SEPTEMBER 21, 2015

ADVOCIS SUBMISSION

Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives

ALL FINANCIAL ADVISORS do financial planning
September 21, 2015

Expert Committee to
Consider Financial Advisory and
Financial Planning Policy Alternatives

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Re: Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives

Dear Sirs/Madam,

We are writing in response to the Ontario Ministry of Finance's initial consultation document of June 24, 2015, entitled Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives. The submission that follows reflects the interests and views of those financial advisors in Ontario who are members of Advocis, and their clients, who are Ontarians from all walks of life.
Executive Summary

The situation in Ontario today – advisors and consumers are ready for reform

Advocis believes that the Ontario government should be commended for its decision to form the Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives. This expert committee and its attendant consultation were convened approximately two months after the Ministry of Finance’s publication of its Consultation Paper on the Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario. Oversight of this earlier consultation also resides with an expert committee which, again, was appointed by the Ministry. When the two expert committees are viewed as complements of one another, it becomes clear that the Ontario government is undertaking a truly comprehensive review of the role, structure and efficacy of the regulatory agencies and policies which supervise Ontario’s financial markets. Indeed, the formation of these two committees represents a singular opportunity for the government to launch a meaningful reform of those measures which regulate advisors and protect consumers. Consequently, this submission chiefly concerns itself with the regulation of those consumer-facing intermediaries who provide Ontarians with financial products and advice.

Ontario’s financial consumers will continue to need access to a wide array of financial products and services, including advice. Each segment of the province’s population has its own preferences when it comes to financial advice, including distribution channel (e.g., independent advisor or bank- or insurance-employed representative), compensation arrangement (e.g., embedded third-party compensation or fee-based), and method of delivery (e.g., in-person or online). Sound consumer-focused regulation will preserve all of these forms of consumer choice. And truly comprehensive regulation will enshrine the principle that every Ontarian deserves the ability to access advice which, in its breadth of approach and degree of complexity, is tailored to his or her own preferences. Depending on the consumer’s personal financial circumstances, life stage, and retirement goals, this advice may range from the relatively straightforward, such as the selection of a RRSP, to the more complex, such as estates and trusts planning, and for certain Ontarians it may culminate in the design and implementation of highly esoteric wealth generation and management strategies. But regardless of the simplicity or complexity of the advice provided, virtually all of Ontario’s financial consumers remain unnecessarily at risk due to gaps in the existing regulatory structure.

Given the Ministry of Finance’s decision to convene the two expert committees, Advocis believes that our industry now has a rare and real opportunity to properly reform the regulation of financial advice, including planning, by mandating that all financial advisors meet industry-wide standards in knowledge and ethical conduct. In fact, the need to elevate standards across the board is more pressing today than ever before. Ontario is facing the confluence of a number of factors: first, the province is undergoing a demographic shift, with an unprecedented portion of the population nearing retirement age; second, the need for fiscal restraint remains paramount, with all levels of government facing the financial challenge of returning to a balanced budget and with Ontario households still carrying exceptionally high levels of personal debt; and, third, given that income assistance and other social programs are under continuous pressure, Ontarians will have to become more financially self-reliant in order to maintain their health and income in the face of longevity risk. Despite these problems, several recent and persuasive studies demonstrate that a key component

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of realizing financial self-reliance and security is achievable by working with a financial advisor. Given the foregoing, Advocis believes that the government must promote a regulatory framework that will ensure the financial advice all Ontarians receive is professional, proficient and accountable.

To better protect consumers, Ontario must reduce regulatory disharmony across all financial advice sectors

Advocis believes that continuing to reform Ontario's present scheme of financial regulation through occasional amendments to agency mandates and minor revisions to laws, guidelines and policy statements will simply and finally guarantee more of the status quo: regulatory overreach in some areas and regrettable lack of oversight in others. Certainly, this ad hoc approach is a recipe for additional consumer confusion. If the province's regulators continue to attempt to regulate the distribution of financial products at one level, the market conduct of retail-facing intermediaries at another level, while simultaneously setting the standards for knowledge, proficiency and ethics on yet another level, then the outcome will always fall short of the regulator's best intentions. Much-needed consumer protection measures will either never materialize, or, when introduced, they will fail to function across all advice sectors and channels. If Ontario continues to regulate retail intermediaries on a fragmented, intra-sectoral basis, the result seems inevitable: well-intentioned reforms will cash out in practice as mere stop-gap measures, and those stakeholders committed to effective regulation are left with the hope of “well, maybe next year.”

It is difficult not to see most of the recent major reforms in the financial advice sector as confined to a particular aspect of the securities or insurance sectors. True inter-sectoral reform remains elusive. When one steps back to view the province’s existing regulatory structure, one sees an agglomeration of stop-gap reform measures tacked here and there onto our framework of regulation – typically long after the regulatory problem first emerged. Ontario's consumers deserve better – and they deserve the industry's best efforts to try to minimize if not eliminate altogether problems through both ex ante and ex post approaches.

Advocis recognizes that the task of the regulators is exceptionally difficult. Too much regulation drives up compliance costs and unintentionally limits access to products and services at the retail level, especially for those most in need of affordable professional advice. Striking a proper balance between the costs and benefits of regulation while simultaneously satisfying a range of vocal stakeholders with differing or even competing agendas – and within often constricted budget space – this is the regulator’s dilemma in today’s Ontario.

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2 See, for example, the recent study by Professors Claude Montmarquette and Nathalie Viennot-Briot of the Centre for Interuniversity Research and Analysis on Organizations (“CIRANO”) – Canada's largest and most scientific independent study to date on the value of financial advice, entitled Econometric Models on the Value of Advice of a Financial Advisor (2012). The study provides strong evidence for the connection between financial advice and the accumulation of financial wealth by Canadians. Among its key findings are:

i. Advice has a positive and significant impact on wealth accumulation, relative to non-advised persons. Households with four-to-six year-long advisory relationships accumulated 58% greater assets, and households with 15+ years advisory relationships accumulated 173% greater assets.

ii. Advice is not exclusively for the wealthy. The median initial investment for the over 10,000 advised households in the study was only $11,000.

iii. Advice positively impacts savings and retirement preparedness. Advisors played a key role in improving the savings behaviour of households in the study.

iv. Advice positively impacts levels of trust, satisfaction and confidence in financial advisors.

In sum, by working with an advisor, households are able to see first-hand the value of advice in terms of wealth accumulation and retirement preparation and readiness. Advocis will provide the Ministry of Finance with copies of the CIRANO study upon request.
Professionalization of advisors through the creation of a Delegated Administrative Authority

Despite the regulatory gaps in the framework of Ontario’s regulatory structure, we believe the province is in a fortunate position, for these gaps can be plugged and the overall regulatory regime rendered cohesive – particularly from the consumer’s perspective. Moreover, we believe that such reform can be accomplished with relatively little cost to government. As advisors, our members are not interested in adding additional layers of regulation or increasing their own compliance burden. And advisors know as well as any industry insider that most of the costs of compliance measures end up being borne by the consumer through higher prices – or on occasion the pricing out of existence of a particular product or service. Indeed, the regulatory scheme we propose for Ontario represents a reconfiguration almost solely at the consumer level. To be clear: the underlying purpose of our proposal is to provide comprehensive, efficacious, and cost-effective consumer protection in the financial services sector. We submit that the Ontario government can accomplish this through the creation of a delegated administrative authority (“DAA”) for consumer-facing individual intermediaries. Such a DAA would capture advisors who operate at the retail consumer level, including most prominently those in the mutual funds, securities, insurance, and pension fields.

Today’s patchwork regulation and ongoing consumer risk justify a Delegated Administrative Authority

In the pages that follow, we set out why we believe it is time for a comprehensive new approach to regulatory policy. We identify and describe four major problems with Ontario’s existing regulatory framework at the level of retail financial services:

1. anyone can call him- or herself a financial advisor and offer financial advice, including planning;
2. existing regulation focuses on product sales, at the expense of proper regulatory oversight on the critical financial relationship between the advisor and the client;
3. there is no firm, clear, and universal requirement for advisors to stay up-to-date in their core areas of knowledge; and
4. there is no effective, industry-wide disciplinary process.

Before any effective and comprehensive reform can be undertaken, it must be acknowledged that the practical reality for consumers and advisors is that financial planning is a component of financial advice. Indeed, advisors who work “in the field” by providing advice to retail financial consumers are always providing a form of financial planning. Whether it is an advisor ensuring that the universal life policy fits with the longer-term goals of the client, as revealed in the mandatory needs analysis, or it is the approved person of a mutual fund dealer making certain that the proposed trade is suitable for the client’s financial goals (goals which may or may not be set out in a formal financial plan), the regulatory reality and the practical reality are identical: financial planning is unavoidably and inextricably a part of the larger practice of providing financial advice. Regulatory reform in Ontario’s financial advice sector cannot and will not succeed unless the foundational nature and importance of advice is formally recognized at the outset of any reform effort.

A DAA model recognizes that financial planning takes numerous forms, is provided in varying degrees of detail, and offered in assorted areas of specialization. Planning in any form is a subset of the larger field of financial advice – indeed, the pragmatic reality is that the regulation of financial planning can never be divorced from the regulation of financial advice whenever the regulatory goal is consumer protection. Accordingly, Advocis begins its exposition of a DAA model of retail financial regulation by defining the terms...
“financial advice,” “financial advisor” and “financial planning.” Our definitions reflect the realities faced by advisors and clients in Ontario, as well as the multiplicity of needs and requirements presented to them by their retail clients.

We then review sector-based and organizational regulatory approaches to financial advice. This review demonstrates beyond any doubt that Ontario’s regulators and industry stakeholders already and explicitly acknowledge that all of Ontario’s financial advisors engage in some form of financial planning. This is why advisor competency in many of the key components of financial planning has been a long-standing element of an advisor’s licensing requirements. By way of illustration, we show how financial planning is recognized as a required component of financial advice in:

- the sale of mutual funds and other securities by the OSC, the MFDA, and IIROC;
- the sale of segregated funds and life insurance policies by FSCO, the CLHIA and provincial insurance councils;
- best practice guidelines, codes of conduct and designation requirements for industry associations such as Advocis, as well as designation-granting bodies such as the Financial Planning Standards Council and The Institute for Advanced Financial Education; and
- the filing of the client’s income tax return, as shown in the Canada Revenue Agency’s rules on the deductibility of a mutual fund’s trailing commission or investment counsel fees.

Next, we canvass the structural problems in Ontario’s retail advice sector in their impact on advisors and consumers. We indicate how:

- the various inadequacies of the current regulatory scheme result in unnecessary and avoidable consumer exposure to fraudsters and advisor incompetence;
- the needs of consumers and advisors have outgrown the existing, largely product-based model which currently regulates Ontario’s financial services industry; and,
- Ontario’s current web of regulatory structures and relationships produce unnecessary complexity for all stakeholders – and needless confusion for consumers.

As we will see, the current system is ultimately inadequate to the task of effectively regulating in the consumer interest.

In recognition of these problems, we assert that all Ontarians deserve higher standards in the field of financial advice – not just those who can afford the specialized or niche advisor. In response to these problems, we then assert that the current regulatory scheme can be easily reconfigured using the DAA model. In fact, the proposed DAA model can provide smaller, smarter, and more targeted regulation. A properly constituted DAA would be able to set out and enforce effective standards to govern conflicts of interest and potential conflicts of interest and result in removing the silos that currently exist between the regulation of mutual funds, other securities, and insurance at the consumer level, thereby plugging a major gap in Ontario’s regulatory framework.

As well, we provide detailed responses to the Ministry’s questions regarding how a DAA responds to the following specific problems to be found in Ontario’s current regulatory regime:

a) more effective licensing and registration requirements: through mandatory membership requirement in the DAA and the unified oversight of retail-facing advisors;
b) education, training and ethical responsibilities, including enhanced education requirements in recognition of the fact that all of the province’s advisors should be subjected to a single, uniform minimum set of industry knowledge and competency standards and substantive continuing education requirements and, in addition, we propose undertaking a realistic commitment to inculcating ethical norms in individual advisors and an ethical culture in their firms through an industry-wide, universal code of professional conduct, a mandatory errors and omissions insurance requirement, and a publicly accessible comprehensive registry of Ontario’s financial advisors;

c) a resolution to today’s “alphabet soup” problem of confusing advisor titles through regulatory recognition of titles and designations which reflect real acumen in the giving of financial advice;

d) an outline of those specific activities that should be included (i.e., persons who do not call themselves financial advisors but in practice actively provide financial advice) and excluded (i.e., bank tellers and mortgage brokers), in order to avoid instances of both regulatory overreach;

e) how a DAA will not represent another “tax” on advisors and their clients and in fact we believe it will mitigate further costs and burdens from future regulation;

f) the problems arising from narrowly-focused attempts to regulate compensation mechanisms in the advisor-client relationship (as opposed to a DAA’s ongoing, holistic approach to the entire advisor-client relationship), as evidenced by the experience of other jurisdictions; and

g) suggest how, in contrast to (f) above, the proposed DAA’s complaints and discipline mechanisms, along with the other elements set out in (a) through (e), will combine to produce a DAA model which will ensure promotion of the public interest in the provision and regulation of financial products and services to Ontarians.

The DAA model is a relatively new way of obtaining recognition as a professional body. The transfer of regulatory authority can enable a professional body to oversee all financial advisors, even those who are specialists. Indeed, this form of oversight seems the most efficient, since to allocate the regulation of specialists to a separate oversight body would require introducing additional layers of regulations. Moreover, we recognize that simply adding yet another layer of regulation will not solve the problem of regulatory arbitrage and will leave unaddressed the gaps caused by the silos which separate the insurance and securities sectors at the client/advisor level.

Ultimately, the proposed solution that Advocis puts forward below will:

- allow for simplification in basic regulatory functions such as registration, the tracking and reporting of disciplinary measures;
- reduce levels of confusion and frustration for consumers and financial advisors;
- lessen “red tape” and lower compliance costs for firms, which will result in a concomitant reduction in governmental expenditures through a scaling back in quantity and severity of the exercise of regulatory authority; and
- preserve where appropriate the regulatory silos that exist on the product development level (e.g., those which delineate insurance products from securities products), but at the same time dissolve those silos where they cause harm – at the level of advice provision and consumption. This erasure of the problematic aspects of the “silo” approach can very likely only be accomplished through the regulation of all financial advisors under a DAA structure.

Regardless of which route to reform Ontario’s government chooses to follow, the province must keep a steadfast focus on the needs of the average consumer.
PART ONE: ADVOCIS AND THE NEED FOR A NEW REVIEW OF REGULATORY POLICY

(a). Advocis – who we are

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members, organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit planning, disability coverage, and long-term care and critical illness insurance to millions of Canadian households and businesses.

Financial advisors and the advice industry is a vital part of Ontario’s economy, and is crucial to the long-term financial health of families and small businesses. The economic footprint of the small business financial advice industry is very significant. In Ontario it represents $8.4 billion in direct GDP, $2 billion in government tax revenues, and 84,400 jobs.3

As a voluntary organization, one established by an Act of the federal Parliament, Advocis is committed to professionalism among financial advisors. Advocis members adhere to our published Code of Professional Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and act in their clients’ best interest. Across Canada, our members spend countless hours working one-on-one with individual Canadians on a gamut of financial matters. In addition, Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future. The values and goals of protecting and promoting client service, client education, the client’s freedom of choice, and of affording priority to the client’s interest as it exists in the totality of the advisor-client relationship, represent the principles which inform much of our following analysis and argument. Accordingly, what follows reflects the priorities of Advocis’ members and their clients.

(b). Why we believe it is time for a comprehensive new approach to regulatory policy

Advocis is the only professional association that supports professional financial advisors in both the securities and insurance sectors. Increasingly, the province’s financial advisors are dual-licensed, in order to better meet the holistic needs of their clients who seek financial and risk mitigation solutions that can be tailored to their unique circumstances. Our members intermediate between Canadians from all walks of life and the universe of available financial products and services. They perform this intermediary function by providing the advice and planning needed to help turn clients’ life goals and objectives into sustainable realities. As such, our members are uniquely positioned to provide “on the ground” insights into what works and what doesn’t in the borderland where advisory practice meets regulatory policy head on.

Historically, Ontario, like most jurisdictions in Canada or abroad, has approached regulatory issues within the financial sector on an issue-by-issue basis. Consequently, very few stakeholders – outside of academic settings – have had the opportunity to “take a step back” and scrutinize the framework in which we are identifying problems (real or perceived) to determine if the regulatory model currently being used – and which was largely developed in the 1980s and 1990s – remains appropriate for today’s financial services sector. The current and anticipated regulatory concerns being identified by today’s stakeholders bear little resemblance to concerns of two or three decades ago. For example, we continue to view regulation in the financial sector as exclusively product-based. We believe this model is not sufficient to address the evolution that has taken place in the financial services world and believe that Ontario and Canada have before them the opportunity to be global leaders in developing a modernized regulatory framework that will reduce red-tape, remove unnecessary or inappropriate regulation, bring clarity and simplicity where there is currently confusion and complexity, enhance levels of consumer protection, and reduce regulatory and product costs. We also believe it will assist in more accurately aligning regulatory initiatives and rules with overarching government policy. We therefore support Ontario’s commitment to reviewing policy alternatives for the regulation of professional financial advice, and we look forward to further public consultations, and the final report of the Expert Committee. In sum, we are pleased that the Government of Ontario is seizing this opportunity to examine the regulation of financial advisors and planners, and we propose that this review be taken through the lens of the advisor-client relationship. The successful conclusion to the government’s review and reform will ensure more consistent delivery of high quality advice to consumers and a reduction in red tape.

(c). Problems with the existing regulatory framework

The ad hoc development of the regulatory and legal governance of Ontario’s retail financial sector has, not surprisingly, resulted in a regulatory framework which, while effective and efficient in many aspects, has, like all frameworks, a number in interstitial gaps – areas of financial activity which lack proper regulatory oversight – or, at times, any oversight at all. It is through these gaps that a number of Ontarians’ legitimate financial interests are at perpetual risk of disappearing. While the public should be able to place their confidence in their financial advisor, trusting that he or she meets rigorous standards of professionalism, proficiency and accountability, the reality is that this is not always the case. In fact, the public is exposed due to four major flaws in the existing framework:

1. Anyone can call him- or herself a financial advisor and offer financial advice, including planning

In Ontario, anyone, regardless of their training, experience or education, can hold themselves out to the public as a “financial advisor,” financial planner, investment advisor, or countless other titles. Neither the title of “financial advisor” nor the scope of the work under that title is protected in law, so there is nothing to prevent an unscrupulous, incompetent or merely inexperienced individual from calling themselves a financial advisor and offering what is purported to be financial advice to the public, even if they have no training, experience or financial acumen.
This is an extreme risk which must be addressed; time and again, consumer surveys have shown that most consumers mistakenly believe that titles such as financial advisor are regulated and someone holding themselves out as such has earned the right to do so through education and experience. In professional-style principal-agent relationships, consumers routinely put their faith in the title as a proxy for expertise, but unlike doctors, lawyers or architects, anyone can claim to be an advisor or offer financial advice and planning – which leaves the public needlessly vulnerable to incompetence or outright fraud.

2. **Existing regulation focuses on products, at the expense of proper regulatory oversight on the most critical retail financial relationship – the ongoing relationship between financial advisors and their clients**

Much of our existing regulatory framework does not reflect the daily reality of how most Ontarians access financial advice and planning. This is because existing regulation is often based on the type of product being sold to the retail consumer. For example, insurance products, mutual funds or other securities are regulated by entities including the Office of the Superintendent of Financial Institutions ("OSFI"), the Financial Services Commission of Ontario ("FSCO"), the Ontario Securities Commission ("OSC") the Mutual Fund Dealers Association of Canada ("MFDA") and the Investment Industry Regulatory Organization of Canada ("IIROC"). Each regulator has its own standards and requirements, and while they are strong at regulating their member insurance carriers and mutual fund or securities dealers, including regulating the constant product innovation in the industry, they do not have a collective focus on the retail consumer’s overall advice-receiving experience.

Considering the issue from the consumer’s perspective throws the problem into stark relief: many advisors hold multiple licenses which allows them to provide consumers with risk management and wealth solutions from across the insurance, mutual fund and securities sectors. As a practical matter, most consumers do not conceive of the province’s retail financial services industry as structured in such rigid “silos.” Nor should they be expected to understand the legal rules and regulatory processes which have produced Ontario’s “siloed” model. Instead, consumers work with their advisors to develop holistic financial plans which reflect their circumstances, and not a piecemeal delivery of advice which reflects the regulatory happenstance of how our system developed. Above all, Ontarians want assurances that their advisors are professional, knowledgeable and accountable, so that their advisor can provide the complete coverage they need.

Most consumers are not particularly interested in knowing that product $x$ comes from the insurance universe and product $y$ comes from the mutual fund universe – and as product features converge, it is increasingly difficult for consumers to tell them apart. But, in the current regulatory framework which is focused so closely on product sales, it is often the case that the client-advisor relationship is not governed by a single regulatory entity, but by a combination of them. The result is that the protections which consumers do receive vary widely, as they are based on the sector from which the product originates. We have seen the importance of this distinction coming to light if problems arise, leaving consumers confused and disappointed.
We believe that consumers should enjoy the material and psychological comfort and security that comes with knowing that stringent and uniform protective safeguards have been embedded in the rules and principles which help create and govern their relationships with their advisors. Ontarians deserve access to formally professionalized advisor-client relationships which are not dependent on the nature of the underlying products that they purchase to fulfill their financial plans. Underpinning the advisor-client relationship with a level of professional protection is to accord that relationship a level of legal recognition and protection which is much more fundamental than that offered by product regulation. For example, minimum and uniform standards of ethical and professional conduct and other professional safeguards should be in place across all retail-facing subsectors of the province’s financial services industry. There should be an overarching code of conduct and an industry-wide requirement to maintain responsible levels of errors and omissions insurance, neither of which exists today.

This sectoral approach also reveals why the existing regulatory framework cannot effectively regulate today’s holistic advisory relationships. Certain stakeholders may suggest that regulation of financial advisors should fall under the auspices of existing regulatory bodies, and it is true that in recent years, some have given greater attention to the advisory relationship – for example, through the Client Relationship Model reforms of the Canadian Securities Administrators (“CSA”) members. Despite this laudable effort, existing regulators are structurally limited by their jurisdictions of authority; for example, even if FSCO were to completely overhaul its expectations of licensees, those changes would only impact the consumer’s relationship in regard to his or her purchases of insurance products – leaving the consumer’s experience with mutual funds unaffected.

In an ideal world, all regulators would set comparable standards so that the client would be equally protected, regardless of the product’s origination. But a century of experience and general common sense tells us that when you have multiple regulators that were created on the basis of regulating products, not advice, which already have standards that (in some cases) vary widely from each other, coordinating policies on financial advice is nearly impossible. And even if regulators did manage to agree to a uniform set of policies, those policies would do nothing to capture those individuals who are not registered at all, such as a fee-only planner who does not sell product.

3. There is no firm, clear, and universal requirement for advisors to keep up-to-date their core areas of knowledge

One of Advocis’ core membership requirements is that advisors keep their knowledge up to date by completing continuing education courses each year, including courses on professionalism and ethics. But for the same reasons discussed above, the regulatory requirements for continuing education are completely variable based on the product’s sector of origination. For example, Ontario requires that life insurance licensees commit to 30 hours of continuing education every two years, without requiring a minimum learning component on professionalism or ethics. Several provinces do not have any CE requirements with respect to insurance licensees. And while IIROC has continuing education requirements for registered representatives, the MFDA only
states that continuing education “should be provided” to its approved persons. And those advisors who are not registrants with any regulator have no continuing education requirements whatsoever.

An advisor who does not keep his or her level of industry knowledge current is an advisor who fails to properly serve their clients and very likely puts their clients at risk. Moreover, the fields of knowledge with which an advisor should be adequately familiar are continually expanding. Competition among insurance carriers and distributors and between fund companies and securities dealers is fierce, so product change and innovation is a constant. Therefore, static knowledge quickly becomes obsolete and impedes the ability of advisors to act in the best interests of their clients. Advocis believes that all individuals who offer financial advice and planning to retail consumers should be required to complete continuing education on a regular basis, with an emphasis on education related to professionalism and ethical conduct.

4. **There is no effective, industry-wide disciplinary process**

The majority of advisory relationships are beneficial to the public, but some inevitably do not work out as anticipated by one or both of the parties. Sometimes, clearly this is the fault of the advisor. Accordingly, the industry requires a strong and effective disciplinary process, one which will ensure that those advisors who have committed misconduct are appropriately disciplined, and which will also protect the public and deter other advisors from similar misbehaviour.

FSCO, the MFDA or IIROC are each empowered to impose a variety of sanctions, including the stripping from an advisor of his or her license or registration. However, the limitations of the existing product-based regulatory framework become most apparent when considering the gaps which open when one considers the practical impact of having three regulatory authorities investigate and act on matters of discipline: each regulator’s enforcement powers are limited to its respective sector. Suppose, for example, an advisor engages in misconduct so egregious in the course of selling a mutual fund that the MFDA determines he/she is unfit to work in the fund industry and, as a consequence of this finding, it revokes his/her registration. In such a case, there is nothing to prevent this same advisor from continuing to provide advice, and sell segregated funds through his or her insurance license.

We believe this sector-hopping represents unacceptable consumer risk. The type of serious misconduct which warrants an advisor’s outright expulsion from one sector, such as fraud or gross negligence, is clearly indicative of that advisor’s inadequate commitment to ethical and professional conduct. This is not a sector-specific concern. It is, rather, an industry-wide concern, which is the same as saying that it is a consumer concern. Permitting such an advisor to continue to offer “advice” to any Ontarian is a disservice to the public. And even if that advisor is eventually identified and removed by other regulators in their respective sectors, that person can simply continue offering advice on an unlicensed basis since the scope of work is not protected: for example, he could “advise” clients to invest in an affiliate’s Ponzi scheme.

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4 On June 22, 2015, the MFDA launched a consultation to consider whether it should require mutual fund dealer representatives to fulfill continuing education requirements. Online at mfda.ca/regulation/bulletins15/Bulletin0644-P.pdf.
Also, currently lacking is an effective, accessible and industry-wide mechanism through which the public may easily verify their advisor’s credentials and disciplinary history. While several regulators, self-regulatory organizations (“SROs”) and industry bodies do maintain websites where the public can search for information on their advisor, the information returned is confined to the particular entity’s sector. As discussed above, the general public does not understand the difference between the various regulatory bodies and is not likely to canvass the registries or databases of each regulator to investigate a potential advisor. In the example above, if a prospective client were to review their advisor’s credentials and work and disciplinary history solely through the insurance regulator’s website, the client would not be informed of the advisor’s expulsion from the mutual funds sector. The client might then mistakenly believe that the advisor’s overall disciplinary history was clean.

Advocis strongly believes that consumers should have a one-stop access point for reviewing a prospective advisor’s complete disciplinary history that is not limited to the domain of one sector’s regulator. It must also capture those individuals who offer advice and planning without the sale of product who are therefore not registered with any existing regulator. That is, rather than being based on today’s ad hoc and largely archaic regulatory structure, this critical consumer tool must be reconceived at the level of the advisor-client relationship, in order to properly ensure regulation is informed by the consumer’s perspective as seen from the practical reality of day-to-day consumer experience.

These four major shortcomings of Ontario’s existing regulatory framework expose consumers to unnecessary and unacceptable risk. They arise from the fact that current regulation does not reflect the modern, holistic and cross-sectoral approach to financial advice and planning that most consumers want, require and receive. Fortunately, these risks are largely avoidable, with minimal disruption to Ontario’s retail financial services sector, if the proper regulatory solution is put in place. It is to such a solution that this submission now turns.

**PART TWO: CONSULTATION PAPER QUESTIONS**

Advocis believes that before any truly effective and comprehensive reform can be undertaken, it must be acknowledged that the practical reality for consumers and advisors is that financial planning is a component of financial advice. The regulatory reality and the practical realities are the same: financial planning is unavoidably and inextricably a part of the larger practice of providing financial advice. Realistically, this means that any regulatory reform in Ontario’s financial advice sector will fail to reach all of Ontario’s financial consumers unless this foundational reality is formally recognized at the outset of any reform effort.

1. **What activities are within the scope of financial planning? Is the provision of financial advice different from financial planning? If so, please explain the distinction.**
The activity of financial planning is a subset of the larger practice field of financial advice

Financial planning is a component of financial advice. This is true whether one looks at it from the regulator's perspective, from the client's point of view, or from the standpoint of the practitioner. It becomes clearly evident when one reviews the requirements stipulated in the rules, policies, bulletins and notices of the MFDA, IIROC, OSC and FSCO. As well, financial planning and other forms of financial advice is provided by advisors who are members of organizations such as Advocis, and advisors who are employed by insurers subject to the Canadian Life and Health Insurance Association (“CLHIA”). Advocis assists its members in providing financial planning and other kinds of client advice with its code of conduct and best practices manual; the CLHIA issues best practices and guidance notices for advisors with regard to life and health insurance products.

“Financial advisor” is a term freely used by the public and is generally understood to refer to an individual who provides consumers with financial planning and other forms of financial advice. The term has evolved in response to the evolution that has taken place in the industry. Originally there were very clear distinctions between the various financial sectors – between insurance, mutual funds and other types of securities, for example – and indeed this fact remains evident in the language employed by the various regulators to identify the individual intermediary and the activities he or she offers to consumers. The MFDA refers to a financial advisor as an “approved person,” FSCO refers to him or her as an “agent,” and IIROC as a “registered representative” or “investment representative.” But the consumer’s reality is that it is the same advisor who holds multiple licenses who is providing them with holistic financial advice. It is not at all surprising, therefore, that consumers relate to the title of “financial advisor” much more readily than to the terminology employed by regulators. It is the confusion over industry nomenclature which is helping to motivate financial advisors and their clients to join with the Ontario Ministry of Finance and spearhead the next stage of structural evolution that is taking place in regulation.

Given this emerging regulatory reality, it is Advocis’ view that proper definitions and protections must be put in place to ensure that consumers know that they are dealing with proficient professionals who are appropriately registered and regulated.

Defining financial advice to reflect the realities of the practitioner and the needs of the consumer

For the purposes of our submission, therefore, Advocis has developed the following definitions that have been crafted from existing regulatory requirements established by FSCO, the MFDA, IIROC, and the OSC. Working from these definitions will assist in illustrating the path that Advocis believes is necessary to ensure that appropriate regulation is developed by an appropriate regulator to ensure that the advisor-client relationship operates at its peak efficiency.

“financial advice” means the process of engaging in the business of advising others with respect to the planning and/or the execution of advice in respect of selecting, purchasing, or selling financial products to meet investment, risk management, or risk mitigation objectives.
“financial advisor” means any person who engages in the business of providing financial advice to others, including the collection and analysis of information about a person or business:

(a) to identify needs and risks;
(b) to establish financial objectives;
(c) to establish strategies to address identified needs and risks, and achieve the established financial objectives; and
(d) to continuously monitor the needs and risks and the progress toward achieving the established financial objectives which would include any one or a combination of the following:

   (1) the monitoring of cash flow management;
   (2) capital needs assessment;
   (3) education planning;
   (4) retirement planning;
   (5) investment planning;
   (6) taxation and estate planning;
   (7) insurance planning;
   (8) business succession planning; or
   (9) employee benefits planning.

Clearly the scope of these activities is such that any financial advisor registered or operating under the rules of the MFDA, IIROC, OSC or FSCO will be caught by this definition. We are not asserting that all financial advisors are engaged in financial planning at the same high standards as those who have attained specialized designations. But the proposed definition does delineate the basic parameters regarding the minimum actions that a financial advisor must perform and the minimum standards to which he or she must adhere. The definition also affirms that an advisor, whether or not he or she also has a financial planning designation, must meet the de minimus standards of the Know Your Client (“KYC”) and Know Your Product (“KYP”) rules, as well as the various prescribed suitability requirements, all of which are key components of financial planning.

“financial planner” means a financial advisor holding a recognized specialist designation, including:

a. Certified Financial Planner® (CFP®), sponsored by the Financial Planning Standards Council;
b. Personal Financial Planner (PFP®), sponsored by the Canadian Securities Institute;
c. Certificate in Financial Planning (Planificateur financier [Pl. fin.] designation), sponsored by Institut québécois de planification financière (IQPF);
d. Chartered Financial Consultant (CH.F.C®), sponsored by Advocis, the Financial Advisors Association of Canada;
e. Chartered Life Underwriter® (CLU®), sponsored by Advocis, the Financial Advisors Association of Canada; and the
f. Registered Financial Planner® (R.F.P.®), sponsored by the Institute of Advanced Financial Planners
As we will demonstrate below, these definitions reflect the daily reality of the advisor and consumer, and will allow the same professional body to oversee all financial advisors, even those who are specialists. Indeed, this form of oversight seems the most efficient, as to do otherwise would require adding additional regulatory layers and complexity. Moreover, another layer of regulation will not solve the problem of regulatory arbitrage and will leave unaddressed the gaps caused by the silos which separate the insurance and securities sectors at the advisor-client level.

From the consumer perspective, all of Ontario’s financial advisors engage in some form of financial planning

It is crucial to understand that, from the perspective of the consumer, all of the province’s financial advisors conduct financial planning, as required under the regulations of the OSC, FSCO, MFDA and IIROC. Within the broad pool of financial advisors, there exists industry-developed designations which enable a financial advisor to further specialize in the more detailed aspects of the various dimensions of advice giving, such as taxation, estate planning, and health insurance, for example.

The reality of Ontario’s financial advice sector is reflected in Figure 1. In Ontario, all financial advisors (the largest of the Venn circles) must possess the basic skill level to engaging in client-appropriate financial planning. Within the total advisor population, we see the ongoing development of more stringent specializations with respect to certain sub-fields of the advice process. These sub-groupings reflect specializations which go beyond the benchmark of skills which the average financial advisor would be required to meet. These specializations are useful to many consumers – and at times are necessary for those clients who present to their advisors with more complex advice and planning goals and objectives.

So, within the family of financial advisors there is the presence and opportunity of smaller subgroups of specialists who wish to operate in advanced areas of planning. Such specialization is common in established professions; indeed, it is analogous to the medical profession, where all doctors must meet a minimum standard to be called a medical doctor or MD. But within the field of MDs we have smaller groups of MDs who have specialized. Every member of the profession is a doctor, but only those who have completed additional training and course work are allowed to use designations which identify their specialization, such as cardiologist and oncologist. To further the analogy, consider a proposal to regulate only the subgroup of advanced specialists, as opposed to the entire group of medical doctors. Such an option would be a wholly inadequate policy response: the risk to consumers would be overwhelming if anyone could hold out as a doctor and operate largely or completely unregulated. Similarly, to regulate only financial advisors who have completed a specialized designation program would be a wholly inadequate policy response, as this too would expose consumers to risk. Yet this is what some within the financial advice community are suggesting be implemented as a program of policy reform.
Figure 1. A depiction of the interrelationship between the total population of Ontario’s financial advisors and prominent specialist subgroups. For example, advisors who are CLU®, CH.F.C.® or CFP® designation holders are members of specialized groups within the larger population of financial advisors. Overall, the field of financial advice in Ontario is populated with a range of designations, including a number of popular, long-standing financial planning designations.
Financial planning is recognized as a necessary component of securities advice

Financial planning is a necessary component of providing financial advice or making a recommendation on a security – regardless of whether it is a bread-and-butter money market fund or a sophisticated exempt market security.

The CSA

For example, National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103), requires a registrant to take reasonable steps to ensure that, before it makes a recommendation to, or accepts an instruction from, a client to buy or sell a security, or makes a purchase or sale of a security for a client’s managed account, the purchase or sale is suitable for the client. In addition, the related Companion Policy 31-103, in section 3.4 [Proficiency – initial and ongoing], states that an individual “must not perform an activity that requires registration unless the individual has the education, training and experience... including understanding the structure, features and risks of each security the individual recommends.”

The MFDA and IIROC

At its two Roundtable Sessions entitled Investigating the Merits of More Tailored Regulation of Financial Planners in Ontario, the Ministry of Finance was explicit that individuals holding out as financial advisors or as financial planners were to be the chief subject of the review. In its submission to the Ministry after the Roundtables, the MFDA stated that part of what its regulated members do for their clients is in fact financial planning. In its submission the MFDA notes that it regulates “81,184 Approved Persons (partners, directors, officers, compliance officers, branch managers, employees and agents of the dealer who are subject to the jurisdiction of the MFDA)” and then observes that many of these persons in fact conduct financial planning activities on behalf of their clients:

MFDA Regulation of Financial Planning Activities

In the course of providing advice to clients, many Approved Persons of MFDA Members engage in activities that may be considered financial planning in nature. These activities are often incidental to the advice or recommendation provided to the client and may include general asset or portfolio allocation advice, tax planning, estate planning or a comprehensive needs analysis. Many Approved Persons of MFDA Members also hold financial planning designations such as the CFP, PFP and RFP.

The jurisdiction of the MFDA is not limited to product regulation. The MFDA regulates the advice provided by Members and their Approved Persons to clients in relation to their accounts. Suitability requirements under MFDA Rules apply not only to the product but also to the advice and recommendation to the client. Similarly, know your client information, which is required to be collected under MFDA Rules by Members and their Approved Persons, is not intended to apply solely to the sale of the product and is used more generally to assess the suitability of

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the advice and the investment strategy. The MFDA regulates the financial planning activities of Members and their Approved Persons that are provided as part of this comprehensive advice process.\(^7\) (emphases added)

MFDA Policy No. 2 Minimum Standards for Account Supervision, MFDA Rule 2.2.4 Updating Client Information, MFDA Member Regulation Notices Know-Your-Product (MSN-0048) and Suitability (MSN-0069) all provide further guidance on these ongoing obligations for securities registrants.

IIROC, like the MFDA, requires that its members engage in the same level of basic planning activity in the sale of securities to clients. For example, IIROC Rule 1300 Supervision of Accounts, IIROC Rule 2500 Minimum Standards for Retail Account Supervision, and IIROC Guidance Note 12-0109 Know Your Client and Suitability, all require that the dealer member or its registered representative maintain compliance with IIROC’s various KYC obligations and investment suitability requirements. For example, IIROC Guidance Note 12-0109 requires that KYC information be collected and assessed and product suitability obligations be fulfilled. IIROC Rule 1300 requires that the dealer member, when accepting a client order, when providing a recommendation to a client, or when certain triggering events occur, use due diligence to ensure that the order, recommendation or account position is suitable for the client “based on factors including the client’s current financial situation, investment knowledge, investment objectives and time horizon, risk tolerance and the account or accounts’ current investment portfolio composition and risk level.”\(^8\)

Financial planning is recognized as a necessary component of insurance advice

FSCO
FSCO has in recent years placed a special emphasis on providing regulatory oversight and guidance for the province’s insurance-licensed financial advisors (and their clients) with regard to the suitability of product recommendations, the disclosure of conflicts of interest, and the ability of consumers to make informed decisions.

From 2013 to 2015, FSCO engaged with industry stakeholders in the conduct of its comprehensive Life Insurance Product Suitability Review (Point-of-Sale). This was a comprehensive review of how effectively advisors are ensuring product suitability for clients when engaged in the process of recommending life insurance products. This stakeholder review was undertaken with a special focus on “practices in the field,” on determining the level of product knowledge possessed by the average consumer, and on how best to address any information deficits on either side of the advisor-client relationship, including through enhanced product disclosure and by ensuring professional-level advice is consistently provided through the use of best practices to ensure that advisors ask clients the correct questions to gather the necessary data for a proper needs analysis so the insurance advice will meet the client’s financial needs and objectives. In sum, FSCO was acting to ensure that advisors were meeting de minimus standard of proficiency when providing planning advice prior to a product sale. In its Life

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\(^8\) See Investment Industry Regulatory Organization of Canada, IIROC Rule 1300 Supervision of Accounts, 1300.1(p) to (s). Online at www.iiroc.ca/Rulebook/MemberRules/Rule1300_en.pdf.
Insurance Product Suitability Report of September 2014, FSCO set out the findings of the review and affirmed that its recommended “best practices are largely being followed i.e. the actual practices do reflect the needs-based sales practices described in The Approach: Servicing the Client Through Needs-Based Sales Practices.”

The CLHIA

Financial planning is also inherent to the process of providing advice on life insurance products and on insurance products which have an investment component, such as individual variable insurance contracts ("IVICs"), more commonly known as segregated funds. For life agents, the needs-based sales practice product suitability requirements are set out in the industry guideline entitled The Approach: Serving the Client through Needs-Based Sales Practices (January 2015) from the CLHIA. Segregated funds have a wealth of guidance documentation which is explicit about the financial planning aspect of providing advice or making a recommendation about a segregated fund. Ontario Regulation 132/97 (Variable Insurance Contracts), issued pursuant to the province’s Insurance Act, incorporates by reference CLHIA Guideline G2 – Individual Variable Insurance Contracts Relating to Segregated Funds. Among other things, CLHIA G2 Guideline establishes industry standards for advisors to follow with regard to disclosure in point-of-sale IVIC documents and contracts.

In addition, the CLHIA Reference Document of February 2013 entitled IVIC Suitability Needs-Based Sales Practices sets out the three steps for advisors to follow: fact-finding, needs assessment and recommendations and advice. The document is explicit about the nature of the practices the advisor is expected to carry out:

The task of the advisor is to identify the financial needs of the consumer to ensure the IVIC product is suitable for them in light of their particular circumstances and then assist the consumer in understanding how the product meets his or her financial needs.

The CLHIA document further notes that:

Each of these steps requires skill and judgment on the part of the advisor. As noted in The Approach, the specific questions the advisors should ask will vary depending on the circumstances of the individual client and the complexity of the products being considered... the advisor must decide on an appropriate level of inquiry and choose an approach that will effectively elicit the information required to identify the client’s needs. The process of assessing needs... requires that the advisor make judgements about the priorities of the client and differentiate between wants and needs.

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11  Ibid., p. 2.
The CLHIA is explicit about the planning entailed in providing advice to a client with regard to product suitability; the advisor is expected to ask “More detailed questions following the preliminary assessment focus on acquiring a better understanding of the client’s needs to help determine whether or not an IVIC can form part of a suitable product allocation”\(^{12}\) (emphasis added).

As for CLHIA Guideline G2: Individual Variable Insurance Contracts Relating to Segregated Funds (January 2011), it requires that the segregated fund’s “Fund Facts should, in section 7, state "in plain language for the average retail consumer" who the fund is for:

\[
\text{Item 7 - Who is this fund for?}
\]

Provide details regarding the type of investor the segregated fund would be suitable for stating the advantages and any necessary cautions or warnings. Suitability should be tied to the fundamental investment objective of the fund and risk category assigned in Item 5 above.\(^{13}\)

Finally, the CLHIA’s consumer brochure, Key Facts About Segregated Funds Contracts, sets out quite clearly the nature of this financial planning the consumer should expect from his or her advisor:

Your advisor will provide you with written disclosure about the companies he/she represents, any conflicts of interest and how he/she is paid. The insurance advisor’s professional qualifications permit him/her to help you analyze your retirement income planning, estate planning and insurance needs, make recommendations that meet those needs and provide ongoing services, such as beneficiary changes, reviewing and updating your investment strategy and rebalancing your portfolio.\(^{14}\)

**Provincial insurance councils**

A cursory review of the Canadian Insurance Regulators Disciplinary Actions database indicates that insurance councils also recognize the central role held by financial planning in the advice which advisors provide to their clients\(^{15}\). It is telling that in several recent cases from the Insurance Council of British Columbia, the disciplined advisors were ordered to take CFP\(^*\) and/or CLU\(^*\) courses.

For example, in the May 1, 2014 decision of In the Matter of the Financial Institutions Act (RSBC 1996, c. 141) (The “Act”) and The Insurance Council of British Columbia (“Council”) and Grant Sheldon Persal\(^{16}\) (May 1, 2014), the

\(^{12}\) Ibid., p. 4.


\(^{14}\) Canadian Life and Health Insurance Association, Key Facts About Segregated Funds Contracts, p. 7.

\(^{15}\) The Canadian Insurance Regulators Disciplinary Actions database offers public access to regulatory decisions issued by insurance regulator members of CISRO and CCIR. The database is at http://decisions.cisro-ocra.com/ins/en/nav.do.

Council found that the life agent, among other issues, successfully advised his clients to purchase an insurance product that they did not fully understand. In reaching its decision, the Council summarized the investigation and review done by its Review Committee, which examined a number of precedents. For example, the Council noted that:

In *J. Duke*, the licensee made inappropriate recommendations to a client regarding investments in exempt market securities in light of the client’s age, risk tolerance, and financial profile. The licensee was an experienced insurance agent who knew, or ought to have known, the risk posed by the investment was too high for his client and he should not have recommended the investments. The licensee’s licence was suspended for 12 months, [and] he had a condition imposed on his licence that required him to complete courses necessary to obtain the Chartered Life Underwriter designation or the Certified Financial Planner designation.\(^\text{17}\)

Accordingly, in its decision, the Council imposed on the life agent’s licence a requirement that the agent, following completion of his suspension, must successfully complete at least one course, per licence year, toward either a CLU® designation or a CFP® designation, until his successful completion of all of the courses required to attain either designation.

Similarly, in *In the Matter of the Financial Institutions Act and the Insurance Council of British Columbia and Wei Kai Liao* (December 30, 2014)\(^\text{18}\), the advisor had two clients make complaints about the life and critical illness policies he had sold, in addition to investment loan/leveraged investment recommendations. The Council ordered that:

A condition is imposed on the Licensee’s life and accident and sickness insurance licence that requires him to successfully complete one of the following courses (the “Courses”) during each of the next four licence periods commencing with the current licence period:

a) Certified Financial Planner (“CFP”) 231 - Financial Planning Fundamentals

b) CFP 232 - Contemporary Practices in Financial Planning

c) CFP 233 - Comprehensive Practices in Risk & Retirement Planning

d) CFP 234 - Wealth Management & Estate Planning (page 2 of decision).

In 2012 Lambert John Schmid was found to have failed to conduct a sufficient needs analysis in selling life policies to a married couple. Among other disciplinary measures, the Council imposed on Schmid’s life and accident and sickness insurance licence the requirement that he successfully complete all of the courses in


Advocis’ Best Practices program, or a similar program approved by the Council.\(^{19}\)

If these cases are not regulatory recognition of life-licensed advisors providing financial planning, then it is hard to see just what would qualify as financial planning.

**Financial planning is recognized as a necessary component of financial advice by industry associations and designation-granting bodies**

Industry groups and designation-granting bodies such as Advocis and the Financial Planning Standards Council (“FPSC”) have developed mandatory rules and guidelines, and codes of conduct, to which their members (Advocis) or holders of their advanced designations (both Advocis and the FPSC) must adhere. These designations and related educational programs enable financial advisors to develop additional skills sets and areas of specialized knowledge in order to enhance the planning services they provide to clients who require more detailed or sophisticated forms of planning. Prominent examples are the CLU\(^*\) and the CFP\(^*\) designations. In addition, the basic rules and obligations for advisors in regard to the minimum and necessary financial planning obligations required for all advisors in the securities sector by IIROC, the MFDA and the OSC and, in the insurance sector, by FSCO and the CLHIA, are echoed on the FPSC website for CFP\(^*\) designation holders, as well as in the Advocis Best Practices Manual.

As the FPSC notes in its consumer guide 10 Questions To Ask Your Financial Planner, the nature of the services provided by a CFP\(^*\) designation holder vary widely, ranging from financial planning to product advice to more specialized areas:

> The services a financial planner offers will vary and depend on their credentials, registration, areas of expertise and the organization for which s/he works. Some planners offer financial planning advice on a range of topics but do not sell financial products. Others may provide advice only in specific areas such as estate planning or taxation. Those who sell financial products such as insurance, stocks, bonds and mutual funds, or who give investment advice, must be registered with provincial regulatory authorities and may have specialized designations in these areas of expertise.” (emphasis added)\(^{20}\)

Advocis’ Best Practices Manual emphasizes the central importance of financial planning in typical advice transactions, which fall far outside the ambit of a formal financial plan: the section entitled “KYC – Know Your Client” begins as follows:

**Gathering the Client Data - Know Your Client**

Best Practice Principle: “Know your client” (KYC) is about more than meeting regulatory requirements.

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\(^{20}\) Online at www.fpsc.ca/10-questions-ask-your-planner.
Tip: Basic KYC is only a starting point in the information required to effectively analyze a client’s situation. Adding incremental data enables advisors to add increasing levels of service and advice.

Gathering detailed information about a client is nothing new to an advisor who has been doing comprehensive financial plans. However, in recent years, tougher compliance laws have forced all advisors, even those who operate in a very “transactional” manner, to collect more robust KYC information. Quite frankly, to do anything else would be like a doctor who spends most of his time writing prescriptions to deal with symptoms rather than doing examinations and tests for a deeper understanding that can lead to a cure. (emphasis added)²¹

Financial planning is recognized as a necessary component of financial advice: the Canada Revenue Agency

It is worth considering how the Canada Revenue Agency (“CRA”) treats the activities of financial advisors and planners. With regard to the tax treatment of advice dispensed by advisers and planners, one is not permitted to treat as tax deductible on one’s income tax return any fees one was charged for advice and planning.²² Typically, however, one is permitted to deduct “investment counsel fees” for specific securities transactions. From a policy perspective, these securities transactions are executed with the aim of generating taxable income. But – and this is significant – one cannot claim as tax deductible the trailing commission; this fits with the general principle that financial planning is not tax deductible – since trailers pay for the planning activities of an MFDA or IIROC dealing representative, and hence are not tax deductible, just as other, more “official” forms of financial planning are not tax-deductible. Indeed, from the CRA’s point of view, planning activities are less about generating taxable income and more about sheltering income from tax.

Thus, from the tax treatment point of view of the individual retail investor or consumer, certain activities done by advisors — such as charging a trailing commission and providing various forms of advice pursuant to it — coincide conceptually with the same planning activities done by those individuals holding out as financial planners. This reinforces the notion that planning is a subset of advice, and is conducted by MFDA or IIROC dealing representatives as well as by CLU® or CFP® designation holders.

Advisor competency – the central components of financial planning are therefore already part of the licensing requirements for all financial advisors

Ontario’s financial consumers seek a wide array of financial planning advice, based on their personal financial circumstances, stage of life and retirement goals. This advice ranges from the relatively straightforward (e.g., the selection of a RRSP), to the complex, such as estate and trust planning and more sophisticated wealth management strategies. Regardless of the complexity of the advice being sought, advisors must always demonstrate the required competencies and ensure the advice is appropriate by adhering to the basics of the applicable KYC requirement – his or her life and financial situation, his or her needs and goals, and level of risk tolerance – and applicable KYP requirements – such as the suitability of the product or service for the client, as

²¹ For more on the Advocis Best Practices Manual, please contact Advocis at info@advocis.ca.
²² Canada Revenue Agency, IT238R2 - Fees Paid to Investment Counsel. Online at www.cra-rc.gc.ca/E/pub/tp/it238r2/it238r2-e.html. The CRA notes that fees paid for other types of advice, such as financial planning, are not within the provisions of paragraph 20(1) (bb), and are not deductible. As well, commissions are specifically excluded from the definition of investment counsel fees. So commissions paid to advisors to execute transactions, or front- and back-end mutual fund commissions, are generally not deductible.
well as its benefits and potential risks. Obviously an advisor who follows MFDA Rule 2’s obligations on suitability and KYP obligations when providing mutual fund advice to a twenty-year-old who is making his first mutual fund purchase should not be held to the same standard of planning proficiency as an advisor who is drafting a comprehensive financial plan which includes a will and a trust for an upper-middle-class family, for example. Each level of advice should and does have different knowledge requirements. But in both situations, it cannot be denied that rules governing licensees and their conduct incorporate financial planning.

2. Is the current regulatory scheme governing those who engage in financial planning and/or the giving of financial advice adequate?

No. As we have set out in the introductory section of this submission, a number of problems in the current regulatory scheme expose Ontario’s consumers of financial advice and planning products and services to undue – and unnecessary – costs and risks.

*Ontario’s web of regulatory relationships produces unnecessary complexity for all stakeholders—plus increased compliance costs and needless confusion for consumers*

First, the current regulatory landscape in Ontario’s financial services sector is a maze of complicated reporting and accountability/review relationships. At present, financial advisors and their clients are caught in a confusing web of regulatory relationships. This is ably demonstrated in Figure 2.
FIGURE 2. Ontario’s current regulatory structure has become bewilderingly complex. Clearly the needs of consumers and advisors has outgrown and outpaced the existing and largely product-based model which currently regulates Ontario’s financial services industry. Each one of the blue lines represents a compliance requirement or other form of regulatory activity – which in the end are passed on to the Ontario consumer.

