

December 4, 2014

By e-mail to:
commentonlegislation@ccmr-ocrmc.ca

Dear Sir/Madam:

I am writing to express Manulife's support for the Cooperative Capital Markets Regulator (CCMR) and to suggest several improvements to the draft Provincial Capital Markets Act (PCMA).

Manulife has consistently supported the creation of a single securities regulator. This initiative is an opportunity to improve the efficiency of capital markets regulation by removing duplication and by improving the consistency of policymaking and enforcement. We believe this will increase confidence in markets and consumer protection.

The jurisdictions participating in the CCMR initiative have requested comment on the draft legislation. Manulife would like to suggest that the PCMA allow independent financial advisors to operate their businesses as corporations. We would also suggest that the legislation maintain the current definitions of what is a security and what is an insurance product.

Advisor Incorporation

Thousands of financial advisors across Ontario, British Columbia, Saskatchewan, New Brunswick, and PEI (the Participating Provinces) operate as small businesses to provide financial services and professional advice to consumers. Like doctors, lawyers, and other professionals, these advisors operate businesses that rent offices, hire staff, lease equipment, and pay taxes. Unlike other professionals, financial advisors selling securities are prohibited from operating as a corporation.

To meet the diverse needs of their clients, many advisors offer both insurance and investment products. Today, these advisors must run two separate operations, with part of the business operated through a corporation and the other as an unincorporated sole-proprietor. This makes it difficult to grow and compete, to do business succession planning and to operate as efficiently as other small businesses.

Understanding this, the Council of Ministers of Securities Regulation committed in 2012, and reaffirmed in 2013, to amend legislation to allow securities advisors to operate through a corporation.



Given this commitment, we suggest that the PCMA be structured so as to allow this change to be made through regulation rather than requiring future legislative amendments.

Definition of "Security"

The definition of "security" in the securities legislation in each of the Participating Provinces contains an exemption for certain insurance products. Although the draft PCMA provides a similar exemption, it also changes the definition of "security" to include the following underlined language:

(f) any agreement under which the interest of the purchaser is valued for purposes of conversion or surrender by reference to the value of a proportionate interest in a specified portfolio of assets, other than, unless otherwise provided by the regulations, a contract issued by an insurance company governed by the laws of Canada or of a province which provides for payment at maturity of an amount not less than three quarters of the premiums paid by the purchaser for a benefit payable at maturity;

This change would allow these contracts to be classified as both insurance and securities at some future point.

Individual Variable Insurance Contracts (IVICs also known as segregated funds) are insurance products that many Canadians rely on to provide guaranteed retirement income. Prior to retirement, IVICs provide a conservative savings vehicle and allow clients to grow their savings while limiting their downside risk. After retirement, many consumers use these products to provide retirement income. Manulife's IVIC clients are on average, 59 years old when they purchase the product and 24% are regularly receiving income.

Life and health insurance companies in Canada are subject to strong, principles-based regulation rooted in provincial and federal insurance legislation. For example, the Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator for systemic risk and solvency and insurers must adhere to risk-based, actuarial reserves and minimum capital requirements. In addition to OSFI's prudential oversight, the design and sale of IVICs is subject to provincial insurance legislation and overseen by provincial insurance regulators.

Canadians that purchase IVICs work with insurance agents to develop savings, protection and retirement plans. An important part of these plans are IVICs which can provide a guaranteed flow of retirement income. Many insurance agents and Managing General Agencies (MGAs) are not licenced to sell or provide advice about securities. Reclassifying IVICs as both insurance and securities would leave many existing consumers unable to access advice from their agent. Uncertainty about the classification of these products could result in future retirees having less ability to access these secure income products.

If the PCMA were to bring IVICs under securities law, the product would be subject to oversight by 17 different regulators in Canada (OSFI, 13 provincial and territorial insurance regulators, the new CCMR and the securities self-regulatory organizations).

Manulife strongly believes that IVICs should continue to be regulated as insurance products and that the PCMA not be drafted so as to allow these contracts to be classified as both insurance and securities at some future point. We request that the words "unless otherwise provided by regulation" be removed from paragraph (f) in the definition of a "security" in the PCMA.

Thank you for the opportunity to comment. We will continue to work with all stakeholders to ensure the new Cooperative Capital Market Regulatory System will increase efficiency, and promote consumer confidence and protection.

Sincerely,

A handwritten signature in black ink that reads "Marianne Harrison". The signature is written in a cursive, flowing style.

Marianne Harrison

President and CEO, Manulife Canada

cc. Brenda Leong, Chair and CEO, British Columbia Securities Commission
Carolyn Rogers, CEO and Superintendent B.C. Financial Institutions Commission
Peter Klohn, Chair, New Brunswick Financial and Consumer Services Commission
Angela Mazerolle, Superintendent of Insurance, New Brunswick
Katherine Tummon, Superintendent of Securities, PEI
Robert Bradley, Superintendent of Insurance, PEI
Dave Wild, Chair, Financial and Consumer Affairs Authority of Saskatchewan
Ian McIntosh, Deputy Superintendent of Insurance, Saskatchewan