On February 16th 2017 the CLS Sub-Education Committee held the Breakfast Seminar entitled: "*Conflicts of Interest and the Challenges They Present*". Due to time constraints, the following questions that were sent in advance of the Seminar have been answered by the expert panel, as noted below:

1. An advisor has a client who is the founder of a public company (small cap); the advisor owns shares in that company and is also recommending shares of the company to other clients. The company has sponsored some of the advisors events. The advisor claims to have done due diligence and is comfortable recommending it to her clients. Is there any real or perceived potential conflict of interest and what is the dealer's position in this case?

   Response: There appear to be both real and perceived conflicts of interest here. One key question is the materiality of the conflict, and whether the advisor believes that disclosure in this case is sufficient to manage the conflict. It is ultimately an assessment that the advisor will need to make, taking into account the specific facts of the situation.

2. How do you recognize the conflict between Legal, who put the firm first, and Compliance, who put the client first?

   Response: The interest of both Legal and Compliance should be aligned in ensuring that the firm complies with applicable laws and performs the terms of the contract it has with its clients, while managing risks to the firm's reputation. This should result in the client getting the products and services it is entitled to (under contract), in the manner in which the client is entitled (a function of law and contract). In this way, the interests of both the firm and the client are appropriately balanced.

3. Since the topic will be conflicts of interest, I am curious regarding the ban on embedded commissions paper currently out for comment - in the industry there are various conflicts of interest that exist and generally the approach is to put controls in place to mitigate the risk of the conflict. With the ban on commissions the CSA seems to be skipping this to an outright ban. Wondering if the speakers have any thoughts on why this conflict would not be managed like others that exist.

   Response: The regulators have suggested that disclosure, which has been used to manage this conflict, is not enough. Further it has been suggested that clients don't understand these commission structures so the disclosures have led to more confusion not less. Following on from the UK's lead, an outright ban would remove the conflict all together. We are not sure what the right answer is but at a minimum we suggest allowing the disclosures under CRM time to fully sink in before introducing something else.

4. How detailed should the disclosure be given to regulators (examples director or president of non-traded company, owner of a business that is in the process of winding down etc.)?

   Response: From a regulatory perspective, more disclosure (particularly if clearly written) is usually laudable.

5. What is expected for the supervision of OBA's. Should supervisors be showing up at the church of a registrant acting as a deacon? Asking for minutes of a chamber of commerce meeting where a registrant is on the board? Getting a google map to "see" the real estate ventures?

   Response: Unfortunately there is no clear guidance on this and the level of due diligence depends on the OBA. Some OBAs are pretty straight forward. Others introduce a greater level of risk. IIROC has given scenarios they view as problematic (anywhere that creates a fiduciary relationship as an example). Supervisors need to be comfortable with all external arrangements they have approved. If they can't get comfortable, they should be declining the OBA or getting additional information and setting up internal controls. With respect to the deacon example, I don't know that visiting the church would necessarily absolve them of their ongoing obligation to identity a conflict but it would certain create a data point for approving or denying the OBA. That said, and as was outlined in the Blackrock case, simply approving and assuming all conflicts are disclosed is not enough. Due diligence on the initial approval can take different forms but follow up is key.

6. Should a dealer approve an OBA of an insurance advisor to a licensed assistant (IR) to an IIROC Advisor? It depends. Some broker-dealers have affiliates that are registered as insurance companies and therefore, may allow their employees to be dually employed by the affiliate and to register as insurance advisors.

   Response: In deciding whether to allow their employees to be registered as insurance advisors, firms should consider what products or services it provides to clients, how the insurance registration could affect the delivery of products and services and how conflicts of interest can be identified, controlled and the strength of any controls tested – eg. if the insurance registration would allow the sale of insurance products that address the same investment objectives or carry the same or higher risk or cost than securities products and services, when is the recommendation of the insurance product justified and how will the firm monitor that products sold to clients are suitable?

   If the firm can implement such supervision processes, then it has to consider which employees should be registered as insurance agents. If there are doubts about the Registrants ability to recommend the most suitable product or service to the client and to operate as an employee of two different registrants (the firm and the insurance company affiliate), then the OBA should not be approved.

I would be surprised if firms would approve the OBA of Registrants who will be employed as an insurance agent of an unrelated insurance company, because of the difficulty of monitoring for the conflicts of interest set out above.