**Consumer exposure to unnecessary risk – the case of fraud**

Second, there is the case of the rogue advisor – who is almost always unregulated. An exemplary instance of the risks to which retail consumers are unnecessarily exposed may be found in the recent case of Gary Sorenson and Milowe Brost, who were sentenced in July 2015 to 12 years in prison for one of the largest Ponzi schemes in Canadian history. Among other offences, they were found guilty of bilking more than 2,000 investors of up to $2,000,000. The pair had already been found guilty of fraud and theft for an elaborate investment scheme which lured investors with the promise of unrealistic returns. All told, the impugned activity of the duo began as early as 1999, and more than 2,400 investors from around the world lost somewhere between $100,000,000 to $400,000,000 (Canadian dollars). The Alberta Court of Queen’s Bench received approximately 600 victim impact statements – many of whom lost their life savings.23

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The proposed DAA would address this sort of fraudulent activity. While one can never completely eliminate fraud, or indeed any kind of criminal activity, the delegation of authority to a mandatory professional organization for financial advisors would make the Sorenson-and-Brost fraud scheme much less likely to arise in the first place. Perhaps more importantly, it would also prevent such a scheme from persisting for as long as it did (one set of their fraud and theft offences took place over an entire decade – between 1999 and 2008). By requiring anyone who holds out as a financial advisor to be a member of a DAA and to have their credentials and disciplinary history filed in a publicly accessible database, a DAA greatly diminishes the ability of a Sorenson or a Brost to position themselves to the unknowing public as competent, capable advisors. As well, requiring all professional advisors to report such fraudulent activity to their professional authority further increases the likelihood that such unscrupulous persons will be identified long before they can cause such wide-reaching harm.

**Continuing to ignore the vast majority of persons who act as advisors in title or in scope of activity simply leaves too many Ontarians at risk**

Third, there is the related problem faced by consumers of understanding just which groups of retail-facing intermediaries are currently being regulated – and which aren’t. This raises one of the most crucial questions facing the Expert Committee: should Ontario regulate only those advisors who hold advanced designations, or whether all Ontarians deserve higher standards – and not just those who can afford them?

The rules regarding licensing under the MFDA, IIROC, OSC and FSCO regimes all require that financial advisors gather and analyze that information which is necessary to make informed recommendations to their clients. Such recommendations must take into consideration both the client’s short-term and long-term goals. Indeed, even a cursory review of the FPSC website and its KYC and KYP requirements and suitability rules largely reflect the basic licensing requirements currently in place for all financial advisors. Clearly, all financial advisors conduct financial planning under the natural course of servicing their clients, as required under the rules governing their licensing. Advisors who have completed additional training to achieve a CLU® or CFP® designation have undertaken a further degree of specialization and are therefore able to offer clients a more complex form of financial planning in the course of providing financial advice. However, not every client requires the services of such a specialist. All of this effectively undercuts the position, recently articulated by advocates of a style of piecemeal policy reform, that only CFP® designation holders provide financial planning, or that financial planning is somehow a discipline and career distinctly and categorically separate from the field of financial advice. Indeed, advisors who hold the CFP® designation and hold out to the public as financial planners are simply able to provide a more detailed, specialized and rigorous form of financial planning.

Without diminishing the value of advisors who hold advanced financial planning designations, concern over consumer access to financial advice leads us to note that some of these advisors operate from a fee-based or even fee-only platform. The preferred methods of compensation used by these advisors undoubtedly impact the desire of consumers to seek out advice, and to pay for it. Moreover, fee-only advisors represent a small proportion of the market– indeed it is estimated by PricewaterhouseCoopers in its *Sound Advice: Insights into*
Canada’s Financial Advice Industry report that there are approximately 450 fee-only advisors in all of Canada.\(^2\) We believe they serve an important niche within the population of Ontarians who can afford their services. Moreover, it is often these planners who stand out through their demonstrable commitment to professional levels of proficiency, ethics and continuing education. But they simply do not represent a viable advice channel for the vast majority of Ontarians. Besides the fee-only group, there are also advisors who focus on estate planning, wealth transfer, health insurance, living benefits and similar areas of concentration – and to do so hold advanced designations that signify the advisor’s expertise in that area of planning.

In practice, few Ontarians can afford a stand-alone comprehensive financial plan, as this typically requires an outlay of several hundreds or even thousands of dollars at once. Instead, the vast majority of Ontarians who receive planning receive it to varying levels and degrees through their advisors who are required to engage in financial planning prior to making product recommendations. Accordingly, we remain at a loss in understanding how one can conceive of financial planning as a stand-alone profession that is separate from advice. This planning is often aimed at addressing specific life events, such as saving for a home or determining whether the client is able to afford the desired retirement. Consumers often do not directly pay for this planning, as the planning is usually followed by the sale of products in order to ensure the plan’s fulfillment. It is these product sales which compensate the advisor for his or her efforts. Most consumers receive their planning and advice in this manner because it is accessible and affordable. We believe that all Ontarians deserve to enjoy the benefits of enhanced professionalism in the industry and to be able to trust that their advisor is qualified and competent; this right should not be restricted to a narrow subset of the population that can afford comprehensive financial plans, as doing so would not serve the larger public interest. Therefore, we urge the government to be cognizant of the planning and advisory needs of the majority of Ontarians as it considers reforms.

As we have seen, all financial advisors must engage in fundamental forms of financial planning, and certain financial advisors may elect to undertake further specialized forms of more sophisticated financial planning. Given all of this, what perspective does the advisor in the field have on regulatory reform – especially that of the advisor who may be characterized as an “advanced planning” provider? We would note that Advocis is uniquely positioned to provide a practitioner’s perspective on regulatory reforms which would impact Ontario’s financial advisors and planners: our association is composed of financial advisors, many of whom have acquired financial planning designations (among other advanced designations). In our experience, these are advisors who have acquired designations such as the CLU\(^®\) or CFP\(^®\) are already committed to meeting if not exceeding higher requirements in terms of advising and planning proficiencies, standards of ethical conduct, and the maintenance of an appropriate standard of industry knowledge through ongoing continuing education.

3. What legal standard(s) should govern conflicts of interest and potential conflicts of interest that may arise in financial planning and the giving of financial advice?

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\(^2\) See the Appendix for PricewaterhouseCoopers, Sound Advice: Insights into Canada’s Financial Advice Industry, July 2014, p. 15. “Fee-only planners” are defined as “financial advisors that provide objective financial counselling and associated services for a negotiated fee and who do not directly offer either proprietary or third-party financial products” (p.15).
Under the proposed DAA, all financial advisors would be required to comply with the DAA’s written, annotated and publicly accessible code of professional and ethical conduct. Such a document would govern member activities related to real and apparent or potential conflicts of interest, set out curative measures, including enhanced disclosure hard and soft compensation on all products, regardless of sector, and explicitly codify the following principles:

- recognition of the priority of the client’s interests over those of the advisor;
- specify duties respecting conflicts of interest, including disclosure to the client of all real and apparent conflicts;
- the duty to provide competent service, performed with honesty and integrity; and
- the client’s right to access an enforcement mechanism specifically designed for disciplining and punishing members for misconduct, including criminal convictions and regulatory infractions.

Violation of these codified principles would become a matter for investigation, discipline and enforcement (see the answer to Question 4 (g), below).

4. To what extent, if at all, should the activities of those who engage in financial planning and/or giving financial advice be further regulated? Please consider the following in your response:

   (a) Licensing and registration requirements;
   (b) Education, training and ethical responsibilities;
   (c) Titles and designations of individuals who engage in financial planning and/or the giving of financial advice;
   (d) Specific activities that should be included or excluded in a regulatory scheme;
   (e) Costs and other burdens of regulation;
   (f) Regulation of compensation; and
   (g) Complaints and discipline mechanisms.

Question 4 cuts to the heart of the Expert Committee’s task: it asks what form of regulation is best suited to provide oversight on the provision of financial advice? Advocis believes that any truly comprehensive answer to this question must be articulated through the advancement of a positive, progressive regulatory model. Accordingly, we will now set out how a DAA model would be situated within the larger regulatory structures already in place in Ontario.

**The consumer need for a DAA**

As we have argued throughout, retail investors and other consumers of financial products in Ontario need to be assured by a regulatory body that they are accessing affordable, professional-grade financial advice. This means that consumers of retail financial products, advice, and other services, including planning, need to know that any individuals who provide financial advice, whether or not that individual uses the title of “financial advisor” or some variant thereof, has met various initial and ongoing proficiency standards. The least expensive and
least intrusive way to accomplish this is through Ontario establishing that the provision of retail or consumer-level financial advice is a recognized professional activity. This, in turn, requires the creation of a professional organization for financial advisors, the authority of which would be delegated in statute by the Ontario Minister of Finance to the DAA. Depending on the particulars of its reporting and governance structure, such a DAA could be a way for the government to quickly address sudden and unforeseen regulatory concerns. Under a DAA the province would still retain overall accountability and control of relevant enabling legislation and monitor and remain accountable for the overall performance of the authority. Additionally, DAAs have certain reporting obligations to the government, such as annual reports and audited financial statements, and can be subjected to operational reviews.

**By creating a DAA, Ontario's current regulatory scheme can be easily reconfigured**

With minimally disruptive modifications, the regulatory scheme in Ontario can be reconfigured to provide comprehensive, efficacious, and cost-effective consumer protection. DAAs are not-for-profit corporations that assume the day-to-day operational responsibility for licensing, education, complaints handling, inspection and enforcement matters as described in government legislation. Unquestionably, DAAs immediately reduce the government’s “fiscal footprint”: the DAA’s employees are not public servants and they are self-financing, largely through fees paid by the governing body’s members. This model has gained acceptance in several provinces: notable examples include Ontario’s Travel Industry Council, Alberta’s Boilers Safety Association, and the British Columbia Safety Authority.

**The DAA model removes silos at the consumer level and plugs a major gap in Ontario’s regulatory framework**

The DAA would focus on the financial advisor and consumer relationship. In doing so, it will remove oversight of the retail consumer services provided by financial advisors from the MFDA, IIROC, OSC and FSCO and consolidate it under a unified consumer protection rubric. Such consolidation eliminates the present state of consumer and advisor confusion by introducing a coherent regulatory structure to the advisor-client relationship. While, the silos which currently exist between the insurance and securities sectors at the product level will remain intact in order to preserve existing regulatory expertise, the silos are removed at the level of the advisor-client relationship.
Ontario's traditional regulators can now focus directly on products, firms/institutions and markets on behalf of all market participants and stakeholders.

FIGURE 3: This chart shows how a DAA could provide cross-sectoral, consumer-focused regulation and sets out the parameters for a potential reform of the delivery of advice to Ontario's financial consumers.

The proposed new regulatory approach will not disrupt any existing product-related regulation; however, if the provincial government is considering a further rationalization of the system, then we would note that a review of the existing SROs for regulatory and cost efficiencies would be more easily managed in this consumer-focused model. It is critical to recognize the efficiency and cohesiveness to be found in the well-defined regulatory accountabilities inherent in a single professional body; such a model can remove confusion, cost, duplication and overlap; quickly address sector-specific problems; and simplify what is currently an unreasonably confusing system for consumers. The expected result would be enhanced levels of consumer protection and satisfaction.

As Advocis has noted elsewhere, the DAA model is a relatively new way for a group to obtain professional status. Of interest to us here is the process undertaken by the Ontario government to modernize the regulation of the funeral, transfer service, cemetery and crematorium sectors. The government notes that “it is more effective to have a single regulator for the entire sector which will create a one-window approach for both licensees and consumers.”

Therefore, in 2016, a DAA known as the Bereavement Authority of Ontario will become the single regulator for the bereavement sector, handling, both licensing and enforcement services.
Similarly a new DAA focused on financial advice and the relationship between the advisor and client will eliminate much of the duplication and confusion that currently exists under the product-oriented model. In contrast to the existing web of regulatory oversight represented in Figure 2 (on page 26), Figure 3 illustrates the simplicity that can be achieved with a DAA which focuses on the advisor/client relationship.

Advocis believes that a truly industry-wide effort to regulate all financial advisors will enable the industry to move beyond the status quo and thereby avoid such well-publicized instances of egregious criminal conduct, which of course understandably erodes public trust in our advice industry and, to an extent, in our capital markets. Just as importantly, an industry-wide DAA will eliminate less-reported by equally problematic regulatory hazards, such as regulatory arbitrage and capture. Promoting professionalism in all advice-based, retail-focused relationships between intermediaries and consumers in Ontario’s financial services sector may in fact be the most effective way to inculcate an enhanced commitment to ethical and professional conduct. Excluding financial advisors – whether in title or in scope of practice, or both – from any such reform effort will virtually guarantee its failure. As we have repeatedly stated: Ontarians deserve better. To see how we can give Ontarians the regulatory system they are entitled to, it is first necessary to understand in more detail the current system, which we believe is an impasse of sorts – one which prevents the introduction of smaller, smarter and more targeted regulation with a consumer focus.

In our answers to questions 4 (a) to (g), we provide detailed discussion of the nature and operation of a proposed DAA. These operational details indicate how a DAA model would work in the best interests of Ontario’s financial consumers by ensuring that all advisors meet necessary minimum professional standards. In contrast to the universal approach of a DAA stands the argument forwarded by other industry groups which seeks to regulate only a particular advanced planning designation. Unfortunately, such a reform would leave most Ontarians still exposed to unnecessary risks while, in effect, creating a narrowly-constituted professional group of advisors who alone are permitted to provide financial planning advice. Such an approach will inevitably restrict consumer access to this subgroup of now-privileged designation holders to the wealthier segments of society. For example, if the Ontario government were to decide to establish a profession for only those few thousand CFP®s and CLU®s in Ontario, then the remaining tens of thousands of financial advisors who are not holders of an “approved” planning designation (in this hypothetical case, either a CFP® or a CLU®), would not be permitted to act as financial planners. The result? By law the overwhelming majority of Ontario’s advisors would be forbidden from providing their clients with planning services – including the critical financial planning services which they are presently required to perform under the current licensing requirements of the MFDA, IIROC, OSC and FSCO. In fact, continuing to provide clients with those planning services required for the purchase of a life policy or mutual fund would result in these non-designation holders trespassing on the newly circumscribed scope of the new professional activity of financial planning.

Yet this hypothetical policy is in fact the argument now being advanced by several stakeholders seeking to create a “planning” profession for only those individuals who hold a particular designation, in spite of the fact that this would exclude from engaging in financial planning tens of thousands of advisors who, in the course of working directly with millions of Ontarians, provide them with financial advice which is inclusive of financial planning services. Just as importantly, such a reform would virtually guarantee its failure.
planning. The establishment of a “planning only” regulatory model would also require a legislative paradigm shift, one which would necessitate the wholesale redrafting of thousands of pages of existing laws and regulations, bulletins and guidelines, rules and policy statements, all of which require that all of Ontario’s (and indeed those throughout Canada) financial advisors engage in some level of financial planning in the interests of consumer protection. A “planning only” profession will fail to address any of the numerous and pressing concerns related to consumer protection, exacerbate current levels of confusion and complexity experienced by consumers, and add another layer of regulation. Most problematically, a “planning only” policy would in effect remove the critical financial planning components to which today’s life agent or mutual fund licensee must adhere, thereby exposing millions of Ontarians to immediate and ongoing risk, and redirecting those consumers who can afford it to engage the services of the favoured designation holder. Yet what the province needs is to simplify and clarify matters for consumers, government agencies, and industry stakeholders alike.

(a). Licensing and registration requirements

Under the proposed DAA, the consumer’s assurance that his or her advisor has met or exceeded the initial proficiency standards would derive from the fact that every person in Ontario who is licensed or registered to sell financial products has met the initial requirements for membership in the DAA. Further, the DAA would be able to develop categories and subcategories for membership, as conceptualized in Figure 1 (on page 17), which would recognize the areas of specialization reflected, for example, in designations such as the CFP® and the CLU®.

Mandatory membership and unity of oversight: Plugging another gap in Ontario’s regulatory framework

Under the DAA, membership would be mandatory for all of the province’s financial advisors. Such mandatory membership addresses the concerns raised above with respect to title and scope protection. The result would be that individuals who hold themselves out as financial advisors would be required to be licensed. Licensing is currently split between three regulators: FSCO, the MFDA and IIROC. It would make sense if licensing was handled by a single source, as this would provide a great deal of efficiency. It would also result in a single entity for consumers to consult with respect to the licensing of anyone holding out or purporting to be a financial advisor.

(b). Education, training and ethical responsibilities

Advocis believes that proficiency standards and continuing education are cornerstones of professionalism. Under a DAA model, the DAA would establish initial proficiency standards for financial advisors, and would administer, monitor and enforce continuing education requirements designed to ensure that all financial advisors maintain a high standard of proficiency. The DAA would be required to actively administer their codes of conduct, so that the public is assured that the DAA’s member advisors understand and fulfill the ethical obligations they owe to their clients.

Individuals who elect to hold themselves out as competent practitioners in areas of professional specialization, such as financial planning, would be required to maintain in good standing the necessary recognized designations. The designation programs would be provided by organizations which the DAA has vetted and
determined that their designation program meets the province’s standards for specialization. This mandatory review would help address the problem associated with the alphabet soup of accreditations, certificates and designations that currently exist and are misleading to the public. It would also allow for those legitimate designation programs which currently exist to continue to provide the specialized education products which advisors and their clients want.

![Diagram](image)

**FIGURE 4.** The financial advisor’s career path and professionalism: a DAA would work with government and stakeholders to establish entry requirements for the profession. Figure 4 demonstrates the development of a financial advisor from the initial entry into the profession all the way through to the attainment of one or more specialist designations, which are for those advisors who wish to acquire deeper knowledge and professionalism.

**Continuing education (CE) requirements:** The DAA’s annual continuing education requirements would focus on the financial advisor’s duties to clients. These CE requirements would complement and build on the practice proficiency standards and CE requirements of regulators. However, all members would be required to fulfill ongoing CE requirements, which would have a structured component, including mandatory professional ethics and conduct requirements. These would include course requirements established by professional associations identified by the DAA as proficient in providing CE.

**A code of professional conduct:** All financial advisors would be required to subscribe to their DAA’s code of professional conduct, and abide by their DAA’s rules of professional conduct in all of their dealings with third parties (i.e., the application of the code and rules would not be limited to the financial advisor-client relationship). Any code of professional conduct would of necessity establish and explicate:

- the priority of the client’s interest over those of the advisor;
- issues of misconduct (including criminal convictions and regulatory infractions);
- the duties surrounding conflicts of interest;
the duty to provide competent service;
- the duty to act with honesty and integrity;
- the duty to preserve and protect client confidentiality; and
- the duty to cooperate with the regulators.

An errors and omissions insurance requirement: All financial advisors, and their corporations and/or agencies, would be required to carry professional liability insurance relating to the activities they ordinarily engage in as financial advisors.

(c). Titles and designations of individuals who engage in financial planning and/or the giving of financial advice

As we have repeatedly argued, Advocis believes that regulating the usage of the title “financial advisor” is timely, appropriate and necessary. Financial advisors are one of the last groups of specialized practitioners whose professional title is not regulated by law. While other professions such as medicine, law and engineering have had their professional titles regulated for over a century or more, in recent years many other areas of professionalized activity have become similarly regulated. For example, in Ontario, the title of “Social Worker” is restricted to registrants of the Ontario College of Social Workers and Social Service Workers; in Alberta, the Alberta Boilers Safety Association, and the Petroleum Tank Management Association of Alberta are restricted to registrants of these professional bodies.

With so many people struggling to meet their retirement goals, with new families starting out without proper financial planning in place, and with government policies increasingly shifting the responsibility for Ontarians’ future financial needs onto individuals, now is the time to regulate the use of the professional title of “financial advisor.”

To better protect the public interest, we believe the government should establish a DAA with a board of directors to be composed of financial advisors and members of the public, among other persons. These two sources of input would be essential to the DAA’s ability to set and implement appropriate baseline minimum standards for all persons providing retail advice and planning. To recognize those advisors who have obtained additional education, we suggest they be recognized as being specialists in their area of expertise. This would be analogous to what the Law Society of Upper Canada offers: all its members must satisfy baseline standards, but through its Certified Specialist program, it also recognizes those practitioners who are experts in, *inter alia*, criminal law, family law or real estate law.

With regard to advisor designations, the DAA would identify those designations that meet the defined expectations of those holding out as having completed an advanced designation program in relation of financial planning, such as a CLU® or CFP®. Advocis has of course long been committed to the provision of high-quality designations for financial advisors which will ensure that consumers are working with a person who has met

Advocis® is a trademark of The Financial Advisors Association of Canada.
sufficiently advanced proficiency standards. The following designations would be granted initial proficiency recognition, provided that the advisor is in good standing with one of the relevant designation-granting bodies:

- Chartered Life Underwriter® (CLU®), sponsored by Advocis, the Financial Advisors Association of Canada;
- Certified Financial Planner® (CFP®), sponsored by the Financial Planning Standards Council;
- Personal Financial Planner (PFP®), offered by Canadian Securities Institute;
- Certificate in Financial Planning (Planificateur financier [Pl. fin.] designation), sponsored by the Institut québécois de planification financière (IQPF);
- Registered Financial Planner® (R.F.P.®), sponsored by the Institute of Advanced Financial Planners;
- Chartered Financial Consultant (CH.F.C.®), sponsored by Advocis, the Financial Advisors Association of Canada; and
- Chartered Financial Analyst (CFA®), sponsored by the CFA Institute.

Under the proposed model, all financial advisors who hold themselves out as financial planners would be required to hold in good standing one of the above-noted financial planning designations. A DAA which established a “certified specialist” program would satisfy both the government’s objective of protecting all Ontarians who receive financial advice with baseline standards, while providing the motivation for advisors to continue their education and achieve a specialization as a key competitive advantage in the marketplace.

(d). Specific activities that should be included or excluded in a regulatory scheme

Included activities: Subject to several narrow and easily identifiable exceptions listed below, everyone who sells financial products to consumers, and everyone who offers financial advice and/or planning to the public, would be subject to regulation under the DAA model. This would include:

- individuals who are licensed to deal with the public with regard to life and health insurance under insurance legislation;
- individuals who are registered by a securities regulator in any advisor category under National Instrument 31-103 and are licensed to sell or provide advice to the public with respect to financial products;
- individuals who hold themselves out by titles or claimed credentials that suggest financial advice-giving expertise, such as “financial advisor,” “investment advisor,” “wealth planner,” “wealth advisor,” “financial planner,” “estate planner,” and “retirement planner” or such other titles as may be designated by regulation, regardless of whether they are required to be licensed or registered to sell or provide advice regarding financial products; and
- individuals who hold themselves out as pensions or group benefits consultants who are not otherwise captured by the criteria above.
**Excluded activities:** It is important to note that the DAA model will not capture job-related activities executed by these clearly identifiable classes of financial services practitioners whose activities may be characterized as a form of “financial advice,” such as:

- mortgage brokers and real estate agents;
- bank tellers who offer advice about deposit products;
- licensed accountants who provide financial advice ancillary to their provision of accounting and tax advice; and
- lawyers who offer financial and tax advice ancillary to providing legal advice.

**(e). Costs and other burdens of regulation**

Advocis’ proposed DAA model is simple, straightforward, and does not require significant government action or resources: anyone using the professional title of “financial advisor” must maintain ongoing membership in the DAA. The current regulatory burden on financial advisors and their firms is compounded by the fact that financial advisors are required to address regulation from different sectors that are directed to their conduct and relationship with consumers. Indeed, a financial advisor working with a single client and recommending products from the insurance and securities sector will have different obligations, depending on whether the product falls under the purview of FSCO, the MFDA, or IIROC. The result is that under the current system a financial advisor is spending an inordinate amount of time ensuring compliance with respect to the regulatory requirements of the various sectors, as well as explaining to clients why they must treat the recommendation of the segregated fund differently from a mutual fund, and why the conversation with respect to an exchange-traded fund is different yet again. This level of complexity is the result of an outdated mode of regulation that is focused on product and was developed at a time when this made sense.

Regulation must be changed to recognize that an evolution has taken place in the provision of financial products and services and the advice which accompanies them. In short, the existing product-based regulatory framework is not adequate for governing the advisory relationship: it simply does not reflect the manner in which consumers receive advice today. Therefore, at least some new regulatory infrastructure will be required.

Many of the commentators at the Ontario Ministry of Finance’s 2014 Roundtable Sessions *Investigating the Merits of More Tailored Regulation of Financial Planners in Ontario* on Friday, January 10, 2014 and Tuesday, January 14, 2014, were concerned about new regulatory costs that would be borne by firms and ultimately passed onto consumers. We agree with this policy position – we have no desire to create a costly new structure that renders the entire industry less competitive; after all, it is our members who are working with Ontarians face-to-face, and they will be the ones having to explain these costs to an unimpressed audience.
Fortunately, a new DAA to oversee the conduct and proficiency of all financial advisors does not require significant resources to implement. Nonetheless, there will be certain new costs associated with the proposal, including the cost of developing databases and websites, and establishing the disciplinary and hearing process. Yet these initial costs will be offset by the reduction in costs as existing regulators who were created to oversee brokers, dealers, and products will be able to focus their expertise on these issues and the delegated oversight of financial advisors that these entities have assumed will be transferred to the new DAA.

Notably, these costs are largely fixed costs that are required to set up base infrastructure; the variable costs of adding an additional advisor or planner to the structure are minimal. In fact, the greater the number of advisors in the structure, the lower the cost per advisor, which would mean that the membership fee payable by each registrant would be smaller if all advisors and planners are captured.

This is in contrast to statements made by certain proponents at the Ministry’s roundtables; some participants suggested that regulating all advisors would be too ambitious and costly. Instead, they argue, Ontario should focus only on financial planners. In truth, if Ontario were to focus exclusively on planners, the fixed cost of that base infrastructure would have to be amortized over a much smaller base, resulting in much higher fees per planner. These financial planners would have to respond to the new and increased regulatory burden by jettisoning their less remunerative clients, as has happened in the United Kingdom with the advent of the Retail Distribution Review (“RDR”).

Public regulation is, of course, costly to taxpayers, at least some of whom do not consume the regulated service. In the case of self-regulation for financial advisors, as outlined in our *Raising the Professional Bar* proposal, the costs would be borne by the regulated actors in the financial advice sector, who would seek to split the costs of regulation only with those consumers using financial advice, further reducing costs for the end user or consumer. Therefore, we believe that any argument that Ontario should focus on professionalizing financial planners only on the basis of cost considerations is both contrary to the public interest and at variance with the economics of establishing regulatory infrastructure. As such, it is wholly inconsistent with sound public policy.

**(f). Regulation of compensation**

The DAA would determine what the appropriate compensation models would be. Advocis believes in allowing consumers to choose the type of payment scheme through which they wish to engage with their financial advisor, whether it is based on commission, a percentage charge on assets under management, or an hourly fee.25 Our research indicates that removing choice will result in less access to financial advisors by those most in need of advice. Consumer outcomes in the United Kingdom and Australia – jurisdictions which introduced commission bans – demonstrate that eliminating embedded compensation drives advisors from the industry and forces the remaining advisors to increase their fees, thereby pricing advice beyond the reach of broad swaths of the population.

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25 See the Appendix for Advocis, *Banning Embedded Compensation And Imposing A Statute-Based Fiduciary Duty* – Regulatory Affairs Bulletin #052-04/13 (April 2013) and for Advocis’ submission in response to the Canadian Securities Administrators’ Consultation Paper 33-403 – The Standard of Conduct For Advisers And Dealers: Exploring The Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients (February 20, 2013).
While the vast majority of consumers do not want to pay an hourly rate for financial advice, this option should remain, since it does accommodate the needs of a small but lucrative segment of consumers. Allowing for choice will ensure all consumers have access to advice, can grow their wealth, achieve their life goals, and mitigate against risks associated with their lifestyle and unique personal needs and characteristics. As a consumer’s wealth grows, he or she may at any time choose to move from a commission based model to an hourly fee or an assets under management model – depending on which model is most economical for them.

(g). Complaints and discipline mechanisms

What would the role of a DAA be when it comes to advisor discipline? Can a DAA be expected to handle complaints about its own members? Is the current set of mechanisms for the handling of client complaints and the meting out of discipline – which is admittedly patchwork by nature – at all sufficient to the tasks at hand? These are legitimate questions. As we will see below, anecdotal evidence suggests that registrants who are members of an SRO commit fraud or other forms of financial malfeasance at a lower rate than non-SRO registrants.

The Canadian Foundation for Advancement of Investor Rights (FAIR Canada), has issued two reports in the last four years which examine advisor malfeasance. It outlined a series of recommendations in an August 2014 report, including the idea that Canadian regulatory agencies must collaborate more effectively, especially in the tracking of fraud complaints, that regulators should publicize the results of their findings, and that governments and regulators in provincial capitals and in Ottawa should implement a national whistleblower program. In examining investment fraud in Canada, the definition of investment fraud was limited to fraud involving securities that directly affect individual retail investors, such as Ponzi schemes and boiler rooms. The report reviewed all of the fraud cases that were concluded by the CSA in 2012. The CSA’s 2012 Enforcement Report was the first to include a specific, stand-alone category for fraud. Upon FAIR’s review of these cases, it was stated that the “overwhelming majority of the cases (fifteen out of eighteen) involved perpetrators who were not registered.”

In February 2011, FAIR Canada released A Report on a Decade of Financial Scandals, which reviewed fifteen of the largest and most high profile securities-related scandals from 1999 through the end of 2009. This report emphasized the fact that “the Canadian securities regulatory system is complex and fragmented. There are thirteen provincial and territorial securities regulators and two national SROs... With this bewildering array of regulators, investigation agencies and prosecutors, no one agency has ultimate responsibility for combating investment fraud.” It also stated that five of the 15 cases reviewed involved firms and individuals not registered with securities regulators. About 22% of the Total Loss can be traced back to non-registered individuals and firms. More interestingly, while “approximately 78% of the Total Loss was attributable to registered firms or individuals,” only “some 17% of the Total Loss involved registered firms or individuals who were also subject to

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28 Ibid., p. 19.
the supervision of an SRO. It would therefore appear that registrants that are directly regulated by a provincial securities commission (but not an SRO) represent a much greater risk of investment fraud losses by investors than registrants that are also SRO members.\(^{29}\)

Advocis has long advocated for the need to introduce a true system of professional accountability for financial advisors, one which is integrated across all consumer sectors in Ontario’s financial markets. A DAA would be empowered to suspend or revoke membership, or impose various conditions on membership for unprofessional conduct, including violations of regulatory requirements, failure to cooperate with regulators, and criminal and regulatory offences. Actions or omissions which impugn or bring into disrepute the advisor’s professional integrity or competence, or that of the profession as a whole, and their suitability to offer financial advice to the public, would be reviewable.

As noted above, a regulatory requirement that advisors must be in good standing with a DAA would prevent unscrupulous individuals from simply moving to a different financial sector and seeking licensing or registration. The resulting regulatory umbrella created by this DAA model would close current gaps in the enforcement and disciplinary reach of regulators, by ensuring that individuals who violate industry requirements in any one sector would not be permitted to continue activity in the industry without proper review. A DAA would have discretion with regard to the investigation of complaints and the initiation of professional discipline.

**The DAA model is the means to ensure promotion of the public interest**

In terms of the particulars of how the DAA model would handle issues of enforcement and discipline, the guiding principle would be the promotion of the public interest. Accordingly, the DAA should be a not-for-profit entity dedicated to financial advisor professionalism in the public interest. It is essential that the DAA be entirely independent from financial institutions, as well as product manufacturers and distributors.

The governance arrangements of a DAA would ensure that it would have public directors on its Board, and also on any board committee responsible for professional conduct and discipline. The following features would define the basic parameters of a DAA’s disciplinary process:

- **a show-cause requirement:** the DAA would be entitled to require an individual who has had his or her license or registration suspended, cancelled or made subject to ongoing conditions in other jurisdictions, to show cause why he or she is fit to be accepted as a member or to continue as a member of the DAA;

- **effective sharing of membership information:** the DAA and other regulators would inform each other in a timely manner with regard to any changes in the membership and licensing or registration status of individuals. Upon being informed that the licensing or registration status of a member has been suspended, revoked, or made subject to conditions in any other jurisdiction, or that the member is the subject of disciplinary proceedings in another jurisdiction, the DAA would take appropriate steps. Similarly, regulators in other jurisdictions would initiate a review of the licensing or registration of an individual upon being informed by the DAA in Ontario that an individual has been suspended, or made subject to conditions, or that his or her license or registration has been revoked, suspended or made subject to conditions by another regulator;

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\(^{29}\) Ibid., p. 20.
• **a complaints and disciplinary process:** there would be no duplication of process or procedure here, as the DAA would not duplicate the enforcement and disciplinary functions of regulators. The DAA would assume the oversight currently residing with the MFDA, IIROC and FSCO in relation to the conduct and competency;

• **a priority given to matters of public protection:** As well, a DAA, in its complaints and disciplinary processes, would give priority to protecting the public by ensuring that only one body is overseeing conduct and redress. This ensures that consumers are no longer confused about which sector’s regulator they need to raise their complaint with as all conduct issues related to the advisor/client relationship are addressed by the DAA in the first instance;

• **timely initiation of proceedings:** a DAA would be entitled to initiate disciplinary proceedings where there is reason to believe that a member has violated the code of professional conduct. Public directors of the association would participate in directing the investigation of complaints and the initiation of disciplinary proceedings. The association would be entitled to initiate disciplinary proceedings whenever it considers it appropriate to do so, and would be empowered, in the course of its disciplinary process, to suspend or terminate membership, and to impose conditions on membership;

• **oversight of issues relating to advisor competence and incapacity:** a DAA could investigate a member’s competence and capacity to provide services to the public, and initiate proceedings and suspend or revoke membership or impose other conditions; and

• **imposition of appropriate and effective administrative sanctions:** a DAA would have the authority to suspend or terminate membership, and to impose conditions on membership for administrative reasons, including for non-payment of fees, for failure to fulfill continuing education requirements, and for suspension or termination of licensing or registration by a regulator in other jurisdictions.

In concluding this section, we wish to note that the proposed DAA would be required to publish its proficiency standards and have a positive obligation to ensure that all practicing financial advisors meet these standards. The responsibility of the DAA to publicly set out these standards and ensure industry adherence to them is the centerpiece of its consumer-focused commitment to industry transparency. Since each of the subheadings in Question 4 (a) to (g) fall under the purview of the DAA, it seems to Advocis that a DAA, prior its becoming operational, would need to work in an open, consultative, and collaborative manner with government and stakeholders to develop the administrative agreements and other legislative documentation needed to create and support the DAA.

While Advocis is grateful for the opportunity provided by the Ministry of Finance to set out our views during the Expert Committee’s consultative process, in the event the regulatory changes proposed in this paper result in a DAA for Ontarians, then we would offer our further assistance in the development and drafting of the myriad of regulatory documents, bulletins, and guidelines necessary for the implementation of the DAA.

5. **What harm(s) and/or benefit(s) do consumers experience in the current environment? Please provide specific evidence to support your views where available.**
We have set out in Part One, above, the major consumer harms which arise in the present regulatory environment. For your ease of reference, we will list the major ones here:

- consumer risks associated with no title or scope protection for financial advisors;
- the hopping from one industry sector to another by advisors who have been sanctioned or disciplined in a particular sector, a problem which is enabled by the lack of coordination between existing sector-specific regulators and SROs;
- the inability of the system to deal with fraudsters before they cause harm;
- the overall level of complexity in our current regulatory system makes it far too confusing for consumers;
- the persistence of a regulatory gap in the governance of the advisor-client relationship, which is structural in nature since the present system was developed for the oversight of sectors and products and therefore cannot address the evolution that has taken place at the advisor-client intersection;
- in turn, this regulatory gap results, unfortunately, in a lack of trust in the efficacy of the entire regulatory system, which we see expressed in the media and by certain “consumer advocacy” groups; and
- regulatory responses to perceived deficiencies by regulators who do not understand the foundational nature of the client-advisor relationship, in particular, its importance to the long-term retirement security of Ontarians. Too often reform measures imported from other jurisdictions miss their intended target and create more problems than they solve. We now see the potential for this unfortunate and unjustified regulatory overreach in Ontario, which is considering the banning of embedded commissions in the sale of mutual funds – an exercise whose basis lies in problems identified in foreign jurisdictions (chiefly the United Kingdom and Australia).

Indeed, the ban on trailing commissions enacted pursuant to RDR in the United Kingdom has:

- **reduced consumer access to financial advice:** this is particularly so for those who arguably need financial advice the most – lower-middle class and middle class persons who cannot afford a fee-for-service advisor. This is especially problematic in light of growing need for financial advice which is driven by the new pension freedoms introduced in April 2015. Indeed, in the 12 months to January 2015, 60% of advisers turned away potential clients, mainly due to the fact that service was uneconomical for the client based on the client’s needs (42%), or was unprofitable to the firm (29%);³⁰

- **increased the cost of advice:** a post-RDR study commissioned by the industry regulator, the Financial Conduct Authority (“FCA”), indicates that the cost of advice has risen since the RDR’s implementation;³¹

- **seen a reduction in the total advisor population:** two years after the RDR was implemented, there has been an increase in the total advisor population, but it is still lower than before RDR;³²

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³¹ Ibid.
³² Ibid.
set the stage for a further reduction in advisor numbers and a rise in the cost of advice: data from the FCA indicates that roughly 38% of retail investment advisors’ income was made up of net commission in the last year. Once the grandfathering provision on existing commissions expires, we can expect to see a dramatic drop in the total advisor population in the United Kingdom.

It cannot be emphasized enough that Canada has not experienced the massive mis-selling scandals experienced in the United Kingdom and Australia by bank-employed financial advisors, due to our different methods of regulating and enforcing suitability criteria at the retail level. We can be sure of one thing: inappropriate regulatory responses will have a detrimental impact on future government policy and access to sound financial advice.

6. Should consumers have access to a central registry of information regarding individuals and entities that engage in financial planning and the giving of financial advice including their complaint or discipline history?

Yes. As is now the case in other jurisdictions internationally, Ontarians should have access to a central registry of information which contains the complaint or discipline history of individuals and other intermediaries which engage in financial planning and the provision of financial advice. Ensuring ease of public access to information on financial advisors is a crucial element of any protection scheme for financial consumers. A truly consumer-focused regulatory organization, including a DAA, should be required to make information about their members conveniently accessible in a single public database. This will enable the public to easily determine if an individual is a member of a DAA and review his or her credentials.

Accordingly, under the proposed model, a DAA and its members would be required to fully participate in a public registry of financial advisors, which would be accessible on the internet and through other appropriate modes of public inquiry. The public registry would enable any member of the public to conveniently access information about an individual’s qualifications, registration/licensing status, and professional conduct as a financial advisor. Such a registry would include a history of all sustained complaints and disciplinary action, as well as information on any confirmed breaches of any section of the DAA’s code of professional conduct.
CONCLUSIONS AND LOOKING AHEAD

Throughout its long history, Advocis has been committed to proficiency standards for all financial advisors. This is consistent with our commitment to our clients – as set out in our enabling federal legislation – and in our Latin motto, *non solis nobis* – “not for ourselves alone.”

As we have argued, any undertaking to reform the regulation of financial advisors in Ontario should also be seen as an opportunity to address and alleviate current instances of regulatory inefficiencies, areas in which consumers and advisors experience unnecessary complexities and compliance.

Ontarians deserve to know that all advisors are subjected to a single, uniform set of regulatory standards. With regard to any further regulation of financial advisors, including those who hold advanced planning designations, Advocis is firmly of the belief that any future policy reforms must be based in the reality that financial advisors play a critically important role for millions of Ontarians and their families. Through the provision of financial planning and investment advice, retirement and estate planning, disability coverage, long-term care and critical illness insurance, advisors help the public prepare for life’s events and secure their financial futures. This is ever more important in an economic climate where the government, facing its own fiscal challenges, is expecting Ontarians to be increasingly self-reliant. Given their critical role, Ontarians should be able to trust that financial advisors are proficient, up-to-date in their knowledge and in compliance with the highest standards of conduct and ethics. While this aptly describes the majority of advisors, there are inevitably some who do not meet these standards, and due to gaps in the current regulatory framework, consumers are exposed.

A DAA is needed for financial advisors as it will provide title and scope protection for those persons who meet the requirements. Only these individuals will be able to hold out to the public as financial advisors. It would also require that anyone who meets the definitions and standards must be a member of the DAA. Of course, great care must be taken to ensure that any proposed solution which is put forward by any given stakeholder is not a self-serving proposition which would result in that stakeholder achieving a legally recognized form of regulatory capture; rather, it must have the interest of the industry and consumers as the foundational principle, and must clearly and fairly critique the existing landscape.

Advocis would be pleased to offer further comment or assistance on this matter at any time in the future. To discuss any of the issues that we have raised, please contact the undersigned, or email Ed Skwarek, Vice President of Regulatory Affairs and Public Affairs at eskwarek@advocis.ca.

Sincerely,

Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO

Caron Czorny, FLMI, ACS, CFP, CLU, CH.F.C., CHS, ICD.D
Chair, National Board of Directors

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Appendix


• Submission in response to the Canadian Securities Administrators’ Consultation Paper 33-403 – The Standard of Conduct For Advisers And Dealers: Exploring The Appropriateness Of Introducing A Statutory Best Interest Duty When Advice is Provided to Retail Clients (February 20, 2013).
June 5, 2015

Expert Advisory Panel – FSCO/FST/DICO Mandate Reviews
Ontario Ministry of Finance
Financial Institutions Policy Branch (FIPB) &
Income Security & Pension Policy Division
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Re: Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario

Dear Sirs/Mesdames,

We are writing in response to the Ontario Ministry of Finance’s Consultation Paper on the Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario, published on April 21, 2015. The Government of Ontario has undertaken to review the role, structure and efficacy of all its agencies; as part of this process, the government has convened an Expert Panel to review the mandates of three agencies under the jurisdiction of the Ontario Minister of Finance: the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST), and the Deposit Insurance Corporation of Ontario (DICO).

We are pleased to offer the following comments on the proposed review.

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EXECUTIVE SUMMARY

Questions 1 – 4: The Mandates of FSCO, FST and DICO

The mandates of FSCO, DICO and the FST continue to be of direct relevance to the goals and priorities of Ontario. With regard to the execution of those mandates, Advocis believes that: (1) FSCO has served Ontario’s insurance industry and its consumers very well over the years; (2) the relatively short period of time which has passed since the changes to the FST regarding the discipline of life agents makes it almost impossible to properly evaluate the efficacy of the FST vis-à-vis its amended mandate; and (3) DICO’s mandate is being carried out effectively under conditions of limited funding and constrained budget resources.

Advocis believes that FSCO’s mandate is in need of amendment – including a structural revision of the manner in which the various non-insurance-related responsibilities are carried out – and by whom. Some of the responsibilities currently under FSCO’s purview should, we believe, be transferred to other regulatory bodies in order to better ensure clearer lines of regulatory accountability and realize efficiencies from the streamlining of the regulation of pensions, credit unions and co-operative corporations.

Question 5: Future of the Financial Services Sector

The financial services landscape in Ontario will continue to change at a rapid pace, and with an increase in consumer demand for ongoing innovation in financial services. In its Consultation Paper, the government anticipates that “structural changes in distribution channels, emerging new products, and increased competition are expected to significantly change how the financial services sector meets the future needs of consumers.” We agree. As the government itself suggests, “the mandates and functions of FSCO, the FST” and other agencies must be adapted to better address the “market transformation” which is expected to significantly alter the financial services sector “over the next 10 to 15 years.” The ongoing evolution of Ontario’s financial services sector will therefore “impact… the ability of regulatory structures to effectively and efficiently protect consumers and respond to the needs of the sector.”

Accordingly, Advocis believes that there is a real risk that our current regulatory structures will not be adequate to the task of anticipating and meeting the future needs of Ontario’s financial consumers. Now is therefore an opportune time to recognize that Ontario’s financial services sector needs a new regulatory structure and improved accountability mechanisms. We believe that the Ontario government should adopt a modified “twin peaks” approach, one which borrows proven regulatory techniques and tools from the rest of Canada, by implementing a regulatory structure which harnesses as needed the most efficacious and useful regulatory structures and tools deployed by government departments, regulatory agencies, and government-recognized professional bodies.

Question 6: Consumer Protection and Promoting a Strong Financial Services Sector

Advocis believes Ontario needs a new approach to consumer protection, especially in light of ongoing changes in the design and distribution of financial products. Effective financial regulation should promote an environment receptive to established and new methods of raising capital, ensure the integrity of our financial markets, foster the confidence of retail investors in Ontario’s capital markets, and in general promote better protection of Ontario’s financial consumers – in particular retirees and pension plan members close to retirement.

At a minimum, retail investors and other consumers of financial products in Ontario need assurance that they have the ongoing ability to access affordable, professional-grade financial planning and product advice. The best way to ensure this access is to establish the provision of financial advice as a professional occupation in Ontario. And the
least intrusive or disruptive means to this end goal of professionalism is by way of the delegation of administrative authority to an organization to enforce professional standards and regulate the behaviour of financial advisors at all consumer touch points.

Question 7 - 9: Structural Models

With regard to the Consultation Paper’s question “Are there any regulated financial services entities or sectors that would be suited to a self-regulatory regime?,” Advocis would agree with the Auditor General of Ontario’s Annual Report 2014 and answer that FSCO should delegate certain tasks to a professional organization exclusively for financial advisors. This new organization should be a delegated administrative authority (DAA) for consumer-facing, individual financial service practitioners, such as life agents. This DAA would operate mainly by way of a principles-based approach, although the registration of individual financial advisors would be a rules-based matter for the DAA to conduct and enforce.

In our proposed regulatory structure, FSCO and the OSC would retain their formal independence from one another, and FSCO would retain many of the powers it currently uses to enforce the Insurance Act and to otherwise regulate the insurance-based market participants and stakeholders under its purview. However, the oversight of pensions would be transferred to a new Ontario Pensions Board. This structure could be operated for a pre-determined trial period, after which a mandatory legislative review of its effectiveness would begin. Allowing FSCO and the OSC to remain independent of one another would have the merit of preserving each agency’s existing areas of regulatory experience and expertise, and minimize the disruption to firms, financial advisors and their clients, and to other stakeholders.

Questions 10 - 11: Scope of Responsibility

Advocis believes that prudential regulation and regulatory enforcement is not simply the function of a jurisdiction’s regulatory architecture. It is as much a function of regulator’s own culture, the level and effectiveness of inter-agency co-ordination, and each agency’s own regulatory philosophy. With these principles in mind, Advocis believes that a number of traditional FSCO functions should be removed from FSCO’s mandate, as follows: (1) the administration of the Pension Benefits Guarantee Fund and all other pension-related responsibilities should be transferred to a new Ontario pension regulator; (2) the incorporation, registration and oversight of co-operative corporations should be transferred to DICO; and (3) the remaining regulatory responsibilities FSCO has for credit unions should also be placed under DICO’s auspices. Given DICO’s performance record to date, it is appropriate in terms of regulatory functionality and efficiency to further consolidate under the auspices of DICO regulatory responsibilities for deposit insurance functions and related solvency concerns for credit unions, caisses populaires, and Ontario’s co-operative corporations.

Questions 12- 15: Corporate Governance

Changes to governance structures of existing and potential future regulatory agencies must be done with an eye to the long-term health of the key sectors of Ontario’s financial markets – insurance, securities markets, the pension system, and so on. A strong framework requires a clear mandate from policy makers to ensure that the regulator has the powers and the human resources to carry out good public policy. The commission structure of FSCO should be led by a clearer board-governed framework which comes with a rejuvenated insurance-focused mandate. There should be a separation of the Superintendent and CEO functions, both of whom should be members of the Board. Finally, there should be a clearer separation of governance of the FST from FSCO to improve independence and avoid perceived conflicts of interest in the area of advisor discipline.
PART ONE: ADVOCIS – WHO WE ARE

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members, organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, and long-term care and critical illness insurance to millions of Canadian households and businesses.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to our published Code of Professional Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients’ interests first. Across Canada, our members spend countless hours working one-on-one with individual Canadians on financial matters. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future. What follows reflects the priorities of Advocis’ members and their clients.

PART TWO: MANDATE REVIEW QUESTIONS

Questions 1 – 4: The Mandates of FSCO, FST and DICO

1. Whether, and to what extent, each agency’s mandate continues to be relevant to Ontario’s goals and priorities?

The mandates of FSCO, DICO and the FST continue to be of direct relevance to the goals and priorities of Ontario. To a large extent, much of the content of FSCO’s mandate is at present more relevant than ever to Ontario’s goals and priorities. But much has changed in the regulatory fields in which FSCO operates. Ontario no longer incorporates loan or trust corporations as a result of the reforms made a few years ago, and indeed it may be the case that in the near future the continuing decline in the number of Ontario-incorporated insurance companies will cause Ontario to remove itself from their solvency regulation. In contrast, in the last decade or so, Ontario has seen the growth of significantly larger, well-capitalized credit unions in the province, and so the role of DICO has become concomitantly more important. The recent reforms to the FST, including the expansion of its purview from the discipline of mortgage brokers to include that of life agents is a sign of its increasingly relevant mandate for Ontario’s financial consumers.

2. Whether the agency is carrying out the activities and operations as required in its mandate?

FSCO has served Ontario’s insurance industry and its consumers very well over the years. The relatively short period of time which has passed since the changes to the FST regarding life agents
makes it almost impossible to evaluate the efficacy of the FST vis-à-vis life agents; we have set out our views on the matter in a submission to FSCO, *Modernizing Disciplinary Hearings for Insurance Agents and Adjusters* (September 30, 2013).\(^1\) Finally, it would appear that DICO’s mandate is being carried out effectively under conditions of limited funding and constrained budget resources.

3. **Whether all or part of the functions of the agency are best performed by the agency, or whether they might be better performed by a ministry, another agency or entity?**

Advocis believes that FSCO’s mandate is in need of amendment – including a structural revision of the manner in which the various non-insurance-related responsibilities are carried out – and by whom. Some of the responsibilities currently under FSCO’s purview should, we believe, be transferred to other regulatory bodies in the interests of ensuring clearer lines of regulatory accountability and sectoral efficiencies for pensions, credit unions, and so on. Some of FSCO’s current responsibilities could be transferred to DICO, and others to a new provincial pensions regulator. As well, FSCO should have the ability – as called for in the Auditor General of Ontario’s recent report – to delegate certain tasks to a self-regulatory organization for financial advisors. These revisions will be explored in more detail in the answers to Questions 5 and 8. As will be explained below, we do not believe that FSCO should see its responsibility for the regulation of individual variable insurance contracts, or other insurance products with an investment component, transferred to the Ontario Securities Commission (OSC).

4. **Whether changes to the current governance structure and associated accountability mechanisms are necessary to improve mandate alignment and/or accountability?**

Advocis believes that such changes are needed; indeed, the need for a realignment of accountabilities and responsibilities in the regulation of Ontario’s financial markets is already overdue and will only become more pressing with the passage of time. These changes are explored in the answers to Questions 5 and 8, below. We would note here, though, that Ontario’s aging population and the recent downturn in its aggregate accumulation of retirement savings (since the global financial crisis) is of special concern, and the establishment of a special, independent pensions regulator strikes us as a desirable reform. Concerns about retirement income adequacy among certain cohorts in the Ontario population, and concerns about longevity risk among the provincial population at large suggest the need for further development of regulatory expertise in the pensions sector, as well as attaining enhanced levels of financial literacy and ushering in a new approach to consumer protection, especially in the face of ongoing developments – which, initially at least, are often prompted by regulation – in the design and distribution of financial products. At a

minimum, retail investors and other consumers of financial products in Ontario need to be assured that they will have the ongoing ability to access affordable, professional-grade financial planning and product advice.

As we will explain in more detail below, the least intrusive way to accomplish this last goal is through Ontario establishing that the provision of retail- or consumer-level financial advice is a recognized professional activity. This would require the creation of a professional organization for financial advisors, the authority of which would be derived from the existing authority of a higher-level regulatory organization. The transfer of this authority would be by way of a legal mechanism known as “delegated administrative authority” (henceforth, this proposed organization will be referred to herein as a DAA). Depending on the particulars of its reporting and governance structure, such a DAA could be a way for the government to quickly address sudden and unforeseen regulatory concerns.

