all

instances. Consequently, we recommend that the proposed subsections 4(b) and (c) be excluded from Policy No. 2 and, instead, be incorporated into the Leverage Supervision Guide.

Further, proposed subsection 1(f) of *Leveraging Suitability* under Part III of Policy No. 2 would require members to carry out further supervisory review and investigation where the client's total debt and lease payments exceed 35% of his/her gross income. In contrast with Part 4.C.(f) of MR-0069, which currently provides a general guideline that a client's debt payments should not exceed 35% of his/her gross income, the proposed subsection modified the standard by adding "total lease payments" to the calculation. We recommend that proposed subsection 1(f) should remain consistent with the current guideline by adopting the method of calculation under Part 4.C.(f) of MR-0069. Should it be determined that both debt and lease payments must be considered for the purpose of this section, we respectfully submit that the debt to income ratio should be increased to take into account of the more comprehensive calculation. Moreover, to allow members to set their own standards based on their business model and risks, proposed section 1(f) should follow the current approach under MR-0069 which outlines a general guideline, by removing the proposed clarification on the types of items that would be included as "total debt payments" and "total lease payments".

Finally, we note that the proposed amendments to section 2 of *Daily Reviews* under Part IV *Branch Office Supervision* as well as section 1 of *Daily Reviews* and section 1 of *Other Reviews* under Part V *Head Office Supervision* provide that the review requirements apply to accounts other than registered retirement savings plans or registered education savings plans. We seek clarification on whether the intention of these proposed amendments is to also exclude registered retirement income funds and registered disability savings plans, and to include tax-free savings accounts. If so, we recommend the following revisions:

- (i) for *Daily Reviews* under Part IV and Part V, replace "*accounts other than registered retirement savings plans or registered education savings plans*" with "*open accounts and tax-free savings accounts*";
- (ii) for proposed section 2 of *Other Reviews* under Part V, amend the first sentence as follows: "*Members must also review the suitability of the use of leverage in all cases where a client transfers assets purchased using borrowed funds into an open account or a tax-free savings accounts at the Member.*";
- (iii) if the suggested revision under (ii) is adopted, for section 1 of *Other Reviews* under Part V, amend the second sentence by deleting "*and accounts employing a leveraging strategy other than registered retirement savings plans and registered education savings plans*", as this would be reflected in section 2 of *Other Reviews*; and
- (iv) if the suggested revisions under (i), (ii) and/or (iii) are adopted, amend the corresponding text in the chart that is attached as Appendix "A" to the Notice.

We 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,

"Wayne Bossert"

Wayne Bossert  
President and Chief Executive Officer  
Royal Mutual Funds Inc.

"Doug Coulter"

Doug Coulter  
President  
Phillips, Hager & North Investment Funds Ltd.