Question 5: Future of the Financial Services Sector

5. What are your views on the future of the financial services sector over the next 10 to 15 years and how should the mandates and functions of FSCO, the FST, and DICO be adapted to address the market transformation to come?

The financial services landscape in Ontario – due to Toronto’s prominence as a financial services centre – will continue to change at a rapid pace, and likely in a more intense and disruptive manner than will be experienced by most of the other provincial and territorial jurisdictions in Canada.\(^2\) We will see an increase in consumer demand for innovation in financial services, and, with the passage of the global financial crisis, a return to more global competition from specialized financial institutions and capital markets.

The Consultation Draft rightly emphasizes these changes. It also correctly notes the importance of having effective financial regulation which promotes an environment receptive to established and new methods of raising capital, ensuring the integrity of our financial markets, fostering the confidence of retail investors in Ontario’s capital markets, and promoting better protection of Ontario’s financial consumers – in particular retirees and those retirement plan and pension plan members who are close to retirement. Finally, we would also add that the continuing importance of

\(^2\) According to the City of Toronto website. “Toronto ranks 4th in the 2014 PwC Cities of Opportunities Study; 6th of 56 international financial centres in the 2014 Banker IFC rankings; and 11th of 82 cities in the 2015 Global Financial Centres Index (GFCI). The city also boasts one of the highest concentrations of financial services company headquarters in the world. Toronto is where global financial decisions are made. With more than 245,000 people working in the sector, the Toronto region is the 3rd largest in North America after New York and Chicago.” City of Toronto, “Key Industry Sectors – Financial Services,” May 26, 2015. Online at: http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=ea15c1b5c62ca310VgnVCM10000071d60f89RCRD&vgnextchannel=401132d06d1e310VgnVCM1000071d60f89RCRD.
global capital to Ontario’s capital markets means that one must assume that the risk of a foreign jurisdiction spreading a financial “contagion” to Canada – a risk that has somewhat abated in the contraction caused by the global financial crisis – will re-appear and continue to develop over time.

**The need for rapid and flexible regulatory responses**
All of this means that the ability of our regulatory structures to effectively and efficiently protect consumers and respond to the needs of the financial sector must be judged by how quickly they can respond to an unforeseen crisis, and how flexible they can address unanticipated consequences of changes in domestic and foreign markets and regulation. Bearing these needs in mind, we would therefore propose that the Ontario government consider the following observations and proposals when proposing changes to the mandates and functions of FSCO, the FST, and DICO.

**The regulatory situation today**
The current agency mandates of FSCO, DICO and the FST are not fully adequate to the task of protecting consumers. The *Consultation Paper* notes that “Consumer protection is a key goal of financial services regulation [and] is achieved by setting market conduct standards and regulating solvency. However, the current legislative mandates of FSCO, the FST, and DICO do not explicitly articulate that their goal is to provide consumer protection.” Nor do the mandates of these agencies require “that consumer protection goals must be balanced against the goal of fostering a strong and innovative business environment.”

In fact, the ongoing development of new financial products and distribution methods mean Ontario’s financial consumers are already exposed to unnecessary levels of risk. We agree with the government’s observation that “new technology, new service providers and new distribution channels have also increased options for consumers of all financial services, while supplementing traditional methods... there are concerns that the regulation of financial services products, or those who sell them, has not kept pace with these changes.”

Finally, we must accept that the future needs of Ontario consumers – whatever they may turn out to be – almost certainly cannot be adequately met and addressed through our current regulatory structures. As for the future of Ontario’s financial services sector, the government anticipates that “structural changes in distribution channels, emerging new products, and increased competition are expected to significantly change how the financial services sector meets the future needs of consumers.” As the government itself seems to suggest, “the mandates and functions of FSCO, the FST” and other agencies must be adapted to better address the “market transformation” which is expected to significantly alter the financial services sector “over the next 10 to 15 years.” The ongoing evolution of Ontario’s financial services sector will therefore “impact... the ability of regulatory structures to effectively and efficiently protect consumers and respond to the needs of the sector.”
Advocis’ proposal for realigning financial market regulation in Ontario

Advocis believes Ontario’s financial services sector needs a new regulatory structure and improved accountability mechanisms. In fact, now is the time to reconceive of how Ontario’s financial services sector is regulated, primarily by adopting a “twin peaks” approach (one modified to fit the peculiarities of Canada’s federal regulatory structure) which borrows proven regulatory techniques and tools from the rest of Canada by designing a regulatory structure which harnesses the unique aspects of government departments, regulatory agencies, and government-recognized professional bodies. Indeed, the Consultation Paper correctly observes that “across Canada, different jurisdictions have adopted different structural models for the regulation of financial services. Some jurisdictions have opted for an integrated regulator that is responsible for all sectors... Other jurisdictions deliver regulatory services through a combination of agencies, self-regulatory organizations, and government departments.”

Advocis believes that the following redesign of Ontario’s financial markets regulation sets out core elements for any future comprehensive regulatory scheme. Ontario’s financial services sector would respond in a more timely, effective and efficient manner to the needs of Ontario’s consumers, businesses, and capital markets through the following realignments and redistributions of regulatory responsibility:

1) A realigned FSCO

Advocis believes that a number of traditional FSCO functions should be removed from FSCO’s mandate: the administration of the Pension Benefits Guarantee Fund and all other pension-related responsibilities should be transferred to a new Ontario pension regulator; the incorporation, registration and oversight of co-operative corporations should be transferred to DICO; and the regulation of credit unions should also be placed under DICO’s auspices. Finally, the commission structure of FSCO should be governed by a clearer board-governed framework. There should be a separation of the Superintendent and CEO functions, both of whom should be members the Board.

2) A realigned DICO

Advocis believes that the transfer of solvency responsibility to DICO in 2009 has worked well. We therefore believe that it is appropriate in terms of regulatory functionality and efficiency to further consolidate regulatory responsibility for deposit insurance functions away from FSCO to DICO. DICO should therefore continue to act as the liquidator for Ontario’s failed credit unions, and other related solvency concerns – and also assume regulatory responsibility for overseeing Ontario’s co-operative corporations, caisses populaires, and credit unions. It is in the interests of Ontarians to have a regulator develop a unique body of experience and expertise to carry on oversight of these “smaller-capital”

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corporate entities, which are best fostered under an approach somewhat different from that of the OSC.

3) A realigned FST
Advocis believes that there should be a clearer separation of governance of the FST from FSCO to improve independence and avoid perceived conflicts of interest. As well, the cross appointments of the FSCO Chair and Vice Chairs as the FST Chair and Vice Chair be eliminated and an independent board for the FST should be established.

4) A new Ontario pension regulator
FSCO is staffed by very capable and well intentioned professionals who do the best which can be expected with the resources available to them under their current mandate. However, FSCO lacks the proper mandate and sufficient resources to properly fulfill the role of being the province’s pensions regulator. The Expert Panel has stated that it is “looking for fresh ideas on how to... provide efficient and effective regulatory oversight of pension plans to increase security for pension benefits.”
Advocis believes that the Ontario government should establish a separate pensions regulator and begin to implement a number of the recommendations made in the report from the Ontario Expert Commission on Pensions, A Fine Balance – Safe Pensions, Affordable Plans and Fair Rules (the Arthurs Report).

The Auditor General of Ontario recently warned that FSCO does an inadequate job in protecting pension plan members. Indeed, the underfunding of Ontario based DB pension plans has deteriorated significantly over the past decade under the watchful eyes of the Ontario government’s FSCO: the proportion of underfunded Ontario pension plans has increased from 74% to 92% while the total funding shortfall has increased from $22 billion to $75 billion. The Auditor General noted that “FSCO has limited powers to deal with administrators of severely underfunded pension plans... FSCO could use the powers it does have more effectively to protect plan members.” The Auditor General also expressed uncertainty as to whether FSCO’s “Pension Benefits Guarantee Fund, designed to protect members and beneficiaries of single-employer, defined-benefit pension plans in the event of employer insolvency, is itself sustainable.” While the Auditor General recommended that FSCO be given powers similar to those of OSFI, the federal regulator, Advocis believes that now would be the appropriate time for Ontario to begin implementing the vision for the rationalization and reform of pension regulation set out in the Arthurs Report.

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In addition, in its 2014 *Ontario Economic Outlook and Fiscal Review*, the Ontario government announced a mandate review of FSCO that will consider, among other issues, the role of FSCO in regulating pensions. The budget indicated that the government intends to proceed with the development of regulations to implement the 2010 reforms to the *Pension Benefits Act* to modernize the powers of the Superintendent of Financial Services. As noted, Advocis would instead encourage Ontario to follow the recommendation of the *Arthurs Report* and replace FSCO with a new Ontario pension regulator to enforce Ontario’s *Pensions Benefits Act*. This agency would need the ability to independently self-manage in a manner comparable to the OSC’s. This agency would require the powers necessary to regulate the pension system and an annual budget sufficient to that mandate (which would include data collection and analysis, a robust risk management capability, the issuance of policy statements and opinion letters, the power to conduct hearings and to issue interim orders and advance rulings, as well as rule-making powers). A formalized arrangement would have to be enshrined in law regarding any relationship between this agency and both the FST and the Ontario Court of Justice regarding fines, penalties, orders, appeals, and other matters pertinent to the enforcement of and compliance with the *Pensions Benefits Act*.

**Question 6: Consumer Protection and Promoting a Strong Financial Services Sector**

6. *Should the legislated mandates of the agencies explicitly refer to the goal of consumer protection, and should that goal be balanced with the goal of promoting a strong financial services sector? If yes, how?*

Yes. Consumer protection is a key goal of financial services regulation. This goal is achieved by setting market conduct standards and regulating solvency. However, the current legislative mandates of FSCO, the FST, and DICO do not explicitly articulate that their goal is to provide consumer protection. At the same time, the mandates do not address that consumer protection goals must be balanced against the goal of fostering a strong and innovative business environment. Currently, only DICO, under the *Credit Unions and Caisses Populaires Act, 1994*, is required to promote and otherwise contribute to the stability of the sector it regulates with due regard to the sector’s need to compete effectively by taking reasonable risks.

Advocis believes that Ontario should bring a strong, new approach to financial consumer protection. A major problem Ontario faces in its financial services sector is that existing law and regulation is almost exclusively product-focused. For example, the reduction of information asymmetries between financial services consumers, on the one hand, and financial institutions and their representatives, on the other, has been an ongoing reform goal of Canada’s financial services regulators. The Fund Facts project is a singular instance of this form of regulation. However, the conduct of individual intermediaries, such as life agents, and other financial advisors, is not being
fully subjected to proper regulatory oversight that is informed by an understanding of consumer issues.

Accordingly, Advocis believes that the consumer protection functions which impact retail investors and other consumers of financial products and services would be best performed by a new entity, one which reports directly to the Ministry of Finance. This would be a DAA which is responsible for the behaviour of life agents and other financial advisors: in essence, the individuals from whom Ontario consumers purchase financial products, advice and other services. This DAA would supplement the current regulatory scheme by professionalizing the advisor-consumer relationship in the manner set out in Advocis’ proposed *Raising the Professional Bar* model. By mandating that all financial advisors maintain membership in an accredited professional association, the DAA plugs current regulatory gaps by focusing on the standards which govern the consumer-advisor relationship. This DAA concept will be explored in more detail in the answer to Question 9, below.

**Question 7 - 9: Structural Models**

| 7. Should FSCO continue to exist as an integrated regulator? If not, what model is more appropriate for the regulation of financial services in Ontario? |

**Refocusing FSCO**

Subject to the proposed reforms set out above, Advocis believes that FSCO should and must continue to exist as a regulator tasked with enforcing the various insurance laws and regulations of the province. To do this properly, FSCO needs to continue to operate with the degree of independence it has hitherto enjoyed. We would note that the Ontario government’s *Consultation Paper* states that “Since the creation of FSCO, some have advocated a further integration of all financial services regulators into a single regulator.” Moreover, as the paper goes on to say, “the financial services sector has been evolving rapidly, and the pace of change is expected to continue at an accelerated rate.” We see the second statement as a strong argument against the first statement: i.e., FSCO’s tremendous experience and expertise in regulating insurance – which is unparalleled in Canada – should in fact be refocused through a streamlining of the agency’s mandate and responsibilities.

**How to address the classic case of regulatory arbitrage: segregated funds**

Many industry stakeholders insist that the route to more effective consumer protection begins with the merger of FSCO and the OSC. Only the creation of a unified regulator can eliminate regulatory

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arbitrage. It is true that the retail investor is the loser in situations of regulatory arbitrage. Indeed, Advocis has long acknowledged that the considerable similarities between mutual funds and segregated funds mean that consumers often cannot differentiate one from the other, and unscrupulous individuals will bypass the OSC and Canadian Securities Administrators (CSA) initiatives designed to foster consumer protection in the purchase of mutual funds – such as the disclosure mandated by Phase Two of the Client Relationship Model (CRM2) – by selling CRM2-exempt segregated funds. The most effective, least expensive and least disruptive solution to regulatory arbitrage between insurance and securities products is not to merge the two regulators; rather, it is to require that FSCO’s mandate gives it a rule-making ability – in the realm of consumer protection – to require that insurers follow, as appropriate, securities-based disclosure requirements such as Fund Facts and CRM2. A DAA for financial advisors, including life agents, could be used to monitor and otherwise ensure that the disclosure on segregated funds and mutual funds is a harmonious as possible.

The perils of merging FSCO with the OSC: the demise of effective, efficient insurance regulation

In 2000, the government of the day proposed a merger of the OSC with FSCO. While this idea has since been shelved, its spectre remains. The regulatory expertise developed by FSCO working with industry stakeholders would very likely be swallowed up by the OSC, and principles-based regulation (PBR) of insurance would be replaced by a securities-style, rules-based approach which is not needed or even appropriate for the sale of the vast range of products and services offered by a licensed life agent to middle class Ontarians.

FSCO has been a knowledgeable and fair regulator, and Advocis and our members – speaking on behalf of their clients – would be opposed to a merger of FSCO with the OSC. Such a merger would see FSCO’s regulatory culture on insurance products and services disappear into the securities culture of the OSC. If a single regulator or system of regulation is allowed to dominate Ontario’s financial markets, FSCO’s existing regulatory expertise and proven regulatory approaches will disappear, with securities-based regulatory concepts replacing them.

The perils of merging FSCO with the OSC: Creating a monolithic, “too-big-to-fail” regulator

In addition to driving up the cost of even basic life products, such a merger would almost certainly see the status of FSCO as a body which enforces existing legislation replaced by an OSC-based approach, one in which the new OSC-FSCO hybrid would have decision-making, rule-making and adjudicative powers, similar to the current OSC.

In the absence of the type of structural reform we have set out above, current proponents of an OSC-FSCO merger would have the various subsectors of the province’s financial markets subjected to a “super-OSC” which would regulate life agents and insurance brokers, mortgage brokers, credit unions, and pension funds. This would mean that the future financial well-being of every Ontarian – even if he or she does not own a single security – would still be beholden to this super-regulator in a greater or lesser degree, provided he or she has a mortgage, owns a life insurance policy, holds car insurance, or uses a credit union.

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But the demise of the four pillars need not necessitate the rise of a single super-regulator – and the resulting exposure to massive regulatory risk in the event the rule-making, rule-enforcing super-agency gets things wrong. Ensuring proper protection of the public interest and enhancing public confidence in the regulated sectors is best done on a sector-by-sector approach, one which recognizes and responds appropriately to the unique characteristics and challenges of each financial sector (pensions, credit unions, etc.). It is not done by subjecting virtually all of Ontario’s capital – including that of the province’s pension system and its massive exempt market – to a single entity.

8. Should DICO continue to be a separate agency? If not, what model is more appropriate for the provision of deposit insurance and regulation of credit unions in Ontario?

Yes. DICO should be the single regulatory agency for both deposit insurance and the activity of credit unions in Ontario. Credit unions and co-operative corporations are often very different from “mainstream” corporations, in part due to their activities and to their often smaller amounts of capitalization. This expansion of DICO’s mandate would also avoid the peril of a “too-big-to-fail” combined OSC-FSCO regulator, as described in the answer to Question 7, above.

9. Are there any regulated financial services entities or sectors that would be suited to a self-regulatory regime?

Yes. The regulation of financial advisors – in the case of this submission, those life agents who are currently governed by FSCO, could be delegated to a DAA. With respect to the delegation of oversight to a DAA by FSCO, the Auditor General’s report noted that

FSCO is responsible for directly overseeing more than 55,000 registrants and licensees in the insurance sector (this does not include insurance brokers, who are licensed by the Registered Insurance Brokers of Ontario) and more than 11,000 in the mortgage sector. We felt that these large numbers could justify the industries assuming greater responsibility for overseeing their professions, including their establishing self-regulation and consumer protection funds, as is the case in many other similar self-regulated service industries . . . If responsibility for oversight of regulated financial sectors were to fall to associations that oversaw industries, FSCO could assume the role of overseeing those associations rather than overseeing individual companies. This would require that FSCO recommend changes to the legislation that governs these professions, but it would allow FSCO to focus its resources on more serious and strategic matters pertaining to the regulated industries. ¹² (emphasis added)

Recommendation 9 in Chapter 3, Section 3.03, of the Auditor General of Ontario’s 2014 *Annual Report*, entitled *Financial Services Commission of Ontario—Pension Plan and Financial Service Regulatory Oversight* is as follows:

To ensure that regulatory processes exist commensurate with the size and maturity of the industries, the Financial Services Commission of Ontario (FSCO) should explore opportunities to transfer more responsibility for protecting the public interest and enhancing public confidence to new or established self-governing industry associations, with oversight by FSCO. Areas that could be transferred include licensing and registration, qualifications and continuing education, complaint handling and disciplinary activities. In addition, associations could be responsible for establishing industry-sponsored consumer protection funds to provide more confidence in their services by the public. FSCO should then submit such proposals to the Ministry of Finance for consideration of legislative changes that would make it possible. For regulated financial sectors, including insurance companies, credit unions and *caisses populaires* that have fewer registrants, FSCO, in conjunction with the Ministry of Finance, should explore the possibility of transferring its regulatory responsibilities to the federal Office of the Superintendent of Financial Institutions.  

Advocis’ position on this recommendation now follows.

**The new DAA and the goals of the present regulatory review**

Financial sector regulation has three major policy goals, which are: (1) the preservation and promotion of financial stability; (2) the maximizing of aggregate levels of efficiency in the financial system understood either as a whole or in terms of its various component sectors; and (3) consumer protection. The policy goal of consumer protection is simpler and more concrete—it seeks to protect consumers, often understood as retail investors, from information asymmetries, and from exposure to undue or unnecessary levels of risk. In light of this, what would be the impact of the proposed new DAA for individual financial advisors?

**DAA-based market conduct regulation and supervision**

Securities and insurance regulation should, when focused on market conduct, seek to promote confidence in Ontario’s financial system by ensuring the fair treatment of consumers of financial products and services; the promotion of financial literacy among Ontarians; the promotion of financial stability; a reduction in financial-based crime; and the preservation and promotion of the overall efficiency and integrity of Ontario’s capital markets. Obviously much of what FSCO and the OSC currently do under their present mandates fulfills these goals.

However, financial services regulation should also protect consumers from the risks inherent in financial products and in financial services, while also establishing standards of conduct sufficient to

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appropriate levels of consumer protection – and all without placing an undue regulatory burden on financial intermediaries. Otherwise, the regulatory costs will be passed onto those same consumers and result in a reduction in the consumption of essential financial services, such as professional financial advice. Certain reform measures will complement and improve current levels of consumer protection. Consumer protection regulation is, almost as a matter of necessity, outcomes based — which requires financial institutions, their dealing or advising representatives, and other intermediaries, to comply with both stringent rules-based regulation, as well as with more flexible principles-based regulation.

What Advocis has set out in its *Raising the Professional Bar* proposal is a professional DAA framework which focuses on the behaviour at the heart of the advisor-client relationship. It would afford protection to Ontario’s financial consumers on an *ex ante* basis by eliminating bad actors before they can cause consumer harm. And it would provide an opportunity to quickly address emerging regulatory concerns by having a PBR-based code of conduct which could be updated as needed to ensure regulatory action is taken in the immediate aftermath of the identification of a nascent regulatory problem. For example, consider the asset-backed commercial paper scandal – how far and how deep would the mis-selling actually have gone if suitability requirements were being adhered to? If, in order to sell asset-backed paper, one had to maintain membership in a DAA (with the power to audit its member advisors and suspend those engaged in mis-selling), it is hard to see how the ABCP fiasco could have gone as far as it did.

**Reforming Ontario’s financial markets regulation**

Microprudential regulation focuses on protecting individual components of the financial system – fundamentally, firms such as credit unions and banks, and financial markets – to ensure that they can efficiently perform their underlying economic functions. Macroprudential regulation seeks to protect the financial system’s ability to function as a network within which those individual components can efficiently operate; as such, it seeks to address and eliminate systemic risk.

Both these forms of regulation are being executed in Ontario with varying degrees of success by one or more of DICO, FS CO, and the OSC. DICO, for example, is a model of traditional financial regulation: its current mandate focuses on deposits and solvency because, historically, these issues have been the primary concern to arise as a result of the aggregation of individuals’ money – by taking deposits from customers and then allocating their money through loans – to borrowers to invest in productive projects, such as factories. So, from DICO’s perspective, much of its mandate is designed to ensure that Ontario’s deposit-taking entities continue to function efficiently. We have proposed changes to the mandates of DICO and FSCO to improve various aspects of microprudential regulation in Ontario.

**Addressing imperfections in government regulation**

Nevertheless, amending the mandates of existing agencies will only take us so far. Gaps will inevitably come to light in the province’s regulatory framework, regardless of how many reform projects are implemented. In this respect we would note that the Expert Panel has stated that it is
“looking for fresh ideas on how to... protect consumers of financial services. ... [and] maintain an appropriate balance between protecting consumers and promoting efficient markets.”

It is to the development of such “fresh ideas” that we now turn.

The DAA model can reduce regulatory response waiting periods, ensure effective ongoing principles-based regulation, and protect consumers before harm occurs

A DAA for financial advisors would provide a level of \textit{ex ante} consumer protection in terms of establishing requisite minimal standards of education and competence for advisors — a regulatory approach which is all but absent in Ontario when it comes to many of those individuals who hold out as financial advisors.

When it is introduced and put into force, financial regulation is of necessity tethered to the particular jurisdiction’s “financial architecture” — in our case, to the design and structure of Ontario’s financial markets, to its firms, and to its related institutional shareholders. To a very real extent, any particular piece of financial regulation is “frozen” at the time in which it is promulgated. Regulators try to get around this freeze by mandating in legislation reviews of the regulation on a periodic basis (say, every five years), and by relying on the more flexible approach permitted by principles-based regulation. But ongoing monitoring and updating of a piece of financial regulation can be costly, and is subject to political interference at each stage of mandatory periodic review. Similarly, principles-based regulation is open to the very natural human risk of embracing the \textit{status quo}, even at a time when the \textit{status quo} may need to be changed, however modestly. And of course much of the regulatory apparatus meant to deal with issues of market conduct operates on an \textit{ex post}, after-the-fact basis.

The DAA model will allow for more timely and responsive regulation

Advocis believes that the creation of a DAA for financial advisors, e.g., one inclusive of life agents currently regulated by FSCO, and which reports directly to the Minister of Finance, could significantly reduce the time-lags experienced by regulators when implementing responses to emerging regulatory problems. While such time lags are inherent in formal microprudential regulation, our DAA proposal offers a means to provide for more timely policy responses to emerging issues in Ontario’s financial markets. The drivers of this enhanced time sensitivity find their basis in certain features of regulatory institutional design, particularly in regard to the fostering of appropriate incentives. Specifically, our DAA proposal would allow for more targeted and timely regulatory responses to concerns faced by Ontario’s financial consumers for the following reasons:

(1) on a textual basis: the drafting, review and final promulgation of a piece of principles-based regulation which is to be followed by the members of the DAA can be more quickly achieved than the implementation of full-blown law and regulation (an example of this sort of textual regulatory supplement to an existing code is the \textit{Guidance Notices} issued by the

\textsuperscript{14} Ontario Ministry of Finance, \textit{Consultation Paper}, p. 2.
Mutual Fund Dealers Association of Canada (MFDA) pursuant to specific sections of the MFDA rule book);

(2) on a legal and political basis: if faced with events in Ontario’s financial markets which clearly require curative or corrective direction, it is reasonable to expect that the Minister of Finance will exercise his discretionary powers as promptly as possible, given the minister’s own sense of direct responsibility to voting Ontarians, and to his self-incentive to avoid the potentiality of political fall-out down the road, should it become apparent that the Ministry failed to take timely action when the problem was still in its nascent stages (e.g., consider how much more limited the damage from the asset-backed commercial paper scandal would have been in Ontario if the OSC’s intervention on mis-selling to retail investors had occurred in a more timely manner); and

(3) in terms of institutional incentives: the DAA, in light of its reporting obligations to the Ministry of Finance, would seek to ensure that its members’ observance of its own principles-based regulation (as set out, for example, in the DAA’s annotated principles-based code of conduct) was at all times properly cognizant of the regulatory concerns which the regulator has identified as contemporary or emerging concerns requiring specific actions by advisors. If a DAA failed to ensure that its members are properly prudent and diligent in the management and execution of their regulatory responsibilities, then it could very well risk finding itself subject to ministerial intervention and review, particularly with regard to the interpretation and enforcement of its code of conduct. Such a DAA could even be at risk of losing its DAA status. These outcomes are strong incentives for the DAA to maintain a sufficiently robust level of consumer protection.

DAAs, to survive and flourish under the reform scheme we have set out both here and in our Raising the Professional Bar initiative, must have the support of a plurality of their members. But much more importantly, an advisor-based DAA, created by FSCO to specifically focus on the behaviours which emerge at the intersecting of the advisor and the client (whether it is a one-time sale or a relationship which lasts decades) must have the trust of Ontarians and their governmental representatives – in particular, that of the Minister of Finance.

**A FSCO-delegated DAA: Setting standards to protect Ontario’s financial consumers**

It is difficult for Ontario’s financial consumers to know if their financial advisor has achieved a standard level of proficiency. The development of practice standards, a code of conduct, minimum educational qualifications and continuing education standards, and specific licenses or designations for certain intermediaries (i.e., a CLU designation for those engaged in wills, estate planning and wealth management) are all consumer protection requirements which can be undertaken more effectively by a DAA than by a government agency.

Advocis believes that:

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Advocis therefore supports the following regulatory reforms:

- the development and implementation of a modified “Twin Peaks” regulatory design, which recognizes and facilitates the role of a new approved professional DAA in assisting the Ontario Ministry of Finance and regulatory agencies in achieving their consumer protection and confidence mandates;

- the establishment of a public registry which is managed by the new DAA with a requirement for all financial advisors who sell product and/or provide personal advice to be individually registered; and

- the granting to the new DAA of powers of suspension regarding life agents suspected of material breaches of the DAA’s Code of Ethics.

Questions 10 - 11: Scope of Responsibility

10. What areas of responsibility could be removed from/or added to the mandates of FSCO or DICO?

The current mandate of DICO is to provide deposit insurance for depositors in credit unions, and to promote standards of sound business and financial practices for member credit unions. In fulfilling these responsibilities, DICO may examine the affairs of member credit unions. As we have stated earlier, FSCO’s current responsibilities for credit unions and caisses populaires should be transferred to DICO. In light of the recent increase in the complexity and size of Ontario’s credit unions, Advocis believes that now is the time for DICO to become the agency fully responsible for enforcing in the province’s credit union sector prudential policies, supervisory requirements, and the framework for market conduct. To do this effectively, DICO should look to the regulatory approach used by the Canadian Deposit Insurance Corporation for federally regulated financial institutions.
In Ontario, the Auditor General of Ontario’s 2014 Annual Review recommended that FSCO improve the effectiveness of its regulatory oversight of co-operative corporations. We would suggest that this responsibility should also be transferred to DICO, to ensure that the unique aspects of the province’s credit unions and co-operative corporations (often smaller-capitalized, and governed by less rigid rules) be allowed to continue to develop under the auspices of a regulator which would not be, a priori, be mandated to implement the more formal regulatory approach of a securities agency like the OSC.

11. Should DICO continue to act as liquidator of failed credit unions?

Yes. This is in keeping with the vision of an enlarged DICO set out in response to Question 5, above.

Questions 12-15: Corporate Governance

12. Is the commission structure of FSCO effective, or should consideration be given to establishing a clearer board-governed framework? Should there be a separation of the Superintendent and CEO functions? Should the Superintendent/CEO be a member of the Board?

In light of the reforms to FSCO which we have proposed, we would suggest that the current commission structure of FSCO be retained and re-focused on insurance concerns. If an independent FST is put in place, there may be no reason to separate FSCO’s Superintendent and CEO functions. It is important that the placing of insurance as FSCO’s sole responsibility be given recognition through the appointment of commissioners familiar with the industry.

Accordingly, a committee which would canvass the province’s insurance industry should be struck to determine how to better structure a revised FSCO, in order to better serve Ontario’s financial consumers and other industry stakeholders. It is critically important that a new FSCO be able to conduct regulation by reliance on specialized senior commissioners who in turn are supported by a staff of expert senior managers. Along with the technical and administrative expertise demanded by the proper regulation of insurance, FSCO’s own governance should be reflective of the importance of professional insurance advice in the financial planning of the province’s citizens and indeed the crucial role the capital controlled by insurers can play in the province’s financial future.

13. Should there be a clearer separation of governance of the FST from FSCO to improve independence and avoid perceived conflicts of interest?

Yes. Advocis supports the creation of an independent adjudicative tribunal.
14. Should the cross appointments of the FSCO Chair and Vice Chairs as the FST Chair and Vice Chair be removed and an independent board for the FST established?

Yes.

15. Is the board governed structure of DICO effective? If not, what alternate governance structure should be given consideration? Should the President/CEO of DICO be a member of the Board?

Given the reforms to DICO which we have proposed, the size of DICO’s board should probably be increased, and the nomination process for DICO directors revised to better emphasize the relevant skills and expertise required to be an effective DICO board member.

CONCLUSIONS AND LOOKING AHEAD

Actual financial regulation tends to be imperfect. Like anyone else, the public and politicians – and even policymakers and regulators – are apt to be influenced by both popular and trade media, which can unwittingly paint a distorted portrait of a state of affairs by unduly emphasizing what journalists find interesting, understandable and accessible. In financial regulation, this distortion tends to become most manifest in the wake of a financial crisis; people naturally want to understand what happened, why it happened, and how to learn from it to prevent the next crisis. Regulators, post-crisis, often find themselves being expected to devote more resources than they would like to the concerns of the day (that is, to the crisis of yesterday), understandably may feel they are being buffeted by forces of political short-termism. The typical post-crisis outcome is therefore a focus on preventative regulation – and in particular regulation aimed at preventing the previous financial crisis from happening. But, on its own, this focus is always too narrow, because it is simply not possible for policymakers and regulators to always be able to see the causal elements of the next financial crisis coalescing on the horizon. It is for these reasons that we feel the Ontario government has shown tremendous foresight – and farsightedness – in its commitment to reviewing how financial advice is supplied to Ontarians, and by whom. We would urge the Ontario government to follow through on certain suggestions made by the province’s Auditor General to delegate the responsibility for the actions of life agents to a professional membership organization, one which would be accredited as a professional DAA.

Any undertaking to reform the FSCO mandate should also be seen as an opportunity to address and alleviate current instances of inefficiency and unaccountability, as well as cases of unnecessary complexity or disproportionate levels of regulatory scrutiny. We have attempted to set out the parameters for a potential reform of the FSCO, FST, and DICO mandates in order to lead to the cultivation of ethical norms for financial advisors. The continued growth of interconnected financial markets, as well as the institutions that operate within them, all but guarantees that future crises which will require innovative regulatory responses will occur, and very likely with little warning.
Ontario’s regulatory apparatus will need to be adaptable to the changing financial economic landscape.

The use of DAAs as a supplement to Ontario’s conventional forms of regulation (which are being placed under considerable strain) will be an effective way of deterring socially undesirable behavior by individual financial services practitioners. Before Ontario firms begin to adopt the U.S.-style approach — recently exemplified by the actions of JPMorgan Chase, among others — to seeing regulatory fines less as an indication of misconduct to be avoided in the future and more as simply the cost of doing business, the self-regulation of life agents represents an opportunity to engender a culture of ethics within the financial services industry — one that would be pervasive in and amongst individuals, while also being embedded within financial firms, and yet insulated from the internal governance structures of those institutions. It is possible this form of self-regulation may eventually prove to be more effective than conventional regulation in the long term. But for it to succeed, the support of agencies which regulate macro-prudential level and those which enforce stringent rules-based norms of market conduct will be necessary.

Advocis would be pleased to offer further comment or assistance on this matter at any time in the future. To discuss any of the issues that we have raised, please contact the undersigned, or email Ed Skwarek at eskwarek@advocis.ca.

Sincerely,

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Chair, National Board of Directors
A PwC study on Canadian small and medium-sized businesses providing financial advice
Sound Advice
INSIGHTS INTO CANADA’S FINANCIAL ADVICE INDUSTRY

Economic Impact Study of the Small and Medium-sized Business Financial Advice Industry in Canada

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“PwC” refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.
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Executive Summary

Background

Financial advisors provide a range of services to clients through the provision of investment, retirement and risk planning and advice as well as the sale of one or more financial products; specifically, mutual funds, securities and life and health insurance. They sell products through a variety of distribution channels, ranging from Canada’s largest banks to small local businesses with a single employee.

The small and medium-sized business (SMB) financial advice industry segment is an important component of the broader financial advice industry, comprising approximately 80% of the total number of financial advisors.¹ It includes financial advisors operating out of independent mutual fund and securities dealers, independent insurance agencies, exclusive agents of insurance companies and full service securities brokerages that are not affiliated with large financial institutions (e.g. credit unions and the “Big-Six” banks).

The Financial Advice Industry in Canada

The Canadian financial advice industry is bracing for significant change. Global economic volatility has led to investor uncertainty in equity markets. Recent periods of low savings rates and the trend away from defined benefit pension plans have heightened anxiety about preparedness for retirement, especially within the baby boomer generation. Customer preferences, particularly those of younger segments of the population, are shifting toward a desire for increased knowledge and control of a household’s financial situation and investment status.

Additionally, new regulatory requirements regarding financial advisors’ relationships with their clients are being contemplated in Canada and the US. In the wake of the financial crisis and a number of well-publicized cases of investment fraud, such regulations have already been adopted in the UK and Australia. Such changes have, in some cases, had unexpected consequences on the small and medium-sized (SMB) financial advice segment of the industry.

Here in Canada, financial advisors in the SMB segment are already under pressure to consider new business models, products, customer segments and channels to maintain their unique value proposition and be sustainable in the future. Whether this segment of the industry is able to adapt will have a significant impact on the approximately 80,000 financial advisors working in the segment today, on the 12 million Canadian households considered part of their mass market customer base and on the Canadian economy as a whole.

Study Objectives

To assist in developing a robust understanding of the financial advice industry in Canada, The Financial Advisors Association of Canada (Advocis) engaged PricewaterhouseCoopers LLP (PwC) to conduct a comprehensive and objective analysis of the industry, the issues and challenges faced by the SMB financial advice segment, and an analysis of the industry’s economic impact. PwC conducted the economic impact study in conjunction with HDR Corporation.

This study seeks to inform the public, key policy makers and regulators on the impact of SMB financial advisors across Canada. These advisors run their own businesses advising millions of individuals, families and companies (i.e. typically entrepreneurs and small businesses) on a wide range of financial matters to assist them in meeting their long term financial goals.
Approach

In order to complete the study, a variety of primary and secondary research approaches were used, including:

- Industry research on the composition and key characteristics of the SMB financial advice segment, in addition to consumer characteristics and emerging industry trends.
- A review of regulatory frameworks in Canada and in other jurisdictions (i.e. the UK, US and Australia), in order to understand recent and proposed regulatory changes and their estimated impacts.
- An SMB Financial Advisor Survey of approximately 1,800 SMB financial advisors across Canada in order to obtain specific data regarding demographics, revenues, expenses and employees.

Summary of Key Findings

Following the research phase of the study, PwC identified a number of key findings related to the SMB financial advice industry. Highlights of these key findings are identified below.

**SMB financial advisors play a unique role in the financial advice industry by virtue of the range of products and services they provide, the range of consumers they serve and the value they provide those consumers.**

SMB financial advisors have a distinctive and varied role when it comes to providing advice to their client-base. Specifically, they enhance consumer access and choice in the financial advice industry by:

- Providing advice on and selling mutual funds and securities.
- Providing advice on and selling individual (i.e. non-group creditor) life insurance – which cannot be provided by advisors or loan personnel working in bank branches due to prohibiting legislation.²
- Providing specialty services and competitive products (key components of financial advice – see diagram on next page) to clients with lower levels of investible income on average. This client segment represents a significant part of the market, given that 80% of Canadian households have fewer than $100,000 in financial assets.
- Clients of SMB full service brokerages have an average of $169,000 in investible assets, compared to an average of $430,000 for clients at full service brokerages owned by Canada’s largest banks.
- Clients of SMB financial advisors licensed to sell mutual funds have an average $44,000 in assets, compared to an average of $109,000 in assets held by clients of branch-based financial advisors (i.e. advisors licensed to sell securities or mutual funds only).
- Providing an integrated approach to addressing the financial needs and goals of their clients. SMB financial advisors work with their clients to incorporate a range of disciplines into their financial planning (e.g. financial and tax planning, portfolio risk diversification, insurance policy selection).
- Educating their clients on financial matters – from savings and investment discipline to the impact of short-term financial decisions on long term goals.
- Helping to increase the net worth of their clients from an investment perspective, as compared to investors who do not have a financial advisor.
- Studies have shown that financial advice correlates with higher investor net worth. Specifically, studies have found that investors with financial advisors have a higher net worth as compared to those without, that this differential increases over the course of an investor’s relationship with a financial advisor, and that there is a significant benefit to investor net worth when they obtain tax planning assistance from an advisor.³
- Controlling for other factors, one study found that investors who did not have a financial advisor generated approximately half the net worth of investors who had a financial advisor over 10 to 14 years.⁴

Most importantly, many SMB financial advisors have the flexibility to assist their clients across all stages of the financial advice lifecycle (see figure below). Regardless of where a client is in the lifecycle, SMB financial advisors can assist them with financial and investment planning so that they can meet their financial goals and objectives.
THE FINANCIAL ADVICE LIFECYCLE

CLIENT NEED

Initiate banking relationship (savings/chequing accounts)
Enter college, workforce (payment vehicles – credit/debit, auto loans)
Marriage (joint chequing accounts, RRSPs)
Birth of a child (RESPs, new home mortgage, insurance)
School-aged children (home equity loans, RESPs, insurance)
University-bound children (investments, education loans, second mortgages)
Retirement (investments, reverse mortgage, estate planning, pension plan distribution)

LIFE EVENT TRIGGER

Teenagers/students
Single adults
Childless couples
Young families
Established families
Empty nesters
Mature adults

FINANCIAL PLANNING
• Budgeting and creating a financial plan
• Managing debt (mortgage, line of credit, student loans)
• Preparation for financial contingencies and milestones
• Financial goal-setting
• Savings

INSURANCE PLANNING & RISK MANAGEMENT ADVICE
• Renters/Home insurance
• Life insurance
• Disability insurance
• Critical illness insurance
• Personal health insurance
• Portfolio risk analysis

INVESTMENT ADVICE & PLANNING
• Portfolio management (mutual funds, stocks, bonds, GICs, etc.)
• Portfolio diversification and balancing
• RRSPs, TFSAs, RESPs

RETIREMENT PLANNING & ESTATE PLANNING
• Retirement income planning
• Pension
• Wills and trusts

ADDITIONAL SERVICES
• Tax planning
• Small business planning
• Relationships with other service providers
• Client education and awareness
The SMB segment of the financial advice industry in Canada has a direct economic impact of approximately $19 billion in GDP and 180,000 jobs.

Economic impact modelling based on the results of a survey of the SMB financial advice industry conducted as a part of this study show that the direct industry impacts include approximately $19 billion in GDP and 180,000 jobs. The regional breakdown of these impacts is shown in the figure below.

Taking into account indirect effects (i.e. the spillover effects of spending on supplies and services by the industry) and induced effects (i.e. the ripple effects of spending by individuals who are employed by the industry or its suppliers), the total economic impact of the SMB financial advice industry is approximately $25 billion in GDP and 240,000 jobs.5

As shown in the table below, the SMB financial advice industry is also a significant component of the finance and insurance industry in Canada. It represents over 15% of the GDP contribution of the entire finance and insurance industry and 30% of the jobs contribution. These economic impacts exceed those of the motor vehicle manufacturing industry, the pharmaceuticals industry and the aerospace industry.

---

### Regional Breakdown of GDP Impacts from the SMB Financial Advice Industry

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP Impact</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>$8.2B</td>
<td>43.7%</td>
</tr>
<tr>
<td>British Columbia</td>
<td>$2.8B</td>
<td>14.9%</td>
</tr>
<tr>
<td>Alberta</td>
<td>$2.4B</td>
<td>12.7%</td>
</tr>
<tr>
<td>Atlantic Canada</td>
<td>$1.3B</td>
<td>6.8%</td>
</tr>
<tr>
<td>Quebec</td>
<td>$3.0B</td>
<td>15.9%</td>
</tr>
<tr>
<td>Manitoba &amp; Saskatchewan</td>
<td>$1.2B</td>
<td>6.2%</td>
</tr>
<tr>
<td><strong>Total Direct Impact</strong></td>
<td><strong>$18.9 Billion</strong></td>
<td></td>
</tr>
</tbody>
</table>

---

### Economic Impact by Canadian Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>GDP Impact</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMB Financial Advice Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Impacts</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Total Impacts</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Other Industries: Direct Impacts Only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>6.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Mining, Oil and Gas Extraction</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Motor Vehicle Manufacturing</td>
<td>0.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Aerospace</td>
<td>0.6%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

The SMB financial advice industry is facing unprecedented changes. These changes will likely have a significant impact on SMB financial advisors and the services they provide.

The environment in which SMB financial advisors do business is shifting rapidly. Over the coming years, a number of issues are expected to have an impact on the ability of SMB financial advisors to successfully meet the needs of their clients in a cost-effective and sustainable way. Key changes facing the industry include:

- **Client behaviour, demographics and preferences are changing rapidly.** With the development of new consumer technologies, investors are increasingly expressing a preference to retain control of, and receive real-time information regarding, their investments. However, the use of self-directed investment services is also on the rise, partly due to an investing environment where consumers have increasing uncertainty in their ability to meet investment goals (e.g. saving enough for retirement), desire to do their own research and have better control over their investment and financial matters. Consumers are also researching and purchasing insurance online at an increasing rate.

  These shifting demands are putting pressure on SMB financial advisors to innovate and scale their businesses to maintain their unique value proposition and communicate it to their clients.

- **Potential and in-progress regulatory reforms may have a profound impact on this industry.** New model regulations, including Client Relationship Model Phase 2 (CRM2), and Point of Sale (POS), in Canada represent a significant expansion in transparency requirements and could affect the relationship of advisors with their clients. Reforms regarding embedded financial advisor compensation and fiduciary duty measures are also in discussion with the intention to better protect and inform consumers.
These reforms, however, could have unintended consequences similar to those experienced in the UK and Australia. For example, some reports have indicated that financial advisors in these jurisdictions have moved away from providing affordable and accessible comprehensive financial advice, leaving mass market and lower income consumers with access only to “do-it-yourself” or modular advice.

- Following the introduction of retail distribution reforms in the UK banning advisor commissions, implementing new requirements regarding the clarity of advice and introducing new professional educational requirements, the number of financial advisors dropped by approximately 25%, or 10,000 advisors. At the same time, the revenue per client necessary to maintain a viable financial advisory business increased, causing advisors to target clients with a higher net worth and reduce their focus on those with less investible income.
- In Australia, the Future of Financial Advice (FoFA) reforms banned embedded commissions and other types of remuneration, established a best interests legal duty, introduced mandatory client opt-in measures and expanded requirements regarding fee disclosure. These changes have increased the costs associated with serving clients to financial advisors by more than 30%. In total, industry organizations estimate that the compliance costs related to FoFA reforms have been $700 million AUD so far. This has led industry commentators to express concern that advisors cannot achieve advantages of scale in their businesses without re-focusing their attention on clients with a higher net worth.

Given that the vast majority of Canadian households fall into the mass-market segment (i.e. households with less than $100,000 in investible assets), proposed reforms could result in reduced access and a reported lack of consumer willingness to pay an appropriate fee for financial advice.

- **SMB financial advisors face significant barriers and industry competition, which heightens the need for a differentiated value proposition.** Most successful SMB financial advisors rely on established client bases cultivated over time through word of mouth and good relationship management. This poses a significant barrier to entry as hiring new advisors comes with a significant risk and cost for SMB distributors or product manufacturers. Non-SMB financial advisors selling mutual funds in bank branches also have significant competitive advantages over SMB financial advisors, including exposure, presence, potential product integration and access to marketing resources.

## Conclusion

**The SMB financial advice industry segment is a critical subset of the financial advice industry; SMB advisors serve a broad customer base, provide unique value and have a significant economic impact on Canada. While change is necessary, regulatory reform must be carefully balanced and managed to achieve desired outcomes while avoiding unintended consequences.**

From the research conducted as a part of this study, a number of conclusions were identified with respect to the important role of the SMB financial advice sector and activities that would help Canada implement appropriate regulatory changes while recognizing the importance of fostering SMB financial advisors’ ability to continue helping their unique client-base meet and exceed their financial goals and objectives.

To be successful, SMB financial advisors need to adapt their business models and product and service offerings to enhance their unique value proposition.

SMB financial advisors have a distinctive value proposition based on their ability to provide a holistic approach to financial planning to their clients. These advisors need to be proactive when it comes to addressing and exceeding proposed transparency requirements and the desire of their clients to obtain more information so they can assess the services they receive relative to the fees that they pay. By acting proactively, SMB financial advisors can maintain their status as trusted business advisors, even among clients who are more informed than ever regarding their investment opportunities.

SMB financial advisors also need to focus on developing a customer-centric business model which leverages technology and responds to changing client needs and preferences. These business models must be sufficiently scalable to allow advisors to serve clients in different market segments, particularly the mass market consumer segment (i.e. households with less than $100,000 in investible assets), the mass affluent consumer segment (i.e. households with $100,000 to $250,000 in investible assets), and the 60% of Canadian households that do not have insurance or recognize that their insurance coverage is insufficient. These market segments include the majority of Canadians, yet are not the primary focus of many larger financial advisory firms.
Additionally, SMB financial advisors could better meet changing market needs by shifting from a traditional delegated advice service model, wherein a client relies on an advisor to provide all information and execute all transactions, to a guided self-service model. A guided self-service model would provide investors with the opportunity to have more control over their investments, while benefitting from advice when they are not confident regarding particular decisions.

In reality, while many financial service firms offer online brokerage services and other tools on their websites, most have not integrated these offerings into a full digital advisor-based user experience (i.e. through mobile access to advice and social media connectivity). It is important to note that there are potential regulatory implications to this model. For example, regulators are currently looking at addressing concerns regarding the provision of advice over social media.

Regulatory reform needs to be balanced and consider potential impacts on client choice and client benefits associated with access to SMB financial advisors.

Regulatory reform in the financial advice industry should consider the experience of similar efforts in the UK and Australia, where regulatory change intended to protect and inform consumers appears to have led to a decline in access to financial advice for the majority of consumers and a decrease in the number of SMB financial advisors.

Canada needs to undertake balanced, needs-based reforms that recognize the important role SMB financial advisors have with respect to providing services to specific market segments, in addition to their contribution to the Canadian economy as a whole. This balance is essential to ensure reforms benefit the financial advice industry while not impairing the accessibility or affordability of financial advice for the 80% of Canadians in the mass market segment.

ENDNOTES

5 See Section 7 of the main report for further details.
11 Further information regarding regulatory related implications, opportunities and success factors can be found in Section 6 of this study.
1. Introduction

Background

The Canadian financial advice industry is bracing for significant change. Global economic volatility has led to investor uncertainty in equity markets. Recent periods of low savings rates and the trend away from defined benefit pension plans have heightened anxiety about preparedness for retirement, especially within the baby boomer generation. Customer preferences, particularly those of younger segments of the population, are shifting toward a desire for increased knowledge and control of a household’s financial situation and investment status.

Additionally, new regulatory requirements regarding financial advisors’ relationships with their clients are being contemplated in Canada and the US. In the wake of the financial crisis and a number of well-publicized cases of investment fraud, such regulations have already been adopted in the UK and Australia. Such changes have, in some cases, had unexpected consequences on the small and medium-sized (SMB) financial advice segment of the industry.

Here in Canada, financial advisors in the SMB segment are already under pressure to consider new business models, products, customer segments and channels to maintain their unique value proposition and be sustainable in the future. Whether this segment of the industry is able to adapt will have a significant impact on the approximately 80,000 financial advisors working in the segment today, on the 12 million Canadian households considered part of their mass market customer base and on the Canadian economy as a whole.

Study Objectives

To assist in developing a robust understanding of the financial advice industry in Canada, The Financial Advisors Association of Canada (Advocis) engaged PricewaterhouseCoopers LLP (PwC) to conduct a comprehensive and objective analysis of the industry, the issues and challenges faced by the SMB financial advice segment, and an analysis of the industry’s economic impact. PwC conducted the economic impact study in conjunction with HDR Corporation.

Methodology and Approach

The study included 6 major activities. These included:

- Development of an industry profile of the financial advice industry nationally and by province, including number of financial advisors in each sub-sector, key trends and changes in each sub-sector, distribution channels and business models and estimates of client reach.
- Identification of business structures, including income by type of advisor, primary compensation models and an analysis of the percentage share of compensation by type.
- Review of the regulatory frameworks, both nationally and by province, including licensing, market conduct, cost of compliance and regulatory developments. This review also included a scan of other jurisdictions.
- Examination of the impact that financial advisors have on their clients, including key components of the advice continuum and examination of the full spectrum of benefits delivered by the industry.
Limitations

This study was conducted in accordance with PwC’s engagement letter dated January 27, 2014 and is subject to the terms and conditions included therein. To conduct the study, PwC relied upon the completeness, accuracy and fair presentation of all information, data, advice, opinions or representations obtained from various sources which were not audited or otherwise verified. These sources (collectively, the “Information”), included:

- Investor Economics.
- Data obtained from advisors responding to the SMB Financial Advisor Survey.
- Publicly available studies and reports.
- Other publicly available data and information.

The findings of this study are conditional upon such completeness, accuracy and fair presentation of the information, which has not been verified or audited by PwC. This study was limited to the analysis described herein. PwC provides no opinion, attestation or other form of assurance with respect to the results of this study.

PwC reserves the right at its discretion to withdraw or make revisions to this study should we be made aware of facts existing at the date of the study that were not known to us when we prepared this study. The findings are as of May 31, 2014. PwC is under no obligation to advise any person of any change or matter brought to its attention after such date which would affect the findings, and PwC reserves the right to change or withdraw this study.

Input-output analysis, used to estimate economic impacts, does not address whether the inputs have been used in the most productive manner or whether the use of these inputs in a given industry promotes economic growth by more than their use in another industry or economic activity. Nor does input-output analysis evaluate whether, when or where these inputs might be employed elsewhere in the economy if they were not employed in a given industry at this time. Input-output analysis studies the direct, indirect and induced economic impacts that can reasonably be expected to result in the economy when these inputs are used in a given industry, based on historical relationships within the economy.

This study has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with, Advocis. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than Advocis.

Any third party reader of this study:

- Understands that it was conducted by PwC in accordance with instructions provided by Advocis and was conducted exclusively for Advocis’ sole benefit and use;
- Acknowledges that this study may not include all information or analysis deemed necessary for the purposes of the third party; and
- Agrees that PwC, its partners, employees and agents neither owe nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature which is caused by any use, decisions made, or actions taken by the third party reader based on this study or which is otherwise consequent upon the gaining of access to this study by the third party reader.
2. Industry Profile

Overview

This section provides an overview of the financial advice industry in Canada, which is comprised of advisors focused on providing financial advice to Canadian investors related to one or more financial products (e.g. mutual funds, securities, life insurance, health insurance). These financial advisors provide services to customers through a variety of distribution structures – from large financial organizations (i.e. bank or insurance branches and brokerage offices) to smaller, independently owned businesses.

For the purposes of this study, Canadian financial advisors have been grouped into categories based on financial product-specific licensing and proficiency requirements, in addition to the distribution structures mentioned above. These financial advisor category definitions, along with national and regional statistics, have been used to create a broad industry profile.

This section also includes a definition of the SMB financial advice segment in order to establish proper context and scope for the remainder of the study.

The Financial Advice Industry in Canada

Financial advisors typically advise clients on investment, retirement and estate planning; risk management through insurance protection solutions; tax planning; employee benefit plans; disability coverage; and long term care and critical illness insurance.12

Professional financial advisors help Canadians prepare for important events and needs throughout their lives, and to become more financially self-sufficient. Financial advisors play a fundamental role in raising the financial literacy of their clients...[and] help Canadians to save and plan for their future, and to protect the savings they have accumulated through comprehensive planning and a wide range of life and health insurance and investment solutions...Professional financial advisors and planners help consumers make sound financial decisions...They are experts who can provide a full range of financial services, including estate and retirement planning, wealth management, risk management and tax planning.13

Advocis, The Financial Advisors Association of Canada

Financial advisors provide relevant advice to their clients and assist them with the purchase of financial products. Financial advice can be provided to consumers through a number of channels, including face-to-face meetings, over the phone, and through the internet or other digital mediums.14 For the purposes of this report, the definition of financial advisor is limited to client-facing advisors. The scope of the products that client-facing advisors can sell is determined by the license or licenses they hold. The following table provides a summary of product scope for license holders.15

<table>
<thead>
<tr>
<th>License Type</th>
<th>Product Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Industry Regulatory Organization of Canada (IIROC) License</td>
<td>Permits advisors to sell securities, including guaranteed investment certificates, stocks, bonds, mutual funds, exchange traded funds (ETFs), options and other derivatives.</td>
</tr>
<tr>
<td>Mutual Fund Dealers Association of Canada (MFDA) License</td>
<td>Permits advisors to sell mutual funds only.</td>
</tr>
<tr>
<td>Insurance License16</td>
<td>Permits advisors to sell life insurance, disability insurance, critical illness insurance, health insurance, annuities and segregated funds.</td>
</tr>
</tbody>
</table>
Most financial advisors in Canada hold financial industry certifications and designations; many hold a dual license, including an insurance license and a mutual fund (i.e. through the Mutual Fund Dealers Association of Canada) or full securities (i.e. through the Investment Industry Regulatory Organization of Canada) license. These financial advisors are licensed and regulated to work with clients in a fair and honest way, in good faith, and to recommend suitable investments and plans in line with their clients’ risk tolerance and financial goals.

Most financial advisors receive compensation for the financial products that they offer to clients. Structures vary depending on the advice channel and product. Advisors are usually paid by salary, commission, a flat fee, or a combination of these methods. Further information regarding financial advisor compensation models is provided in Section 3 of this study.

Financial Advisors in Canada – Industry Structure

Under Canada’s various regulatory regimes, financial advisors typically fall into 4 broad segments: Full Service Brokerage, Branch Advice, Insurance-based and Financial Advisor Dealer. The focus of these advisors is directly related to their licensing and the orientation of the channel through which they do business.

A definition of each segment is provided in the following table:

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Service Brokerage</td>
<td>Advisors working through full service brokerage firms that provide financial advice and a wide range of discretionary and non-discretionary investment services based on funds, individual securities and insurance. Over two-thirds of these advisors work for full service brokerage firms that are owned by deposit-taking (e.g. bank owned) firms, while the remaining advisors work in non-bank owned or independent organizations.</td>
</tr>
<tr>
<td>Branch Advice</td>
<td>Advisors that offer a limited range of financial planning and investment products and services through branches of deposit-taking institutions (e.g. banks, credit unions).</td>
</tr>
<tr>
<td>Insurance-based</td>
<td>There are three types of insurance-based advisors:</td>
</tr>
<tr>
<td></td>
<td>Managing General Agent (MGA): Independent insurance advisors contracted by an MGA and carrier to provide advice on and sell insurance products for which the MGA holds a distribution contract. Advisor-MGA contracts are not exclusive.</td>
</tr>
<tr>
<td></td>
<td>Directly Contracted: Independent insurance advisors that hold a direct contract with a life or health insurer rather than through an intermediary such as an MGA. The contract is not exclusive and they remain independent although volume requirements may limit an advisor’s ability to carry multiple contracts.</td>
</tr>
<tr>
<td></td>
<td>Career Exclusive Insurance-based Advisors: Advisors that are affiliated exclusively with a major insurance company to sell specific products but are independently contracted. As a result, they are considered to be small businesses (i.e. their contract is not based on an employee/employer relationship).</td>
</tr>
<tr>
<td>Financial Advisor Dealer</td>
<td>Advisors operating outside of deposit taking branch network who provide access to a wide range of services including planning, investment and insurance services. These advisors fall into two categories:</td>
</tr>
<tr>
<td></td>
<td>• Independent Advisors: These advisors are typically small and medium-sized business owner-operators (i.e. single person or small advisory firms with more than one advisor). They are independently-contracted to distribute life and health insurance and wealth products (e.g. mutual funds, securities) and services through multiple financial services manufacturers (e.g. life insurance companies, fund managers).</td>
</tr>
<tr>
<td></td>
<td>• Career Exclusive Advisors: These advisors are affiliated exclusively with an investment firm to sell specific products but are independently contracted. As a result, they are considered to be small businesses (i.e. their contract is not based on an employee-employer relationship). However, some product offerings distributed by this segment are also available from third party financial services providers.</td>
</tr>
</tbody>
</table>
2. INDUSTRY PROFILE

Industry Structure by Financial Advisor Segment
Approximately 100,000 individuals in Canada carry one or more financial service licenses and fall into one of the four financial advisor segments. The Insurance-based segment represents the largest group and includes three types of insurance-based advisors: i) MGA agents, ii) Directly Contracted agents, iii) Career Exclusive Insurance-based agents.

The table and graph below provide a breakdown of the number of financial advisors in each segment, in addition to their market share.

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Number of Advisors (2013)</th>
<th>% of Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Service Brokerage</td>
<td>10,162</td>
<td>10%</td>
</tr>
<tr>
<td>Branch Advice</td>
<td>13,177</td>
<td>13%</td>
</tr>
<tr>
<td>Insurance-based</td>
<td>44,074</td>
<td>44%</td>
</tr>
<tr>
<td>Financial Advisor Dealer</td>
<td>32,459</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,872</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The Small and Medium-sized Business Financial Advice Industry in Canada

The small and medium-sized business financial advice industry includes approximately 80% of all financial advisors in Canada, or approximately 80,000 of 100,000 advisors. This group includes financial advisors operating out of independent mutual fund and securities dealers, independent insurance agencies and exclusive agents of insurance companies and full service securities brokerages that are not affiliated with Canada’s “Big-Six” banks.

The composition of SMB and non-SMB financial advisors is provided in the following table.

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Number of SMB Advisors</th>
<th>Number of Non-SMB Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Service Brokerage</td>
<td>3,735</td>
<td>6,427\textsuperscript{26}</td>
</tr>
<tr>
<td>Branch Advice</td>
<td>–</td>
<td>13,177\textsuperscript{26}</td>
</tr>
<tr>
<td>Insurance-based</td>
<td>44,074</td>
<td>–</td>
</tr>
<tr>
<td>Financial Advisor Dealer</td>
<td>32,459</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80,268</strong></td>
<td><strong>19,604</strong></td>
</tr>
</tbody>
</table>

A comprehensive profile of each SMB Financial Advisor segment is provided in Section 6 of this study.
THE FINANCIAL ADVISOR INDUSTRY IN CANADA

Notes:
FSB: Full service brokerage
FA Dealer: Financial advisor dealer
FA Dealers 4,052
FSB 1,894
Insurance-based 6,056
Branch Advice 1,729
Total 13,731

14 Additional information regarding alternative financial advice channels is provided in Section 3.
15 Detailed information regarding each licensing category is provided in Section 4.
16 Life insurance licensing is administered and managed by provincial regulators. Further details are provided in Section 4.
17 The combination of MFDA and IIROC licenses are not included in the definition of dual license as financial advisors cannot hold both licenses simultaneously.
20 Investor Economics Strategy Consulting. Financial Advice Industry Statistics – Draft, Section 1 & 2. 2014. Note that the number of advisors shown in this study does not include back-office staff, who may be licensed to sell securities or mutual funds but who do not advise clients.
21 Full definitions and examples of each insurance-based advisor type are provided in Appendix A.
23 Ibid.
24 Ibid.
25 IIROC licensed financial advisors working for Canada’s “Big Six” banks.
26 The branch advice channel is comprised of the major deposit-takers, particularly the big banks. These in-branch advisors are engaged primarily in investment and financial planning, and are predominantly registered to the MFDA arms of deposit-takers (source: Investor Economics Strategy Consulting. Financial Advice Industry Statistics – Draft, Section 1 & 2. 2014).
3. Distribution Channels and Business Structures

Overview
This section describes the primary distribution channels (i.e. insurance, mutual funds and securities), through which both SMB and non SMB financial advisors sell products to consumers. The current business structures for each primary distribution channel are also outlined, including prevalent income, compensation and expense models utilized by both financial advisors and distribution entities (i.e. insurance agencies and mutual fund broker-dealers).

Distribution Channels
The distribution landscape for Canadian financial advice has evolved from a product-centric focus to a more customer-centric, advice-based focus. Historically, financial advisors specialized and obtained licenses for specific product categories (e.g. life, accident and sickness insurance; mutual funds, securities). Today, most advisors obtain multiple licenses and complete a wide variety of financial proficiency programs so that they can meet increasing consumer demand for holistic, plan-centric advice.

Financial advisors are supported either by independent distributors or by product manufacturers directly through a branch network. This has led to the development of key distribution channels, each with its own emphasis or weighting based on product orientation and licensing. The structure of Canadian distribution channels is depicted in the following figure, followed by a summary of each of the key channels.
Insurance Distribution

In the insurance segment, there are two types of distribution channels: independent and exclusive. Financial advisors in the exclusive channel, with some minor exceptions, represent the company for which they are contracted. As a result, while the advice may be broad and comprehensive, the products offered to clients in order to achieve their financial objectives will be those developed by a specific insurance company. Generally the companies that operate within this channel also provide their advisors with the ability to offer mutual funds through an owned or contracted mutual fund dealer.

The independent channels include: Managing General Agents, Independent Brokers and National Account firms. Group brokers are also included in this channel, however, they are distinct in that their clients are businesses rather than individuals, and the products they offer are group employee benefits which are not managed within a “one-on-one” advisor-customer relationship.

MGAs are the largest independent life insurance channel, with approximately two thirds of independent life insurance sales. MGAs contract with one or more life insurance companies and offer their agents/brokers a wide selection of products. As a result, these financial advisors can offer a wide variety of solutions to meet the financial needs of their clients. Associate General Agencies (AGAs) also support independent financial advisors in a manner similar to MGAs, but on a smaller scale. AGAs are associated with an MGA. Financial advisors can work with more than one MGA/AGA and can also deal directly with one or more insurance companies in order to broaden their product selection.

Independent brokers are financial advisors who operate on their own, or with other advisors, and deal directly with an insurer to offer specific products to their customers. While these advisors deal directly with providers rather than through a distribution organization, they remain independent and may also have a relationship with one or more MGAs. Not all insurers offer this channel option, however, those that do enjoy strong relationships with the advisors with whom they work.
National Account firms are similar to MGAs but are part of larger or sister financial organizations, such as MFDA or IIROC firms. While an MGA is focused solely on the distribution of life insurance and related products, an IIROC or MFDA firm’s focus is on the sale and distribution of investment products. Specifically, National Account firms exist to support the insurance-related product requirements of the financial advisors of their parent or sister firm.

**Mutual Fund Distribution**

Similar to life insurance, mutual funds are distributed through both independent and exclusive channels. An exclusive firm primarily offers their own funds, with a few external fund managers possibly filling specialty voids.

On the other hand, an independent mutual fund distributor typically offers funds from several, if not all, major mutual fund manufacturers in an “open shelf” concept. A significant number of financial advisors working with independent mutual fund dealer firms may also deal with an MGA for insurance product offerings as they also carry an insurance license. Unlike life insurance licensed advisors who can work through multiple channels, financial advisors who are licensed for mutual funds may only be a representative of one mutual fund dealer.

Mutual fund dealers are regulated through the MFDA, and include 111 firms, 81,631 sales persons and $381.6 billion of collective assets under administration (AUA). These dealers are also subject to a number of controls and restrictions imposed by the MFDA, including:

- Business structures.
- Capital requirements.
- Insurance.
- Books and records.
- Client reporting.
- Business conduct.

The two main dealer-based Self-regulatory organizations (SROs) that oversee the sale of mutual funds and securities to Canada’s investors are the MFDA and IIROC. The Ontario Securities Commission defines an SRO as “an entity that is organized for the purpose of regulating the operations and the standards of practice and business conduct of its members and their representatives with a view to promoting the protection of investors and the public interest.”

**Investment Dealers: IIROC Firms**

Investment dealers are members of the Investment Industry Regulatory Organization of Canada, which is the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

Financial advisors in this channel are employees of their IIROC firm. Like MFDA representatives, they have only one distribution relationship. Unlike their MFDA counterparts, IIROC financial advisors offer a broader range of financial products – from mutual funds to the entire investment spectrum of equities and debt in the capital markets.

Should an IIROC financial advisor obtain an insurance license, typically it would be associated with a National Account insurance distributor affiliated with their IIROC firm.

Insurance-licensed IIROC advisors are able to offer insurance to the clients; however, the major IIROC firms have also established an Insurance Specialist role to work with their high net worth clients and with the financial advisors.

**Other Channels of Advice**

In addition to the main channels and sub-channels identified above, there are other options for financial advice for consumers. The following types of firms tend to focus on a specific niche of consumers or product categories.
Business Structures

The business income and cost structures for financial advice at the distribution level depend primarily on the licencing of the financial advisor. For example, most client-facing financial advisors at an IIROC firm are employees who work within a branch structure, with managers and staff processing business (i.e. trades) and providing oversight. By comparison, an independent MFDA-licensed advisor or MGA advisor may work at a home office with no direct staff.

Income

FINANCIAL ADVISORS

The most common form of compensation for advisors is a commission method, whereby advisors are paid based on the products sold as a consequence of their recommendations to clients. The commission structure is highly dependent on each advisor’s product orientation.

Commissions

Life and Health Insurance

Advisors are compensated for life insurance, including disability and critical illness insurance, sales as a percentage of premiums. Typically, the percentage is higher in the first year, followed by a lower renewal or servicing commission in the following year. Advisors who are compensated in this manner are expected to service the client throughout the year and on an ongoing basis. Depending on the product and insurance company, renewal/servicing commissions can last for a few years to “for life.”

Mutual Funds

Advisors are paid for the sale of mutual funds in a variety of ways, which can be selected by the consumer in conjunction with their advisor. Mutual fund manufacturers pay all compensation to the mutual fund dealer, who in turn typically will have a commission sharing agreement with an advisor. The most common structures for compensation under this model include:

1. Percentage of Deposit/Investment

<table>
<thead>
<tr>
<th>Structure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Load</td>
<td>No sales commission is charged or paid when a fund is purchased or redeemed. Normally offered only by direct sellers/manufacturers.</td>
</tr>
<tr>
<td>Front End Load</td>
<td>A set percentage of the investment is paid by the customer to the advisor’s firm at time of purchase – resulting in a lower net investment of funds by the client. This commission is usually negotiable up front, and typically ranges from 0% to 5%.</td>
</tr>
<tr>
<td>Back End Load</td>
<td>Commission is paid by the fund company to the advisor’s firm at the time of purchase (i.e. no commission is paid by the customer). Hence, the amount of the commission is not deducted from the initial investment made by the customer. Instead, a redemption schedule is established outlining the amount of time the customer is required to stay invested in the fund in order for the fund company to recover its costs associated with the upfront commission payment. If the customer decides to redeem the mutual fund prior to the expiration of the redemption period, a redemption fee is charged.</td>
</tr>
<tr>
<td>Fee-Based</td>
<td>Similar to No Load, but sold by a financial advisor who may charge a fee percentage based on the total of the assets or for other services.</td>
</tr>
</tbody>
</table>

There are 2 types of Back End Load fund structures:

1. **Deferred Sales Charge (DSC):** The commission rate paid to the advisor’s firm is typically 5%. The redemption fee rate is set on a sliding scale, typically starting around 5%, which diminishes to 0% over a 5 to 7 year period.

2. **Low Load:** Similar to DSC, but with a lower, negotiable commission rate (i.e. typically 1% to 3%), lower redemption rate and shorter schedule (i.e. typically 1 to 3 years).
2. Trailer fees
In addition to the percentage of investment commission, advisors may also receive a trailer fee, which is an annual service commission, based on the percentage of assets accumulated by the client, paid to the financial advisor by the mutual fund manufacturer for as long as the customer maintains the mutual fund. The financial advisor who receives this service commission is expected to provide the customer with ongoing services, such as answering questions regarding fund performance, account details and tax issues. The amount of the trailer fee varies by fund type and by the type of deposit/investment commission selected. The trailing commission rate on mutual funds sold under a front-end sales charge is generally double that paid to advisors for mutual funds sold under the DSC option.31

Securities
Securities licensed advisors are compensated either based on transactions or on fee-based arrangements (see below). The fee for a given transaction is transparent and this amount is applied to a commission grid. The grid outlines the percent of the fee that the firm shares with the advisor. The size of the individual transaction, and the total amount of fees/commissions that are generated by an advisor annually, determine the percentage that is received. A grid payout structure provides an incentive for the advisor to generate more and larger trades.

Bonuses
Advisors are encouraged through incentives by their firms (e.g. MGAs, Dealers) to sell large volumes.

For insurance sales, insurance companies will pay an incentive volume bonus based on an advisor’s total annual sales. The bonus percentage increases at higher volumes. For exclusive agents, this bonus is paid directly to the advisor. For advisors contracted with an MGA, the insurance companies will pay a larger bonus (i.e. an overriding commission) to the MGA who, in turn, pays a portion to the advisor similar to a direct bonus offered to an exclusive agent. The main difference between the two structures is that an MGA will provide a bonus to the advisor based on their total production with the firm – regardless of the product or the insurance company offering the product.

For Mutual Fund Dealers and Full Service Brokerage Firms, the commission grid provides a bonus. Advisors generating higher commissions share a higher portion of the gross fees/commissions, therefore advisors are incented to produce higher commissions from their advice activities.

Fees
Advisors at IIROC-licensed full service brokerage firms and mutual fund dealers may also offer their clients a fee-based investment program. Fee-based accounts, however, “have yet to gain significant traction in terms of assets or advisor penetration,”32 particularly for financial planning firms that mostly sell investment funds. Less than 3% of client assets at these firms are in fee-based accounts.

At traditional retail brokerages, fee-based accounts only make up 28% of client assets. Advisors are paid a straightforward percentage of the money they manage – typically about 1–2% of the assets under their watch – and they forgo mutual fund trailer fees and commissions on stock trades.33

DISTRIBUTORS
Insurance
New Business
Insurance distribution firms (MGAs) receive overriding commissions from insurance companies based on the volume of business generated by their firm’s advisors. As noted above, these firms share these overrides with advisors to incent them to produce higher volumes. In this channel, the MGA will pay advisors the majority of this override – on average approximately 80%. Exclusive agents similarly support the payment of the expenses of branches, branch management and staff – either directly or through a smaller bonus than that received by MGA agents.

Service Fees
In the MGA channel, in addition to overrides, the firm will receive service fees on the in-force block of insurance to cover the cost of servicing this business. The service fee amount will vary by product and by insurance company but is typically in the 2% of premium range. Service fees are not generally paid in the exclusive agent channel because this channel is an extension of the insurance company and so the cost of service is covered directly.

Mutual Fund and Full Service Brokerages
New Business
As noted in the Income section above, all commissions generated by the advisors of these firms is paid or retained by the firm. An advisor’s compensation is paid pursuant to the commission grid. For mutual fund dealers, the firm will pay between 60% and 80% to the advisor depending on their volume of business and their relationship with the firm. While a relatively high percentage, these advisors are very independent and pay many of the expenses related to their financial advice practice themselves. Full service brokerage firms typically provide more services to their advisors, therefore pay out a smaller percentage of the revenue (i.e. ranging from 25% to 55%).

Trailing Commissions
Mutual fund companies pay trailing commissions quarterly to mutual fund dealers. These commissions are most frequently added to the commission grid and shared accordingly with the advisors. Some dealers have a separate grid for trailing commissions that are a flat percentage and not subject to volume requirements.
Cost Structure

The economic impact analysis summary and results in Section 6 and Appendix B outline the overall costs of both financial advisors and distributors.

FINANCIAL ADVISORS

The median expense amount for financial advisors is between $25,000 and $50,000 per year. The expenses of financial advisors (see Section 6 and Appendix B) typically fall into the following major categories:

- **Staff Wages**
  The majority of SMB financial advisors have no staff or employ less than one staff member. As their practices grow and revenue increases, however, this changes; often teams are formed to provide specialized work (i.e. customer service, administration, order processing). Staff wages make up approximately 50% of the total expenses of financial advisors.

- **Rent and Utilities**
  SMB financial advisors tend to work either from a home office or as part of a branch structure and, therefore, do not incur costs for rent. However, some may be required to reimburse a portion of their office expenses to their employer firm. As practices grow over time the need for office facilities expands and costs increase accordingly. On average, approximately 20% of financial advisors’ costs are in this category.

- **Property Taxes**
  Taxes for property follow the rent trend and, as such, are not a major expense of financial advisors. In many cases, property taxes are not even a reported expense.

- **Marketing**
  While some advisors spend a great deal on marketing, the majority do not. As a result, overall marketing makes up approximately 10% of advisor costs. This may be due to the fact that advisors rely heavily on word of mouth and referrals rather than paid marketing to expand their client base.

- **Technology and Communications**
  Technology and communications expenses are mostly borne by dealers and MGAs. As a result, advisor expenditures in this category are less than 10% of their total costs.

DISTRIBUTORS

Distributors typically have more expenses than individual financial advisors as they process all new business transactions (e.g. life insurance applications, mutual fund orders, security transactions). Additionally, they have a major compliance requirement to meet the regulations of their licensing category(ies). The main categories of expenses for distributors include:

- **Staff Wages**
  Wages range from just a few staff at small companies to hundreds of employees at larger dealers and MGAs. Staff members provide support for licensing and contracts, processing of new business and trades, compliance, compensation of advisors, customer service and advisor support.

- **Rent and Utilities**
  To house the staff, distributors must make substantial investments in facilities, including provisioning for technology. Rent expense tends to be at least 25% of the expenses of distributors. Some advisors are obligated to reimburse distributors for a percentage of office rent expenses.

- **Property Taxes**
  Of the 1,480 financial advisors providing information on this subject in the PwC SMB Financial Advisor Survey, 706 (or 48%) incurred property tax expenses.

- **Marketing**
  Marketing costs vary widely depending on the organization. Large national dealers have significant marketing budgets, whereas local MGAs may have virtually none. Most of the marketing expenses of MGAs come in the form of marketing managers who promote the products that the MGA has from its array of insurance suppliers. Advisors of dealers can only sell the products their firm offers. As a result, the need to market to advisors is lessened. Regardless of distribution, most consumer marketing expenses are at the product manufacturer layer (i.e. the insurance company, mutual fund company or securities dealer).

- **Technology and Communications**
  Technology expenses vary widely but are generally increasing as the need to manage data for the business grows and the need for regulatory reporting increases. Some advisors are required to reimburse distributor firms for a certain portion of technology expenses. Firms involved in securities transactions must also be linked to the markets – a process that requires substantial and secure platforms. MGAs are now electronically linked to insurance companies to enable the electronic data feeds and updates required to manage the new and in force blocks of business associated with their firms.

ENDNOTES

29 Refer to Section 3 for further information on SROs.
32 Ibid.
35 Ibid.
4. Regulatory Framework

Overview

Canada’s regulatory system related to the distribution of financial advice is complex, with several layers of industry functions, standards, associations and designations, in addition to a decentralized regulatory structure comprised of federal, provincial and self-regulatory organizations. The Canadian regulatory framework has 3 main categories:

- Mutual Fund Regulation and Licensing.
- Securities Investment Regulation and Licensing.
- Life Insurance Regulation and Licensing.

The key objectives of each regulatory organization is to ensure adequate levels of consumer protection (e.g. protection from fraudulent practices, protection from advisor misconduct), promote investor confidence and consumer financial literacy, maintain the integrity and credibility of financial advisors through governing proficiency and education standards and improve regulatory consistency and standardization through collaboration with other Canadian and global regulatory organizations.

Canadian financial advisors are subject to licensing and market conduct regulations and oversight by regulators across the 3 categories mentioned above. Advisors who hold more than one license are required to comply with each regulatory category based on the products they are licensed to sell, as well as the province or territory in which they conduct business.

Recent regulatory reforms focusing on increased disclosure and transparency, in addition to a number of potential regulatory changes (e.g. establishment of a statutory fiduciary duty and the elimination of embedded advisor fees) are in discussion in response to growing concerns regarding conflict of interest. These discussions follow other global jurisdictions that have recently implemented reforms involving fiduciary duty, enhanced disclosure and changes to advisor compensation models (e.g. Australia, UK) or are also currently contemplating doing so (e.g. US).

This section provides an overview of the regulatory frameworks governing financial advisor licensing and market conduct in Canada (i.e. the roles and functions of each of Canada’s primary regulatory organizations), describes key regulatory trends, and provides a review and assessment of similar regulatory reforms being implemented or contemplated in other jurisdictions (i.e. UK, Australia and US).

Mutual Fund Licensing and Regulation

The MFDA is one of two recognized self-regulatory organizations36 that oversee the regulation of operations, standards of practice and business conduct pertaining to the distribution and sale of mutual funds to Canadian retail customers.

Created in 1998, the MFDA is recognized by the provincial securities regulators in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan.37 The MFDA also entered into a cooperative agreement with the Autorité des marchés financiers in 2003, whereby it works collaboratively with the provincial regulator to supervise fund dealers in Quebec.

The MFDA’s Board of Directors includes 6 public directors, 6 industry directors and the president and CEO. The governance, composition and structure of the Board is designed to provide appropriate regional representation relative to the diversity of the MFDA membership, and to ensure that the public’s best interest is adequately represented and maintained.

With the exception of Quebec, any organization seeking to distribute or sell mutual funds in Canada must apply and obtain approval for membership with the MFDA. MFDA members are classified according to 4 levels based on the type of operational and compliance activities:38

- Level 1: An introducing dealer that does not hold client cash, securities or other property and introduces all of its accounts to a “carrying dealer,” which has joint compliance responsibilities.39
- Level 2: An introducing dealer that does not hold client cash, securities or other property. Client accounts are held under clients’ names, and so dealers at this level do not use a trust account to hold client cash.
- Level 3: An introducing dealer that holds client cash, but does not hold client securities or other property. Dealers at this level operate accounts in their clients’ names, and use a trust account to hold client cash.
Level 4: A dealer that acts as a carrying dealer – or any other dealer not covered by Level 1, 2, or 3 (i.e. a dealer that holds client cash, securities or other property in trust accounts).

The MFDA’s other responsibilities include:
- Reviewing, monitoring, enforcing and assessing investor complaints related to the actions of a member firm or mutual fund advisor, including performing investigations if required and imposing disciplinary actions or penalties in the event of a breach of MFDA policy, rules or bylaws.
- Maintaining and providing public access to advisor and member firm registrations, activities and any disciplinary records.
- Providing investor protection for eligible clients of insolvent MFDA member firms, of up to $1,000,000 (i.e. on a discretionary basis) through the MFDA Investor Protection Corporation.
- Establishing detailed rules and requirements for members covering a range of critical activities, including: business structures, capital requirements, insurance, books and records, client reporting and business conduct.

The MFDA has identified 4 strategic objectives to help achieve its overall vision of “promoting a culture of compliance in order to enhance investor protection and strengthen the public confidence in the Canadian mutual fund industry.” These strategic objectives include:40
- Enhancing collaboration with the industry through the development and implementation of a member outreach plan, enhancement of member education and training planning programs, and provision of enhanced industry consultation on key regulatory policy matters.
- Promotion of increased investor confidence including a more formalized investor outreach program, increasing partnerships with other industry and regulatory stakeholders on regulatory and investor education initiatives and participation in and plan for changes to the future of the regulatory landscape by collaborating with other industry regulators and associations to discuss issues of mutual interest.
- Continuing to pursue staff excellence through enhanced staff development and education, promoting an attractive and competitive work environment and enhanced internal staff communication channels and capabilities.
- Improving operational process efficiencies and capabilities.

MFDA Advisor Licensing41
In order to be registered and approved to sell mutual fund securities by the MFDA, an individual must have:
- Passed the Canadian Investment Funds Course Exam, the Canadian Securities Course Exam or the Investment Funds in Canada Course Exam; or
- Earned a CFA Charter and have 12 months of relevant investment management experience in the 36-month period before applying for registration; or
- Received the Canadian Investment Manager designation and have 48 months of relevant investment management experience, 12 months of which was in the 36-month period before applying for registration.

Once the individual has completed the above-noted requirements, he or she must obtain a sponsoring mutual fund dealer within 36 months. The sponsoring dealer must provide the individual with the necessary forms to complete the registration, and then submit the completed application for registration to the provincial securities commission. The candidate cannot trade in securities until written confirmation of registration has been received from the relevant commission(s).

Investment Licensing and Regulation

The Investment Industry Regulatory Organization of Canada is the national self-regulatory organization that establishes and enforces rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees. IIROC also establishes and enforces market integrity rules regarding trading activity in Canadian equity marketplaces.

Each provincial regulator relies on IIROC to carry out specific regulatory functions (e.g. registration, inspection). IIROC carries out these responsibilities under Recognition Orders from the provincial securities commissions, and is subject to oversight and regular operational reviews by these commissions.

IIROC’s Board of Directors consists of 15 individuals, including the President and CEO, 7 independent directors and 7 industry directors. The industry directors include 5 individuals representing financial institutions to small businesses with 10 or less employees.
These organizations represent a variety of business models, from a focus on retail or institutional clients to an integrated approach with both retail clients and investment banking operations. In addition to regulating its member firms, IIROC has regulatory responsibilities for all registered advisors, including the screening of all investment advisors employed by IIROC-regulated firms with regards to character, training and proficiency. IIROC also conducts compliance reviews to determine whether advisors and their respective firms have established and followed appropriate procedures with regards to the handling of client accounts, and to confirm that any advice and transactions comply with client suitability and “know your client” rules in order to ensure clients’ needs and objectives have been met.

**CATEGORIES OF INVESTMENT DEALERS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional</td>
<td>85</td>
</tr>
<tr>
<td>Retail</td>
<td>113</td>
</tr>
<tr>
<td>Integrated</td>
<td>9</td>
</tr>
</tbody>
</table>

Key areas of IIROC’s strategic mandate include investor protection; compliance and risk management; and fostering fair, efficient and competitive capital markets. Each of these mandates is summarized below.

**Investor Protection**
- Improving conflict of interest management, account disclosure and suitability assessment standards through implementation of the Client Relationship Management (CRM) reform initiative, which aims to provide greater transparency of fees and charges to the customer through mandatory investment performance and cost reporting.
- Improving proficiency and education standards which require registered advisors to have completed the Canadian Securities Course, the Conduct and Practices Handbook Course and an intensive training program. Within 30 months of registration, retail investment advisors must also complete the Wealth Management Essentials Course. Retail advisors are also expected to stay current and as such, must participate in a continuing education program that requires 12 hours of compliance and 30 hours of professional development courses every three years.
- Improving investor education and financial literacy through effective promotion of investor friendly education tools (e.g. Advisor Report online tool, social media) and communications.
- Improving protection of senior and vulnerable investors from unsuitable investment recommendations.
- Continuing to provide investor friendly staffing and services to administrate, manage and investigate specific customer complaints or inquiries.

**Compliance and Risk Management**
- Maintaining a risk-based approach to compliance and risk control programs using an integrated approach to examinations covering three compliance areas (i.e. financial operations, business conduct and trading conduct).
- Maintaining a set of rules for dealer member firms and their registered employees which encompasses both the “know your client” rule and uniform market integrity rules which govern the trading of securities.
- The “know your client” rule is used to determine the suitability of a proposed transaction or recommendation made by an advisor. This rule requires the advisor and firm to fully understand the client’s financial situation, investment needs, objectives, investing experience and tolerance for risk. In order to accomplish this, the advisor will need to obtain the following information from the client: marital status, age, occupation, income and net worth, number of dependents, risk tolerance, investment objectives, investment knowledge and experience.

**Fostering Fair, Efficient and Competitive Capital Markets**
- Conducting effective market surveillance, trading strategies and platforms, launch of new products and markets and managing increasingly complex technologies.
- Mitigating market volatility and promoting fair and orderly markets.
- Reviewing and addressing issues related to complex and potential risky trading strategies (e.g. electronic trading and high-frequency trading).

**The Role of Canada’s Provincial Securities Regulators**
Provincial and territory securities regulators have overall accountability for administering, managing and enforcing securities legislation in Canada. They work with other national and global regulatory entities to achieve the protection of investors, foster fair, efficient and transparent markets and reduce systemic risk by:
- Formulating and administering the securities rules of each respective province, and regulating all securities-related activity to prevent misconduct, maintain market integrity and protect consumers’ interests.
Working in conjunction with industry self-regulatory organizations, specifically MFDA or IIROC to review complaints to determine if rules have been violated by individuals or companies and, if necessary, impose appropriate penalties for infractions (e.g. fines, freezing of assets, ban from future market dealings, temporary or permanent suspension of individuals or companies from trading securities).

The provincial and territorial regulators in Canada include:
- British Columbia Securities Commission.
- Alberta Securities Commission.
- Saskatchewan Financial Services Commission.
- Manitoba Securities Commission.
- Ontario Securities Commission.
- Autorité des marchés financiers.
- New Brunswick Financial and Consumer Services Commission.
- Office of the Superintendent of Securities, Newfoundland and Labrador.
- Nunavut Securities Office.
- Northwest Territories Securities Office.
- Prince Edward Island Office of the Superintendent of Securities.
- Yukon Office of the Superintendent of Securities.

The provincial and territorial regulators work together to coordinate and harmonize the regulation of Canadian capital markets through the Canadian Securities Administrators (CSA). The major provincial securities regulators also participate in various international cooperative organizations and arrangements. The CSA has focused its efforts on developing uniform rules and guidelines for securities market participants, coordinating approval processes, developing national electronic systems through which regulatory filings can be made and processed by all jurisdictions and coordinating compliance and enforcement activities.

In September 2013, the Governments of Canada, British Columbia and Ontario announced an agreement to establish a cooperative capital markets regulator. This initiative, which is open to the voluntary participation of all provinces and territories, intends to establish a regulator that would offer a single set of regulations and a common regulatory approach to market issues (e.g. systemic risks), while maintaining a network of regional offices.44

Canadian life insurance regulation is divided between the federal government and the governments of each of the provinces and territories. The Office of the Superintendent of Financial Institutions of Canada (OSFI) is responsible for the federal regulation of Canadian insurance companies and Canadian branches of foreign owned insurance companies under the Insurance Companies Act. OSFI’s primary mandate is to review and evaluate federally regulated insurance companies to determine their financial solvency and soundness.45

The provincial regulators oversee market conduct and the licensing and supervision of insurance intermediaries, such as life insurance agents and brokers. Market conduct is defined as encompassing “any product or service relationship between the insurance industry, insurers, agents and individuals alike, and the public. It is influenced by many factors including: laws, established best practices, codes of conduct, and consumer expectations.”46 Provincial regulators oversee a wide range of regulated activities, including licensing and customer compliant reviews. They also conduct on-site examinations to ensure appropriate levels of customer suitability and best interest are maintained and that consumers are protected from unfair market practices.
An overview of the provincial life insurance regulators and their key responsibilities is provided in the table below.

<table>
<thead>
<tr>
<th>Province</th>
<th>Provincial Regulator</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>Financial Institutions Commission (FICOM)</td>
<td>Responsible for the day-to-day regulation of private sector insurers operating in British Columbia, including ensuring that insurers are properly authorized, supervising insurers and addressing solvency concerns with their operations, addressing statutory market conduct issues, maintaining a timely and efficient registration system for insurers and captive insurance companies and working with other jurisdictions to deal with cross-jurisdictional regulatory issues.</td>
</tr>
<tr>
<td>Alberta</td>
<td>Insurance Council of British Columbia</td>
<td>Responsible for licensing of insurance agents, salespeople and adjusters; overseeing and managing education requirements for licensing; dealing with insurance agent or salespeople complaints and disciplining parties in the event an act or rule has been breached.</td>
</tr>
<tr>
<td>Alberta</td>
<td>Office of the Superintendent of Insurance</td>
<td>Responsible for regulating and creating policies for the insurance market to ensure that Albertans have affordable access to the insurance coverage they require, by monitoring the effectiveness of the market and responding to the needs of the province and its citizens.</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>Financial and Consumer Affairs Authority (FCAA) – Insurance and Real Estate Division</td>
<td>Responsible for regulating all insurance companies in Saskatchewan, and for protecting insurance policyholders through solvency regulation of provincial insurance companies, market conduct regulation of federal and provincial insurance companies, and oversight of the Insurance Councils of Saskatchewan with respect to rules applied to insurance agents and brokers.</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>Insurance Councils of Saskatchewan (ICS) – Life Insurance Council</td>
<td>These councils operate under an authority delegated by the Superintendent of Insurance to license and regulate insurance agents, brokers, adjusters and agencies in the province of Saskatchewan. The councils have the authority to conduct investigations into the conduct of insurance brokers, agents and adjusters in response to a complaint and to come to a determination as to whether there has been a breach of any of the provisions of The Saskatchewan Insurance Act, its regulations or Insurance Council bylaws.</td>
</tr>
</tbody>
</table>
| Manitoba        | Superintendent of Insurance                                                         | Responsible for providing a legislative and regulatory framework to promote the insurance industry in Manitoba and educate consumers on insurance issues. Functions include:  
  - Answering inquiries of a general nature about insurance.  
  - Licensing of insurers for the transaction of the business of insurance.  
  - Monitoring the solvency of insurers incorporated in Manitoba.  
  - Monitoring the regulatory activities of and liaising with the Insurance Council of Manitoba.  
  - Mediating disputes between consumers, agents, adjusters and insurers.  
  - Preparing the Annual Report required by The Insurance Act of Manitoba. |
<p>| Manitoba        | Insurance Council of Manitoba                                                      | Responsible for the licensing, continuing education and discipline of insurance agents, brokers and adjusters in Manitoba. The council has authority to conduct investigations into the actions and/or conduct of insurance agents and adjusters in response to a complaint, and to come to a determination as to whether there has been a breach of any of the provisions of The Insurance Act of Manitoba, its regulations, the licensing rules or the Council’s Code of Conduct. |</p>
<table>
<thead>
<tr>
<th>Province</th>
<th>Provincial Regulator</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quebec</td>
<td>Autorité des marchés financiers</td>
<td>Responsible for the following activities:</td>
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<tr>
<td></td>
<td></td>
<td>- Monitoring and supervising insurance companies and deposit institutions operating in Québec.</td>
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<tr>
<td></td>
<td></td>
<td>- Ensuring that financial institutions are appropriately authorized to operate in Québec and that they meet the various legal and regulatory requirements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Developing normative tools, such as guidelines or standards, intended for financial institutions in the performance of their activities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Supervising the distribution of financial products and services by applying the rules governing the eligibility and practice of representatives, advisors and brokers in all sectors.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Managing the certification of representatives, and the registration of firms in the sectors of personal insurance, damage insurance, claims adjustment and financial planning.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Assisting consumers with complaints and claims.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Managing protection and compensation programs covering financial products and services.</td>
</tr>
<tr>
<td>Quebec</td>
<td>Chambre de la sécurité financière</td>
<td>Responsible for the following activities:</td>
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<tr>
<td></td>
<td></td>
<td>- Overseeing the business ethics and professional development of individuals who work in financial product distribution and services.</td>
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<tr>
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<td></td>
<td>- Enforcing policies and regulations pertaining to the distribution of financial products and services across all financial experts and planners.</td>
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<td></td>
<td>- Managing and conduct hearings and imposing disciplinary actions regarding advisor misconduct or compliance breaches.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Establishing compulsory professional development standards for certified professionals across the following categories:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Individual insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Group insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Group savings plan brokerage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Managing scholarship plan brokerage.</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>Superintendent of Insurance – Financial and Consumer</td>
<td>Responsible for the administration and enforcement of provincial legislation regulating the insurance sector, among others. The FCNB provides day-to-day administration of the Insurance Act through the regulation, oversight and licensing of insurers and insurance intermediaries (e.g. adjusters, agents and brokers, damage appraisers). This includes life and health, and property and casualty insurance in New Brunswick.</td>
</tr>
<tr>
<td></td>
<td>Services Commission (FCNB)</td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td>Financial Services Commission of Ontario (FSCO)</td>
<td>Agency of the Ministry of Finance responsible for regulating insurance, pension plans, loan and trust companies, credit unions, caisses populaires, mortgage brokering, and co-operative corporations in Ontario. Functions include:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Regulatory policy development and advisory.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Regulatory coordination, collaboration and harmonization.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Administration, enforcement and granting of licensing and registration (i.e. individual and business).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Receiving required submission of filings from registered entities and reviewing and approving applications for certain transactions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Monitoring and compliance, including complaints issued against insurance agents, brokers or companies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Enforcement and intervention regarding compliance adherence and regulatory breaches.</td>
</tr>
</tbody>
</table>
### 4. REGULATORY FRAMEWORK

<table>
<thead>
<tr>
<th>Province</th>
<th>Provincial Regulator</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince Edward Island</td>
<td>Superintendent of Insurance</td>
<td>Responsible for licensing and regulation of all insurers, agents and adjusters active in the province. The office also receives consumer inquiries and complaints and responds to each with information and/or intervention as required. The Superintendent participates in regional and national efforts to ensure the local insurance industry environment remains current and best serves the needs of all stakeholders. The ultimate goal of the Superintendent is to ensure the products demanded by the public are available at the lowest possible cost.</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>Office of the Superintendent of Insurance</td>
<td>Responsible for regulating the business of insurance in the province, enforcing the Insurance Act, and licensing all insurers operating in the province – as well as all insurance agents/brokers, agencies and adjusters. The Superintendent also has the authority to take disciplinary actions if the Act is not followed.</td>
</tr>
</tbody>
</table>
| Newfoundland & Labrador | Superintendent of Insurance & Service NL (Consumer and Commercial Affairs Branch – Financial Services Regulation Division) | Responsible for the overall regulation of insurance for the province, including:  
- Enforcement of legislative requirements.  
- Licensing, permits and registrations.  
- Conflict resolution for disputes and issues related to legislative compliance with provincial financial and insurance regulations.  
- Collaboration and partnership with other regulatory organizations to facilitate effective and efficient insurance industry regulation. |
| Northwest Territories | Superintendent of Insurance                              | Responsible for licensing and regulating insurance companies, agents, brokers and adjusters operating in the Northwest Territories. |
| Nunavut            | Superintendent of Insurance                               | The Government of Nunavut regulates the territory’s insurance industry through its Office of the Superintendent of Insurance in Iqaluit. Nunavut’s Insurance Act and associated regulations set out the legal framework that governs insurance in the territory. The Superintendent is responsible for administrating, managing and maintaining all licensing and registration requirements for life insurance companies and intermediaries. |
| Yukon              | Superintendent of Insurance                               | Responsible for licensing and monitoring insurance companies, including their financial status and business practices. The office also licenses intermediaries (e.g. agents, brokers, salespersons), and may investigate complaints. |

### Other Relevant Regulations

The Bank Act and accompanying regulations contain specific rules pertaining to chartered banks and their involvement in the insurance business in Canada. The Insurance Business (Banks and Bank Holding Companies) Regulations, pursuant to Section 416 of the Act, authorize banks to sell certain insurance products closely related to their lending businesses in their branches, including credit or charge card-related insurance, creditors’ disability insurance, creditors’ life insurance, creditors’ loss of employment insurance, creditors’ vehicle inventory insurance, export credit insurance, mortgage insurance and travel insurance. Banks may also sell other types of insurance through subsidiary companies, subject to certain restrictions. The table below compares the permissible sales and promotional activities for authorized versus other types of insurance.\(^\text{48}\)
### BANK SALES AND PROMOTION OF AUTHORIZED VERSUS OTHER TYPES OF INSURANCE

<table>
<thead>
<tr>
<th>Activity</th>
<th>Authorized Types of Insurance</th>
<th>Other Types of Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Can be sold in bank branches.</td>
<td>Can be sold through insurance subsidiaries of banks, but not bank branches.</td>
</tr>
<tr>
<td>Advice/Referrals</td>
<td>Can provide advice on an authorized type of insurance or a service in respect of an authorized type of insurance.</td>
<td>Can provide advice that is general in nature and not related to a specific risk, insurance policy or service, insurance company, agent or broker. Cannot refer customers to particular insurance companies, agents or brokers.</td>
</tr>
<tr>
<td>Promotion</td>
<td>Can promote policies of authorized types of insurance, as well as companies, agents and brokers that deal only in authorized types of insurance.</td>
<td>Can promote these types of insurance to all customers or credit or charge card holders who receive regularly mailed statements of account or to the general public, outside of bank branches. Cannot “target-market” customers; that is, cannot segment the customer base and promote specific types of insurance to selected customers. The same restrictions apply to bank promotion of companies, agents and brokers that sell these types of insurance.</td>
</tr>
</tbody>
</table>

As noted in the *Bank Act* Insurance Regulations: “authorized type of insurance” means:
- (a) credit or charge card-related insurance,
- (b) creditors’ disability insurance,
- (c) creditors’ life insurance,
- (d) creditors’ loss of employment insurance,
- (e) creditors’ vehicle inventory insurance,
- (f) export credit insurance,
- (g) mortgage insurance, or
- (h) travel insurance; (assurance autorisée).

### Inter-jurisdictional Committees

In order to better protect insurance consumers – and to promote improved regulatory consistency, standardization and harmonization across all provincial jurisdictions, the following inter-jurisdictional committees have been established:

**The Canadian Council of Insurance Regulators (CCIR)** is an association representing federal, provincial and territories regulators, whose mandate is “to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public interest,” and to “work together to develop solutions to common regulatory issues.”

**The Canadian Insurance Services Regulatory Organizations (CISRO)** consists of the regulatory authorities for insurance intermediaries from all Canadian jurisdictions. It has the objective of “developing consistent standards of qualifications and practice for insurance intermediaries dealing in insurance of persons and property.” One of CISRO’s current projects involves the development of new harmonized licensing and certification programs applicable to all Canadian jurisdictions, including Quebec. This is expected to launch in January 2016.

Currently, both life insurance agents and brokers must be licensed by the applicable provincial insurance intermediary regulator. In most provinces, corporate entities or partnerships must be licensed in addition to the individual brokers and/or agents they employ. The application process typically includes:
- Passing qualifying examinations:
  - Life Licensed Qualification Program (LLQP) in all provinces/territories outside of Quebec; and
  - Autorité des marchés financiers (AMF) in Québec.
- Obtaining the sponsorship of, or a contract or contracts with, one or more insurers.
- Meeting certain educational or experience credentials or qualifications – except in New Brunswick, Newfoundland, Nova Scotia, PEI, Northwest Territories, Nunavut and Yukon.
- Obtaining minimum errors and omissions insurance – except in New Brunswick, Nova Scotia, PEI, Northwest Territories, Nunavut and Yukon.
- For corporate entities/partnerships, meeting minimum capitalization requirements in some cases.
- The completion of background and/or police checks.

CISRO announced the decision to standardize licensing and certification programs after determining that the LLQP and AMF program curriculums were virtually identical and that combining both programs would enhance consistency by utilizing common terminology and methods.

**The Joint Forum of Financial Market Regulators** was founded in 1999 by the Canadian Council of Insurance Regulators, the Canadian Securities Administrators, and the Canadian Association of Pension Supervisory Authorities (CAPSA). It also includes representation from the Canadian Insurance Services Regulatory Organizations. It is a committee through which pension, securities...
and insurance regulators co-ordinate, harmonize and streamline the regulation of financial products and services in Canada. Its goal is to “Pro-actively facilitate and coordinate the development of harmonized cross-sectoral and cross-jurisdictional solutions to financial services regulatory issues.” This forum collaborates with the overall purpose of simplifying and streamlining regulations and sharing cross-sectoral information amongst its constituent organizations, regulators and industry stakeholders regarding the following key strategic themes:

- Product disclosure and regulation.
- Consumer awareness and engagement.
- Consumer information and education.
- Regulatory mechanisms.

The Joint Forum committee has completed a number of strategic initiatives including:

- Developed a comparative study and recommendations for changes in regulation of individual variable insurance contracts (i.e. also known as segregated funds) and mutual funds.
- Developed and validated best practices regarding regulatory coordination on consumer financial literacy information and education.
- Developed a framework for the point of sale disclosure for mutual funds and segregated funds.
- Established principles and practices for the sale of financial products and services in Canada (except in Quebec).

Canadian Regulatory Trends and Cost of Compliance

The Canadian financial regulatory landscape has grown significantly over the last three decades, and has provided relative economic and financial stability during recent waves of global economic turbulence and crisis – in particular the global financial crisis of 2008 and 2009. Its composition, made up of government regulatory and self-regulated entities, is designed with the intent to protect public interests via the establishment of a balanced and integrated supervisory and governance structure. However, industry concerns continue to grow regarding the increased complexity and challenges associated with current and potentially new regulatory measures.

A number of key regulatory trends and challenges have been identified as possibly having significant implications for SMB financial advisors, including:

- Establishment of an additional standard of care for financial advisors that legally obligates financial advisors to place their clients’ interests ahead of their own.
- Transparent disclosure of fee structures.
- Potential elimination of embedded fees for specific investments.
- Increased insurance MGA and advisor oversight.
- Development of a uniform set of standards, rules and definitions for all individuals providing financial advice.
- The growing costs associated with existing and proposed regulatory compliance requirements.

A summary of each trend is provided below. Further implications of these trends and proposed regulatory changes can be found in Section 6 of this report.

Establishment of an Additional Standard of Care for Financial Advisors

In October 2012, the Canadian Securities Administrators published a consultation paper highlighting the potential need for a standardized statutory best interest fiduciary duty to address investor protection concerns regarding the current advisor and broker standard of conduct. The paper defines fiduciary duty as “A duty of a person to act in another person’s best interests. For financial advisory industry purposes, a fiduciary duty applicable to an advisor or dealer means that the advisor or dealer (the fiduciary) would have to act in the best interests of her client.”

The applicability of fiduciary duty within the context of financial advice can be broken down into 2 categories.

The first relates to a portion of IIROC-licensed financial advisors, such as portfolio managers and high net worth investment counsel advisors, who are responsible for holding client assets, have discretionary authority (i.e. also known as a managed account, whereby an advisor has the discretion to make investment decisions and transactions without the client’s expressed consent or permission), and are said to have a statutory best interest fiduciary duty to the client. This only applies to IIROC-licensed advisors, as MDFA-licensed advisors cannot have discretionary control of a client’s account.

The second category refers to financial advisors (e.g. MFDA licensed advisors) who may have a fiduciary duty depending on particular facts related to the overall degree of client vulnerability, amount of investor trust and discretion given to the advisor and the overall complexity involved in a relationship with the advisor. The advisor in this case has a fact-based fiduciary duty.
3. **There is an expectation gap because investors incorrectly assume that their advisor/dealer must always give advice that is in their best interests.** A study conducted by the Investor Education Fund (IEF) found that the majority of investors surveyed believed that their advisor was legally obligated to act in their client’s best interests, which may not always be the case.

4. **Advisors/dealers must recommend suitable investments but not necessarily investments that are in the client’s best interests.** The paper argues that having a suitability standard is a lower standard than ensuring a transaction or recommendation is being made in the client’s best interest.

5. **The application in practice of the current conflict of interest rules might be less effective than intended.** Examples of this include advisors following a narrow interpretation of the current principles-based regulatory approach for handling conflicts of interest and the fact that commissions that advisors receive may represent an inherent conflict of interest.

Following the publication of its consultation paper, the CSA conducted a number of consultation sessions between June and July 2013 with industry stakeholders to discuss key issues and themes raised in response to the paper. The CSA concluded that several issues and themes identified were consistent with other responses received from a similar consultation process regarding embedded advisor fees (described later in this section). Consequently, the CSA indicated that it would conduct further review of both consultation initiatives together before determining future actions.

In May 2014, the CSA announced its intention to conduct a formal, independent evaluation of Canada’s mutual fund fee structure in order to further evaluate the influence of mutual fund embedded compensation with regards to investor best interest, nature of advice and long term investment outcomes. The evaluation results will be used to inform the CSA’s decision, expected to be made in 2015, on whether to take further regulatory action on either proposed initiative.
Transparent Disclosure of Fee Structures

Canadian securities regulators introduced regulatory changes in July 2013 to improve the transparency and disclosure of fee and performance information to investment clients. These changes, packaged as the Client Relationship Model – Phase 2 (CRM2), are intended to increase client confidence in the Canadian financial advice industry. These changes would require the following activities:

- **2014**: Firms to begin providing pre-trade disclosure of charges and disclosure of advisor compensation from debt transactions in trade confirmations.
- **2015**: Firms to provide enhanced client statements that provide position cost information and market value under a set methodology.
- **2016**: Firms to begin delivering annual reports on charges and other compensation, and an annual investment performance report.

Further regulatory changes to increase transparency and disclosure were implemented as part of the Point of Sale framework, which requires mutual fund and insurance companies to provide a new disclosure document (i.e. called Fund Facts). This new disclosure document has been designed to provide investors with timely and relevant mutual fund or segregated fund information (e.g. fund investment composition, performance, benefits, risks and costs, advisor fees) in a simple and concise manner. The intent of this regulatory change is to better enable the investor to properly research and compare different fund options in order to make effective buying decisions.

The Point of Sale disclosure framework is being implemented in 3 stages:

- **Stage 1**: Effective January 1, 2011, mutual funds companies were required to prepare and file a Fund Facts document for each class or series of each of their mutual funds, and to post the document to their website.
- **Stage 2**: Effective June 13, 2014, mutual funds companies will be required to deliver the Fund Facts document within two days of an investor’s purchase of a conventional mutual fund.
- **Stage 3**: CSA has recently completed a review and stakeholder consultation process on issues related to point of sale delivery. It plans to publish proposed amendments and a commentary in the fall of 2014 on point of sale delivery for mutual funds and potentially for other types of publicly offered investment funds (e.g. ETFs).

Potential Elimination of Embedded Fees for Specific Investments

Canadian regulators are also evaluating recent regulatory developments in the UK and Australia regarding the elimination of embedded commissions paid to advisors from investment product manufacturers in order to:

- Effectively address the perceived high fund fees Canadian investors incur.
- Effectively address concerns regarding limited investor understanding of fund costs and control of embedded fees.
- Ensure that advisors make product recommendations based on their client’s best interest rather than products that compensate at the highest level.

The CSA released a discussion paper in December 2012 on the subject of mutual fund fees, stating, “While we continue to move forward to implement... initiatives to help investors make more informed investment decisions, we are now examining whether the current mutual fund fee structure raises investor protection concerns that require additional regulatory action.” Specifically, the paper outlines the following issues with the current mutual fund fee structure in Canada:

- Investor understanding of fund costs and control over advisor compensation, which is limited under an embedded fee structure.
- Potential conflicts of interest at the mutual fund manufacturer and advisor levels since commissions may incent or be perceived to incent advisors to sell a particular mutual fund over a comparable product with lower compensation to the advisor, cause the advisor to promote a particular option or incent the advisor to keep clients invested in a particular mutual fund.
- The potential for cross-subsidization of commission costs.
- The lack of alignment of advisor compensation and the services they provide to clients.
- The limited availability of low-cost mutual fund options for do-it-yourself investors.

Similar to the consultation process that was undertaken for its increased standard of care proposal, the CSA held a roundtable session in June 2013 with industry stakeholders to discuss perspectives regarding mutual fund fee structures in Canada. As mentioned earlier, the CSA decided to coordinate its ongoing evaluation across both initiatives and recently launched an independent evaluation of Canada’s mutual fund fee structure with the intent to determine what regulatory action will be required. Decisions regarding both of these matters are expected to be made in 2015.
Increased Insurance MGA and Advisor Oversight

The CCIR published a series of papers in 2011 and 2012 expressing concerns with the independent insurance distribution channel in Canada, which is primarily facilitated and managed by MGAs and AGAs. In particular, CCIR noted following key concerns:

- MGA outsourcing functions, accountabilities and oversight capabilities.
- Adequacy and effectiveness of insurance advisor supervision.
- Public uncertainty regarding an insurance advisor’s specific obligation regarding suitability and client best interest.

When comparing this distribution model to the traditional career agency model, which is predicated on direct and exclusive relationships between insurance licensed advisors and insurance companies, the CCIR recommended that MGAs/AGAs be subject to greater regulatory oversight by both insurance companies and provincial insurance regulators.

Specifically, the CCIR identified 2 key recommendations that insurers should implement to address the concerns mentioned above. First, insurers were advised to establish “effective systems and controls whenever they use the services of an MGA” by clearly defining roles, responsibilities and ongoing compliance monitoring requirements in contracts signed with MGAs. The second recommendation was to ensure improved insurer screening, oversight and transparency of insurance advisor conduct, product suitability and specific advisor roles and contract information.

Uniform Set of Standards, Rules and Definitions for all Individuals Providing Financial Advice

Industry regulators and stakeholders have been discussing the merits of establishing a common standard and increased proficiency level in order to be qualified as a financial advisor so as to address confusion and misconceptions over the definition and application of the terms “financial advisor” and “financial planner” in every province across Canada, except for Quebec. The fragmented application of the two terms is exacerbated by the 28 existing financial designations provided by 17 different designation granting organizations in Canada and the United States.
4. REGULATORY FRAMEWORK

CURRENT DESIGNATIONS AVAILABLE TO CANADIAN FINANCIAL ADVISORS

<table>
<thead>
<tr>
<th>Designation</th>
<th>Designating Body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Divorce Financial Analyst (CDFA)</td>
<td>Institute for Divorce Financial Analysts</td>
</tr>
<tr>
<td>Certified Employee Benefits Specialist (CEBS)</td>
<td>International Foundation of Employee Benefits Plans</td>
</tr>
<tr>
<td>Certified Financial Planner (CFP)</td>
<td>Financial Planning Standards Council</td>
</tr>
<tr>
<td>Chartered Life Underwriter (CLU)</td>
<td>Institute for Advanced Financial Education</td>
</tr>
<tr>
<td>Certified Health Insurance Specialist (CHS)</td>
<td>Institute for Advanced Financial Education</td>
</tr>
<tr>
<td>Registered Health Underwriter (RHU)</td>
<td>Institute for Advanced Financial Education</td>
</tr>
<tr>
<td>Chartered Financial Analyst (CFA)</td>
<td>Association for Investment Management and Research</td>
</tr>
<tr>
<td>Chartered Accountant (CA)</td>
<td>The Canadian Institute of Chartered Accountants</td>
</tr>
<tr>
<td>Certified General Accountant (CGA)</td>
<td>The Certified General Accountants of Canada</td>
</tr>
<tr>
<td>Chartered Financial Consultant (CH.F.C)</td>
<td>Institute for Advanced Financial Education</td>
</tr>
<tr>
<td>Chartered Management Accountant (CMA)</td>
<td>The Society of Management Accountants of Canada</td>
</tr>
<tr>
<td>Chartered Investment Manager (CIM)</td>
<td>Canadian Securities Institute</td>
</tr>
<tr>
<td>Certified International Wealth Manager (CIWM)</td>
<td>Canadian Securities Institute</td>
</tr>
<tr>
<td>MTI® Estate and Trust Professional</td>
<td>Canadian Securities Institute</td>
</tr>
<tr>
<td>Trust and Estate Practitioner (TEP)</td>
<td>Society of Trust and Estate Practitioners</td>
</tr>
<tr>
<td>Personal Financial Planner (PFP)</td>
<td>Canadian Securities Institute</td>
</tr>
<tr>
<td>Fellow of the Canadian Securities Institute (FCSI)</td>
<td>Canadian Securities Institute</td>
</tr>
<tr>
<td>Registered Employee Benefits Consultant (REBC)</td>
<td>American College of Financial Services</td>
</tr>
<tr>
<td>Financial Divorce Specialist (FDS)</td>
<td>Academy of Financial Divorce Specialists</td>
</tr>
<tr>
<td>Registered Financial Planner (RFP)</td>
<td>Institute of Advanced Financial Planners</td>
</tr>
<tr>
<td>Registered Health Underwriter (RHU)</td>
<td>American College of Financial Services</td>
</tr>
<tr>
<td>Professional Risk Manager (PRM)</td>
<td>The Professional Risk Managers’ International Association</td>
</tr>
<tr>
<td>Chartered Professional Accountant (CPA)</td>
<td>Chartered Professional Accountants of Canada</td>
</tr>
<tr>
<td>Registered Professional Accountant (RPA)</td>
<td>The Society of Professional Accountants of Canada</td>
</tr>
<tr>
<td>Elder Planning Counselor (EPC)</td>
<td>Canadian Initiative for Elder Planning Studies Inc.</td>
</tr>
<tr>
<td>Financial Planner (F.Pl.)</td>
<td>Institut québécois de planification financière</td>
</tr>
<tr>
<td>Assureur-vie Agréé (AVA)</td>
<td>Chambre de la sécurité (equivalent to CLU)</td>
</tr>
</tbody>
</table>
Some industry stakeholders have been advocating for the creation of a single, unified set of licensing and proficiency standards for financial advisors and planners. The proposed approach would encompass the following activities:

- The harmonization of licensing and proficiency standards for financial advisors and planners.
- The formulation of a formal, unified definition of “financial advisor” and “financial planner.”
- The creation of a new regulatory body which would have the authority to create regulations, enforce a code of ethics, investigate complaints and impose financial penalties against registered financial advisors and financial planners who act inappropriately.
- The establishment of a code of ethics which would provide clear requirements and standards that financial advisors and financial planners would have to comply with.

The Ontario government held initial consultations with industry stakeholders on the need for increased, tailored financial advice and planning regulations in Canada, and has committed to appointing an expert committee to conduct further analysis and provide recommendations regarding possible policy alternatives.

**Canadian Regulatory Cost Trends**

Costs incurred as a result of the expansion of regulations are primarily associated with financial advice and brokerage firms undertaking operational, resource and technology activities. For example:

- Tracking regulatory changes.
- Increased monitoring, supervision, investigating and resolving issues or complaints.
- Regulation enforcement.
- Record keeping and system modifications.
- Staffing requirements and training.
- Corporate governance.
- Culture and change management.

The significance of these costs is discussed in a research report written by Fusion Consulting, which states, “During a period of flat revenues and negative distribution margins, the regulators who govern advice have bumped their operating budgets at twice the pace of the companies they regulate. Regulatory fees now represent one of the three key barriers for new entrants in the industry and an important driver for future Red Ocean behaviour.”

The study estimates that the direct industry fees paid to regulators increased by 7% from 2012 ($302 million) to 2013 ($322 million). Additionally, the study concludes that overall operating costs for Canadian regulators has increased 65% from 2007 ($335 million) to 2012 ($551 million), representing an annual average growth rate of approximately 11%.

**COMBINED OSFI/MFDA/IROC/PROVINCIAL SECURITIES COMMISSIONS/OTHER REGULATORY ORGANIZATIONS OPERATING BUDGETS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget (In millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$335</td>
</tr>
<tr>
<td>2008</td>
<td>$415</td>
</tr>
<tr>
<td>2009</td>
<td>$447</td>
</tr>
<tr>
<td>2010</td>
<td>$473</td>
</tr>
<tr>
<td>2011</td>
<td>$495</td>
</tr>
<tr>
<td>2012</td>
<td>$551</td>
</tr>
</tbody>
</table>

Source: Fusion Consulting with PwC Analysis


**Global Jurisdictional Regulatory Overview**

Global regulators are continuing to increase requirements for asset management, financial advisory and insurance firms to improve fee transparency and client disclosure in order to improve investor protection. The same objective is causing regulators to increase focus on the standardization of fiduciary duty and regulatory harmonization. A recent survey of global financial services organizations (i.e. asset managers, brokers and insurance companies) conducted by Reuters highlighted, “Continuing diverse pressures on compliance functions with shifting supervisory expectations, no let-up in the volume of regulatory change and the start of big implementation programs for major complex legislation.”

Consequently, financial organizations have been spending significant amounts of time, money and resources on regulatory and compliance while also creating in-depth investor-related regulatory communications as the industry prepared for implementation of major regulatory reform programs, including the...
replacement of the UK Financial Services Authority (FSA) with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), the finalization of Dodd-Frank in the U.S., the Future of Financial Advice (FoFA) initiative in Australia, the Foreign Account Tax Compliance Act (FATCA) and various international anti-money laundering requirements. Costs associated with major regulatory reform initiatives in the UK (i.e. the Retail Distribution Review) and Australia (i.e. FoFA) have been calculated to be in the billions of dollars.

Canadian regulators often look to the experience of other jurisdictions when contemplating regulatory changes. The United States, United Kingdom and Australia are particularly relevant as a result of their similarity to Canada in terms of legal systems, financial market characteristics and consumer needs. A summary and analysis of recently implemented, or contemplated, regulatory reforms in each of these jurisdictions is provided below.

**United States**

**Uniform Fiduciary Standard and Harmonization of Advisor and Broker-Dealer Regulation**

Following the implementation of Dodd-Frank, the SEC conducted a study in 2011 assessing the effectiveness of the legal and regulatory standards of care for providers of retail investment advice (i.e. investment advisors and broker-dealers). The study identified a number of gaps and challenges with the current regulatory environment, including customer confusion with regards to roles, regulatory standards and requirements for investment advisors – who operate under a fiduciary regulatory standard, and broker-dealers – who operate under a suitability regulatory standard.

The SEC study produced the following key recommendations:

- Establish a uniform fiduciary standard that would overlay on top of existing standards and apply to both broker-dealers and investment advisors who provide investment advice and recommendations to retail customers.
- Revise the rules under the existing regulations (i.e. Investment Advisor’s Act of 1940) to narrow the broker-dealer exclusion currently in place while providing a “safe harbor” for brokers who do not provide broader investment advisory services or present themselves as providing such services.
- Ensure that the fiduciary duty for investment advice should include an enforceable, principles-based obligation to act in the best interest of the customer.
- Adopt a uniform, plain English disclosure document – including basic information about the nature of services offered, fees and compensation, conflicts of interest and disciplinary record – that broker-dealers and investment advisors provide to current and potential customers.
- Harmonize components related to broker-dealer and investment advisor regulations such as advertising, supervisory requirements, licensing and registration of firms, and continuing education and licensing requirements.

Key components of the recommended approach:

- Establish guidance and ongoing support to assist broker-dealers achieve minimum compliance and any operational related requirements in order to comply with the uniform standard.
- Major focus areas include:
  - Ongoing identification, mitigation and elimination of conflicts of interest and potential conflicts of interest.
  - Full and clear disclosure of conflicts of interest, advisor/representative qualifications, service fees/compensation, scope of services, product information and product risk.
  - Documentation illustrating the rationale for recommendations made to investors; and implementation of stronger supervisory oversight and new training programs.

The study also provides recommendations regarding the harmonization of investment advisor and broker-dealer regulatory requirements, including improved consumer communications and disclosure capabilities, formalized compliance monitoring and customer arbitration processes, enhanced licensing and continuing education functions.

Currently, the SEC is continuing to review industry comments and complete a cost-benefit analysis of the recommendations. The SEC has also indicated that the creation of the uniform standard would be a longer term objective. As such, it would not provide a specific timetable or plan for implementation.

**United Kingdom**

**Retail Distribution Review (RDR)**

The Financial Services Authority, the UK’s financial services regulator, undertook a Retail Distribution Review which culminated in legislation being enacted on January 1, 2013. The FSA indicated that it developed the RDR to address problems it observed in the UK retail investment market. Specifically:

- The complexity of advisory and product fee structures and perceived lack of clarity regarding associated customer value and benefits.
- The risk of misalignment of advisors’ interests, who are often compensated by providers of the products they sell – with those of consumers, many of whom rely heavily on advisors for advice or product recommendations.
- The affordability of advice for many consumers who have the means to save.
- The disparity of professional advisor training and testing when compared to other professions.

The review proposed significant regulatory changes focused on key aspects of the distribution of retail investment products to ensure that consumers have a transparent and fair charging system for the advice they receive, that they are clear about the service they receive and that they receive advice from highly respected professionals.
The legislation consists of 3 key components: clarity of advice, banning of embedded commissions and professional standards. These key components are described in the following table.

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The legislation introduced a new format for how financial advice can be provided to consumers. As of January 1, 2013, firms providing advice on retail investment products to retail customers need to describe these services as either “independent” or “restricted” advice. A summary of the services is provided below:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>Independent Versus Restricted Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity of Advice</td>
<td>Can consider all suitable retail investment products Yes No</td>
</tr>
<tr>
<td></td>
<td>Can only focus on a specific or particular market No Yes</td>
</tr>
<tr>
<td></td>
<td>Can consider products only from certain investment product providers No Yes</td>
</tr>
<tr>
<td></td>
<td>Has to explain the type of advice they offer to client Yes Yes</td>
</tr>
<tr>
<td></td>
<td>Can use “independent” to describe the advice they offer Yes No</td>
</tr>
<tr>
<td></td>
<td>Motivated/incented to recommend one product over another No No</td>
</tr>
</tbody>
</table>

| Banning of Embedded Commissions  | As of January 1, 2013, advisors must have agreement from the client regarding the cost and services prior to any work being undertaken. Advisors must also gain client agreement up front whether the fee will include ongoing advice and if so, the firm collecting the fee must ensure it demonstrates the ongoing advice service it will provide in the future. The advisor must disclose how he/she will charge the customer (i.e. percentage, fixed, hourly basis or a combination thereof). The advisor must clearly articulate to the client that the fees being charged are representative of the advice and services being offered. These changes only affect advice on investments such as pensions and bonds. The rules on commissions for other financial products, such as life/health insurance, general insurance (e.g. home, car, travel) and mortgages will not change, so financial advisors or brokers will still be able to be paid by commission for giving client advice regarding these products. |

| Professional Standards           | RDR introduced new professional requirements aimed at improving the level of consumer confidence and building general levels of trust in the retail investment advice sector, including: |
|                                  | ■ Diploma Level Qualification Standard: Diploma level qualification standard across a broad range of planning related topics. |
|                                  | ■ New Qualification Standards: New standards above and beyond current requirements that may require advisors to fill in knowledge gaps of specific topics and subject matter based on the revised standard. |
|                                  | ■ Statement of Professional Standing: Advisors are required to prepare and submit an annual declaration indicating that they have met or are meeting professional and ethical standards. |
|                                  | ■ Continuing Professional Development: Advisors are required to carry out a minimum of 35 hours of continuing professional development training or activities per year. All activity and training will need to be measurable and capable of being independently verified by an accredited body. |
Australia
Future of Financial Advice (FoFA) Reform
In April 2010, the Australian government introduced the Future of Financial Advice (FoFA) reforms in order to address conflicts of interest that may have “threatened the quality of financial advice that has been provided to Australian investors.” These reforms were developed in response to the recommendations of a Parliamentary Joint Committee inquiry stemming from concerns raised following the collapse of several high profile financial product and service providers.

The legislation covered the following key areas of reform:

<table>
<thead>
<tr>
<th>Key Areas of Reform</th>
<th>Definition</th>
<th>Recent Activity or Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conflicted Remuneration</strong></td>
<td>Ban on “conflicted remuneration” structures (i.e. embedded commissions, volume payments, non-monetary benefits and asset based payments related to advice for retail financial products) as of July 1, 2014.</td>
<td>Recent amendments propose to allow for commissions to be paid for “general advice,” basic banking products, certain life insurance offerings inside superannuation, execution only services, and allow for commission-based bonuses to be paid to bank employees.</td>
</tr>
<tr>
<td><strong>Best Interests Duty</strong></td>
<td>Legal requirement for advisors to act in the best interest of their customers in relation to financial or investment advice being given. “Safe harbor” provision requiring advisors to perform, document and retain specific procedures when giving financial advice.</td>
<td>The “catch all” provision – requiring advisors to prove that they have taken any other steps that would be reasonably regarded as being in the best interest of the client and to better provide advisors with increased confidence that they have provided compliant advice to their customers – has been removed. Provision of scaled advice has also been amended, allowing advisors to offer “one-off” advice to their customers.</td>
</tr>
<tr>
<td><strong>Opt In Measures</strong></td>
<td>Mandatory renewal “opt in” obligation every two years where an ongoing advice fee is charged to a client.</td>
<td>This requirement has been removed in order to eliminate “unnecessary paper” and “red tape”.</td>
</tr>
<tr>
<td><strong>Fee Disclosure</strong></td>
<td>Requires advisors to provide annual fee disclosure statements to their customers entering into an ongoing fee arrangement as of July 1, 2013. The disclosure statements must include:</td>
<td>Fee disclosure statements will not be required for customers with ongoing fee arrangements prior to July 1, 2013. This change was made to minimize onerous and costly activities that would be required to provide annual fee disclosure statements to all customers.</td>
</tr>
</tbody>
</table>
  - The amount of each ongoing fee paid in the previous 12 months.
  - The services the client was entitled to in exchange for that fee.
  - The services the client actually received.

On March 19, 2014, a new bill was introduced to implement the amendments described in the table above. Shortly after introduction of the bill, the government decided to delay the immediate implementation of these proposed amendments due to growing concerns expressed by various industry stakeholders including the financial planning and consumer industry advocates. Additional time has been allotted to conduct further consultations to ensure the proposed amendments account for and balance the interests of all industry stakeholders involved.
Industry Reaction and Implications

Industry response to proposed and implemented regulatory changes across the jurisdictions discussed above has been mixed.

The principle and intent of the regulations was to improve the quality and integrity of the financial advice provided to consumers – and to better inform, educate and protect consumers from fraudulent or conflicting advisor behaviours. The implementation of increased transparency and client disclosure regulatory measures should improve customer knowledge and financial literacy which, in turn, should contribute directly to the overall enhancement of advisor/customer trust. Consequently, consumers should be better positioned to identify, assess and improve the value and benefits they receive from their financial advisors.

However, despite the intentions these regulations were designed to achieve, there have been unintended consequences, particularly regarding impacts on the SMB financial advice segment and consumer segments within each jurisdiction. While some legislative reforms have yet to be implemented, the following key themes and challenges have already emerged:

- Cost of compliance challenges.
- Timing and adherence to compliance challenges.
- Impact on mass market customer segment.
- Impact on advisory community.

Cost of Compliance Challenges

The costs associated with the reforms described above will likely have a significant impact on industry margins and customer fees, and are among the primary sources of industry concern regarding the changes.

In Australia, the Banking and Finance Consumers Support Association (BFCSA) reported that their industry has already spent $700 million AUD to comply with FoFA, and expects to spend another $350 million AUD this year. One financial firm, BT Financial Group, reported that it has dedicated over 10,000 hours to training and transitioning 1,100 financial planners and support staff and spent “tens of millions” of dollars reconfiguring its systems and processes to be able to prepare over 23,000 fee disclosure statements and establish compliance enforcement and supervisory functions across the organization. The Financial Services Council of Australia has also noted that the total expected costs of implementing changes recommended in FoFA could reach $1.5 billion AUD.

Also in Australia, recent findings from a survey of financial planners conducted by the Financial Services Council (FSC) indicated that the cost that financial advisors incur as a result of providing advice to their clients has increased by 33% due to changes from FoFA (i.e. from $3,040 AUD per client account pre-FoFA to $3,751 post-FoFA). It further affirmed that the cost increase could be reduced by a third (i.e. $235 per account) should the Australian government approve the proposed FoFA amendments.

In the UK, it was estimated that total RDR compliance costs could increase to £750 million, with ongoing compliance costs of another £150 million to £205 million.

In the US, critics have indicated that the creation of a uniform fiduciary standard will result in increased compliance and liability costs associated with providing broker-dealer advisory services, which would consequently impact broker-dealers’ customer base as these increased costs may make advisory services too expensive for lower and middle income customers. Additionally, the potential elimination of the broker-dealer exclusion from existing regulation would result in certain broker-dealers converting their commission-based accounts to fee-based accounts, which could contribute to an increase in costs which would be passed down to retail investors.

Preliminary analysis conducted by various industry associations has concluded that increased costs would likely result from the following factors:

- Significant logistical, resource, operational/structural and technological costs to augment existing regulatory oversight and ensure adherence to harmonization requirements.
- Costs associated with broker-dealer de-registration and registration costs for those broker-dealer firms that choose to register as investment advisors. The registration process would also include distribution of client disclosures and firm/advisor registration and licensing for each state where business is conducted, which would require significant time and funding for SMB firms.
- Ongoing compliance costs as a result of making modifications to supervisory and compliance structures required to enforce compliance; establishing written policies, processes and procedures; developing or acquiring new technology and hiring or training staff.
- Ongoing costs associated with complying with regulations, including custody requirements and restrictions, asset transfers, updating or creating new customer relationship or contractual documents, obtaining customer consent, advertising, best execution, code of ethics and principal trading.
- Costs associated with additional harmonization requirements, including competency and continuing education, additional supervisory requirements (i.e. remedies, inspection, and enforcement), additional advertising compliance requirements, licensing, books and records, and application of financial responsibility requirements.
- Potential self-regulatory organization or other structural/association memberships.

Timing and Adherence Challenges

Financial advice organizations across all three jurisdictions have indicated that timing is a key challenge to meeting the required deadlines for each regulatory reform. Compliance with the regulatory changes would require significant investment in business processes, systems enhancements and training.
Industry stakeholders have advised that regulators consider the overall timing implications from the proposed and recently implemented regulatory changes, stating that the overall change management planning and execution requirements are significant – particularly when combined with the complex and expensive changes required to legacy technology systems and processes.

Evidence of the change management issues has been documented for the recent implementation of RDR in the UK. A recent review conducted by the Financial Conduct Authority (FCA) regarding the RDR disclosure process being undertaken by advisors in the UK concluded that 73% of firms are “failing to provide the required information on the cost of advice.” The findings of this review can be summarized as follows:83

- 58% of firms failed to give customers clear, upfront generic information on how much their advice might cost.
- 50% failed to give customers clear confirmation on how much advice would cost them.
- 58% failed to give additional information on charges.
- 31% of firms offering a ‘restricted’ service were not clear that their advice is restricted.
- 34% failed to provide a clear explanation of the service they offer in return for an ongoing fee and/or their right to cancel this service.

The results of this post-regulatory reform study indicate a greater risk of customers being misled about the cost of advice, the type of services being offered by the firm and the service customers can expect to receive in return for ongoing fees.

Other industry stakeholder groups have argued that sufficient time is not being provided to properly assess the impacts and effects of the regulatory changes on advisors, brokers and retail customers. In the US, a uniform fiduciary standard could potentially have adverse effects on broker-dealer business models and customers. For example, the elimination of certain proprietary products currently being offered in the broker-dealer channel, severe limitation or elimination of commission-based services which certain customers prefer to choose and the potential shift in advisor focus towards a higher net worth customer base, which would limit access to services for low and middle income customers.

**Impact on Mass Market Customer Segment**

Industry responses in all three jurisdictions have suggested that the combination of increased fiduciary requirements and substantive changes in advisor compensation will produce negative implications for the low and middle income customer segments, which represent the largest proportion of customers who seek investment advice. Implementation of FoFA in Australia, RDR in the UK, and a uniform fiduciary standard in the US may result in polarization and fragmentation of the advisory market, further emphasized by a reduction of advisors who specialize in mass market accounts.

The cause of this trend has been attributed to two primary factors: the changes to or the elimination of embedded fees, and the increased regulatory costs involved in servicing investment accounts and customers. The shift from a commission, or trail, based structure to a fee-based structure impacts the advisor revenue model which will likely result in advisors evaluating their respective customer segmentation profiles in order to determine revenue thresholds required in order to maintain a profitable and scalable business. An initial review of the recently implemented regulatory programs in Australia and the UK has indicated a general trend of advisors abandoning their low income and certain middle income accounts to focus on high net worth or higher income customers.

A survey conducted in the UK analyzed customer and advisor data to determine advisor economic and business model impacts of the RDR reforms. The study utilized the following factors from the survey output analysis:84

- The average advisor fee charged to customers: 1% of assets under advisory.
- The average number of customers advisors can effectively service: 150.
- The average annual revenue per client required to maintain a viable business: £1,500.
- The total approximate number of advisors in the UK: 30,000.

The study indicated that the average retail customer would need to have approximately £150,000 in investible assets in order for the advisor to support a sustainable business model. Research has indicated that there are approximately 1.43 million people in the UK with investible assets greater than £100,000, and 850,000 people with investible assets over £150,000. The study concluded that the average advisor portfolio would have 30 clients with investible assets over £150,000, which is significantly lower than the requirement of 150 clients indicated from the survey. These results support the conclusion that advisors will be targeting mass affluent and high net worth accounts in order to generate enough revenue to support their business models.

Furthermore, the study indicates that the lower income customers retained in the advisors’ businesses would not likely receive the service or advice that they may require, but rather be maintained on the books for trail revenue purposes with limited correspondence (e.g. email, newsletters) and services. The study concluded, “Overall, our results indicate that one of the unintended consequences of the RDR – perhaps the most important unintended consequence – will be that the mass market for financial advice is even less likely to be provided for in a RDR world than they were before its implementation.”85

The second factor relates to the increased amount of compliance related activities that advisors are or will be required to perform in order to comply with regulations. These activities include fiduciary adherence and reporting, developing additional documentation related to client disclosure or contracts and
licensing, continuing education and training. The additional time and effort required by advisors to undertake these activities will impact their ability to develop business and effectively service a larger customer base. Consequently, advisors will likely focus their business strategy on smaller, more profitable customer segments – resulting in the risk of a growing number of mass market customers struggling to find sufficient access to appropriate levels of service and advice.

The associated mass market customer impact of increased regulatory pressures has been observed in Australia through the FoFA impact survey findings reported by the Financial Services Council (FSC). It states that smaller independent financial advisors were likely facing higher costs due to the inability to access scale efficiencies. Consequently, the FSC concluded that the initial experience under the FoFA regime, originally designed to enable growth in scalable, affordable advice for Australians through the provision of best interest duty and wider accessibility and affordability, has instead shown a decline in consumer numbers seeking holistic advice.

Impact on Advisor Community
A potential consequence of implementing the regulatory reforms in the US, UK and Australia is the overall decline in the number of financial advisors. The Financial Services Authority in the UK reports that the number of advisors dropped 25% by the first day of RDR implementation, from 40,566 advisors in December 2011 to 31,132 advisors on January 1, 2013. It estimates that the reduction in the overall advisor population could reach 30%. Other potential factors that could result in the decline of the number of financial advisors include:

- Advisor inability to maintain revenue minimums due to the elimination of trail commissions.
- Advisor inability to meet the revised minimum standards for profession conduct or qualifications (e.g. RDR qualifications requirement).
- Advisor inability to meet fiduciary regulatory requirements in combination with other regulatory reform (e.g. capital adequacy requirements, FATCA, Volker Rule).
- Advisor or advisor firm inability to adapt their business models to effectively meet regulatory requirements in a profitable manner.
- Advisor or advisor firm inability to cope with the increased costs associated with the regulatory requirements (e.g. profitability challenges, margin pressures).
- Advisor inability to create a differentiated, sustainable value proposition or business model for which customers are willing to pay higher fees.
- Emergence of direct sales channel, including digital sales and service, resulting in the disintermediation of the independent broker/advisor channel.

The analysis of current regulatory trends and implications in the US, UK and Australia reveals both positive and negative impacts for SMB financial advisors and their customers. The collective experience of these jurisdictions, which demonstrate some of the unintended consequences related to regulatory changes originally designed to enhance consumer protection, choice and accessibility of financial advice, should be taken into careful account as Canadian industry regulators and stakeholders continue to deliberate on future reform. Further insight into the potential implications and consequences for the SMB financial advice segment is provided in Section 6.
36 An SRO is a non-government entity that is organized for the purpose of regulating the operations, standards of practice and business conduct of its members and their representatives with a view toward promoting the protection of investors and the public interest. (Source: Ontario Securities Commission.)

37 An application for recognition is pending before the Superintendent of Securities of Newfoundland and Labrador.


39 An introducing dealer can provide full services to its clients under a contractual arrangement with a carrying broker to provide specific back office functions such as accounting, clearing and settling customer accounts, as well as custodial duties such as maintenance of client accounts and bookkeeping. This allows the introducing dealer to focus on functions such as portfolio management, client relationship management and marketing. The arrangement also provides cost efficiencies and economies of scale for both introducing and carrying brokers. The introductory dealer’s responsibility for capital requirements and compliance for client accounts increases from Level 1 through Level 4.


47 The FCAA was previously known as the Saskatchewan Financial Services Commission. This change occurred on Oct. 1, 2012.


51 Discretionary authority applies only to IIROC-licenced advisors in the full service brokerage segment.


54 Ibid.

55 Ibid.

56 A summary of these issues and trends is provided in Section 6 of this study.


59 An MGA is defined in the CCIR paper as “an individual, partnership or corporation that holds at least one direct brokerage contract with a life insurance company registered to do business in Canada.” (Source: CCIR Issues Paper: Managing General Agencies Life Insurance Distribution Model, February 2011.)

60 An AGA consists of an arrangement “where groups of representatives contract together with an MGA, or have banded together to form a small MGA” (source: Ibid.).

61 The Canadian Council of Insurance Regulators (CCIR) is an inter-jurisdictional association of Canadian insurance regulators whose mandate is to collaborate to improve insurance regulation to serve the public interest.

62 Ibid.


64 The Public Interest Advocacy Centre (PIAC). Holding the Purse Strings: Regulating Financial Planners. 2009. Pg. 40.

65 Discontinued as of December 31, 2013, but still recognized.

66 Continuing education is now required for this designation, but it is not being offered to new entrants.

67 Currently being sponsored by Advocis.

68 The Canadian accounting profession is currently amalgamating its larger governing bodies in order to become one large body under the Chartered Professional Accountant (CPA) designation. The CPA amalgamation includes Chartered Accountants, Certified General Accountants and Certified Management Accountants.


71 The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was implemented in 2010 as a consumer protection reform that provides oversight and regulates financial institutions, provides new resolution procedures for large financial corporations, introducing stronger regulatory capital requirements and placing restrictions on proprietary trading performed by US banks and their affiliates.

72 The current regulatory platform distinguishes between broker-dealers, who were regulated as salespeople under the Securities Exchange Act of 1934, and investment advisors, who were regulated as advisors under the Investment Advisors Act of 1940. Consequently, these two groups are currently held to different legal standards. Investment advisors have a fiduciary duty to act in the best interests of their customers, while brokers must comply with the lower standard of determining whether an investment is suitable for the investor.


74 In order to be classified as an independent financial advisor, an advisor or firm needs to ensure that the advice being given is free from bias towards a particular solution or any restrictions that would limit the range of solutions that firms can recommend to retail customers. More specifically, the advisor must consider a broader range of retail investment products, provide unbiased and unrestricted advice based on a comprehensive and fair analysis of the relevant market and must inform the retail client before providing advice that he/she is providing independent advice.

If the advisor or advisor firm only gives advice on certain types of products, or on products from one or a limited number of providers, the advisor will need to describe this type of advice as ‘restricted.’ The advisor must tell the customer that he/she provides restricted advice and how it is restricted – by product or by provider. This must be done in writing and orally before any advice is given to the customer.

75 These reforms involved the development of 2 new statutes: Corporations Amendment (Future of Financial Advice) Act 2012 and the Corporations Amendment (Further Future of Financial Advice Measures) Act 2012. Both Acts required mandatory compliance as of July 2013. The government introduced amendments to the reforms earlier this year after extensive consultations and feedback from industry stakeholders.
The collapse of a number of Australian firms was as a result of misrepresentation of risk with regards to the investments being sold, misappropriation of funds to inflate or perpetuate higher returns and aggressive tactics involving customers heavily financing and boosting their investment portfolios through loans and home equity leveraging prior to the market downturn in 2008.


Dodd-Frank requires the SEC Committee to evaluate whether the proposed harmonization or regulation could lead to the imposition of an SRO in order to augment the SEC’s efforts in overseeing investment advisers.

Investment Executive. UK regulator finds failings over fee disclosure. April 7, 2014.


Ibid.

5. Impact of Financial Advisors on their Clients

Overview

The Canadian financial advice and distribution landscape has evolved from a product-based, sales transaction environment to a more comprehensive, holistic and customer-centric ecosystem. This transformation can be attributed to a combination of a growing number of sophisticated and complex financial investment and insurance products; changing consumer wealth demographics, behaviours and expectations; and increased competition across multiple channels of distribution.

The financial goals of consumers are often defined by major life events, circumstances and lifestyle needs. Successful financial advisors offer their customers a comprehensive range of advisory disciplines, products and services that can be tailored to a client’s objectives and particular life-based needs. As a result, customers who work with a financial advisor experience a number of key benefits and typically achieve better financial outcomes relative to customers without a financial advisor.

This section describes the overall role and functions of a financial advisor and provides an overview of the key components and application of the financial advice process. Customer benefits from working with SMB financial advisors are then identified and quantified using key findings from a number of recently published studies.

The Role of a Financial Advisor

Financial advisors assist their clients with making financial decisions. Specifically, they help their clients plan for the future, protect themselves from risks, gain financial literacy, manage their daily finances and adapt to changing circumstances.
### The Financial Advice Lifecycle

The financial product, service and advice needs of an individual depend on their life stage, personal situation and financial goals and objectives. These needs should be taken into account when establishing an effective, scalable financial plan. The following figure demonstrates how financial advisors strive to understand their customer’s needs by applying financial advice processes and solutions according to a customer’s life-based circumstance.

![The Financial Advice Lifecycle Diagram](image-url)
The Components of Financial Advice

There are a number of components of advice that financial advisors can provide. These include:

- **Budgeting & financial planning**: Assist clients with budgeting and planning with respect to cash-flows, retirement, financial contingencies, planning for milestones (e.g. children’s education, real estate purchases), debt repayment and debt balancing, charitable giving and estate and intergenerational planning (e.g. trusts, wills). As part of the planning process, an advisor can assist in identifying achievable financial goals.

- **Insurance planning & risk management**: Assist clients with developing an understanding of how to protect their savings and plan for their long term health and financial well-being, in addition to their families’.

- **Investment strategy & portfolio risk evaluation**: Provide clients with advice regarding their investment portfolio, including geographic, sectoral and asset class portfolio exposure, the level of risk in a portfolio and how it relates to investment goals, recommended timeframe of individual investments, portfolio diversification and balancing and other items relating to investment strategy and portfolio risk.

- **Retirement & estate planning**: Advise clients on planning for retirement needs, including retirement income planning, wealth transfer and disbursement (e.g. trusts, charitable bequests).

- **Tax planning**: Offer expertise regarding tax planning in terms of structuring investments and budgets to minimize a client’s tax burden. Unless the advisor is also qualified as an accountant, this often takes the form of general tax planning and product-specific tax implications.

- **Small business planning**: Assist small business owners with the management of their businesses, including decisions regarding the sale, purchase or merger of companies; succession planning; overseeing small group pension and health plans for SMBs; and tax effective compensation arrangements (tax planning and specialized training may be required).

- **Relationships with other service providers**: Assist in identifying the need for, and managing a client’s relationship with, other professional service providers, including accountants and lawyers. Additionally, advisors can help clients consolidate accounts that are carried by various financial institutions to help eliminate duplication and simplify the management of accounts for the client.

- **Educating & building client awareness**: Provide clients with an understanding of the workings of financial markets and the principles of personal financial management. Advisors can help connect clients’ long term objectives with short-term financial decisions in order to build an awareness of the impact of their saving and spending decisions on goals (e.g. retirement, major purchases, children’s education).
The Financial Advice Process

The process by which financial advisors provide advice, products and services to their clients can be considered a cycle. While the financial advice process described here is often applied in a financial planning context, a similar cycle can apply to the full spectrum of products and services offered by advisors – of which financial planning is only one part.87

The financial advice process begins with the financial advisor initiating a relationship with prospective clients, often through referrals or marketing practices. Upon their first meeting, the financial advisor will describe their services and benefits while getting to know, understand, and analyze the client’s needs. The financial advisor then works with the client to create a customized product and service offering that is aligned to meet the client’s goals. While developing the offering, the financial advisor takes the time to ensure that the client has a clear understanding of the risks and benefits associated with the recommended approaches.

During the product and service offering design phase, the financial advisor determines the client’s profile (e.g. risk tolerance, overall investment objectives) in an investment planning context. This profile is then utilized to develop a recommendation that best suits the client’s needs, which is then presented to the client for consideration and approval.

Once the client has approved the recommended approach, the financial advisor proceeds to implement the recommendations, which can include processing transactions.

Once the product and service offerings have been implemented, the financial advisor may monitor the client’s situation (e.g. financial portfolio), on a regular basis to determine if any changes are required. The financial advisor conducts reviews with the client on an ongoing basis (e.g. annually) to identify any changes to the client’s profile or circumstances that would require plan or service modifications. Financial advisors may also manage ad-hoc client inquiries, concerns or requests.

Benefits to Clients

The financial needs of clients are diverse and, in many cases, unique to an individual’s circumstances. Finding appropriate products and services to match these circumstances is a complex task, given the wide variety of financial products, the intricacy of tax regulations and the possible use of tax-assisted savings vehicles.

Maintaining a comprehensive understanding of financial advice disciplines, tools and processes enable SMB financial advisors to provide key benefits to a wide range of consumers throughout the customer lifecycle, resulting in the development of long term relationships.
5. IMPACT OF FINANCIAL ADVISORS ON THEIR CLIENTS

The key benefits clients may receive from SMB financial advisors are described below.

**Knowledge**

Many clients of financial advisors lack the time, training or inclination to achieve a sufficient level of comfort in their financial knowledge to make important financial decisions on their own. SMB financial advisors offer the benefit of their historical and current industry knowledge to their clients, including a deep understanding of the wide variety of financial instruments available and their associated complexities — which are often overwhelming for investors. Clients also turn to their financial advisor for knowledge on a range of complementary subjects, including investment strategy, insurance products and the selection of tax-efficient investment vehicles, because financial advisors are able to optimize tax approaches and work within their client’s risk tolerance.

Clients also seek knowledge and advice on major life and market events, since a financial advisor who has a complete understanding of their financial situation can match it with financial decision-making in terms of timing or opportunities. An Investment Funds Institute of Canada survey found that advisors help clients choose the right vehicles, asset mix and investment plans to optimize outcomes for their own unique circumstances.88
Financial advisor knowledge offers the additional benefit of providing context to adjust for behaviour biases among investors. For example, a recent survey found that Canadian investors exhibit inconsistency in their perception of risk and actual holdings. Advisors are able to bridge investor perceptions and the underlying reality of their portfolio.

**Experience**

Financial advisors offer the benefit of their experience to their clients. Financial advisors have a varying level of experience in financial planning and execution. An SMB financial advisor can provide valuable experiential insights on market trends and behaviours, how funds are managed and how they have performed in the past. Financial advisors are also focused on staying up to date on financial services information and opportunities and are therefore able to provide relevant current market information to their clients.

Utilizing their experience, advisors are able to help build their clients’ investment and insurance portfolios towards achieving client goals and objectives. This experience can also help inform and guide clients through uncertain and volatile situations (e.g., lessons learned, best practices).

**Discipline**

Financial advisors help embed financial discipline by using their knowledge and experience to guide and foster disciplined financial behaviour in their clients. Financial advisors use their experience to help keep their clients engaged toward their financial goals, such as accumulating greater wealth through better saving behaviour in order to feed into a client’s retirement plans. When a financial advisor regularly reviews savings habits and how to logically plan for the future, the importance of this behaviour can be better appreciated by the client.

Another key benefit of a financial advisor is their ongoing discipline and focus which can help clients stay on plan through volatile markets. The CSA specifically addresses the discipline that advisors bring to their clients by stating that financial advisors “Should be available to answer questions, especially during market lows when [a client] may be tempted to act on emotions...act as a sounding board for your ideas and keep you motivated to stay with your plan,” and help to “Protect against poor financial decisions.”

Financial advisors also play a significant role in keeping their clients’ savings plans current; financial advisors remind their clients of what they planned to do and, therefore, what they should be doing at the present time. With continued reminders, setting up automatic savings and regularly reviewing plans to actuals, financial advisors help clients maintain much needed discipline to actively manage their investments and achieve their objectives.

The discipline that financial advisors bring to the savings behaviour of their clients is evident in numerous studies. Mounting relevant research, particularly over the past few years has shown an empirical linkage between having financial advice and successfully accumulating financial assets.

A recent 2014 study by the Financial Planning Standards Council centred on the financial advice that Canadians are receiving and what the outcome of the advice was. The study used an empirical methodology focused on experience and concluded that, regardless of net worth, Canadians who engage in comprehensive financial planning with a Certified Financial Planner have significantly higher levels of financial and emotional well-being.

Furthermore, the findings suggested that Canadians who receive limited financial planning (e.g. investors seeking more control over their investments but who utilize financial advisors to assist with some of their specific needs) are also more likely to report feeling on track with their financial affairs when compared to those who do not seek the services of a financial advisor.

**ON-TRACK WITH THEIR FINANCIAL AFFAIRS**

<table>
<thead>
<tr>
<th>Planning Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive</td>
<td>81%</td>
</tr>
<tr>
<td>Limited</td>
<td>73%</td>
</tr>
<tr>
<td>No</td>
<td>44%</td>
</tr>
</tbody>
</table>

More specifically, the discipline offered by financial advisors can be helpful to clients when preparing for retirement. Financial advisors are able to project a client’s financial situation forward through sophisticated financial planning software. This activity tailors the plan exactly to the client’s needs by making projections based on input today and assumptions for the future. Although unable to predict the future, financial advisors are able to make educated estimates based on their experience, market conditions and the client’s risk tolerance and goals. Seeing a detailed plan that extends well into retirement can give the client a greater sense of control, knowing if they save, invest and insure their assets as planned, the future is more predictable.

The Investment Funds Institute of Canada has examined the evidence contained in quantitative study findings, including an extensive study by the Centre for Interuniversity Research and Analysis of Organizations (CIRANO) – a non-profit research organization located in Quebec. The results of the CIRANO study, *Econometric Models on the Value of Advice of a Financial Advisor*...
were summarized by IFIC as follows, “Advice positively impacts retirement readiness, even after factoring out the impact of a myriad of other variables.” These findings indicate that advised clients begin saving earlier, and that they understand and value the importance of investing and avoiding common errors in early investing.

“The positive effect of advice on wealth accumulation cannot be explained by asset performance alone: the greater savings discipline acquired through advice plays an important role.”

The CIRANO study also indicates that advised households save at twice the rate of non-advised households (i.e. 8.6% compared to 4.3%). Financial advice is also shown to increase the probability that an advised household saves and – among those who do save – increases the rate of saving.

The results of a study by LIMRA, a global financial services research and consulting organization, also supported this finding. LIMRA found that 78% of investors with an advisor contribute to a retirement plan, whereas only 43% of investors without an advisor do so. Those with an advisor were also found to save at a higher level.

Access to a Wide Range of Services

Financial advisors provide a wide range of services to clients across a spectrum of income levels. While high net worth individuals can retain tax experts, specialized investment counsel and the services of family offices, these services remain too costly for the majority of the investing public without a financial advisor.

The impact of this access is demonstrated in a recent study by Morningstar, Alpha, Beta, and Now...Gamma, which discusses a positive outcome for clients as the value of financial advice, including through the provision of additional services.

In this study, the research accounts for other services and benefits a financial advisor typically provides, including the use of a tax strategy, asset allocation, annuity allocation, withdrawal strategy and a source funding strategy where the cost of funds borrowed is incorporated into strategies. Through its test scenarios, Morningstar’s research was able to demonstrate a 1.59% improvement in annual returns of their hypothetical client’s portfolio.

Tax advice was also found to have a measurably positive impact on the clients of advisors, for instance by advisors identifying tax advantaged instruments. “Finance Canada estimates an after-tax yield improvement of registered plans at approximately 1.5%. In other words, assets held in registered form earn 1.5% more after tax than the same assets in non-registered form.”

Peace of Mind

Many clients do not have the necessary time, inclination or ability to fully inform themselves of investment options in the complex and rapidly changing financial environment. Hiring a professional to navigate them through the complicated financial landscape can give them peace of mind and make their financial plan more easily understood and maintained.

The peace of mind provided by financial advisors is evidenced by the proportion of investors who have advisors and value them. IFIC found that, “Having advice is an important contributor to levels of trust, satisfaction and confidence in financial advisors – a strong indicator of value.”

IFIC also found that, “Industry research demonstrates that, when controlling for all other explanatory variables, an advised [client] has a 32% higher probability of declaring trust in financial advisors than a similar non-advised respondent.” From this research, we can infer that the services a financial advisor provides helps them to build trust with their clients.

The relationship between the client and the advisor is a trust-based relationship. This relationship affords the client the ability to see the financial advisor as a partner they can have confidence in and rely on. For example, “Mutual fund investors continue to work with their advisors to make investment choices. Very few make decisions entirely on their own or simply do what their advisor recommends without question.”

The CIRANO study mentioned previously found that advice relationships start early and continue for an average length of eighteen years (see figure below). It found that 50% of advised households first seek advice when they have less than $11,000 to invest. Similarly, the 2011 Pollara Investors Survey reported that 37% of mutual fund investors had less than $10,000 in total household savings and investments, excluding their primary residence, when they first started using a financial advisor – while 57% had less than $25,000. These findings demonstrate that most advised investors seek out an advisory relationship early in their investment life, when they have relatively little investable income; they then maintain this relationship for a lengthy period of time.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Years Using Advisor (Average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18–34</td>
<td>8.4</td>
</tr>
<tr>
<td>35–44</td>
<td>12.8</td>
</tr>
<tr>
<td>45–54</td>
<td>17.1</td>
</tr>
<tr>
<td>55–64</td>
<td>20.7</td>
</tr>
<tr>
<td>65 and older</td>
<td>23.0</td>
</tr>
<tr>
<td>All</td>
<td>18.0</td>
</tr>
</tbody>
</table>
Benefits of Life Insurance SMB Financial Advisors

Expertise in Complex Product Offerings
Financial advisors help consumers overcome the complexities and related hurdles associated with insurance by providing them with simple explanations of products, benefits and suitability so that customers can make confident and intelligent decisions regarding their life and health insurance needs.

Survey data indicates that 8 out of 10 consumers look to advisors to answer questions and guide decisions regarding insurance. Further, consumers have a limited understanding of coverage levels and are willing to pay 21% more for support to clarify policies and conditions of insurance.

Financial Impacts on Policyholders and Beneficiaries
Clients of financial advisors benefit from the financial stability and certainty provided by insurance policies. These policies help provide for policyholders and their families in the event of death or disability, and can provide a guaranteed stream of income in retirement through annuities.

In 2012, the total payout to Canadian insurance policyholders and beneficiaries totalled:
- $7.2 billion in life insurance.
- $32.7 billion in annuities.
- $2.8 billion in policyholder dividends.

This amounts to approximately $0.8 billion paid per week, with over 80% of benefits paid to living policyholders. Considering the average life insurance policy size among clients of the SMB financial advice industry is approximately $175,000, this indicates that tens of thousands of policyholders and beneficiaries receive benefits each year.

Quantifying the Impacts of Advice on Client Net Worth

Several studies have examined the impact of financial advice on client net worth. Some conclude that advised households have substantially higher investible assets than non-advised households, including the CIRANO study discussed previously.

IFIC summarized the findings of a number of these studies by stating “Advice has a positive and significant impact on financial assets after factoring out the impact of close to 50 socio-economic, demographic and attitudinal variables that also affect individual financial assets.”

Specifically, IFIC’s research found that advised clients have three times greater net worth and four times greater investible assets than non-advised clients. IFIC concluded that, “...evidence from these diverse sources continues to confirm the role of financial advice in helping individuals reach their long term financial goals.”

In addition, the CIRANO study found that “The impact on the level of assets is more pronounced the longer the tenure of the advice relationship.” A subsequent CIRANO study examined potential issues of unclear causality in this type of analysis. It found that, controlling for key variables (e.g. income, age), there remains a significant and positive correlation between advice and net worth.
Significance of the CIRANO Study

The CIRANO study provided econometric evidence to assess whether advice has a positive and significant impact on wealth accumulation by accounting for a myriad of other socio-economic variables known to affect wealth. The CIRANO study took into account a number of demographic factors (e.g. age, sex, risk aversion), together with a number of economic factors (e.g. household annual income, annual savings, minimum living requirements at retirement), and accounted for these variables within certain advice categories (e.g. level of financial assets required to seek advice, tenure of advice). The study used survey data from over 3,000 respondents to develop their results.

While CIRANO incorporates a significant amount of econometric analysis and research to form its conclusions on the value of advice, the question of causality remains inconclusive. Further study is required to enhance the certainty around this conclusion – for instance, by using panel data to track an investor’s relationship with an advisor over time and, therefore, correct for possible selection biases in the current analysis.

As shown above, advised households show consistently higher net worth across age and income groups when compared to non-advised households.
The difference in advised and non-advised investor assets increases with the length of a relationship with financial advisor. Investors who have received financial advice for over 15 years have, on average, 2.7 times the financial assets of non-advised investors.

ENDNOTES

88 Investment Funds Institute of Canada (IFIC). The Value of Advice Report. 2012. Pg. 3.
92 Comprehensive financial planning is defined by the FPSC as providing financial planning for major life goals and events, or at least three of the planning components: household budgeting, tax, retirement, estate planning, investing, debt or risk management.
94 Limited financial planning is defined by the FPSC report as providing advice or services related to one or two of the planning components: household budgeting, tax, retirement, estate planning, investing, debt or risk management.
95 This report was the first study to use “econometric modelling and a robust sample of Canadian households to demonstrate that having a financial advisor contributes positively and significantly to the accumulation of financial wealth”.
100 Family Offices are private financial advisory firms serving high net worth and affluent families with a range of financial, administrative and management services such as bookkeeping, accounting, income tax planning, compliance, estate and trustee planning services, insurance/ risk management, charitable planning, handling of personal family matters and personal concierge services. There are family offices that cater to single families as well as multiple families.
101 Morningstar Investment Management. Alpha, Beta, and Now... Gamma. 2013.
103 Ibid.
104 Ibid.
106 Investment Funds Institute of Canada (IFIC). The Value of Advice Report. 2012. Pg. 3.
109 Ibid.
110 Canadian Life and Health Insurance Association Inc. (CLHIA). Key Statistics – Draft, Section 1 & 2. 2014.
112 Investment Funds Institute of Canada (IFIC). The Value of Advice Report. 2012. Pg. 11.
115 Ibid. Pg. 6.
117 Ibid. Pg. 9.
118 Investment Funds Institute of Canada (IFIC). The Value of Advice Report. 2012. Pg. 3.

Overview

The SMB financial advice industry in Canada is composed of approximately 80,000 small and medium-sized independent and career-based financial advisors providing insurance and wealth advice. Among the advisors in this industry, there is significant variation in terms of product offerings, licensing, practice size and client base. However, financial advisors can be segmented based on the products and services they offer (i.e. IIROC-licensed, MFDA-licensed, life insurance licensed and fee only), as well as the types of customers they serve, to establish a reflective and consistent profile.

This section of the study provides an evaluation of each of these SMB financial advisor segments, along with corresponding consumer segments. A survey was conducted to assess the underlying demographic, structure and economic characteristics and trends of the SMB financial advice segments. Findings from the survey, along with additional industry and consumer data were then aggregated to provide a comprehensive assessment of the overall contribution and impact that SMB financial advisors have in Canada today. This assessment included a detailed economic impact study highlighting the segment’s overall contribution to the Canadian economy (the full version of the economic impact study can be found in Appendix B).

This section also includes an evaluation of key industry and regulatory trends (i.e. potential increase in the under-served or underinsured marketplace, changing consumer behaviours, advisor compensation, conflicts of interest, transparency and disclosure) to illustrate specific challenges faced by the SMB financial advice segment. The conclusion of this section highlights a number of key opportunities and critical success factors SMB financial advisors should consider in order to address these challenges.

Small and Medium-sized Business Financial Advice Industry Definition

The SMB financial advice industry is composed of financial advisors operating out of independent mutual fund and securities dealers, independent insurance agencies, exclusive agents of insurance companies, and full service securities brokerages that are not affiliated with large financial institutions (e.g., credit unions and the “Big-Six” banks). A profile of each SMB financial advisor segment is provided below.
IIROC-Licensed SMB Advisors

Overview

IIROC-licensed advisors sell a wide range of financial products, including guaranteed investment certificates, stocks, bonds, mutual funds, exchange-traded funds, options and other derivatives, in addition to insurance, if licensed. A large majority of IIROC-licensed advisors also hold licenses to sell life insurance.

The advisors within this segment may specialize in a particular product offering or a specialized service across product offerings. For example, some IIROC advisors focus on mutual fund sales and maintain similar client portfolios to MFDA licensees, while others focus on providing active investment management services using the full range of investments available for sale by IIROC licensees.

There are a total of 5,359 advisors serving approximately 1,622,600 clients in this segment, for an average client base of approximately 303 clients per advisor.

Asset Base

<table>
<thead>
<tr>
<th></th>
<th>IIROC-licensed Advisors at Financial Advisor Dealers</th>
<th>IIROC-licensed Advisors at Full Service Brokerages (Not Big Six Banks)</th>
<th>IIROC-licensed Advisors at Full Service Brokerages (Big Six Banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Client Assets Under Management</td>
<td>$57 billion</td>
<td>$189 billion</td>
<td>$733 billion</td>
</tr>
<tr>
<td>Total In-place Client Life Insurance Coverage</td>
<td>$20 billion</td>
<td>$71 billion</td>
<td>$212 billion</td>
</tr>
<tr>
<td>Average Assets Under Management per Advisor</td>
<td>$35 million</td>
<td>$50 million</td>
<td>$114 million</td>
</tr>
<tr>
<td>Average Life Coverage per Advisor</td>
<td>$12 million</td>
<td>$19 million</td>
<td>$33 million</td>
</tr>
<tr>
<td>Average Assets per Client</td>
<td>$110,000</td>
<td>$170,000</td>
<td>$430,000</td>
</tr>
<tr>
<td>Average Life Policy Size per Client</td>
<td>$420,000</td>
<td>$440,000</td>
<td>$880,000</td>
</tr>
</tbody>
</table>

Demographics

|                        | Median age 45–54 | Gender breakdown 76% male, 24% female | Median years in the industry 10–19 | Median employees in practice 1–5 | Median revenues $150,000–$249,999 |

Trends and Analysis

- IIROC advisors have higher averages of client assets than MFDA advisors, likely as a result of the wider range of products they provide. An IIROC advisor can be involved in the active management of an entire portfolio, including stocks, bonds, mutual funds and exchange-traded funds, while an MFDA advisor is limited to the sale of mutual funds.

- Discretionary portfolio management by IIROC advisors is enabled by delegated authority from clients, which allows the advisor to make investment decisions and execute transactions on behalf of the client without the client’s expressed consent.

- Some industry participants observed that MFDA advisors may make the transition to an IIROC platform after establishing a client base, which is necessary to support a business with the wider range of product offerings of an IIROC registrant.
MFDA-licensed SMB Advisors

Overview

MFDA-licensed advisors in the SMB financial advice industry sell mutual funds and, if licensed, insurance to their clients. They operate out of financial advisory firms. While MFDA licenses are currently limited to the sale of mutual funds, efforts are underway to expand the scope of offerings to include ETFs. A large majority of MFDA-licensed advisors also hold licenses to sell life insurance. There are a total of 30,834 advisors serving approximately 7,067,400 clients in this segment, for an average client base of 229 clients per advisor.

Asset Base

| Total client assets under management | $239 billion |
| Total in-place client life insurance coverage | $560 billion |
| Average assets under management per advisor | approximately $8 million |
| Average life coverage per advisor | approximately $18 million |
| Average assets per client | approximately $40,000 |
| Average life policy size per client | approximately $160,000 |

Demographics

| Median age | 45–54 |
| Gender breakdown | 75% male, 25% female |
| Median years in the industry | 10–19 |
| Median employees in practice | 1–5 |
| Median revenues | $100,000–$149,999 |

Trends and Analysis

- Given the narrower range of products offered, MFDA-licensed advisors may be newer to the industry or offer more specialized services than their IIROC counterparts. An MFDA firm is sometimes considered a lower-barrier entry point to the financial advice industry, since a transition to IIROC can be precipitated by the demands of a more mature client base. However, PwC’s survey of SMB financial advisors appears to suggest the opposite. It found that there is a lower proportion of advisors in this segment with fewer than five years of tenure than in other segments (more information is provided in the SMB Financial Advisor Survey Data Statistics and Trends section later in this study). This may be the result of continuing challenges for newcomers to the industry, including significant competition from established advisors and incumbent advantages, including word of mouth marketing.
- Some research has indicated that MFDA-licensed advisors spend more time on financial planning than IIROC licensees, who may spend more time actively managing a client’s portfolio. The lower average assets per client compared to IIROC advisors may also be the result of the fact that MFDA-licensed advisors sell a narrower range of products and cannot obtain delegated authority to actively manage a client’s entire portfolio.
- MFDA membership has fallen significantly over the past decade, which appears to be associated with a migration of advisors from MFDA firms to larger IIROC firms, including the full service brokerages owned by the Big Six banks. Some discussions identified a desire to offer clients a wider range of products and the costs of regulatory compliance as key factors contributing to this trend. Compliance costs are a significant burden for small MFDA dealers, but are minimized through the economies of scale offered at large IIROC firms. Additionally, some insurance-focused advisors may have opted to cancel their mutual fund licenses as a result of the significant due diligence requirements.
Insurance-based SMB Advisors

Overview

Advisors in this category sell insurance-based products and provide advice to clients regarding life insurance policies, segregated funds, annuities, disability and health insurance. These advisors may also be licensed to sell mutual funds and securities, which is indicative based on these advisors having assets under management (as depicted in the SMB Financial Advisor Survey Data Statistics and Trends section below) – but their primary focus (i.e. where the majority of their revenue is generated) is insurance. Similarly, the majority of MFDA or IIROC-licensed advisors are licensed to sell insurance so they can complement their primary focus which is to sell and provide advice on mutual funds and/or securities.

Life insurance is generally available through financial advisors at registered dealer firms, MGAs, directly contracted insurance advisors and full service brokerages. There are a total of 44,074 advisors serving approximately 7,602,000 clients in this segment, for an average client base of 172 clients per advisor.

Asset Base

| Total client assets under management | $86 billion |
| Total in-place client life insurance coverage | $1,163 billion |
| Average assets under management per advisor | approximately $2 million |
| Average life coverage per advisor | approximately $26 million |
| Average assets per client | approximately $11,000 |
| Average life policy size per client | approximately $130,000 |

Demographics

| Median age | 55–64 |
| Gender breakdown | 77% male, 23% female |
| Median years in the industry | >20 |
| Median employees in practice | 1–5 |
| Median revenues | $100,000–$149,999 |

Trends and Analysis

- On average, this is the oldest advisor segment of the SMB financial advice industry, and the segment with the most years in the industry. Incumbent advantages and significant competition from online and branch-based insurance brokers may contribute to the low proportion of young and relatively new advisors.
Fee-only SMB Advisors

Overview

Fee-only financial advisors may not be licensed to sell securities or insurance, but rather focus on providing advice to clients for a fixed fee – often an hourly rate (i.e. typically between $100 to $250 per hour, depending on the type of advice or the level of experience the advisor brings), an annual fee, or a charge based on products provided (e.g. a financial plan). The advice provided by fee-only financial advisors does not relate to specific products, but can include overall portfolio balancing and diversification, budgeting, financial planning and assistance with tax preparation. Fee-only advisors are a relatively small part of the financial advice industry in Canada, totalling approximately 450 financial advisors.

Demographics

| Median age | 45–54 |
| Gender breakdown | 79% male, 21% female |
| Median years in the industry | 10–19 |
| Median employees in practice | 1–5 |
| Median revenues | $150,000–$249,999 |

Trends and Analysis

The fee-only financial advice model gives customers the benefit of independent, objective financial advice as these types of advisors do not receive compensation from any financial product provider. However, this particular segment may not provide the same level of benefits across all types of customer segments due to the following considerations:

- Advisors who solely focus on fee-only advice do not typically maintain vast, specialized knowledge regarding a variety of mutual funds, securities and insurance products or companies that certain customers may be looking for (e.g. fund portfolio manager experience, fund performance information, fund investment style, specific insurance product benefits or limitations, etc.).
- Customers with small to medium-sized investment portfolios may actually pay higher fees under a fee-only model, as compared to fee-based or commission-based models, due to the number of fee charges related to the time an advisor spends monitoring, validating and executing transactions on a regular basis.
- Financial advisors typically establish a mature client base before moving to a fee-only service platform.
- Clients who utilize fee-only financial advisors have either high net worth (i.e. they use fee-only services for complex tax or estate planning needs) or have needs that are not specific to investment or insurance products (e.g. general retirement planning, budgeting, income tax preparation and financial advice regarding marital breakups).
- While there are only a small number of financial advisors offering fee-only services, many do so in addition to offering either fee-based or commission-based services.
A survey designed to capture key demographic, structural and economic information related to the Canadian SMB financial advice industry was developed and administered by PwC, in conjunction with Advocis and HDR. The survey was open from April 2 to May 2, 2014 and received 1,857 responses from advisors, branch managers, and MGA/broker dealers representing the mutual fund, securities and insurance industries across Canada.

The following figure presents a summary of survey responses by region and type of advisor.

### SMB Financial Advisor Survey Results
- 1,743 responses from advisors
- 27 branch managers
- 87 MGAs, sales organizations or broker/dealers

Qualitative and quantitative data obtained from the survey was carefully assessed and validated in order to complete a full profile of the SMB financial advice segments, and to estimate the economic impact of the SMB financial advice industry.

A summary of key SMB financial advice industry demographic and structural statistics and trends is provided below (information on the economic impact study is provided in Section 7 and Appendix B).

#### Advisor Survey Response Rates

“Adjusted” Responses by Region (see Appendix B)

- **Multiple Provinces**: 94
- **Ontario**: 756
- **British Columbia**: 335
- **Alberta**: 233
- **Manitoba & Saskatchewan**: 130
- **Atlantic Canada**: 123
- **Quebec**: 96

#### Advisor Age by Category

<table>
<thead>
<tr>
<th>License Type</th>
<th>&lt; 35</th>
<th>35–44</th>
<th>45–54</th>
<th>55–64</th>
<th>≥ 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUTUAL FUNDS LICENSE</td>
<td>9%</td>
<td>16%</td>
<td>35%</td>
<td>28%</td>
<td>11%</td>
</tr>
<tr>
<td>SECURITIES LICENSE</td>
<td>33%</td>
<td>10%</td>
<td>28%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>INSURANCE LICENSE</td>
<td>9%</td>
<td>18%</td>
<td>23%</td>
<td>33%</td>
<td>17%</td>
</tr>
<tr>
<td>AVERAGE FOR ALL RESPONDENTS</td>
<td>12%</td>
<td>17%</td>
<td>27%</td>
<td>32%</td>
<td>12%</td>
</tr>
</tbody>
</table>

#### Advisor Tenure by Category

<table>
<thead>
<tr>
<th>License Type</th>
<th>&lt; 5 years</th>
<th>5 to 9 years</th>
<th>10 to 19 years</th>
<th>≥ 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUTUAL FUNDS LICENSE</td>
<td>11%</td>
<td>19%</td>
<td>32%</td>
<td>37%</td>
</tr>
<tr>
<td>SECURITIES LICENSE</td>
<td>36%</td>
<td>7%</td>
<td>29%</td>
<td>28%</td>
</tr>
<tr>
<td>INSURANCE LICENSE</td>
<td>21%</td>
<td>13%</td>
<td>15%</td>
<td>51%</td>
</tr>
<tr>
<td>AVERAGE FOR ALL RESPONDENTS</td>
<td>18%</td>
<td>14%</td>
<td>25%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Seventy percent of advisors who responded to the survey are over the age of 45. Meanwhile, approximately 10% are over 65. Advisors licensed to sell securities appear to be younger than average, with one in three being under the age of 35.
The majority of financial advisors have over ten years in the industry. More than two out of every five financial advisors have been in the industry for over 20 years, potentially suggesting challenging conditions for newcomers. New financial advisors face barriers to building a customer base, including competitive pressures from established advisors who rely on word of mouth marketing. Consequently, financial advisors often exit the industry after a few years.

Fewer new advisors are licensed for mutual funds. Ten percent of mutual fund advisors have fewer than five years of tenure, compared with 18% across the entire industry.

Compared to the industry average, insurance-based advisors tend to have greater tenure. Only half of all advisors selling mutual funds have more than 20 years of tenure, potentially reflecting a lack of new agent recruiting due to the shift away from exclusive agent channels.

Representation of women has increased, but remains low. While the proportion of female financial advisors among newcomers to the industry is double that of advisors who have over 20 years of tenure, women remain in the minority within the financial advice industry. There is no indication this proportion has changed over the last decade.

Fee-based financial advisors report relatively higher revenues and margins. As a proportion of revenue, fee-based financial advisors spend slightly less on wages, rent and utilities, property taxes, marketing expenses and technology and communications. The reported median revenue for fee-based financial advisors is $200,000, whereas the median for insurance-based and IIROC or MFDA licensees is $125,000.

Among advisors in the SMB financial advice industry:
- Over 70% generate revenue less than $250,000.
- Almost 55% generate less than $150,000.
- Almost 40% generate less than $100,000.
- Almost 20% generate less than $50,000.

Most advisors are dual-licensed for insurance and either mutual funds or securities. Single-licensed advisors selling only mutual funds or securities are a very small portion of the SMB financial advice sector.

| Representation of women has increased, but remains low. While the proportion of female financial advisors among newcomers to the industry is double that of advisors who have over 20 years of tenure, women remain in the minority within the financial advice industry. There is no indication this proportion has changed over the last decade. |
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| - Almost 55% generate less than $150,000. |
| - Almost 40% generate less than $100,000. |
| - Almost 20% generate less than $50,000. |

| Most advisors are dual-licensed for insurance and either mutual funds or securities. Single-licensed advisors selling only mutual funds or securities are a very small portion of the SMB financial advice sector. |
Consumers of Financial Advice

Trends in Savings and Investment

The financial advice industry serves, and is driven by, Canadian individuals and households who invest their savings. The amount available for investment is determined by the ability of households to save, and their decision to invest all or part of any savings.

Savings rates have been the subject of significant attention in the post-financial crisis years after reaching historically low levels. While the savings rate has fluctuated significantly, it has recently recovered and began to reach 16 year highs in 2013, raising the possibility of an accumulation of household assets as well as an increased demand for financial products and services. This increase may, in fact, be intensified by the impact the recent period of depressed savings has had on the achievement of consumers’ financial goals (e.g. retirement, saving for children’s education, paying down debt, making significant purchases requiring financing).

Retirement as a Primary Reason for Savings and a Significant Source of Concern

Despite the recent increase in savings rates, the long term impact of low savings rates is likely to be felt in Canadians’ retirement planning, in combination with other trends, including a reduction in pension plan contributions (i.e. from both employers and employees), and a decline in defined benefit pension plan coverage.

A recent survey of Canadians aged 55 and over found that more than 40% believe they have not saved enough for retirement. A BMO Wealth Institute survey indicated that the average Canadian baby boomer approaching retirement has $228,000 in savings, roughly $400,000 short of the amount they think they will need. As a result, 46% are not confident about their future finances.

Another study found that 46% of Canadian pre-retirees expect that their standard of living will be worse in retirement, with only 60% of Canadians somewhat confident that they will experience a financially comfortable retirement.

More Consumers Are Worried Today

<table>
<thead>
<tr>
<th>Having enough money for retirement</th>
<th>Providing for your family if you die</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2013</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>76%</td>
<td>79%</td>
</tr>
<tr>
<td>39%</td>
<td>42%</td>
</tr>
<tr>
<td>37%</td>
<td>37%</td>
</tr>
</tbody>
</table>

**Very concerned** | **Somewhat concerned**

* Results based on all households.

Source: 2013 Canadian Life Ownership Study and Canadian TOPIC.

According to a recent study, having enough money for retirement is among the top financial concerns of Canadian consumers – and is a concern that is only growing in importance.
The decision to convert cash savings into investments is the second determinant of household investment, and may be a limiting factor on investment levels. For instance, Canadian households may not be making the decision to invest their savings as a result of time limitations, a tendency to procrastinate, a perceived lack of knowledge, cost aversion or a lack of a pre-established plan. These factors likely contribute to the creation of a barrier between savings and investment, as evidenced in a 2010 survey which found that almost half of Canadians find it easier to save than invest.

**The Decision to Obtain Financial Advice**

A study of investor behaviour and beliefs sponsored by the Investor Education Fund estimated that 5 out of 6 Canadian investors are customers of financial advisors. Of those not obtaining advice, another recent survey of investors found that:

- 44% of non-advised households believe that financial advice is only available to those with over $50,000 in assets.
- Non-advised investors are clustered at lower levels of income (53% earn less than $60,000), while the proportion of households who are advised is evenly distributed between the income ranges used (under $60,000, $60,000–$90,000, over $90,000).

Within the insurance segment, a survey found that approximately 70% of Canadians prefer to purchase life insurance face-to-face from an advisor. In terms of the selection of a specific advisor, it appears that word of mouth is a major factor for investors. Important determinants of client satisfaction with an advisor once retained include clear communications regarding performance and cost structure. Notably, there has been a decline in satisfaction with the degree to which advisors explain their fee structure, emphasizing the need for advisors to improve in this area to increase customer satisfaction with their services.

Further analysis indicates that consumer behaviours and expectations associated with financial advice vary depending on demographic and wealth related factors. A summary of this analysis, broken down by 4 customer wealth segments (i.e. Emerging Affluent, Mass Affluent, Affluent and Wealthy), is provided in the following figure.

The findings from this analysis emphasize the high concentration of Emerging Affluent and Mass Affluent consumers in Canada, who represent over 90% of the total consumer population. These segments represent a significant portion of the overall SMB financial advice customer base, and are included in the scope of the industry and regulatory implications presented later in this section.
**FINANCIAL ADVICE CUSTOMER SEGMENTS**

### EMERGING AFFLUENT (MASS MARKET)

- **(<$100,000 investible assets)**
- **80% of Canadian Households**

The services expected from financial advisors vary based on the amount of assets invested:

- For those investing less than $50,000, the priority from a financial advisor is to obtain help in figuring out financial needs for the long term;
- For those investing between $50,000 and $99,000, the main service expected from a financial advisor is assistance with building a financial plan.

The attitudes of the mass market segment, particularly among Generations X and Y, tend to be more cautious and less trusting. Investor behaviour in this segment is changing from sole reliance on personal advice to a validation process via social media and self-service research tools.

Financial challenges faced by this segment include obtaining access to real-estate markets where price is often a barrier for first-time buyers, and developing a strategy for managing a larger proportion of discretionary income than past generations.

A survey of Canadian investors found that a significant proportion (44%) of non-advised households believe they need more than $50,000 in assets to invest, despite the fact that most advised households (71%) first sought advice with less than $50,000 in assets, which indicates a barrier in perceptions among mass market investors preventing them from seeking advice.

### MASS AFFLUENT ($100,000 – $500,000 investible assets)

- **12% of Canadian Households**

The mass affluent take advantage of a wider range of financial products and services than the mass market, including financial assets (e.g., bonds, mutual funds and stocks), and debt products (e.g., mortgages, lines of credit) and full service as well as discount brokerage accounts. As a result of their greater degree of caution and lower degree of trust in financial markets, the mass affluent are also more likely to want control over their finances, for instance by using mobile technology to track investments and pay bills.

The financial expectations of this segment are influenced by uneasiness about individual financial futures; mass affluent investors expect to retire later, lack sufficient income in retirement and are facing challenges in financing their children’s education. Among the mass affluent of Generation Y, concerns about the barriers to home ownership for first-time buyers, repayment of university and other debt and uncertainty regarding unexpected expenses are also prominent.

A US study found that the mass affluent investors may not believe they are sufficiently wealthy to retain a financial advisor.

Another survey of Canadian investors provides an indication of the services expected from an advisor – for those investing over $100,000, the focus of a relationship with an advisor relates to advice on types of investments to buy.

### AFFLUENT ($500,000 – $1 million investible assets)

- **4% of Canadian Households**

Despite the complexities that can be associated with managing finances at this level of net worth, a survey of US investors with investible assets of over $500,000 found that 30 percent do not have a financial advisor. Of this 30 percent, 49 percent believe the fees charged by financial advisors are too high, 40 percent believe they can get better results on their own and 37 percent “do not believe financial advisors have their clients’ best interests at heart.”

A US study found that wealthy under-50s are a significant, potentially under-served market segment that are looking for “investment services tailored to their investment needs.” They spend more time managing investments and interacting with advisors, are more likely to switch advisors.

Another recent study found that about a quarter of high net worth investors are immigrants, another quarter are first generation Canadians, and of these, 68% stated their wealth was self-made.

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v PwC. Recipe for Success: How financial institutions can forge a sustainable path for mass-affluent customers, F5 Viewpoint. PwC, December 2012.
vi Ibid.

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Implications of Industry Trends and Proposed Regulatory Changes

**Industry Trends and Implications – The Rise of Customer Centricity and Multi-channel**

Canada’s SMB financial advice industry has faced a number of challenges over the past several years, including:

- General decline in customer confidence in equity investing resulting from volatile equity markets and the global stock market downturn in 2008.
- Public and industry demands over increased transparency and value regarding advisor compensation and investment management fees.
- Customer concerns regarding pension and retirement viability.
- Increased competitive pressures resulting from a paradigm shift from the traditional product/transactional based model to a customer-centric model in response to changing customer behaviours, expectations and a growing desire to take more control of their financial future.

The continuing growth in consumer digital usage (e.g. mobile, social media, the internet) has had a profound impact on consumer behaviours and expectations. These expectations have been shaped by exposure to customer-oriented industries such as retail and air travel, where the user experience is insightful, predictable and convenient. Consequently, Canadian wealth and insurance consumers are becoming more comfortable utilizing online, direct and self-directed channels to conduct individual and peer-to-peer research, educate themselves and perform financial transactions on a regular basis.

> “Customer expectations, which are shaped by technological innovations and their personal experiences, are steering the industry towards a ‘choice of channel’ model that will make the advisor-consumer relationship far more interactive”

PwC. Distribution Dilemma

This represents a clear shift in customer preference as customers demand more choice, transparency, and value while preferring to do business across multiple channels (e.g. online, face to face, phone). As a result, there are significant implications for SMB financial advisors as they face increasing pressure to evolve their businesses and strategies to effectively compete against...
do it yourself investors and direct channel competitors, including banks, online aggregators and direct insurers. This has resulted in the rise of self-directed (i.e. do it yourself) or assisted financial advice (i.e. personal advice with support of technology infrastructure) models as well as investment products such as Exchange Traded Funds. A recent study found that the most popular source for information on investments is online research. This study found that even full service buyers conduct research online before buying a financial product in person.\textsuperscript{160}

The paradigm shift in customer behaviours and expectations has also permeated the Canadian insurance industry, particularly when assessing Canada’s underinsured consumer segment. The underinsured market in Canada continues to grow, with over 6.1 million Canadian households recognizing that they do not have enough life insurance to adequately protect surviving family members in the event of the death of the primary income earner.\textsuperscript{161}

A recent study published by LIMRA indicated that current life insurance ownership in Canada is at its lowest level in 30 years. LIMRA provided the following statistical trends on Canada’s underinsured life insurance segment:\textsuperscript{162}

- **Canadian households with no life insurance**: 30%.
- **Canadian households who have life insurance but feel they are underinsured**: Approximately 31.5%.
- **Underinsured Generation X and Y segments**: 47% Gen X (1.2 million households), 52% Gen Y (2.4 million households).
- **Underinsured market broken down by household income levels**:  
  - Household income less than $35,000: 59% (1.2 million households).
  - Household income between $35,000 and $99,000: 41% (3.8 million households).
  - Household income greater than $100,000: 32% (1.0 million households).

The proportion of families with life insurance coverage has declined since 2006, from 79% in 2006 to an average of 68% today. This decline is most pronounced among lower income households (i.e. from 53% to 39% for households under $35,000; and from 79% to 67% for households between $35,000 and $50,000).

- **Families with children have greater coverage**.
- **60% of households surveyed that have life insurance believe that their coverage would not be adequate to pay living expenses into the future**.
- **33% of households surveyed would immediately have trouble meeting everyday living expenses if a primary wage earner died today, whereas 32% would have trouble keeping up with expenses after several months**.
- **Canada’s 3.6 million strong Gen X and Gen Y population, primarily categorized in the mass market and mass affluent segments, dominates the Canadian underinsured market – representing 65% of the total household count**.

The LIMRA study also identified a number of factors explaining why the underinsured market continues to grow. For example:

- **Affordability**: They cannot afford to buy insurance at this time.
- **Competing financial interests**: Including preference to purchase other financial products.
- **Lack of knowledge**: Households find it, “Too complex to understand,” “Don’t know how much to buy or what type to buy,” and are “Worried about making the wrong decision.”
- **Procrastination**: There were many reasons for procrastination, including: “Not on top of priority list,” “Nobody has approached me,” “Unpleasant thinking about death,” “Buying process too time consuming,” and “Product is not relevant or does not suit my needs”).
- **Avoidance**: Individuals want to avoid high pressure sales.

SMB insurance advisors and distribution organizations continue to be challenged with contacting and engaging with these segments in an effective manner. While the majority of these younger households still show a preference for purchasing life insurance in a face-to-face meeting with a licensed financial advisor (i.e. LIMRA survey statistics indicate 67% of Gen Y’s and 77% of Gen X’s prefer to buy face-to-face), these segments are actively leveraging multiple channels and relying on their own networks to inform their purchasing decisions. These behaviours clearly indicate a strong need for advisors to augment the traditional face-to-face customer engagement model with a multi-channel capability in order to successfully attract and maintain this consumer segment.

Relevant multi-channel statistics include:

- The internet plays a role in 8 out of every 10 life insurance purchases.\textsuperscript{163}
- 61% of consumers between 18 and 54 years of age view purchasing life insurance online as attractive.\textsuperscript{164}
- Consumers under 40 are almost twice as likely to rank peer recommendations as one of their top purchase drivers, and rank online research and review sites, social media and blogs as primary enablers to facilitate peer to peer (and advisor to consumer) knowledge, recommendations and experience sharing.\textsuperscript{165}
- 44% of Gen X and 70% of Gen Y consumers use social media for personal finance and investment purposes.\textsuperscript{166}

**Regulatory Implications**

Significant debate has transpired over the last several years regarding the need for increased regulatory scrutiny and rigour in the Canadian financial advice industry. Regulators and industry consumer advocates have been calling for the creation and implementation of a standard fiduciary duty to better protect the interests of Canadian investors, increased transparency and disclosure regarding fees and investment performance, a potential change in advisor compensation and potential enhancements to retirement income reform. Descriptions of each regulatory theme can be found in Section 4 of this study.
The current system and would address specific conflicts of interest. The increased regulatory focus would likely result in a more costly and compliance driven advisor business model. The financial and economic impact of changes to the financial advisor ecosystem could limit investors’ access to financial advice, especially among customers with lower net wealth.

As Canada’s financial advice industry works towards successful implementation of the remaining phases of CRM2 and Point of Sale regulations in order to address disclosure and transparency concerns, the ongoing debate over the implications of introducing a statutory obligation to place the best interest of customers at the forefront of any investment decision continues. Advocates who support the introduction of advisor fiduciary duty claim that it would introduce a higher standard of care than the current system and would address specific conflicts of interest in the sale of certain investment products. For example:

- Sales incentives and quotas:
  - Several insurance organizations offer sales incentive programs with non-cash compensation (e.g. trips) to independent insurance advisors who meet a minimum new business volume threshold.
  - Various life insurance manufacturers offer marketing incentive programs for insurance agencies who meet minimum new business thresholds. These marketing incentives provide agencies with additional marketing funds, supplied by the insurer, to be specifically utilized to support programs that encompass the insurer’s products and services.
- Commission variability between fund compensation structures:
  - The embedded advisor compensation model has come under regulatory and media scrutiny as being susceptible to potential conflicts of interest, including:
    - The interests of a fund dealer or advisor may be aligned more to a product’s higher compensation structure (DSC versus No Load) than with the customer’s best interest.
    - The fact that many customers are not made fully aware of the severity or materiality of the redemption impact of a back end fund until after the fund was purchased.

A 2012 study conducted for the Investor Education Fund provides some insight into consumer attitudes regarding fiduciary duty and embedded commissions. The survey assessed a number of factors related to the client-advisor relationship in order to better understand the expectations and needs of investors who have an advisory relationship. The survey identified the following findings:

- Investors feel that advisors do put the client’s interests ahead of their own:
  - 7 out of 10 investors believe that their advisor has a legal duty to put their client’s best interest ahead of his or her own personal interest (9% disagreed, 21% neutral).
  - 62% of investors believe that their advisor would recommend the best product for their client even if it means less money for them (11% disagree, 27% neutral).
- Investors have little or no idea of how much advisors get paid:
  - 33% of investors recognize or understand typical advisor payment arrangements.
  - 66% of investors surveyed do not fully understand how front-end commissions are determined and paid to advisors prior to the survey.
  - Less than a third of respondents believe that a no-load version of a fund with front-end commissions exist, while 25% of survey respondents understand that front-end commissions are usually negotiable.
  - 50% of respondents say that front-end commissions were disclosed to them by the advisor, 25% say that the advisor disclosed trailing commissions.
- There is investor uncertainty as to whether a conflict of interest exists:
  - Almost two-thirds of survey respondents are not aware of how fund commissions are affected by fund type or the fund company.
  - 51% of respondents are neutral on whether there is a conflict of interest or not, while 36% believe there is no conflict of interest and that their advisor was looking out for their best interest regardless of how the advisor was paid. Only 13% believe that there is a conflict of interest.

Additional research regarding consumer attitudes on advisor compensation suggests that while consumers understand the importance of working with a financial advisor, this understanding is skewed by their expectations of what advisors should charge for providing comprehensive financial advice. A US-based study conducted by LIMRA found that more than half of US consumers surveyed preferred paying a flat fee to advisors for assistance with developing and implementing a plan for retirement income, developing and maintaining a financial plan, obtaining advice on insurance type, amount and options or advice on which types of investments to buy or sell. The report also highlighted the fact that 80% of US consumers indicated they would only be willing to pay less than $100 to obtain financial advice, which is far less than the actual cost incurred to provide advice.
The findings from these studies directly support the need for increased transparency and disclosure, which both CRM2 and Point of Sale regulations are designed to provide. More specifically, financial advisors need to better inform and educate their clients on the merits and value of their services in order to address concerns and apathy regarding conflict of interest.

Effectiveness of Canada's New and Existing Regulations Regarding Disclosure, Transparency and Fiduciary Duty

Industry stakeholders advocating against the implementation of a standard statutory duty of care state that the combination of recently introduced CRM2 and Point of Sale regulations and the existing fiduciary standards (fact-based and statutory; see Section 4 for definitions) provide sufficient customer protection against conflicts of interest. Furthermore, they note that there is no substantive evidence indicating that the client’s best interest is best protected by having a standard statutory fiduciary duty.

A report written by Torys law firm found that Canada’s world-class existing standards of conduct — including the Know Your Client rule, Point of Sale regulations and the current CRM2 — are, “highly regulated and informed through SRO requirements, status and common law.”

“The elements of the proposed fiduciary duty already exist irrespective of whether we choose to label the duty “fiduciary... A principled foundation for the standard of care investment advisors owe to clients already exists through detailed SRO rules, By-Laws, Policy, Guidance notices and disciplinary decisions in addition to ample Canadian jurisprudence at large... There is no gap in Canada that need be or could be filled by imposing further statutory obligations on investment advisors and dealers.”

The report contends that there is a lack of clarity around the CSA’s assertion that a suitable investment may not be the “best” product for a client, and states: “It is highly unclear as to how suitable investments are not in the clients’ best interest apart from the issue of cost/commission/pricing.”

Furthermore, the report acknowledges that concerns regarding conflict of interest revolving around the costs and advisor compensation fees of investment funds are legitimate and should be considered as one of several factors when assessing suitability, however, suggests that this is not “an indication of fiduciary duty.”

Proponents advocating for the implementation of a standard statutory duty of care counter that the issue with the existing regulatory system is that there are discrepancies with how enforceable the advisor’s obligations are. This view stems from a list of cases where mutual fund dealers refused to compensate investors after non-binding recommendations were made by an ombudsman for them to pay for specific losses incurred due to regulatory infractions committed by advisors. These proponents believe, “The point of legislating a best interest standard is to relieve the investors from having to prove in court that the fiduciary duty was owed to them...So it doesn’t matter how fulsomely the advisors’ obligation is defined; it matters whether investors can rely on it.”

Implications of Rising Compliance-related Costs for Financial Advisors and Customers

Some industry stakeholders have agreed that a fiduciary duty application would not provide significant incremental enhancements or benefits toward increasing the protection of investors’ best interests relative to the existing regulatory framework (i.e. including Client Relationship Model – Phase 2, anti-money laundering, FATCA, Cyber Risk, Own Risk and Solvency Assessment and enhanced client privacy and data protection), compared to the additional costs that would be incurred as a result of increased compliance and litigation. These costs would eventually be passed down to the investing public and could result in further accessibility issues for Canadian investors in search of affordable financial advice.

A PwC global survey indicated that the biggest challenge faced by financial services executives involves managing regulatory changes and meeting growing compliance requirements. 88% of those surveyed confirmed that they find the current regulatory environment difficult to manage, with 86% of insurance executives stating that they are concerned that over-regulation will have significant impact on growth.

This concern is consistent with recent trends identified in jurisdictions that have already implemented fiduciary duty regulations and eliminated embedded commissions. The jurisdictional reviews of both Australia and the UK (see Section 4 of this study) revealed an increase in the cost of providing financial advice after the implementation of both regulatory programs. This has resulted in a reduction in the number of overall financial advisors as well as an increasing focus on high net worth clients for those advisors remaining in the business.

“"The increasing burden of risk and regulation compliance continues to have material effect on the cost of wealth managers. Currently it is 5% of revenues and respondents expect this level to increase to 7% in the next two years.””

PwC. Navigating to tomorrow: serving clients and creating value – Global Private Banking and Wealth Management Survey 2013

Canadian financial advisors looking to enhance profitability in their existing book of business by focusing on clients with larger investment portfolios has been attributed to the combination of the following challenges:

- Their limited ability to increase the number of clients they are effectively able to service within the current compliance environment.
The limited number of Canadian investors with investible assets large enough to generate sufficient advisor revenues to offset the rising costs associated with servicing these accounts (i.e. 12% of Canadians have investible assets between $100,000 and $500,000, while 4% have investible assets between $500,000 and $1,000,000 and 4% have investible assets over $1,000,000).

Implications for Mass Market and Underinsured Consumers: Advice Gap

SMB financial advisors and firms are struggling to expand their businesses due to increased compliance requirements, costs and their general inability to scale. This impacts their ability to effectively service customers in the lower wealth segments (i.e. mass market and mass affluent), as evidenced by recent strategic decisions made by leading wealth and investment brokerage firms to focus on consumers at the higher end of the mass affluent segment and on the high net worth segments.

The impact of increased regulation for the lower to middle income investor segments in Canada would likely be profound. The significant number of Canadians who are at risk of being underinsured or underfunded for retirement and in need of sound financial advice would be challenged to find accessible advice as a result of the potential reduction of financial advisors in the SMB financial advisor segment.

Opportunities

Enhancing Trusted Advisor Status through Better Informed Investors

Among the key drivers of change in the SMB financial advice industry are the evolving characteristics of its current and prospective client base, particularly among generations X and Y. As noted above, these generations exhibit decreased trust in financial markets, more skepticism of industry participants and little loyalty to the businesses from which they acquire financial products and services. These characteristics, coupled with an increasing focus on fees, indicate a significant change in the way the industry serves its customers.

This change could offer opportunities for financial advisors who are able to establish and maintain their status as a trusted advisor for clients. Financial advisors who benefit from the trust and confidence of their clients can be expected to retain their client base regardless of the increasing independence in client attitudes. They could also expand their client base by offering a trusted relationship to those customers who feel under-served by traditional financial advice models and who have improved information regarding alternatives from online sources.

A prerequisite for attaining trusted advisor status is transparency, an issue that will come into focus with the adoption of the CRM2 framework discussed in Section 4. Under CRM2, advisors will be obligated to improve the degree of transparency they offer clients in terms of compensation, which represents an opportunity to enhance trust through a better informed client. Frank, open discussions can improve a client’s ability to make an informed decision and improve their trust in an advisor. Increased transparency also has the benefit of dispelling any misconceptions clients may have about a financial advisor and the industry.

Transparency for customers around the services provided by an advisor, compensation arrangements and product availability also represent an opportunity to enhance awareness of an advisor’s value proposition, and to clarify the distinction between the services of an advisor and other channels, such as self-service brokerages.

The implication of a focus on trusted advisor status is that a financial advisory practice must orient its business around client needs and behaviours, rather than the underlying economics and operating capabilities of the business. For instance, the front office of a financial advisor dealer firm will be challenged to evolve from a product distribution focus to a customer champion focus, driven by a thorough knowledge of the client’s particular needs and characteristics. This knowledge can be developed through an expanding array of technology tools, which are discussed further in this section.

Implications of Retirement Income Reform

The current focus on enhanced pension reform in Canada could have a significant impact on financial advisors, particularly in the group benefits industry, and on consumers. One of the current proposed reforms involves increasing the mandatory Canada Pension Plan (CPP) contributions paid by working Canadians to raise CPP pension payments during retirement. This option would potentially have a negative impact on SMB financial advisors as mandatory CPP contributions could lead to a reduction in the amount of voluntary retirement savings (e.g. RRSPs) as a result of SMB customers having less income for savings or investment. This was evidenced during an increase in the CPP payroll tax from 5% in 1990 to 9.9% in 2003. During that time, the percentage of lower income tax filers making RRSP contributions declined – from 40.2% in 1990 to 33% in 2003.1

The other proposed reform option is the creation of a voluntary contribution model called Pooled Registered Pension Plans (PRPP). PRPPs would allow entrepreneurs and employees of companies that currently do not have pension plans to make voluntary contributions to a pooled fund managed by an external professional investment firm. This option would provide opportunities for both SMB financial advisors and customers seeking financial advice as part of their overall PRPP contribution profile.

SOUND ADVICE 65
**Structural Changes in the Industry**

It is evident that the increasing ability and tendency of consumers to make financial decisions independently will exert some pressure on the financial advice industry, particularly in light of the pace of these changes. However, the growth of the self-directed investing channel does not preclude the need for financial advice, nor are the two substitutes for one another. While some alternative service delivery models have begun to emerge, this evolution of the market also presents significant opportunities for the industry.

Specifically, the traditional model of delegated advice, in which the client relies on the financial advisor to provide all information and execute all transactions, is being replaced with an assisted model of advice (i.e., guided self-service), which involves consumers obtaining financial advice and validation of independent research and decisions. This shift not only implies a change in service offering, but also a change in the way advice is disseminated.

The opportunities associated with this modified service offering involve leveraging technologies to reach a greater number of clients so advisors can achieve the scalability in their businesses that was lacking within more traditional models of financial advice. This scalability in turn could enable advisors to serve segments of the market which are currently under-served, particularly the mass affluent and mass market segments.

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**CHANGING ROLE OF ADVICE**

**FULLY DELEGATED**

- Market Data
- Products
- Tech

**ASSISTED**

- Market Data
- Products
- Tech

**SELF-DIRECTED**

- Market Data
- Products
- Investor Communities

Transformation to an assisted model of advice can happen gradually for advisors, beginning with the transition from a traditional advice model to increasing social and mobile connectivity with clients, and potentially onward to become a “social” advisor. A social advisor is specialized and channel-based, and embedded in the social network of self-directed investors whose opinion and views are highly sought after. This evolution could also lead to the emergence of new, disruptive competition from an automated advisor service offering that replaces human advisors in managing an investor’s portfolio.
The table below sets out a number of the challenges facing SMB financial advisors as they make this transition and adapt to the changing structure of the industry.

<table>
<thead>
<tr>
<th>Component</th>
<th>Today’s Challenge</th>
<th>Tomorrow’s Challenge</th>
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<tbody>
<tr>
<td>Social Marketing</td>
<td>Navigate regulations to encourage and drive advisor adoption of social media channels.</td>
<td>Fully enable advisors to manage and differentiate their brand, profiles and ratings on social media channels while addressing regulatory concerns related to the use of social media, including misleading sales or advertising practices, privacy and data/IT security and information disclosure standards.</td>
</tr>
<tr>
<td>Social Intelligence &amp; Analytics</td>
<td>Enable social listening to capture client insights.</td>
<td>Implement sophisticated tools and analytics that gather and analyze data in real-time from several sources for prospecting and client servicing.</td>
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<tr>
<td>Social Collaboration</td>
<td>Implement and foster engagement in enterprise social platforms for employees and internal stakeholders in order to improve productivity and engagement.</td>
<td>Embed social collaboration into the firm’s highest value processes and functions, transforming communication, collaboration not just internally but also across clients and third parties.</td>
</tr>
<tr>
<td>Enterprise Co-creation</td>
<td>Identify pilot opportunities based on specific topics (e.g. technology development), and then involve an ever-increasing group of stakeholders to further refine ideas and generate new ones.</td>
<td>Systematically develop networks of employee, advisor, client and third party stakeholders to create and deliver processes, services, and products through engagement platforms.</td>
</tr>
<tr>
<td>Digital Mobility</td>
<td>Deliver mobile apps that improve advisor productivity and enhance client service experiences.</td>
<td>Go beyond mobilizing existing experiences to foster new innovations, reach new audiences, and create new user experiences and business opportunities.</td>
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</table>

One area that exemplifies the opportunity to expand a client base by offering alternative service delivery is life insurance. Canadians perceive a need to augment their life insurance coverage and appear willing to consider purchasing (i.e. 45% of Canadian households surveyed stated that they do not have enough life insurance, while 3 million Canadian households indicated they may purchase life insurance in the next 12 months175), but may require new approaches from advisors to bridge the gap between considering a life insurance purchase and making one.

The business model of insurance-licensed financial advisors can be adapted in order to improve accessibility for households and overcome the barriers cited above. This can be accomplished by pursuing alternative methods of advice delivery, such as a guided self-service model, to allow clients to benefit from advice that can bridge the gap between conducting initial research based on a perceived need and purchasing an appropriate life insurance product.

As noted in Section 5, the complex and detailed nature of life insurance products means that consumers may benefit from obtaining advice from a licensed advisor prior to making any decisions. Financial advisors can assist consumers with developing a better understanding of their financial priorities, help them find cost-effective options, provide assistance in understanding products on offer and encourage discipline in making life insurance decisions in a timely way.
Critical Success Factors

Balancing Regulatory Reform with Advisors’ Abilities to Serve and Grow within the Mass and Underinsured Markets

Efforts to expand and modify regulations must be balanced, and implemented with a clear understanding of motivations and desired outcomes. Regulatory balance refers to the need to manage the anticipated benefits of a proposed regulation with the impact it will have on an advisor’s ability to serve their customers and their value proposition.

This need can be illustrated by considering proposals to ban commission-based compensation for advisors, a matter that has received significant attention of late. The balance between regulatory priorities and the impact on the business models of financial advisors can be considered through questions such as:

- How will new or proposed regulations impact the SMB advisor business and client service model (e.g. ease of doing business principle)?
- How will this impact the SMB advisors’ current/potential client base and revenues?
- Will new regulations help reduce risks for SMB financial advisors? Or will regulatory costs and/or potentially reduced revenues cause financial advisors to change focus?
- If there is a change in focus, how will this impact consumers of financial advice? For instance, will lower margins cause SMB advisors to abandon clients with lower net worth?
- The boundary regarding accountability for risks of advice (i.e. mis-selling) versus those of guidance (i.e. mis-buying) will need to be carefully managed. Who is ultimately accountable for customer actions and decisions in the assisted model?

Going forward, the importance of regulatory balance may receive increased focus as advisors explore alternative service delivery models and adapt to a changing market. For instance, regulatory requirements for the guided self-service model could be examined in terms of its impact on an advisor’s ability to achieve scalability and reach a wide range of clients who may benefit from their advice.

Enhancing Multi-channel Capabilities through Technology

Technology can be harnessed to allow financial advisors to take advantage of the significant opportunities and trends in the industry (e.g. enhancing advisor trust, evolving industry structure, a need to address underinsurance). It is also a pre-requisite for certain alternative service delivery models, including guided self-service, and for responding to the needs and preferences of today’s investors.

This need is gaining awareness. For example, 86% of global insurance CEOs believe technological advances will transform their businesses in the next 3 to 5 years. However, responses to this issue are still in the early stages, and there is no consensus on an optimal business model going forward, nor is one anticipated. Despite this fact, investment in this area is growing. Annual spending in the wealth management industry on IT external software and services is expected to grow by 9% and 13% in North America over the next two years, respectively.

<table>
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<tr>
<th>NORTH AMERICAN WEALTH MANAGEMENT IT</th>
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<tbody>
<tr>
<td>(US$ Billions)</td>
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<tr>
<td>2012  2013  2015  2016</td>
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<tr>
<td>0.29  0.31  0.37  0.40</td>
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<td>0.28  0.29  0.31  0.33</td>
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<tr>
<td>0.73  0.76  0.79  0.81</td>
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<tr>
<td>0.30  0.31  0.31  0.33</td>
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<tr>
<td>0.76  0.79  0.81  0.84</td>
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Some indicators of a new SMB financial advice business model successfully using technology to deliver multi-channel capabilities could include:

- Leveraging the rise of “digital native” clients, who use social media, smart devices and sensor technology to improve information on customer needs and preferences to develop a more tailored offering. For instance, the nature of advice provided could depend on client knowledge, financial planning habits and time available.
- Using technology to advance processing capacity and risk analytics so that customized solutions are just as fast and cost-effective to deliver as off the shelf solutions.
- Developing exceptional advisor training and product knowledge to differentiate their value proposition from commoditized self-service offerings.
- Maximizing the impact of online customer engagement by fostering a multi-channel approach to customer interactions; for instance, by following up on customer engagement online through traditional phone calls in order to increase customer satisfaction and improve information transfer.
ENDNOTES

121 Ibid.
122 Further clarification and definition of the small business advisor segment is provided in Section 2 of this report.
124 In excess of 90% of IIROC-licensed respondents to PwC’s SMB Financial Advisor Survey indicated they held a license to sell life insurance.
126 Includes financial advisors in non-Big Six full service brokerages and IIROC-licensed advisors in financial advisor-dealer firms.
128 Included for illustrative purposes only. These advisors are not considered to be part of the SMB financial advisor industry in this study.
132 Includes financial advisors in both non-Big Six full service brokerages and IIROC-licensed advisors in financial advisor-dealer firms.
139 Includes financial advisors in both non-Big Six full service brokerages and IIROC-licensed advisors in financial advisor-dealer firms.
145 Unless otherwise noted, the data cited in this section was obtained from PwC’s SMB Financial Advisor Survey.
146 Data from the survey was validated and integrated with data provided by Investor Economics to provide a consolidated view of each SMB financial advice industry segment.
140 Ibid. Pg. 3.
141 Harris, Craig. Breaking Point. FORUM. January/February 2014. Pg. 15.
142 JRMA, LOMA and LL Global, Inc. Industry Trends: Current Successes, Future Opportunities in Canada. Presentation delivered by Robert A. Kerzner, President and CEO. Pg. 29 & 46.
143 Adapted from JRMA, LOMA and LL Global, Inc. Industry Trends: Current Successes, Future Opportunities in Canada. Presentation delivered by Robert A. Kerzner, President and CEO. Pg. 25.
146 CRM2 reforms are designed to increase advisor-client disclosure and transparency, with improved investment fee and performance information so clients can assess product suitability and appropriateness of financial advice received from their financial advisor.

170 LIMRA, LOMA and LL Global, Inc. *Industry Trends: Current Successes, Future Opportunities in Canada*. Presentation delivered by Robert A. Kerzner, President and CEO.


172 Ibid.


174 Lammam, C., J. Clemens and M. Palacios. *RRSPs and an Expanded Canada Pension Plan*. The Fraser Institute, June 2013. Pg. 15.


Overview

The finance and insurance industry is an important part of Canada’s economy. In 2012, the industry directly accounted for $102 billion in real GDP – approximately 6.6% of Canada’s economy. The finance and insurance industry is comprised of a variety of companies that range significantly in terms of their products and services, operations, business models, size, scope and manner in which they are regulated.

The financial advice industry is an important component of the broader finance and insurance industry. It is comprised of many different types of financial advisors who are primarily compensated based on the quantity of financial advice they provide and the products they sell. These advisors employ staff, pay business expenses and make investments to increase their revenues. Many of these advisors are in the SMB segment of this industry.

As part of this study, a national and regional assessment of the economic contribution of the SMB financial advice industry was performed. The approach employed to estimate the economic impact of the SMB financial advice industry included:

- Responses to the SMB Financial Advisor Survey were reviewed carefully to ensure completeness and relevance. The dataset was cleansed to ensure that erroneous responses were removed or adjusted.
- Using the data collected from the SMB Financial Advisor Survey, an economic model was developed using standard input-output techniques.
- Economic impact results were then extrapolated to the broader population of financial advisors. Survey responses were carefully reviewed to assess whether results were representative of the broader population of SMB financial advisors.
- Lastly, economic impact results were validated by comparing results to similar studies and Statistics Canada industry-based data.

The table below shows the economic footprint of the SMB financial advice industry across the Canadian economy. For more detailed results, a description of methodology employed and validation steps refer to Appendix B of this study. Given that individual advisors account for nearly 99% of economic impact results, for clarity of exposition the results are shown only for the combined impacts of individual advisors and distributors.

<table>
<thead>
<tr>
<th>Description</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour Income (millions)</th>
<th>Employment</th>
<th>Government Tax Revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$ 21,690.3</td>
<td>$ 19,144.8</td>
<td>$ 7,360.4</td>
<td>181,933.6</td>
<td>$ 4,541.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>$ 3,829.9</td>
<td>$ 2,265.0</td>
<td>$ 1,282.3</td>
<td>19,616.8</td>
<td>$ 530.8</td>
</tr>
<tr>
<td>Induced</td>
<td>$ 6,960.7</td>
<td>$ 4,068.9</td>
<td>$ 1,926.1</td>
<td>36,536.2</td>
<td>$ 953.5</td>
</tr>
<tr>
<td>Total</td>
<td>$ 32,480.9</td>
<td>$ 25,478.7</td>
<td>$ 10,568.9</td>
<td>238,086.6</td>
<td>$ 6,026.3</td>
</tr>
</tbody>
</table>

The business output (i.e. gross economic activity) attributable to the SMB financial advice industry amounts to $32.5 billion, GDP amounts to $25.5 billion, employment supported amounts to 238,000 jobs and $10.6 billion in labour income, and government tax revenue that can be traced in some way to the industry amounts to $6.0 billion.
The table below both illustrates and puts into context the relative contribution of the SMB financial advice industry to the Canadian economy, specifically in terms of GDP and employment. The results indicate that the SMB financial advice industry is a large and significantly important part of Canada’s economy.

**SHARES OF TOTAL CANADIAN GDP AND EMPLOYMENT FOR SMB FINANCIAL ADVICE INDUSTRY BUSINESSES AND SELECTED OTHER INDUSTRIES**

<table>
<thead>
<tr>
<th>SMB Financial Advice Industry</th>
<th>GDP</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Impacts</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Direct Impacts Only</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Industries (Direct Impacts Only)</th>
<th>GDP</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining, Oil and Gas Extraction</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Motor Vehicle Manufacturing</td>
<td>0.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Aerospace</td>
<td>0.6%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Source: Calculated by HDR based on economic impact results from this study and data on national employment and GDP from Statistics Canada.

**Employment Contribution**

The table below shows the employment contribution of the SMB financial advice industry by region. This includes both financial advisors and the staff they employ.

**DIRECT EMPLOYMENT CONTRIBUTION OF THE SMB FINANCIAL ADVICE INDUSTRY**

<table>
<thead>
<tr>
<th></th>
<th>Direct Employment</th>
<th>Share of Direct Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>24,514</td>
<td>14.2%</td>
</tr>
<tr>
<td>Alberta</td>
<td>21,534</td>
<td>11.8%</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
<td>9,367</td>
<td>5.3%</td>
</tr>
<tr>
<td>Ontario</td>
<td>84,381</td>
<td>45.1%</td>
</tr>
<tr>
<td>Quebec</td>
<td>28,889</td>
<td>16.3%</td>
</tr>
<tr>
<td>Atlantic Canada</td>
<td>13,249</td>
<td>7.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>181,934</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Calculated by HDR.
GDP Contribution

The table below shows the direct GDP contribution of the SMB financial advice industry by region. GDP captures the difference between the value of output and the value of intermediate inputs. Thus, it represents the unduplicated total value of economic activity that has taken place. The GDP impacts estimated in this study represent the value added to the economy as a result of the expenditures of SMB financial advisors.

<table>
<thead>
<tr>
<th>Direct GDP (millions)</th>
<th>Share of Direct GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>$2,833.4</td>
</tr>
<tr>
<td>Alberta</td>
<td>2,431.4</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
<td>1,187.0</td>
</tr>
<tr>
<td>Ontario</td>
<td>8,366.3</td>
</tr>
<tr>
<td>Quebec</td>
<td>3,044.0</td>
</tr>
<tr>
<td>Atlantic Canada</td>
<td>1,301.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19,144.8</strong></td>
</tr>
</tbody>
</table>

Source: Calculated by HDR.

Tax Revenue Contribution

The table below shows the tax revenue contribution of the SMB financial advice industry. Tax revenues estimated for this study are based on relationships between GDP and provincial and federal tax contributions. Accordingly, they account for all provincial and federal taxes.

<table>
<thead>
<tr>
<th>Direct Government Tax Revenues (millions)</th>
<th>Share of Direct Government Tax Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>$667.7</td>
</tr>
<tr>
<td>Alberta</td>
<td>576.8</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
<td>281.6</td>
</tr>
<tr>
<td>Ontario</td>
<td>1,984.8</td>
</tr>
<tr>
<td>Quebec</td>
<td>726.7</td>
</tr>
<tr>
<td>Atlantic Canada</td>
<td>304.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,541.9</strong></td>
</tr>
</tbody>
</table>

Source: Calculated by HDR.

Across Canada, the SMB financial advice industry generates $4.5 billion in provincial and federal government revenues. The four largest provinces account for 87% of the tax revenues generated by the SMB financial advice industry.
Spinoff Benefits and Multiplier Effects

This section provides economic impact results for geographic regions in Canada. The regions consist mostly of individual provinces, although some provinces have been combined into one geographic region.

Each region-based table provides two sets of results:
- **Within province/region**: Shows the impacts of professional activities and expenditures in the same specific region.
- **Across Canada**: Captures the idea that the impacts spill over and beyond each individual province/region to the entire country, although most of the impacts are within the province/region.

The table below provides a summary of the distribution of total “Across Canada” impacts as defined above, while the subsections that follow provide the specific quantitative estimates per province/region.

As can be seen from the summary of total impacts, Ontario accounts for approximately 44% to 46% of total national impacts, followed by Quebec with approximately 16% distribution. British Columbia and Alberta contribute a slightly lower amount – 14%–15% and 12%–13% of impacts, respectively. Meanwhile, the Atlantic Canada provinces and Manitoba/Saskatchewan contribute approximately 7% and 5%–6% of total national impacts, respectively.

DISTRIBUTION OF TOTAL ECONOMIC IMPACTS

<table>
<thead>
<tr>
<th></th>
<th>Output (%)</th>
<th>GDP (%)</th>
<th>Labour Income (%)</th>
<th>Employment (%)</th>
<th>Government Tax Revenues (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>14.8%</td>
<td>14.8%</td>
<td>14.4%</td>
<td>14.2%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Alberta</td>
<td>12.8%</td>
<td>12.7%</td>
<td>12.1%</td>
<td>11.8%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
<td>6.0%</td>
<td>6.2%</td>
<td>5.1%</td>
<td>5.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Ontario</td>
<td>43.6%</td>
<td>43.7%</td>
<td>45.8%</td>
<td>45.1%</td>
<td>43.7%</td>
</tr>
<tr>
<td>Quebec</td>
<td>16.1%</td>
<td>15.9%</td>
<td>15.9%</td>
<td>16.3%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Atlantic Canada</td>
<td>6.7%</td>
<td>6.8%</td>
<td>6.7%</td>
<td>7.3%</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.

British Columbia

The table below shows the economic impact of the SMB financial advice industry for British Columbia.

TABLE 1 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN BRITISH COLUMBIA: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour Income (millions)</th>
<th>Employment</th>
<th>Government Tax Revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within province/region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$3,114.9</td>
<td>$2,744.7</td>
<td>$1,026.4</td>
<td>24,513.9</td>
<td>$647.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>501.1</td>
<td>301.0</td>
<td>171.4</td>
<td>2,991.5</td>
<td>70.5</td>
</tr>
<tr>
<td>Induced</td>
<td>745.2</td>
<td>488.5</td>
<td>205.8</td>
<td>4,166.0</td>
<td>114.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,361.2</strong></td>
<td><strong>$3,534.1</strong></td>
<td><strong>$1,403.5</strong></td>
<td><strong>31,671.4</strong></td>
<td><strong>$833.0</strong></td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$3,114.9</td>
<td>$2,744.7</td>
<td>$1,026.4</td>
<td>24,513.9</td>
<td>$647.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>561.5</td>
<td>333.8</td>
<td>191.9</td>
<td>3,312.1</td>
<td>78.2</td>
</tr>
<tr>
<td>Induced</td>
<td>1,126.9</td>
<td>685.8</td>
<td>308.2</td>
<td>5,931.1</td>
<td>160.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,803.2</strong></td>
<td><strong>$3,764.3</strong></td>
<td><strong>$1,526.4</strong></td>
<td><strong>33,757.1</strong></td>
<td><strong>$886.9</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.
The table below shows the economic impact of the SMB financial advice industry for Alberta.

### TABLE 2 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN ALBERTA: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour Income (millions)</th>
<th>Employment</th>
<th>Government Tax Revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province/region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 2,755.1</td>
<td>$ 2,414.4</td>
<td>$ 870.7</td>
<td>21,534.1</td>
<td>$ 571.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>478.3</td>
<td>278.1</td>
<td>147.1</td>
<td>2,069.4</td>
<td>65.2</td>
</tr>
<tr>
<td>Induced</td>
<td>558.2</td>
<td>351.1</td>
<td>149.2</td>
<td>2,477.6</td>
<td>82.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 3,791.5</strong></td>
<td><strong>$ 3,043.5</strong></td>
<td><strong>$ 1,167.1</strong></td>
<td><strong>26,081.1</strong></td>
<td><strong>$ 718.5</strong></td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 2,755.1</td>
<td>$ 2,414.4</td>
<td>$ 870.7</td>
<td>21,534.1</td>
<td>$ 571.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>533.4</td>
<td>307.3</td>
<td>165.7</td>
<td>2,394.0</td>
<td>72.0</td>
</tr>
<tr>
<td>Induced</td>
<td>884.9</td>
<td>521.2</td>
<td>240.4</td>
<td>4,159.9</td>
<td>122.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,173.4</strong></td>
<td><strong>$ 3,242.8</strong></td>
<td><strong>$ 1,276.8</strong></td>
<td><strong>28,088.1</strong></td>
<td><strong>$ 765.2</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.

The table below shows the economic impact of the SMB financial advice industry for Saskatchewan and Manitoba (i.e. the Prairies).

### TABLE 3 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN PRAIRIE PROVINCES: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour Income (millions)</th>
<th>Employment</th>
<th>Government Tax Revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province/region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 1,349.5</td>
<td>$ 1,223.0</td>
<td>$ 371.5</td>
<td>9,366.9</td>
<td>$ 288.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>161.8</td>
<td>96.6</td>
<td>51.5</td>
<td>924.1</td>
<td>22.6</td>
</tr>
<tr>
<td>Induced</td>
<td>197.0</td>
<td>127.1</td>
<td>52.7</td>
<td>1,111.9</td>
<td>29.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,708.3</strong></td>
<td><strong>$ 1,446.7</strong></td>
<td><strong>$ 475.7</strong></td>
<td><strong>11,402.9</strong></td>
<td><strong>$ 341.3</strong></td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 1,349.5</td>
<td>$ 1,223.0</td>
<td>$ 371.5</td>
<td>9,366.9</td>
<td>$ 288.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>193.9</td>
<td>114.2</td>
<td>62.0</td>
<td>1,096.5</td>
<td>26.8</td>
</tr>
<tr>
<td>Induced</td>
<td>401.5</td>
<td>236.2</td>
<td>109.0</td>
<td>2,103.8</td>
<td>55.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,945.0</strong></td>
<td><strong>$ 1,573.4</strong></td>
<td><strong>$ 542.5</strong></td>
<td><strong>12,567.2</strong></td>
<td><strong>$ 371.0</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.

The table below shows the economic impact of the SMB financial advice industry for Ontario.

### TABLE 4 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN ONTARIO: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour Income (millions)</th>
<th>Employment</th>
<th>Government Tax Revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province/region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 9,606.9</td>
<td>$ 8,437.2</td>
<td>$ 3,428.6</td>
<td>84,380.6</td>
<td>$ 2,003.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>1,617.8</td>
<td>995.5</td>
<td>583.0</td>
<td>7,963.3</td>
<td>233.3</td>
</tr>
<tr>
<td>Induced</td>
<td>2,286.6</td>
<td>1,357.2</td>
<td>650.7</td>
<td>11,928.2</td>
<td>318.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 13,511.3</strong></td>
<td><strong>$ 10,789.9</strong></td>
<td><strong>$ 4,662.4</strong></td>
<td><strong>104,272.0</strong></td>
<td><strong>$ 2,555.0</strong></td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 9,606.9</td>
<td>$ 8,437.2</td>
<td>$ 3,428.6</td>
<td>84,380.6</td>
<td>$ 2,003.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>1,702.1</td>
<td>1,040.4</td>
<td>609.0</td>
<td>8,385.2</td>
<td>243.8</td>
</tr>
<tr>
<td>Induced</td>
<td>2,854.3</td>
<td>1,654.4</td>
<td>798.4</td>
<td>14,713.9</td>
<td>387.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 14,163.3</strong></td>
<td><strong>$ 11,132.1</strong></td>
<td><strong>$ 4,836.1</strong></td>
<td><strong>107,479.6</strong></td>
<td><strong>$ 2,635.2</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.
Quebec
The table below shows the economic impact of the SMB financial advice industry for Quebec.

<table>
<thead>
<tr>
<th>TABLE 5 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN QUEBEC: KEY INDICATORS BY TYPE OF IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Impact</td>
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<tr>
<td><strong>Within province/region</strong></td>
</tr>
<tr>
<td>Direct</td>
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<tr>
<td>Indirect</td>
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<tr>
<td>Induced</td>
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<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
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<tr>
<td>Direct</td>
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<tr>
<td>Indirect</td>
</tr>
<tr>
<td>Induced</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.

Atlantic Canada
The table below shows the economic impact of the SMB financial advice industry for Atlantic Canada, including New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

<table>
<thead>
<tr>
<th>TABLE 6 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN ATLANTIC CANADA: KEY INDICATORS BY TYPE OF IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Impact</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td><strong>Within province/region</strong></td>
</tr>
<tr>
<td>Direct</td>
</tr>
<tr>
<td>Indirect</td>
</tr>
<tr>
<td>Induced</td>
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<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
</tr>
<tr>
<td>Direct</td>
</tr>
<tr>
<td>Indirect</td>
</tr>
<tr>
<td>Induced</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model.

Summary
The SMB financial advice industry, which in many cases is comprised of single-person business entities, is an important part of the Canadian economy and contributes approximately 1.4% to Canada’s GDP (including indirect and induced impacts). The direct GDP impact of the SMB financial advice industry is larger than the pharmaceutical industry, the aerospace industry and the motor vehicle manufacturing industry, and accounts for a significant share of the broader finance and insurance industry in Canada. The SMB financial advice industry is a major source of direct and indirect employment across all regions, while its economic impact is distributed widely across Canada.
In this context, the finance and insurance industry refers to the North American Industry Classification System (NAICS) code 52.

As discussed in Appendix B, input-output analysis (used to estimate economic impacts) does not address whether the inputs have been used in the most productive manner or whether the use of these inputs in this industry promotes economic growth by more than their use in another industry or economic activity. Nor does input-output analysis evaluate whether, when or where these inputs might be employed elsewhere in the economy if they were not employed in this industry at this time. Input-output analysis reports the direct, indirect and induced economic impacts that can reasonably be expected to result in the economy when these inputs are used in this industry, based on historical relationships within the economy.

It should be noted that induced impacts are somewhat subjective in the practice of economic impact analysis. Some considerations include the assumption of a certain pre-determined pattern of consumer expenditures which may or may not be sufficiently accurate in a given case, or impact attribution to expenditures that would likely take place anyway. Nevertheless, induced impacts are commonly estimated and reported in economic impact studies, and the labour-intensive nature of the SMB financial advice industry means that an assessment of the impact of spending by employees of the industry or its suppliers would be necessary to fully capture the economic impact of this industry.

The survey results for the distributors of the financial products (i.e., the distribution layer of the industry, which is also in the scope of this engagement) are not extrapolated beyond the sample that responded to the survey. This approach results in an underestimate of the economic impact associated with the SMB financial advice industry. Survey responses were obtained from the largest Managing General Agencies (MGAs), which we understand represents an overwhelming share of the distribution layer of the SMB financial advice industry.
<table>
<thead>
<tr>
<th>Definition</th>
<th>Example(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposit Brokers</strong></td>
<td>Firms and/or individuals primarily, or in conjunction with other products, offer a GIC brokerage service representing multiple deposit taking FIs. Member of the Registered Deposit Brokers Association (RDBA).</td>
</tr>
<tr>
<td><strong>Directly Contracted</strong></td>
<td>An independent insurance agent or broker who is directly contracted with one or more insurance companies for the sale of their products and does not place business for that insurer through an intermediary such as an MGA.</td>
</tr>
<tr>
<td><strong>Discretionary Authority</strong></td>
<td>Also referred to as discretionary investment management services. Discretionary authority allows the advisor to make investment decisions and execute transactions on behalf of the client without the client’s expressed consent.</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>Firms in the business of distributing financial service products through Financial Advisors.</td>
</tr>
<tr>
<td><strong>DSC</strong></td>
<td>Deferred Sales Charge.</td>
</tr>
<tr>
<td><strong>IIROC Employees</strong></td>
<td>Licensed commissioned individuals working exclusively for a single IIROC-regulated firm.</td>
</tr>
<tr>
<td><strong>ETF</strong></td>
<td>Exchange-traded fund. A security traded on an exchange which tracks the performance of an index or the price of a commodity, or some combination thereof.</td>
</tr>
<tr>
<td><strong>Exclusive</strong></td>
<td>A Distribution Channel, Firm or Financial Advisor that exclusively represents a single product manufacturer. See Career Exclusive Agents.</td>
</tr>
<tr>
<td><strong>Fact-based fiduciary duty</strong></td>
<td>See also: Fiduciary duty; Statutory fiduciary duty. A fiduciary duty that depends on particular facts related to the overall degree of client vulnerability, amount of investor trust and discretion given to the advisor and the overall complexity involved in a relationship with the advisor.</td>
</tr>
<tr>
<td><strong>Fiduciary duty</strong></td>
<td>See also: Fact-based fiduciary duty; Statutory fiduciary duty. Defined by the CSA to mean a requirement for “the advisor or dealer (the fiduciary) … to act in the best interests of her client.”</td>
</tr>
<tr>
<td><strong>Financial Advisors</strong></td>
<td>Individuals in the business of providing financial advice and selling financial products to consumers – Life Insurance, Mutual funds, Securities, etc.</td>
</tr>
<tr>
<td><strong>FA Dealer</strong></td>
<td>Financial Advisor Dealer. This channel comprises advisors operating outside of the deposit taking branch network who provide access to a wide range of services including planning, investment and insurance services. These advisors fall into independent or career exclusive advisor categories. Independent advisors are typically small and medium-sized business owner-operators (single person or small advisory firms with groups of more than one advisor). They are independently-contracted to distribute life and health insurance and wealth products (e.g., mutual funds and securities) and services through multiple financial services manufacturers (e.g. life insurance companies, fund managers).</td>
</tr>
<tr>
<td>Definition</td>
<td>Example(s)</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Financial Advice Process</strong></td>
<td>A method of describing the process by which financial advisors provide</td>
</tr>
<tr>
<td></td>
<td>advice, products and services to their clients.</td>
</tr>
<tr>
<td><strong>FPSC</strong></td>
<td>The Financial Planning Standards Council, which is “a not-for-profit</td>
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<td></td>
<td>standards-setting and certification body that develops, promotes and</td>
</tr>
<tr>
<td></td>
<td>enforces professional standards in financial planning through Certified</td>
</tr>
<tr>
<td></td>
<td>Financial Planner certification.”184</td>
</tr>
<tr>
<td><strong>FoFA Reforms</strong></td>
<td>Future of Financial Advice reforms. A package of legislative changes</td>
</tr>
<tr>
<td></td>
<td>introduced in Australia which bans embedded commissions and other</td>
</tr>
<tr>
<td></td>
<td>types of remuneration, establish a best interests legal duty and expand</td>
</tr>
<tr>
<td></td>
<td>requirements regarding fee disclosure.</td>
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<tr>
<td><strong>FSB</strong></td>
<td>Full service brokerage. Firms that provide financial advice and a wide</td>
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<tr>
<td></td>
<td>range of discretionary and non-discretionary investment services based</td>
</tr>
<tr>
<td></td>
<td>on funds, individual securities and insurance.</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>Gross domestic product. The difference between the value of output</td>
</tr>
<tr>
<td></td>
<td>and the value of intermediate inputs in an economy.</td>
</tr>
<tr>
<td><strong>Group Brokers</strong></td>
<td>Life insurance licensed individuals or firms whose business focus is on</td>
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<td></td>
<td>the sale and service of Group Life &amp; Health and/or Pension Products.</td>
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<tr>
<td></td>
<td>National Financial Partners Canada</td>
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<tr>
<td></td>
<td>Mainstay Insurance</td>
</tr>
<tr>
<td><strong>IFIC</strong></td>
<td>The Investment Funds Institute of Canada.</td>
</tr>
<tr>
<td><strong>IIROC</strong></td>
<td>The Investment Industry Regulatory Organization of Canada.</td>
</tr>
<tr>
<td></td>
<td>The self-regulatory organization overseeing all investment dealers.</td>
</tr>
<tr>
<td><strong>Independent</strong></td>
<td>A Distribution Channel, Firm or Financial Advisor that is not tied or</td>
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<td>restricted to the sale of a single product manufacturer.</td>
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<td></td>
<td>MGAs</td>
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<td>Mutual fund Dealers</td>
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<tr>
<td><strong>Independent Brokers</strong></td>
<td>Insurance Licensed Financial Advisors who sell insurance via one or more</td>
</tr>
<tr>
<td></td>
<td>Independent Channels or Firms.</td>
</tr>
<tr>
<td></td>
<td>Life Insurance Broker selling through an MGA or Directly Contracted</td>
</tr>
<tr>
<td></td>
<td>arrangement</td>
</tr>
<tr>
<td><strong>Input-output model</strong></td>
<td>An input-output model captures the flows of goods and services</td>
</tr>
<tr>
<td></td>
<td>between the various industries in an economy. It is used to determine</td>
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<tr>
<td></td>
<td>an estimate of the direct, indirect and induced effects of the SMB</td>
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<td>financial advice industry in Canada, and relies on multipliers published</td>
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<td>by Statistics Canada.</td>
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<td>The indirect multipliers provide an aggregate measure of the effect</td>
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<td>of an industry on all other industries in the economy that arise through</td>
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<td>supply-purchase relationships. The effects are measured in terms of</td>
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<td></td>
<td>the impact on business revenues, employment requirements, or value</td>
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<tr>
<td></td>
<td>added that would be generated for each dollar of revenue of the industry</td>
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<tr>
<td></td>
<td>of interest. Direct multipliers provide measures of average employment,</td>
</tr>
<tr>
<td></td>
<td>employment income, and GDP in the industry analyzed for each dollar of</td>
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<td>revenues in that industry. Induced multipliers (now also generated by</td>
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<td></td>
<td>Statistics Canada in addition to direct and indirect multipliers) provide</td>
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<tr>
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<td>similar measures in similar terms but for effects that would arise in</td>
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<td></td>
<td>the economy when direct and indirect employees re-spend their wages and</td>
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<tr>
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<td>salaries.</td>
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<tr>
<td>Definition</td>
<td>Example(s)</td>
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<tr>
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<td>------------</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>Insurance Manufacturers.</td>
</tr>
<tr>
<td>The Joint Forum of Financial Market Regulators</td>
<td>A committee through which pension, securities and insurance regulators co-ordinate, harmonize and streamline the regulation of financial products and services in Canada.</td>
</tr>
<tr>
<td>KYC Information</td>
<td>“Know your client” information. This includes a comprehensive understanding of the client’s investment objectives, needs, circumstances and risk tolerance.</td>
</tr>
<tr>
<td>LIMRA</td>
<td>A global association of insurance and financial services companies.</td>
</tr>
<tr>
<td>MFDA</td>
<td>Mutual Fund Dealers Association of Canada, the self-regulatory organization for mutual funds in Canada.</td>
</tr>
<tr>
<td>MGA</td>
<td>Managing General Agent. An independent business Distributor representing one or more insurance companies and recruiting and contracting with independent Financial Advisors for the sale and service of insurance products.</td>
</tr>
<tr>
<td>Mortgage Brokers</td>
<td>Brokers who make loans made with the security of real property.</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets.</td>
</tr>
<tr>
<td>NAICS</td>
<td>North American Industry Classification System</td>
</tr>
<tr>
<td>National Accounts</td>
<td>A Life Insurance Distribution Channel describing an MGA-like organization owned and operated by an IIROC or MFDA regulated firm and selling insurance through its own advisors.</td>
</tr>
<tr>
<td>OSFI</td>
<td>The Office of the Superintendent of Financial Institutions of Canada. The federal regulator responsible for the regulation and supervision of federally registered banks and insurers, trust and loan companies, as well as private pension plans subject to federal oversight.</td>
</tr>
<tr>
<td>Other and Securities</td>
<td>Financial services distributors that are neither insurance nor mutual fund regulated.</td>
</tr>
<tr>
<td>POS framework</td>
<td>Point of Sale framework. Regulatory framework which requires mutual fund and insurance companies to provide a new disclosure document (called “Fund Facts”), implemented between 2011 and 2014.</td>
</tr>
<tr>
<td>Principal-Agency Model</td>
<td>A somewhat unique IIROC model that allows for the establishment of an Agency under the supervision of an IIROC firm (Principal). The Agency is responsible for its own operating expenses.</td>
</tr>
<tr>
<td>PRPP</td>
<td>Pooled Registered Pension Plan. PRPPs would allow entrepreneurs and employees of companies that currently do not have pension plans to make voluntary contributions to a pooled fund managed by an external professional investment firm.</td>
</tr>
<tr>
<td>Definition</td>
<td>Example(s)</td>
</tr>
<tr>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>RDR</strong></td>
<td>Regulatory Distribution Review. A policy review undertaken by the UK Financial Services Authority culminating in legislation launched on January 1, 2013.</td>
</tr>
<tr>
<td><strong>RRSP</strong></td>
<td>Registered Retirement Savings Plan.</td>
</tr>
</tbody>
</table>
| **Sales Representatives** | Financial Advisors licensed and regulated under an MFDA or IIROC firm.  
• Assante Financial Advisors  
• Investors Group Representatives |
| **SMB Financial Advisor** | The small and medium-sized business (SMB) financial advice industry segment comprises approximately 80% of financial advisors in Canada. It includes financial advisors operating out of independent mutual fund and securities dealers, independent insurance agencies, exclusive agents of insurance companies and full service securities brokerages that are not affiliated with large financial institutions (e.g., Credit Unions and the “Big-Six” banks). |
| **SRO** | Self-regulatory organization. An organization mandated by regulators to oversee and license market participants.  
• MFDA, IIROC |
| **Statutory fiduciary duty** | See also: Fiduciary duty; Fact-based fiduciary duty. A fiduciary duty that is explicitly set out in legislation. IIROC-licensed financial advisors, such as portfolio managers and high net worth investment counsel advisors, who are responsible for holding client assets and have discretionary authority (i.e. also known as a managed account, whereby an advisor has the discretion to make investment decisions and transactions without the client’s expressed consent or permission), are currently subject to a statutory fiduciary duty. |
| **Specialists** | Highly experienced insurance brokers contracted and working for a National Account distributor on an exclusive basis and serving the estate planning and insurance needs of high net worth investor clients of these firms.  
• RBC Wealth Management Financial Services Estate Planning Specialist (EPS)  
• BMO Nesbitt Burns Financial Services Inc. Estate & Insurance Advisor (EIA) |
Appendix B: Economic Impact Assessment Study

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<td></td>
<td>Ontario</td>
</tr>
<tr>
<td></td>
<td>Quebec</td>
</tr>
<tr>
<td></td>
<td>Atlantic Canada</td>
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</tbody>
</table>

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<td>Other data and assumptions</td>
</tr>
</tbody>
</table>

Appendix B1: Non-extrapolated economic impact results

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<th>Introduction</th>
<th>Non-extrapolated national economic impact results</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Non-extrapolated regional economic impact results</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>3 Economic impact results</th>
<th>105</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-extrapolated national economic impact results</td>
<td>105</td>
</tr>
<tr>
<td>Non-extrapolated regional economic impact results</td>
<td>106</td>
</tr>
</tbody>
</table>
1. Introduction

Background
The Finance and Insurance Industry\textsuperscript{185} is an important part of Canada’s economy. In 2012, the Finance and Insurance Industry directly accounted for $102 billion in real GDP – approximately 6.6\% of Canada’s economy.\textsuperscript{186} The Finance and Insurance Industry is comprised of a variety of different companies that range significantly in terms of the services they provide, operations, business models, size, scope and the manner in which they are regulated. The Financial Advice Industry is an important component of the broader Finance and Insurance Industry and is comprised of many different types of financial advisors that are primarily compensated based on the quantity of financial advice they provide and the products they sell to their clients. They employ staff, pay business expenses and make investments to increase their revenues. The Financial Advice Industry itself is broadly comprised of two groups of financial advisors. Some financial advisors are employed by large financial institutions and others operate more independently and effectively operate their own businesses. This study focuses on this latter group of financial advisors. Many of these financial advisors would be considered Small and Medium-Sized Enterprises using Statistics Canada or Industry Canada definitions.\textsuperscript{187} There is currently a limited understanding of the Small and Medium-Sized Business (SMB) Financial Advice Industry’s economic contribution to the Canadian economy. Given that there are over 80,000 Small and Medium-Sized Business Financial Advisors in Canada\textsuperscript{188}, the economic contribution of the SMB Financial Advice Industry is likely substantial.

Study objectives
Advocis engaged PwC, working jointly with HDR, to estimate the economic impact of the SMB Financial Advice Industry.\textsuperscript{189} The objective of this study is, therefore, to estimate the economic impact of the SMB Financial Advice Industry using input-output techniques\textsuperscript{190} to help address the current gap in the understanding of the economic importance of the SMB Financial Advice Industry.

Report context
This report focuses on explaining the methodology employed to estimate the economic impact of the SMB Financial Advice Industry and describing the economic impact results. PwC will use excerpts of this report to include in the report they are preparing for Advocis. This report will be included as an appendix to the main report prepared by PwC.
Approach

The approach employed to estimate the economic impact of the SMB Financial Advice Industry is briefly described below:

- We worked with Advocis and PwC to specifically define the SMB Financial Advice industry.
- A survey was developed with PwC to collect the necessary quantitative and qualitative information to estimate the economic impact of the SMB Financial Advice Industry.
- Responses to the survey were reviewed carefully to ensure that they were complete, accurate, and representative of this sector. The dataset was cleansed to ensure that erroneous responses were removed or adjusted.
- Using the data collected from the survey, an economic model was developed using standard Input-Output techniques.
- Economic impact results were then extrapolated to the broader population of SMB Financial Advisors. Survey responses were carefully reviewed to assess whether results were representative of the broader population of SMB Financial Advisors in several key respects.
- Lastly, economic impact results were validated by comparing results to other similar studies and Statistics Canada industry based data.

Structure of the report

The remainder of this report is organized as follows. Section 2 provides an overview of the methodology including the key concepts around which the study is framed. Section 3 reports the results of the analysis. Appendix C provides a copy of the questionnaire that was used to collect the business data from the SMB Financial Advisors. Appendix B1 provides non-extrapolated economic impact results.

ENDNOTES

185 In this context, the Finance and Insurance Industry refers to the North American Industry Classification System (NAICS) code 52.
187 Industry Canada defines a Small to Medium Size Enterprise as one with fewer than 100 employees (if the business is a goods-producing one) or fewer than 50 employees (if the business is service-based), and a medium-sized business as one with fewer than 500 employees.
188 Data on the number of financial advisors was obtained from Investor Economics.
189 HDR has relied upon the completeness, accuracy and fair presentation of all the information, data, advice, opinions or representations obtained from various sources which were not verified. These sources (collectively, the “Information”), include: Advocis; Advocis Economic Impact Survey (i.e., the name of the survey conducted as part of this study); PwC; Investor Economics; Statistics Canada; and Other publicly available studies, data and information from relevant websites. HDR reserves the right at its discretion to withdraw or make revisions to this report should we be made aware of facts existing at the date of the report that were not known to us when we prepared this report. The findings are as of the date hereof and HDR is under no obligation to advise any person of any change or matter brought to its attention after such date, which would affect the findings and HDR reserves the right to change or withdraw this report.
190 Input-output analysis (used to estimate economic impacts) does not address whether the inputs have been used in the most productive manner or whether the use of these inputs in this industry promotes economic growth by more than their use in another industry or economic activity. Nor does input-output analysis evaluate whether, when or where these inputs might be employed elsewhere in the economy if they were not employed in this industry at this time. Input-output analysis reports the direct, indirect and induced economic impacts that can reasonably be expected to result in the economy when these inputs are used in this industry, based on historical relationships within the economy.
2. Study methodology and data

Introduction
This section of the report describes the technical methodology employed to estimate the economic impact of the SMB Financial Advice Industry. Key concepts and terminology related to the study are also defined and described in this section of the report.

Key concepts in economic impact analysis

The economic impact of an organization, activity, or project can be divided into two broad categories of impacts:

1. Jobs, income and related economic activity impacts stemming from the organization, activity, or project in question that are attributable either directly, or indirectly through supplier-purchasing relationships and re-spending of employee wages and salaries that were generated through direct and indirect activities; and,

2. Related economic development and other benefits and impacts of the organization, activities, or project, such as quality of life improvements, improved profile of a region, additional facilitated economic activity, improvements in productivity in other sectors, etc.

The first category of impacts represents traditional metrics evaluated in economic impact studies that quantify the effects of the various rounds of expenditures and economic activities that are initiated throughout the economy as a result of an initial expenditure or business activity. In the case of the SMB Financial Advice Industry, economic activity is initiated, first, through the business expenditures required to run the business such as office rent and utilities, or expenditures for information technology and other business services. Then, the stream of expenditures continues through expenditures of the suppliers of goods and services as well as expenditures of employees re-spending their salaries. These measures of economic activity are commonly referred to as “direct impacts,” “indirect impacts,” and “induced impacts”, respectively. They are further defined below.

- **Direct impacts** are impacts attributable to the initial stream of expenditures that initiate further rounds of economic activity. These are the immediate economic outcomes occurring as a result of the activities related to the organization, activities, or project. In the context of this study, these will include total revenues of financial advisors, employment that they generate for self and others (or number of people that work for them), employment income or compensation that they pay to self and others and government tax revenue that can be directly linked to these activities.

- **Indirect impacts** are the results of the spillover effects in the markets for intermediate goods and services (i.e., market where the business expenditures are made). These purchases allow for production activities and employment at the supplier firms generating further rounds of economic activity down the production chain. In the context of this study, indirect effects stem from the business expenditures of SMB Financial Advisors. Thus, indirect effects reflect the supply chain demand and output, employment, etc. that are generated throughout this chain.

- **Induced impacts** result from the spending and re-spending of dollars earned by individuals who become employed as a result of the direct and indirect activities and impacts. Re-spending of employment wages and salaries on consumer goods and services results in further economic impacts in other sectors of the economy.191
The total economic impact is the sum of the direct, indirect and induced effects.

Input-output analysis is static. As such, it does not address some economic impacts that may occur as part of the markets’ dynamics over the longer term. Examples of such impacts – covered under the second category of impacts described above – include innovation, spin-offs or economic cluster impacts; the training of workers for the benefit of other sectors; or, benefits associated with the provision of financial advice.

Input-output analysis (used to estimate economic impacts) does not address whether the inputs have been used in the most productive manner or whether the use of these inputs in this industry promotes economic growth by more than their use in another industry or economic activity. Nor does input-output analysis evaluate whether, when or where these inputs might be employed elsewhere in the economy if they were not employed in this industry at this time. Input-output analysis reports the direct, indirect and induced economic impacts that can reasonably be expected to result in the economy when these inputs are used in this industry, based on historical relationships within the economy.

Scope of economic impact analysis

It is important to note that the estimation of economic impacts from the input-output analysis, which follow, address the SMB Financial Advice Industry sector from a business operations perspective (i.e., the first category of impacts described above). That is, input-output analysis addresses the economic impacts of the revenues generated by the advisors, the employees they hire, the supplies they purchase and the taxes they pay. This analysis does not address the economic impact of the actual financial advice provided (i.e., an example of the second category of impact described above), which may increase the wealth of individuals receiving financial advice.

Economic impacts are estimated using standard measures of economic activity:

- **Output** – the total gross value of all business revenue. Output represents the total sum of all economic activity that has taken place in connection with expenditures made through the SMB Financial Advice Industry. This is the broadest measure of economic activity.

- **GDP** – the “value added” to the economy. Since the GDP figure captures the difference between the value of output and the value of intermediate inputs, it represents the unduplicated total value of economic activity that has taken place. The GDP impacts in this report represent the value added to the economy as a result of the expenditures of SMB Financial Advisors.

- **Salaries and Wages** – measures salaries and wages that can be attributed to operations of SMB Financial Advisors. It includes direct wages and salaries, as well as supplementary labour income and mixed income sources.

- **Employment** – the number of jobs that can be attributed to the business operations of the SMB Financial Advice Industry in Canada. In the context of the SMB Financial Advice Industry, it represents occupationally financial advisors and administrative and other staff that support the operations of individual financial advisors. It also includes employment generated in other industries as a result of business related expenditures made by the SMB Financial Advice Industry.

- **Government Tax Revenues** – the total amount of tax revenues generated, which includes personal income taxes, indirect taxes less subsidies (e.g., sales tax), corporate income taxes and other relevant direct (e.g., personal income taxes) or indirect taxes.

All impacts are estimated and reported by region and for all of Canada. For example, the impact of Ontario’s SMB Financial Advice Industry is estimated for the province of Ontario and for all of Canada, which includes Ontario itself and all other parts of Canada. The latter category of impacts is somewhat larger due to “spill over” effects of original expenditures (e.g., expenditures undertaken in Ontario can also generate impacts in other parts of Canada).
Overview of methodology

This section of the report describes the methodology employed to estimate the economic impact of the SMB Financial Advice Industry. Data on revenues, expenditures and operations of SMB Financial Advisors was obtained from a survey (referred to above as the Advocis Economic Impact Study). Hence, the methodology employed involved two key steps:

1. Estimation of the economic impacts for the survey sample of SMB Financial Advisors (i.e., those that responded to the survey), and
2. Extrapolation of results for the sample to all SMB Financial Advisors across Canada.

The two steps are described in some detail below.

Estimation of economic impacts for survey sample

The methodology employed to estimate the economic impact associated with the sample of SMB Financial Advisors that responded to the survey is outlined below. We refer to these economic impact estimates as non-extrapolated economic impact results and they can be found in Appendix A1 of this report.

The direct economic impacts of the SMB Financial Advice Industry were estimated from information obtained from the Advocis Economic Impact Survey. Operational statistics such as revenue, employment, expenditures on wages and salaries, rent and utilities, and marketing were obtained directly from this survey. GDP was calculated as the difference between total revenue and expenditures (including salaries) and plus wages and salaries. Information obtained from the surveys provided thus the basis for estimation of direct, indirect and induced impacts.

The indirect and induced impacts were estimated using the above noted data and input-output multipliers (or multipliers for short) from the Statistics Canada Interprovincial Input-Output Model.

An input-output model captures the flows of goods and services between the various industries in an economy. The indirect multipliers provide an aggregate measure of the effect of an industry on all other industries in the economy that arise through supply-purchase relationships. The effects are measured in terms of the impact on business revenues, employment requirements, or value added that would be generated for each dollar of revenue of the industry of interest. Direct multipliers provide measures of average employment, employment income, and GDP in the industry analyzed for each dollar of revenues in that industry. Induced multipliers (now also generated by Statistics Canada in addition to direct and indirect multipliers) provide similar measures in similar terms but for effects that would arise in the economy when direct and indirect employees re-spend their wages and salaries.

Multipliers exist for several different measures of economic activity (e.g., output, employment, employment income, GDP etc.). Multiplying the direct revenue of an industry or an organization by the indirect output multiplier will give the value of indirect output across the entire economy that is attributable to that industry or establishment. Multiplying the same value of direct output by indirect employment multiplier will give the number of indirect jobs that are attributable to the industry being analyzed. Similarly, multiplying the value of direct output by indirect employment income multiplier will give the value of indirect employment income generated in the entire economy. Induced multipliers can be used in the same manner to obtain estimates of induced output, employment, employment income, and GDP in an economy attributable to the industry examined. Direct multipliers, or ratios, are also sometimes used in the same way as indirect and induced multipliers to fill in missing statistics about the industry being examined. For example, employment – if not known – can be estimated using the direct employment ratio which gives employment requirements for each million dollars of industry output/revenue. Therefore, knowing the value of output/revenue of an industry, organization, or activity, we can estimate its economic impact across the entire economy as described above.

Multipliers are available for a wide range of industries defined at various levels of NAICS classification for up to 6-digit NAICS codes. However, there may be no specific input-output industry for certain industries analyzed, and there is no specific input-output industry for the SMB Financial Advice Industry. In these situations, economists typically assign such industry to the closest best matching industry from the input-output model and use the corresponding sets of multipliers.

An alternative approach – which is likely to produce more refined results – is to analyze the expenditures on production inputs, services and supplies of the industry in question. Such expenditures initiate rounds of indirect impacts. Direct and indirect multipliers for industries corresponding to these expenditures are then applied to those expenditures and the result is interpreted as total indirect impact of the industry in question. Induced multipliers are then also applied to these expenditures. This is the approach adopted in this study.
The methodology described above is illustrated graphically in the figure below.

**FIGURE 2 – ESTIMATION OF INDIRECT AND INDUCED IMPACTS OF THE SMB FINANCIAL ADVICE INDUSTRY**
The input-output multipliers discussed so far do not include tax revenue impacts. Supplemental methodological steps are required to estimate these impacts. The methodology used in this study is based on the observation as to which categories of tax revenues are likely to be attributable in some way to the existence of an industry. These include the following:
1. Personal income tax revenue (due to industry employment and thus generated employment income);
2. Corporate income taxes (due to increased business revenue across direct, indirect, and induced activities); and
3. General sales tax revenues and fuel tax revenues (due to expenditures on various goods, services, and motor fuel).

The potential tax revenue impacts are therefore quite far-ranging and generally can be expected to be driven by the extent of economic activity. Recognizing GDP as a measure of economic activity – and acknowledging the complexities of taxation – the amount of tax revenues attributable to an industry can be roughly estimated based on macroeconomic statistical data regarding average government tax revenues as a percentage of GDP. These are then multiplied by direct, indirect, and induced GDP estimated earlier to obtain total government tax revenue (direct, indirect, and induced, respectively) that can be attributed to the existence of the industry being examined. This approach assumes effectively a unitary tax elasticity with respect to GDP (i.e., a 1% increase in GDP increases tax revenues by 1% and vice versa) and can be considered a slightly conservative assumption given that in Canada corporate and sales tax revenues have approximately a unitary elasticity but personal income tax revenues are slightly progressive. This approach is illustrated graphically in the figure below.

**Extrapolation to all of Canada and validation of results**

This section of the report describes the extrapolation methodology employed to estimate the economic impact of the SMB Financial Advice Industry.

Economic impact results estimated, as part of this study, are extrapolated to all of Canada based on extrapolation factors. If survey results are representative (which is discussed in greater detail below) the extrapolation factors can be calculated on the basis of the estimated number of advisors across Canada and each province reported in other studies and the number of advisors who answered the survey. The total number of advisors in a province/region divided by the number of advisors who answered the survey gives the extrapolation factor for each province. For the purposes of this analysis we have grouped Manitoba and Saskatchewan into one region and have also grouped New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador as Atlantic Provinces. The decision to group the results in this manner was due to the low number of responses by these provinces and the relative number of SMB Financial Advisors from these regions. We did not receive enough responses from Yukon Territory, Northwest Territories and Nunavut (collectively the Territories) to warrant including them in this analysis.
It should be noted that participation of SMB Financial Advisors from Quebec in the survey was very low. As Table 7 shows, we received only 96 responses from Quebec. These responses (after adjustments) represent a participation rate of just 0.73% of the entire population of SMB Advisors in Quebec. This compares with a participation rate of more than 2% or even more than 3% for other provinces. Low response rates or low number of responses in a survey usually lead to more uncertainty in the resulting estimates of factors of interest. Consequently, the estimates of economic impacts for Quebec reported in this study should be seen as more uncertain (with a larger range of uncertainty) than for other provinces. However, we also note that the profile of Quebec respondents and their responses as well as various comparative validation statistics for Quebec (discussed later in the results section of this report) were not substantially different than for other provinces. This gives us reason to believe that any potential bias due to small sample size is likely not a major concern.

It should also be pointed out that survey results are extrapolated only for the retail/advisory layer of this SMB Financial Advice Industry. This is the component of the SMB Financial Advice Industry that sells financial products directly to customers and provides financial advice during the course of their services. The survey results for the distributors of the financial products (i.e., the distribution layer of the industry, which is also in scope of this engagement) are not extrapolated beyond the sample that responded to the survey. This approach results in an underestimate of the economic impact associated with the SMB Financial Advice Industry. Survey responses were obtained from the largest Managing General Agencies (MGAs), which we understand represent an overwhelming share of the distribution layer of the SMB Financial Advice Industry.

It is also noted here that the broader effect of independent mutual fund branches is not included here. The office staff and expenses that are not paid directly by advisors themselves may not be captured by our survey data. As a result, the total economic impacts reported in this study may be underestimated.

Validation of results of this study involved two key steps. The first step involved analysis of survey responses to ensure that a representative sample of SMB Financial Advisors answered the survey. HDR worked with PwC subject matter and industry specialists to ensure survey results obtained were consistent with their understanding of the industry. As a second step, the extrapolated economic impact results were compared to related data and information and results obtained in related and similar studies. For example, the results obtained in this study were compared to Statistics Canada employment data for industries (i.e., based on NAICS) that cover the SMB Financial Advice Industry and results reported in other studies of the Finance and Insurance Industry in Canada to see whether they are broadly consistent.

The table shows the Number of SMB Financial Advisors, extrapolation factors and other related information based on the regional disaggregation outlined above.194

<table>
<thead>
<tr>
<th>TABLE 7 – EXTRAPOLATION FACTORS FOR ECONOMIC IMPACT ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of SMB Financial Advisors</td>
</tr>
<tr>
<td>Survey responses</td>
</tr>
<tr>
<td>Adjusted survey responses</td>
</tr>
<tr>
<td>Responses as % of total</td>
</tr>
<tr>
<td>Extrapolation factors by province</td>
</tr>
<tr>
<td>Population, million</td>
</tr>
<tr>
<td>Advisors per 1,000 population</td>
</tr>
</tbody>
</table>

Note: Calculation of adjusted number of survey responses is explained in the next sub-section.
Data and implementation

Below we describe the specific data that was used to estimate the economic impact of the SMB Financial Advice Industry. As the sub-sections below show, the key data elements were the survey data and input-output based data obtained from Statistics Canada.

Survey data

A survey of the industry was developed to collect the key operational data regarding the business operations of SMB Financial Advisors: revenues, employment, expenses on wages and salaries, rent and utilities, marketing, information technology, property taxes, and other related expenditures. The survey also asked questions about the type of services provided, age profile, number of years in business and province where expenditures are incurred.

To help protect sensitive business information and encourage participation, all survey questions pertaining to operational statistics were designed as multiple choice questions that asked the respondent to select from a range for all operational information, rather than to provide one specific point estimate. For example, respondents were asked to indicate the range within which actual employment falls, and the range within which revenues fall, etc.

The survey was distributed through Advocis and its partners. A link to the survey was sent to Advocis members and other SMB Financial Advisors that explained the purpose of the survey and the broader study and encouraged email recipients to respond to the survey. A nominal incentive was also provided to encourage participation.

The table below shows the number of responses received by province of expenditure (i.e., province where expenditures primarily occur) broken down by two categories of respondents: (1) individual financial advisors, and (2) distributor and dealer organizations. For both categories of respondents, the province of expenditure is also treated as the province where economic impacts occur and province of business residence of survey respondents. The vast majority of respondents indicated only one province of expenditure. However, some number of respondents indicated more than one province. For simplicity, only responses with expenditures of 80% or less in any single province were treated as truly representing advisors/distributors active in multiple provinces. Table 8 shows that for advisors there were 94 such cases (representing 5.3% of total responses in this category of respondents) and 29 cases in the category of distributors (representing 32.6% of responses). All other responses were allocated to the province with the largest share of expenditures and treated as “single-province” responses. For the purpose of calculation of extrapolation factors used to extrapolate economic impacts for the sample to all of Canada, the multiple province responses were re-allocated to individual provinces based on the distribution/share of single province responses. This gave the “adjusted” number of responses by province shown in Table 8.

| TABLE 8 – SUMMARY OF SURVEY PARTICIPATION, BY PROVINCE OF EXPENDITURE |
|----------------------|----------------------|----------------------|----------------------|
|                      | Advisors             | Percent of total responses | Distributors         | Percent of total responses |
|                      | Count of responses   |                         | Count of responses   |                         |
| Alberta              | 233                  | 13.2%                   | 17                   | 19.1%                   |
| British Columbia     | 335                  | 19.0%                   | 10                   | 11.2%                   |
| Manitoba             | 68                   | 3.8%                    | 1                    | 1.1%                    |
| New Brunswick        | 46                   | 2.6%                    | 2                    | 2.2%                    |
| Newfoundland and Labrador | 29             | 1.6%                    | –                    | 0.0%                    |
| Nova Scotia          | 41                   | 2.3%                    | –                    | 0.0%                    |
| Ontario              | 756                  | 42.8%                   | 26                   | 29.2%                   |
| Prince Edward Island | 7                    | 0.4%                    | –                    | 0.0%                    |
| Quebec               | 96                   | 5.4%                    | –                    | 0.0%                    |
| Saskatchewan         | 62                   | 3.5%                    | 4                    | 4.5%                    |
| Multiple provinces   | 94                   | 5.3%                    | 29                   | 32.6%                   |
| N/A (missing province)| 1                    | 0.1%                    | –                    |                         |
| Total excluding N/A  | 1,767                | 100%                    | 89                   |                         |
The raw survey data was reviewed to ensure consistency. Specifically, PwC industry specialists reviewed the survey data to ensure that responses were consistent with their understanding of the industry. This included the following activities:

- We first checked to ensure that individual survey responses were consistent by calculating average wages and other metrics on a response-by-response basis. In other words, we checked to ensure that the financial and business operations information provided made sense. The only significant change in this context was associated with correction of employment figures for some SMB Financial Advisors. Several respondents stated employment of 0 (none) even if they reported salaries larger than zero. Clearly, the advisory activities constitute employment for the respondent himself/herself and in cases of salaries larger than zero also provide employment opportunities to other individuals. In such cases, the answer was corrected to 1 to express employment of the respondent (if total wages of $0 were reported) or 1.5 to express employment of the respondent and other individuals (if total wages reported were larger than $0).
- We also checked to ensure that we received unique responses for each survey response. Some responses were removed which represented potential double counting such as response to the individual advisor section of the survey and MGA/distributor section in some situations. In these instances, the answers to the distributor section were disregarded.

In the coding of survey responses for operational data, the mid-point of the range was selected as an estimate of the operational information for the particular respondent. For the lowest range of all ranges (e.g., revenue less than $25,000), a value somewhat below the lowest value was coded (e.g., revenue of $24,000 for the case of revenues less than $25,000). For the highest range of all ranges provided (e.g., revenue larger than or equal to $5,000,000), the starting value of the range was coded for a particular respondent (i.e., $5,000,000 in this case).

**Representative sample**

The validity of the extrapolation of the economic impact results of the sample of SMB Financial Advisors to the broader population depends heavily on ensuring that a representative sample of SMB Financial Advisors responded to the survey. In this regard, the following steps were employed to check if we could assert that we received a representative sample of responses:

- PwC industry specialists reviewed the survey data to ensure that average revenues, expenditures and employment were consistent with their understanding of the SMB Financial Advice Industry and how SMB Financial Advisors organize their operations. In aggregate, the survey data appeared to be consistent with PwC industry specialists understanding of the SMB Financial Advice Industry.
- We also compared the survey results across provinces and found that, generally speaking, average revenues, expenditures and employees per advisor across provinces were broadly consistent with each other (i.e., no significant variations in the underlying data across provinces). This also provided us increased confidence that we obtained a representative sample given that we did not expect business models and operations to vary significantly across provinces.
- We also qualitatively assessed whether the survey sample suffered from sample selection bias, which could bias the extrapolated economic impact results. In this case, sample selection bias would be present if SMB Financial Advisors with more established and larger business operations were more likely to respond to the survey. Extrapolating economic impact results in the presence of this type of sample selection bias would overestimate the economic importance of the SMB Financial Advice Industry. The following key elements of the survey sample and population of SMB Financial Advisors gave us confidence that our sample did not suffer from sample selection bias:
  - First and as noted above, PwC industry specialists reviewed the average expenditure and revenue data from the survey and found that it was broadly consistent with their understanding of the SMB Financial Advice Industry and how SMB Financial Advisors operate.
  - The population of approximately 80,000 SMB Financial Advisors includes Advocis members and non-members (or members of other organizations in the Financial Advice Industry). The survey was distributed through Advocis and through its various partner organizations. Roughly only 60% of the responses received were from Advocis members. Accordingly, we feel that we received a sufficient level of responses from non-members to ensure sample selection bias did not result from membership in Advocis or not.
  - Lastly, financial advisors have to pay significant annual licensing and other regulatory based fees to maintain their status as a financial advisor. As a result, the roughly 80,000 SMB Financial Advisors that constitute the SMB Financial Advice Industry, on the whole, are likely active financial advisors. This provides us increased confidence that we are extrapolating economic impact results to an active base of financial advisors.

In addition to the above noted tests we also completed a number of post-extrapolation tests to further validate our assertion that we obtained a representative sample of SMB Financial Advisors. These are described in Section 3 of this report.
Multiplier data

At the time of writing this report, the latest input-output multipliers from Statistics Canada Provincial Input-Output model were based on 2010 data. These input-output multipliers consisted of a set of direct multipliers for output, GDP, employment and labour income effects, as well as a similar set of multipliers for the sum of direct and indirect effects, and another set for the sum of direct, indirect, and induced effects. Separate multiplier data was obtained for each of the Canadian provinces.

The original 2010 input-output multipliers were adjusted to 2014 year conditions by dividing the employment-output ratio by the inflation index between year 2010 and end of 2013. This was done to adjust for the effect of inflation.196

Other data and assumptions

HDR analyzed data on total federal tax revenues and total provincial tax revenues and data on national GDP from Statistics Canada to derive assumptions for tax revenues (average tax revenues as percentage of GDP).197 The table below shows the tax revenue as percentage of GDP for both the federal and provincial portion of the taxes for most recent 5 years for which data is available. The table demonstrates that tax revenues represent a quite consistent fraction of total GDP and, as such, may be a reasonable measure for estimation of tax revenues attributable to an industry. Specifically, this study assumes that total government tax revenues will be equal to 23.4% of the GDP impact. These tax revenues are approximately equally split between federal and provincial revenues. The same constant ratio of taxes to GDP is assumed for all provinces. Income and sales tax revenues estimated in this way were then further increased by property taxes reported by survey respondents.198

| TABLE 9 – TOTAL GOVERNMENT TAX REVENUE AS PERCENTAGE OF GDP, 2008 TO 2012 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
|                            | 2008            | 2009            | 2010            | 2011            | 2012            | Average       |
| Total Federal Tax Revenue   | 12.4%           | 12.3%           | 11.8%           | 11.7%           | 11.7%           | 12.0%         |
| Total Provincial Tax Revenue| 11.3%           | 11.6%           | 11.3%           | 11.4%           | 11.6%           | 11.5%         |
| Total Government Tax Revenue| 23.7%           | 23.9%           | 23.1%           | 23.2%           | 23.3%           | 23.4%         |

Source: Calculated by HDR based on CANSIM Tables 385-0032 and 384-0038.

ENDNOTES

191 It should be noted that induced impacts, while recognized as somewhat subjective, have been included in the economic impact analysis given the labour intensive nature of the industry.
192 Some input-output industries are defined at a relatively broad level of 2- or 3-digit NAICS classification. Other input-output industries are more specific referring to one or two 5- or even 6-digit NAICS classification.
193 It should also be noted that in the macro-economic data tax revenues expressed in terms of the percentage of GDP are quite stable featuring relatively small variations from year to year (see Table 9). To populate the impact model, we used therefore provincial and federal tax revenues as a percentage of total tax revenue across Canada. The same constant rate was used for all provinces.
194 Survey participation and number of responses are discussed in some additional detail in the next sub-section.
195 PwC industry specialists include individuals with over 40 years of experience in the Financial Advice Industry holding various senior roles with some of the largest financial institutions in Canada. Their deep understanding of the operations of SMB Financial Advisors was a key input into the validation of the survey data.
196 Over time inflationary increases in the value of output means that fewer employees can be expected to generate the same nominal value of output.
197 This analysis focused on the tax portion of government revenues (i.e. personal and corporate income taxes, taxes on goods and services, etc.) but excluded other sources of government revenues.
198 Property taxes paid reported in this survey were very small and accounted for only a very small share of total tax revenues in each province.
3. Economic impact results

Introduction

Economic impact results are outlined below. The results are presented for all of Canada and for individual regions. The results represent the total “footprint” of the SMB Financial Advice Industry across Canada extrapolated from the results of the survey sample.

National economic impact results

Table 10 below shows the economic footprint of the SMB Financial Advice Industry throughout the Canadian economy. The table shows three sets of results: (1) for individual SMB Financial Advisors, (2) for distributors and dealers of financial products related to the products SMB Financial Advisors sell, and (3) the combined impact. The table shows that for all metrics of impacts, individual SMB Financial Advisors accounted for nearly 99% of total impacts.

As shown below, the business output attributable to the SMB Financial Advice Industry amounts to $32.1 billion, GDP amounts to $25.2 billion and government tax revenue that can be traced in some way to the industry amounts to $6.0 billion. The SMB Financial Advice Industry is also a significant contributor of jobs – the industry contributed roughly 236,000 jobs to the Canadian economy generating $10.5 million in labour income. Of these jobs, nearly 180,000 are directly related to the SMB Financial Advice Industry and occupationally represent financial advisors and administrative or related staff that support financial advisors.

<p>| TABLE 10 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN CANADA: KEY INDICATORS BY TYPE OF IMPACT |</p>
<table>
<thead>
<tr>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 21,410.8</td>
<td>$ 18,878.7</td>
<td>$ 7,324.4</td>
<td>179,708.8</td>
</tr>
<tr>
<td>Indirect</td>
<td>3,809.7</td>
<td>2,253.2</td>
<td>1,276.0</td>
<td>19,516.8</td>
</tr>
<tr>
<td>Induced</td>
<td>6,924.2</td>
<td>4,047.4</td>
<td>1,916.1</td>
<td>36,349.7</td>
</tr>
<tr>
<td>Total</td>
<td>$ 32,144.6</td>
<td>$ 25,179.3</td>
<td>$ 10,516.5</td>
<td>235,575.4</td>
</tr>
<tr>
<td>Distributors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 279.5</td>
<td>$ 266.2</td>
<td>$ 36.0</td>
<td>2,224.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>20.3</td>
<td>11.9</td>
<td>6.3</td>
<td>99.9</td>
</tr>
<tr>
<td>Induced</td>
<td>36.5</td>
<td>21.4</td>
<td>10.0</td>
<td>186.5</td>
</tr>
<tr>
<td>Total</td>
<td>$ 336.3</td>
<td>$ 299.5</td>
<td>$ 52.4</td>
<td>2,511.2</td>
</tr>
<tr>
<td>Advisors and Distributors Combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 21,690.3</td>
<td>$ 19,144.8</td>
<td>$ 7,360.4</td>
<td>181,933.6</td>
</tr>
<tr>
<td>Indirect</td>
<td>3,829.9</td>
<td>2,265.0</td>
<td>1,282.3</td>
<td>19,616.8</td>
</tr>
<tr>
<td>Induced</td>
<td>6,960.7</td>
<td>4,068.9</td>
<td>1,926.1</td>
<td>36,536.2</td>
</tr>
<tr>
<td>Total</td>
<td>$ 32,480.9</td>
<td>$ 25,478.7</td>
<td>$ 10,568.9</td>
<td>238,086.6</td>
</tr>
</tbody>
</table>
The results reported in Table 10 were compared to other industries in order to (1) better illustrate the contribution of the industry to the Canadian economy, and (2) validate the results, or determine whether they are consistent with other industry-based data from reputable sources.

Table 11 shows the contribution of the SMB Financial Advice Industry to Canadian GDP and employment and the same metrics for a few selected other industries. The SMB Financial Advice industry contributes in total 1.4% of national GDP and 1.5% of national employment. When considering the direct impact only, this contribution amounts to 1.0% and 1.1%, respectively. Comparing with other industries, the table demonstrates that the contribution through the direct impact is larger than the direct contribution of the Pharmaceutical Industry, the Motor Vehicle Manufacturing Industry, or the Aerospace Industry. Total contribution to employment is about the same as that of the entire Mining and Oil Extraction Industry (although much smaller than the GDP generated by this industry). The table also shows that the SMB Financial Advice Industry is also an important component of the Finance and Insurance Industry of which it is part.

### TABLE 11 – SHARES OF TOTAL CANADIAN GDP AND EMPLOYMENT FOR SMB FINANCIAL ADVICE INDUSTRY BUSINESSES AND SELECTED OTHER INDUSTRIES

<table>
<thead>
<tr>
<th>SMB Financial Advice Industry</th>
<th>GDP</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Impacts</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Direct Impacts Only</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other Industries (direct impacts only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and Insurance Industry</td>
<td>6.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Mining, Oil and Gas Extraction</td>
<td>4.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>0.3%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Motor Vehicle Manufacturing</td>
<td>0.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Aerospace</td>
<td>0.6%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>5.8%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>6.1%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>5.0%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>2.1%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Source: Calculated by HDR based on economic impact results from this study and data on national employment and GDP from Statistics Canada.

Table 12 below shows selected industry metrics of the SMB Financial Advice Industry and other industries related to it implied by this analysis (i.e., indirect and induced industries).

In particular, Table 12 shows that the implied average salary (total direct employment income divided by direct employment) in the SMB Financial Advice Industry, $40,457 annually, is moderate compared to other industries. It is below the average salary in the indirect and induced industries and below the average salary across the entire Canadian economy ($65,380, $52,713, and $47,358 annually, respectively). This is partly related to the fact that many SMB Financial Advisors are single proprietors and hire primarily administrative staff. They have limited if any staff support and minimal if any formal payroll. At the same time, however, for sole proprietors, any difference between revenues obtained from all sources and business-related expenses constitutes an income, or compensation that they would be paying to themselves in addition to any formally stated salary. The survey results were partially adjusted for this effect. The difference between total revenue and total expenses was considered a wage expense for businesses reporting no employment income and added to employment incomes reported by other survey respondents. If employment was reported, however, the difference between total revenues and total expenses (except for wages) is included in GDP as corporate profits and/or surplus of the advisor running the business. Table 12 shows that GDP per employee in the SMB Financial Advice Industry amounted to $105,230 and was somewhat higher than GDP per employee across the Canadian economy and much higher than GDP per capita in the entire Services Producing Industries sector (and slightly lower than GDP per employee in indirect and induced industries). Tax revenue per employee in the SMB Financial Advice Industry is comparable to that in the induced industries and somewhat less than average tax per employee in the indirect industries and across the entire economy.
The national economic impact results estimated in this study were also compared with economic results for the Mutual Funds Industry completed recently by Conference Board of Canada. The Mutual Funds Industry partially overlaps with the industry studied here, and the retail level of the Mutual Funds Industry represents a subset of the total Financial Advice Industry. Therefore, impacts for the Mutual Funds Industry are expected to be smaller than results reported here. As expected, the Mutual Funds Industry accounted for about 30% to 35% of the total direct effect (depending on the economic indicator) of the SMB Financial Advice Industry, which was judged as reasonable.

As a further assessment of results, for each province HDR calculated operational statistics per SMB Financial Advisor as implied by the economic impact results and compared to estimated total direct employment with detailed employment data by industry from the 2011 National Household Survey for industries that correspond and cover the SMB Financial Advice Industry. The results are shown in Table 13.

Table 13 shows that each advisor generated output ranging from a low of almost $234,000 in Quebec to a high of roughly $321,000 in Saskatchewan and Manitoba. Each advisor generated employment of 2.0 to 2.7 persons (including the advisor). These results are judged as reasonable and consistent with our understanding of the SMB Financial Advice Industry.

Table 13 also compares estimated total direct employment in the SMB Financial Advice Industry with 2011 National Household Survey (NHS) data for NAICS codes 5239 (Other Financial Investment Activities) and 5242 (Agencies, Brokerages, and Other Insurance Related Activities). These two NAICS codes were judged as most closely corresponding to and covering the SMB Financial Advice Industry. Although the 2011 NHS data does not reflect industrial growth between 2010 and 2013, it can be considered as a reasonable approximation and baseline reference. Therefore, the estimated direct employment in the SMB Financial Advice Industry should not exceed significantly 2011 NHS employment in the two reference industries. The table shows that in Alberta and Atlantic Canada, employment in the SMB Financial Advice Industry is slightly larger. However, for all other geographic regions and across Canada employment in the SMB Financial Advice Industry is smaller than employment in the two reference industries, which is what we would expect.

<table>
<thead>
<tr>
<th>TABLE 12 – SELECTED INDUSTRY CHARACTERISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMB Financial Industry</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>Indirect industries</td>
</tr>
<tr>
<td>Induced industries</td>
</tr>
<tr>
<td>Total (SMB Financial Advice Industry, Indirect and Induced Industries)</td>
</tr>
<tr>
<td>All Canadian economy</td>
</tr>
<tr>
<td>Services Producing Industries</td>
</tr>
<tr>
<td>Source: Compiled by HDR based on Economic Impact Model simulations and data from Statistics Canada.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 13 – SELECTED IMPLIED OPERATING STATISTICS AND EMPLOYMENT STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Statistics</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>British Columbia</td>
</tr>
<tr>
<td>Alberta</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
</tr>
<tr>
<td>Ontario</td>
</tr>
<tr>
<td>Quebec</td>
</tr>
<tr>
<td>Atlantic Canada</td>
</tr>
<tr>
<td>All of Canada</td>
</tr>
</tbody>
</table>
Regional economic impact results

This section provides economic impact results for geographic regions in Canada. The regions consist mostly of individual provinces; some provinces have been combined into one geographic region due to the lack of survey participation and the relative number of SMB Financial Advisors in these provinces. Given that individual advisors account for nearly 99% of economic impact results (as shown in the previous sub-section), for clarity of exposition the results are shown only for the combined impacts of individual advisors and distributors.

Each table for individual region provides two sets of results: (1) for “within province/region”, and (2) across Canada. The first set of results shows the impacts of professional activities and expenditures in the same specific region. The second set of impacts captures the idea that the impacts spill over and beyond each individual province/region to the entire country (although most of the impacts are within the province/region). Therefore, the across Canada results include the “within province/region” impact and economic impacts that flow outside of the province/region in which they are generated.

Table 14 below provides the distribution of total “across Canada” impacts as defined above while the subsections that follow provide the specific quantitative estimates. It should be noted that when a sample is divided into sub-samples generally the reliability of estimates is less for the sub-samples due to the smaller sample sizes. This is the case for the regional economic impact results here as well, in particular for the analysis of Quebec and Atlantic samples.

Specifically, Table 14 shows that Ontario accounts for about 44%–46% of total national impacts followed by Quebec with a share of about 16%. British Columbia and Alberta follow closely contributing about 14% and 12% of impacts, respectively. The Atlantic Canada provinces and Prairie Provinces contribute about 7% and 6%, respectively, of total national impacts.

<table>
<thead>
<tr>
<th>Table 14 – Distribution of Total Economic Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output</strong></td>
</tr>
<tr>
<td>British Columbia</td>
</tr>
<tr>
<td>Alberta</td>
</tr>
<tr>
<td>Manitoba and Saskatchewan</td>
</tr>
<tr>
<td>Ontario</td>
</tr>
<tr>
<td>Quebec</td>
</tr>
<tr>
<td>Atlantic Canada</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model

**BRITISH COLUMBIA**

The table below shows the economic impact of the SMB Financial Advice Industry for British Columbia.

<table>
<thead>
<tr>
<th>Table 15 – SMB Financial Advice Industry Footprint in British Columbia: Key Indicators by Type of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of impact</strong></td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td><strong>Within province/region</strong></td>
</tr>
<tr>
<td>Direct</td>
</tr>
<tr>
<td>Indirect</td>
</tr>
<tr>
<td>Induced</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
</tr>
<tr>
<td>Direct</td>
</tr>
<tr>
<td>Indirect</td>
</tr>
<tr>
<td>Induced</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model
The table below shows the economic impact of the SMB Financial Advice Industry for Alberta.

### TABLE 16 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN ALBERTA: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within province</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 2,755.1</td>
<td>$ 2,414.4</td>
<td>$ 870.7</td>
<td>21,534.1</td>
<td>$ 571.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>478.3</td>
<td>278.1</td>
<td>147.1</td>
<td>2,069.4</td>
<td>65.2</td>
</tr>
<tr>
<td>Induced</td>
<td>558.2</td>
<td>351.1</td>
<td>149.2</td>
<td>2,477.6</td>
<td>82.3</td>
</tr>
<tr>
<td>Total</td>
<td>$ 3,791.5</td>
<td>$ 3,043.5</td>
<td>$ 1,167.1</td>
<td>26,081.1</td>
<td>$ 718.5</td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 2,755.1</td>
<td>$ 2,414.4</td>
<td>$ 870.7</td>
<td>21,534.1</td>
<td>$ 571.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>533.4</td>
<td>307.3</td>
<td>165.7</td>
<td>2,394.0</td>
<td>72.0</td>
</tr>
<tr>
<td>Induced</td>
<td>884.9</td>
<td>521.2</td>
<td>240.4</td>
<td>4,159.9</td>
<td>122.1</td>
</tr>
<tr>
<td>Total</td>
<td>$ 4,173.4</td>
<td>$ 3,242.8</td>
<td>$ 1,276.8</td>
<td>28,088.1</td>
<td>$ 765.2</td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model

The table below shows the economic impact of the SMB Financial Advice Industry for Saskatchewan and Manitoba.

### TABLE 17 – SMB FINANCIAL ADVICE INDUSTRY FOOTPRINT IN SASKATCHEWAN AND MANITOBA: KEY INDICATORS BY TYPE OF IMPACT

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within province</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 1,349.5</td>
<td>$ 1,223.0</td>
<td>$ 371.5</td>
<td>9,366.9</td>
<td>$ 288.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>161.8</td>
<td>96.6</td>
<td>51.5</td>
<td>924.1</td>
<td>22.6</td>
</tr>
<tr>
<td>Induced</td>
<td>197.0</td>
<td>127.1</td>
<td>52.7</td>
<td>1,111.9</td>
<td>29.8</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,708.3</td>
<td>$ 1,446.7</td>
<td>$ 475.7</td>
<td>11,402.9</td>
<td>$ 341.3</td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 1,349.5</td>
<td>$ 1,223.0</td>
<td>$ 371.5</td>
<td>9,366.9</td>
<td>$ 288.9</td>
</tr>
<tr>
<td>Indirect</td>
<td>193.9</td>
<td>114.2</td>
<td>62.0</td>
<td>1,096.5</td>
<td>26.8</td>
</tr>
<tr>
<td>Induced</td>
<td>401.5</td>
<td>236.2</td>
<td>109.0</td>
<td>2,103.8</td>
<td>55.4</td>
</tr>
<tr>
<td>Total</td>
<td>$ 1,945.0</td>
<td>$ 1,573.4</td>
<td>$ 542.5</td>
<td>12,567.2</td>
<td>$ 371.0</td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model
ONTARIO

The table below shows the economic impact of the SMB Financial Advice Industry for Ontario.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 9,606.9</td>
<td>$ 8,437.2</td>
<td>$ 3,428.6</td>
<td>84,380.6</td>
<td>$ 2,003.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>1,617.8</td>
<td>995.5</td>
<td>583.0</td>
<td>7,963.3</td>
<td>233.3</td>
</tr>
<tr>
<td>Induced</td>
<td>2,286.6</td>
<td>1,357.2</td>
<td>650.7</td>
<td>11,928.2</td>
<td>318.1</td>
</tr>
<tr>
<td>Total</td>
<td>$ 13,511.3</td>
<td>$ 10,789.9</td>
<td>$ 4,662.4</td>
<td>104,272.0</td>
<td>$ 2,555.0</td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 9,606.9</td>
<td>$ 8,437.2</td>
<td>$ 3,428.6</td>
<td>84,380.6</td>
<td>$ 2,003.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>1,702.1</td>
<td>1,040.4</td>
<td>609.0</td>
<td>8,385.2</td>
<td>243.8</td>
</tr>
<tr>
<td>Induced</td>
<td>2,854.3</td>
<td>1,654.4</td>
<td>798.4</td>
<td>14,713.9</td>
<td>387.7</td>
</tr>
<tr>
<td>Total</td>
<td>$ 14,163.3</td>
<td>$ 11,132.1</td>
<td>$ 4,836.1</td>
<td>107,479.6</td>
<td>$ 2,635.2</td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model

QUEBEC

The table below shows the economic impact of the SMB Financial Advice Industry for Quebec.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 3,425.5</td>
<td>$ 3,030.6</td>
<td>$ 1,170.9</td>
<td>28,889.5</td>
<td>$ 725.1</td>
</tr>
<tr>
<td>Indirect</td>
<td>561.4</td>
<td>311.1</td>
<td>161.9</td>
<td>2,804.7</td>
<td>72.9</td>
</tr>
<tr>
<td>Induced</td>
<td>797.9</td>
<td>477.0</td>
<td>226.2</td>
<td>4,862.1</td>
<td>111.8</td>
</tr>
<tr>
<td>Total</td>
<td>$ 4,784.8</td>
<td>$ 3,818.7</td>
<td>$ 1,559.1</td>
<td>36,556.2</td>
<td>$ 909.8</td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 3,425.5</td>
<td>$ 3,030.6</td>
<td>$ 1,170.9</td>
<td>28,889.5</td>
<td>$ 725.1</td>
</tr>
<tr>
<td>Indirect</td>
<td>617.2</td>
<td>341.7</td>
<td>181.0</td>
<td>3,125.8</td>
<td>80.1</td>
</tr>
<tr>
<td>Induced</td>
<td>1,171.9</td>
<td>672.6</td>
<td>329.6</td>
<td>6,731.3</td>
<td>157.6</td>
</tr>
<tr>
<td>Total</td>
<td>$ 5,214.6</td>
<td>$ 4,045.0</td>
<td>$ 1,681.4</td>
<td>38,746.6</td>
<td>$ 962.8</td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model
ATLANTIC CANADA
The table below shows the economic impact of the SMB Financial Advice Industry for Atlantic Canada: New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$1,438.4</td>
<td>$1,295.0</td>
<td>$492.3</td>
<td>13,248.5</td>
<td>$305.3</td>
</tr>
<tr>
<td>Indirect</td>
<td>188.2</td>
<td>110.1</td>
<td>61.9</td>
<td>1,112.6</td>
<td>25.8</td>
</tr>
<tr>
<td>Induced</td>
<td>262.1</td>
<td>162.7</td>
<td>68.8</td>
<td>1,564.2</td>
<td>38.1</td>
</tr>
<tr>
<td>Total</td>
<td>$1,888.8</td>
<td>$1,567.8</td>
<td>$623.0</td>
<td>15,925.3</td>
<td>$369.2</td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$1,438.4</td>
<td>$1,295.0</td>
<td>$492.3</td>
<td>13,248.5</td>
<td>$305.3</td>
</tr>
<tr>
<td>Indirect</td>
<td>221.8</td>
<td>127.6</td>
<td>72.9</td>
<td>1,303.1</td>
<td>29.9</td>
</tr>
<tr>
<td>Induced</td>
<td>521.1</td>
<td>298.6</td>
<td>140.4</td>
<td>2,896.2</td>
<td>70.0</td>
</tr>
<tr>
<td>Total</td>
<td>$2,181.3</td>
<td>$1,721.1</td>
<td>$705.6</td>
<td>17,447.9</td>
<td>$405.2</td>
</tr>
</tbody>
</table>

Source: HDR Economic Impact Model

Key findings
The SMB Financial Advice Industry, which in many cases is comprised of single-person business entities, is an important part of the Canadian economy and contributes approximately 1.4% to Canada’s GDP (including indirect and induced impacts). Its direct GDP impact is larger than the Pharmaceutical Industry, the Aerospace Industry and the Motor Vehicle Manufacturing Industry and accounts for a significant share of the broader Finance and Insurance Industry in Canada. The SMB Financial Advice Industry’s economic impact is distributed quite widely across Canada and is a major source of direct and indirect employment across all regions in Canada.

Economic impacts estimated as part of this study were based on approximately 1,800 survey responses, which were then extrapolated to a much larger population of SMB Financial Advisors (roughly 80,000 across Canada). Overall, we believe we received a representative sample of survey responses to estimate economic impacts across provinces and in all of Canada. Survey results in terms of average revenues, expenditures and employment were consistent with expectations. Survey results across regions were also generally consistent (e.g., average revenues, expenditures and employment averages for each Province did not vary significantly, as expected). Lastly, economic impact estimates were also in line with results from previous studies and industry level data published by Statistics Canada.

ENDNOTES
199 The SMB Financial Advice Industry is part of the Finance and Insurance Industry.
200 Respondents who reported wages and salaries in the amount of $0 typically also reported employment of 0. However, several respondents who reported employment of 0 also reported wages and salaries larger than $0. This suggests that wages and salaries in this survey typically capture payments to hired staff, perhaps because payments to self are not considered a business expense by an SMB owner. As a result, the monetary compensation that the business owner receives from running the business may be under-estimated.
201 As stated earlier in this report, GDP was calculated using the income method as the difference between total business output minus all expenses (that also include wages and salaries), and plus wages and salaries.
203 The precise definition of the mutual funds industry is not provided in the Conference Board of Canada paper referenced above. Therefore, the comparison of results – although useful and informative – is somewhat limited.
204 Note that the 2011 NHS data reflects 2010 employment figures.
Appendix B1: Non-extrapolated economic impact results

Introduction
This Appendix presents the economic impact results for the survey sample, i.e. impacts which are not extrapolated to obtain the impacts for the entire universe of financial advisors. These results are provided here for additional insight and transparency purposes.

Non-extrapolated national economic impact results
Table 21 shows the economic impact for the sample of respondents who answered the survey. The table shows that overall, the sample represented employment of 6,267, generated directly business output of $766.5 million, $695.8 million of GDP, $200.8 million of labour income, and $165 million of government tax revenues. Including indirect and induced impacts, total impact of the sample amounted to $1,067 million in business output, $873 million GDP, $289.7 million labour income, employment of 7,816, and government tax revenues of $206.2 million.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$764.7</td>
<td>$694.2</td>
<td>$200.3</td>
<td>6,252.6</td>
<td>$164.3</td>
</tr>
<tr>
<td>Indirect</td>
<td>106.2</td>
<td>63.0</td>
<td>35.4</td>
<td>545.2</td>
<td>14.8</td>
</tr>
<tr>
<td>Induced</td>
<td>193.7</td>
<td>113.8</td>
<td>53.3</td>
<td>1,001.7</td>
<td>26.7</td>
</tr>
<tr>
<td>Total</td>
<td>$1,064.6</td>
<td>$871.0</td>
<td>$289.0</td>
<td>7,799.5</td>
<td>$205.7</td>
</tr>
</tbody>
</table>
Non-extrapolated regional economic impact results

This section of the report shows the non-extrapolated economic impact of the SMB Financial Advice Industry for the following regions: British Columbia, Alberta, Saskatchewan and Manitoba, Ontario, Quebec and Atlantic Canada.

BRITISH COLUMBIA

The table below shows the non-extrapolated economic impact of the SMB Financial Advice Industry for British Columbia.

| TABLE 22 – ECONOMIC IMPACT OF SMB FINANCIAL ADVICE INDUSTRY: SAMPLE RESULTS (NOT EXTRAPOLATED); BRITISH COLUMBIA |
|---|---|---|---|---|
| Type of impact | Output (millions) | GDP (millions) | Labour income (millions) | Employment |
| Within province | | | | |
| Direct | $ 145.1 | $ 131.5 | $ 39.2 | 1,149.7 |
| Indirect | 18.4 | 11.1 | 6.3 | 109.2 |
| Induced | 28.3 | 18.6 | 7.8 | 158.3 |
| Total | $ 191.9 | $ 161.1 | $ 53.3 | 1,417.3 |
| Across Canada | | | | |
| Direct | $ 145.1 | $ 131.5 | $ 39.2 | 1,149.7 |
| Indirect | 20.6 | 12.3 | 7.0 | 121.0 |
| Induced | 42.9 | 26.1 | 11.7 | 225.6 |
| Total | $ 208.6 | $ 169.8 | $ 58.0 | 1,496.3 |

ALBERTA

The table below shows the non-extrapolated economic impact of the SMB Financial Advice Industry for Alberta.

| TABLE 23 – ECONOMIC IMPACT OF SMB FINANCIAL ADVICE INDUSTRY: SAMPLE RESULTS (NOT EXTRAPOLATED); ALBERTA |
|---|---|---|---|---|
| Type of impact | Output (millions) | GDP (millions) | Labour income (millions) | Employment |
| Within province | | | | |
| Direct | $ 142.0 | $ 129.7 | $ 37.4 | 953.8 |
| Indirect | 17.4 | 10.1 | 5.3 | 73.8 |
| Induced | 23.4 | 14.7 | 6.2 | 103.7 |
| Total | $ 182.8 | $ 154.5 | $ 48.9 | 1,131.2 |
| Across Canada | | | | |
| Direct | $ 142.0 | $ 129.7 | $ 37.4 | 953.8 |
| Indirect | 19.4 | 11.2 | 6.0 | 85.4 |
| Induced | 37.0 | 21.8 | 10.1 | 174.1 |
| Total | $ 198.4 | $ 162.7 | $ 53.4 | 1,213.3 |
**SASKATCHEWAN AND MANITOBA**
The table below shows the non-extrapolated economic impact of the SMB Financial Advice Industry for Saskatchewan and Manitoba.

**TABLE 24 – ECONOMIC IMPACT OF SMB FINANCIAL ADVICE INDUSTRY: SAMPLE RESULTS (NOT EXTRAPOLATED); SASKATCHEWAN AND MANITOBA**

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within province</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 75.6</td>
<td>$ 70.0</td>
<td>$ 15.7</td>
<td>540.8</td>
<td>$ 16.5</td>
</tr>
<tr>
<td>Indirect</td>
<td>7.2</td>
<td>4.3</td>
<td>2.4</td>
<td>43.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Induced</td>
<td>8.5</td>
<td>5.4</td>
<td>2.3</td>
<td>47.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 91.3</td>
<td>$ 79.7</td>
<td>$ 20.4</td>
<td>631.1</td>
<td>$ 18.8</td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 75.6</td>
<td>$ 70.0</td>
<td>$ 15.7</td>
<td>540.8</td>
<td>$ 16.5</td>
</tr>
<tr>
<td>Indirect</td>
<td>8.6</td>
<td>5.1</td>
<td>2.8</td>
<td>50.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Induced</td>
<td>17.3</td>
<td>10.2</td>
<td>4.7</td>
<td>90.3</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 101.6</td>
<td>$ 85.2</td>
<td>$ 23.3</td>
<td>681.8</td>
<td>$ 20.1</td>
</tr>
</tbody>
</table>

**ONTARIO**
The table below shows the non-extrapolated economic impact of the SMB Financial Advice Industry for Ontario.

**TABLE 25 – ECONOMIC IMPACT OF SMB FINANCIAL ADVICE INDUSTRY: SAMPLE RESULTS (NOT EXTRAPOLATED); ONTARIO**

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Within province</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 276.1</td>
<td>$ 246.9</td>
<td>$ 79.9</td>
<td>2,497.2</td>
<td>$ 58.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>40.2</td>
<td>24.7</td>
<td>14.3</td>
<td>196.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Induced</td>
<td>54.0</td>
<td>32.0</td>
<td>15.4</td>
<td>281.5</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 370.3</td>
<td>$ 303.7</td>
<td>$ 109.6</td>
<td>2,975.2</td>
<td>$ 72.0</td>
</tr>
<tr>
<td><strong>Across Canada</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 276.1</td>
<td>$ 246.9</td>
<td>$ 79.9</td>
<td>2,497.2</td>
<td>$ 58.7</td>
</tr>
<tr>
<td>Indirect</td>
<td>42.3</td>
<td>25.9</td>
<td>15.0</td>
<td>207.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Induced</td>
<td>67.4</td>
<td>39.1</td>
<td>18.8</td>
<td>347.4</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 385.8</td>
<td>$ 311.8</td>
<td>$ 113.8</td>
<td>3,051.6</td>
<td>$ 73.9</td>
</tr>
</tbody>
</table>
QUEBEC
The table below shows the non-extrapolated economic impact of the SMB Financial Advice Industry for Quebec.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 61.1</td>
<td>$ 56.6</td>
<td>$ 13.5</td>
<td>467.1</td>
<td>$ 13.4</td>
</tr>
<tr>
<td>Indirect</td>
<td>6.5</td>
<td>3.6</td>
<td>1.7</td>
<td>29.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Induced</td>
<td>8.9</td>
<td>5.3</td>
<td>2.5</td>
<td>54.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>$ 76.5</td>
<td>$ 65.5</td>
<td>$ 17.7</td>
<td>551.5</td>
<td>$ 15.5</td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 61.1</td>
<td>$ 56.6</td>
<td>$ 13.5</td>
<td>467.1</td>
<td>$ 13.4</td>
</tr>
<tr>
<td>Indirect</td>
<td>7.2</td>
<td>4.0</td>
<td>1.9</td>
<td>33.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Induced</td>
<td>13.2</td>
<td>7.6</td>
<td>3.7</td>
<td>75.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>$ 81.4</td>
<td>$ 68.1</td>
<td>$ 19.1</td>
<td>576.5</td>
<td>$ 16.1</td>
</tr>
</tbody>
</table>

ATLANTIC CANADA

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Output (millions)</th>
<th>GDP (millions)</th>
<th>Labour income (millions)</th>
<th>Employment</th>
<th>Government tax revenues (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within province</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 64.7</td>
<td>$ 59.5</td>
<td>$ 14.6</td>
<td>644.0</td>
<td>$ 14.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>6.8</td>
<td>4.0</td>
<td>2.2</td>
<td>40.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Induced</td>
<td>8.0</td>
<td>5.0</td>
<td>2.1</td>
<td>47.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>$ 79.5</td>
<td>$ 68.5</td>
<td>$ 18.9</td>
<td>732.0</td>
<td>$ 16.1</td>
</tr>
<tr>
<td>Across Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$ 64.7</td>
<td>$ 59.5</td>
<td>$ 14.6</td>
<td>644.0</td>
<td>$ 14.0</td>
</tr>
<tr>
<td>Indirect</td>
<td>8.0</td>
<td>4.6</td>
<td>2.7</td>
<td>47.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Induced</td>
<td>15.9</td>
<td>9.1</td>
<td>4.3</td>
<td>88.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Total</td>
<td>$ 88.7</td>
<td>$ 73.3</td>
<td>$ 21.5</td>
<td>780.0</td>
<td>$ 17.2</td>
</tr>
</tbody>
</table>
Appendix C: Advocis Economic Impact Survey

Introduction
Thank you for participating in this Advocis Economic Impact Survey.

The objective of this survey is to identify key structural and economic benefits to Canada of the Financial Advisory industry in order to increase industry awareness and advocacy efforts.

The survey will take approximately 5–10 minutes to complete.

Privacy
Your privacy is important to us. Personal information will be held in the strictest confidence and will never be used for any purpose other than to identify the winner of an iPad Air (should you choose to enter the draw). Survey results will be aggregated for analysis and research purposes to protect the participant’s identity.

Navigation
Please use the “Back” and “Next” buttons provided at the bottom of each page to navigate through the survey. If the question is not applicable or you choose not to answer, click the “N/A” option. The survey can also be saved and completed at a later time using the URL link generated during the saving process.

Contacts
For questions on the survey itself and how it will be used, please contact info@advocis.ca

If you experience any technical difficulties, please contact James Mancini by e-mail at james.a.mancini@ca.pwc.com
PERSONAL INFORMATION

Are you a member of Advocis?

- Yes
- No

If convenient, please provide your 7-digit numerical Advocis Member Number or enter your email address for purposes of the survey incentive draw:

Advocis Member Number: [__] [__] [__] [__] [__] [__] [__]  
Email Address: [__] [__] [__] [__] [__] [__] [__]

YOUR ROLE AND LICENSING

1. In your role as a Financial Advisor, please choose the best description of your licensing and role:

- a. I sell insurance only
- b. I sell mutual funds only
- c. I sell securities only (stocks, bonds, alternative investments, ETFs)
- d. I sell mutual funds and insurance
- e. I sell securities (including mutual funds) and insurance.
- f. I am a fee-based Financial Advisor
- g. I manage a branch of an insurance, MFDA or IIROC organization
- h. I own and/or manage a sales organization, MGA or broker/dealer that includes both sales and back office staff.
- i. None of the above

2. In your role as Branch Manager, do you also maintain a personal Financial Advisory practice?

If YES, please click the “YES” button below to return to the prior question and select the licensing and role that best describes your personal Financial Advisory practice and then continue the survey answering solely with respect to your personal practice.

If NO, thank you for your time. We are capturing the Economic Impact of Branches through another method. Please click NO to end and once again we thank you for commencing the survey.

- Yes
- No

PERSONAL DEMOGRAPHICS

3. Are you:

- Male
- Female
- N/A

4. In which age group are you?

- Under 35
- 35 to 44
- 45 to 54
- 55 to 64
- ≥ 65
- N/A

5. For how many years have you worked as a Financial Advisor?

- Less than 5 years
- 5 to 9 years
- 10 – 19 years
- ≥20 years
- N/A
PRACTICE EXPENDITURES – FINANCIAL ADVISOR

6. What was the Total Revenue of your Financial Advisory practice (e.g., fees, commissions, renewals, trailers from funds, investments and insurance, etc.) in 2013?

- $ < $25,000
- $25,000 – $49,999
- $50,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,999
- $250,000 – $499,999
- $500,000 – $749,999
- $750,000 – $999,999
- $1,000,000 – $2,499,999
- $2,500,000 – $4,999,999
- $5,000,000
- $7,500,000 – $9,999,999
- ≥ $10,000,000

7. How many Full Time Equivalent Employees (FTEs) does your practice employ (e.g., 4 full time plus 3 half time = 5.5, so respond 6 – 10)?

- 0 (none)
- 1 – 5
- 6 – 10
- 11 – 24
- ≥ 25
- N/A

8. Please indicate the range of Total Expenses paid by your practice in 2013:

- $ < $10,000
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,000
- $250,000 – $499,999
- ≥ $500,000
- N/A

9. What percentage of your practice’s expenses is spent in:

<table>
<thead>
<tr>
<th>Province/Territory</th>
<th>% Business Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td></td>
</tr>
<tr>
<td>New Brunswick</td>
<td></td>
</tr>
<tr>
<td>Newfoundland and Labrador</td>
<td></td>
</tr>
<tr>
<td>Nova Scotia</td>
<td></td>
</tr>
<tr>
<td>Northwest Territories</td>
<td></td>
</tr>
<tr>
<td>Nunavut</td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td></td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td></td>
</tr>
<tr>
<td>Yukon</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>
The next few questions will break down some specific categories of expenses that you may incur in your business.

10. Please indicate the range paid for **Wages** for your practice in 2013:

- $0
- $1 – $4,999
- $5,000 – $9,999
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $100,000 – $149,999
- ≥ $150,000 – $249,000
- ≥ $250,000 – $499,999
- ≥ $500,000
- ≥ $500,000
- ≥ $100,000 – $149,999
- ≥ $250,000 – $499,999
- ≥ $500,000
- ≥ $1,000 – $2,499
- ≥ $5,000 – $7,499
- ≥ $20,000 – $24,999
- ≤ $50,000
- ≤ $50,000
- ≤ $50,000
- ≤ $250,000
- ≤ N/A

11. Please indicate the range paid for **Rent and Utilities** by your practice in 2013:

- $0
- $1 – $4,999
- $5,000 – $9,999
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- ≥ $150,000 – $249,000
- ≥ $250,000
- ≥ N/A

12. Please indicate the range paid by your practice in 2013 for **Property Taxes**:

- $0
- $1 – $999
- $1,000 – $2,499
- $2,500 – $4,999
- $5,000 – $7,499
- $7,500 – $9,999
- $10,000 – $14,999
- $15,000 – $19,999
- ≥ $20,000 – $24,999
- ≥ $25,000
- ≥ $250,000
- ≥ N/A

13. Please indicate range paid for total **Marketing Expenses** paid by your practice in 2013:

- < $2,500
- $2,500 – $4,999
- $5,000 – $9,999
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- ≥ $150,000 – $249,000
- ≥ $250,000
- ≥ $500,000
- ≥ N/A

14. If any of your **Marketing Expenses** were paid **outside of Canada** please indicate the percentage of the total: __________ %

15. Please indicate the range paid for **Technology and Communication** related expenses paid by your practice in 2013:

- < $5,000
- $5,000 – $9,999
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- ≥ $150,000 – $249,000
- ≥ $250,000
- ≥ N/A
### DISTRIBUTOR EXPENDITURES – MGA OR DEALER

16. If your MGA or Dealer is part of a National or Regional organization, please ensure that your responses only apply to your MGA/AGA or Dealer. In order for us to aggregate and/or avoid duplication of responses, please provide the name and region of your organization (e.g., ‘NationalName’ MGA, Atlantic Region).

- Name and Region of your organization:  
- Not applicable

17. What was the **Total Revenue** of your firm or organization in 2013?

<table>
<thead>
<tr>
<th>Range</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $50,000</td>
<td></td>
</tr>
<tr>
<td>$50,000 – $99,999</td>
<td></td>
</tr>
<tr>
<td>$100,000 – $149,999</td>
<td></td>
</tr>
<tr>
<td>$150,000 – $249,999</td>
<td></td>
</tr>
<tr>
<td>$250,000 – $499,999</td>
<td></td>
</tr>
<tr>
<td>$500,000 – $749,999</td>
<td></td>
</tr>
<tr>
<td>$750,000 – $999,999</td>
<td></td>
</tr>
<tr>
<td>$1,000,000 – $1,499,999</td>
<td></td>
</tr>
<tr>
<td>$1,500,000 to $1,999,999</td>
<td></td>
</tr>
<tr>
<td>$2,000,000 to $2,499,999</td>
<td></td>
</tr>
<tr>
<td>$2,500,000 to $4,999,999</td>
<td></td>
</tr>
<tr>
<td>≥ $5,000,000</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>≥ $100</td>
<td></td>
</tr>
<tr>
<td>≥ 100</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

18. How many **Full Time Equivalent Employees (FTEs)** does your firm employ?  
(e.g., 9 full time plus 5 half time = 11.5, so respond 11 – 25)

<table>
<thead>
<tr>
<th>FTEs Range</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (none)</td>
<td></td>
</tr>
<tr>
<td>1 – 5</td>
<td></td>
</tr>
<tr>
<td>6 – 10</td>
<td></td>
</tr>
<tr>
<td>11 – 25</td>
<td></td>
</tr>
<tr>
<td>26 – 49</td>
<td></td>
</tr>
<tr>
<td>≥ 100</td>
<td></td>
</tr>
<tr>
<td>50 – 99</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

19. Please indicate the range of **Total Expenses** paid by your firm in 2013:

<table>
<thead>
<tr>
<th>Range</th>
<th>Number of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $25,000</td>
<td></td>
</tr>
<tr>
<td>$25,000 – $49,999</td>
<td></td>
</tr>
<tr>
<td>$50,000 – $74,999</td>
<td></td>
</tr>
<tr>
<td>$75,000 – $99,999</td>
<td></td>
</tr>
<tr>
<td>$100,000 – $149,999</td>
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<tr>
<td>$150,000 – $249,000</td>
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<td>$250,000 – $499,999</td>
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<td>$500,000 – $749,999</td>
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<tr>
<td>$750,000 – $999,999</td>
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<td>≥ $1,000,000</td>
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<td>≤ $1,499,999</td>
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<td>≥ $1,500,000</td>
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<tr>
<td>≥ $2,500,000</td>
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<tr>
<td>≥ $5,000,000</td>
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<tr>
<td>N/A</td>
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</table>
20. What percentage of your firm’s expenses is spent in:

<table>
<thead>
<tr>
<th>Province/Territory</th>
<th>% Business Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
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<tr>
<td>British Columbia</td>
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<td>Manitoba</td>
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<tr>
<td>New Brunswick</td>
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<td>Newfoundland and Labrador</td>
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<td>Nova Scotia</td>
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<td>Northwest Territories</td>
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<td>Nunavut</td>
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<td>Ontario</td>
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<td>Prince Edward Island</td>
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<td>Quebec</td>
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<td>Saskatchewan</td>
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<td>Yukon</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
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</table>

21. What was the **Total Commission Expense** of your firm in 2013 – i.e., the Sales and Distribution related expenses (e.g., fees, commissions, override or bonus, renewals, trailers from funds, investments, insurance, etc.) that your firm paid? Note: Do not include any amounts such as Commissions or Overrides/Bonuses paid **directly** to Financial Advisors by product manufacturers.

- $<50,000
- $50,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,999
- $250,000 – $499,999
- $500,000 – $749,999
- $750,000 – $999,999
- $1,000,000 – $1,499,999
- $1,500,000 to $1,999,999
- $2,000,000 to $2,499,999
- $2,500,000 to $4,999,999
- $5,000,000
- N/A

22. Please indicate range paid for **Wages** by your firm in 2013:

- $<25,000
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,000
- $250,000 – $499,999
- $250,000 – $499,999
- $500,000
- N/A

23. Please indicate the range paid for **Rent and Utilities** by your firm in 2013:

- $<10,000
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,000
- $250,000 – $499,999
- $500,000
- N/A
24. Please indicate the range paid by your firm in 2013 for Property Taxes:

- < $5,000
- $5,000 – $9,999
- $10,000 – $14,999
- $15,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- ≥ $100,000
- N/A

25. Please indicate range paid for total Marketing Expenses paid by your firm in 2013:

- < $10,000
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,000
- $250,000 – $499,999
- ≥ $500,000
- N/A

26. If any of your Marketing Expenses were paid outside of Canada please indicate the percentage of the total: _______%

27. Please indicate the range paid for Technology and Communication related expenses paid by your firm in 2013:

- < $10,000
- $10,000 – $24,999
- $25,000 – $49,999
- $50,000 – $74,999
- $75,000 – $99,999
- $100,000 – $149,999
- $150,000 – $249,000
- $250,000 – $499,999
- ≥ $500,000
- N/A

Thank you for your participation in this Economic Impact Study. Your responses are greatly appreciated and will be combined with other respondents to gain a complete picture of the economic contribution made to Canada by Financial Advisors.

Thank you for your time.
Appendix D: Financial Advice Process

1. **Gather client data including goals:** During this step, a financial advisor assesses the overall needs of the client including, “Insurance and risk management, investment planning, retirement planning, tax planning, estate planning, legal aspects,” employee benefit plans, disability coverage, and long term care and critical illness insurance. Financial advisors work with their clients to gather facts and identify objectives and expectations.

   **Example: Key activities performed by the financial advisor in Step 1 – Gather client data, including goals, as identified by the Institute for Advanced Financial Education (IAFE):**
   - Identify citizenship/residency of the client and family members.
   - Identify what assets and liabilities the client has in Canada and abroad.
   - Determine if health issues/personal care is an issue client is currently dealing with now and which they want to address now.
   - Determine the extent to which a power-of-attorney addresses the needs of the client.
   - Gather all relevant information regarding the client’s current marital status, current family, including “extended” family members, obligations with respect to prior relationships and family members that are or could be financially dependent upon the client including disability of any member of the family.
   - Obtain information relating to the business interests of the client including any personal guarantees that have been provided as well as the type and structure of the business interest.
   - Prepare financial reports to document the client’s current financial position.
   - Identify type of ownership and beneficiaries on all appropriate assets.
   - Identify any trusts or other structures already in place.
   - Gather specific financial information relating to income, salary, and pensions.
   - Gather information on all sources of income, including interests in any trusts, income from investments or business and all respective tax issues concerning income in order to determine “net” income.

   - Gather details of all debt including interest rate, repayment schedule.
   - Identify participation and expenses related to interests in any government programs, EI, CPP, Workers’ Compensation.
   - Identify participation in employer sponsored plans including stock options, pensions, profit sharing, savings plans registered and non-registered.

   **Identify Objectives:**
   - Identify the client’s general attitudes towards saving, spending, debt, and risk tolerance.
   - Identify the client’s lifestyle and personal values.
   - Consider objectives for business owners.
   - Formulate financial objectives on the basis of the client’s situation and preferences.
   - Determine the client’s short and long term goals.
2. **Analyze and evaluate client’s current financial status**: During step 2, the financial advisor reviews the client’s existing financial situation and develops a plan to work toward setting and achieving the client’s goals. Financial advisors navigate the complexities of the financial services landscape to find the optimal products for their clients. Financial advisors often hold various licenses to sell investments and insurance, but will often coordinate a team of specialized professionals to fulfill client requirements if necessary. Many financial advisors will also coordinate and refer clients to other professionals such as bankers, accountants, tax specialists, insurance specialists or lawyers as needed.

**Example: Key activities performed by the financial advisor in Step 2 – Analyze and evaluate client’s current financial status as identified by IAFE:**

- Determine if the client is living within financial means.
- Determine the issues relevant to the client’s assets and liabilities.
- Determine the client’s capacity to handle financial emergencies.
- Identify potential cash management vehicles.
- Identify conflicting demands on cash flow.
- Collaborate with the client’s other professionals as required.
- Identify the most appropriate solutions based on availability, benefits and pricing.
- Assess financing alternatives.
- Assess the impact of potential changes in the client’s income and expenses.
- Consider potential financial management strategies.
- Identify potential strengths and weaknesses of financial management strategies.

3. **Develop and present recommendations and/or options**: During this step, recommendations are presented to the client for feedback. The financial advisor will then collaborate with the client to “Develop action steps to assist the client in [prioritizing and] implementing financial management strategies.”

**Example: Key activities performed by the financial advisor in Step 3 – Develop and present recommendations and/or options as identified by IAFE:**

- Present and solicit client’s feedback on the initial financial management strategies.
- Collaborate with the client to develop action steps to assist the client in implementing financial management strategies.
- Prioritize financial management strategies.
- Make a final written recommendation regarding financial management strategies.
- Address client questions or concerns regarding recommendations.

4. **Implement the recommendations**: Once a plan has been designed and agreed upon, and consent is obtained where necessary to collaborate with other professionals, the next step is to implement the plan. During this step, the financial advisor takes the agreed upon actions (i.e. purchases and sales) to implement the plan.

**Example: Key activities performed by the Financial Advisor in Step 4 – Implement the recommendations as identified by IAFE:**

- Obtain client’s agreement and consent to collaborate with client’s other professionals as required.
- Implement the plan adhering to the identified action steps.

5. **Monitor the recommendations**: The final step includes the financial advisor providing ongoing advice, including monitoring and making regular updates to the client’s original plan. Portfolio and plan complexity requirements determine the timing of the review cycle. Often, financial advisors will facilitate a formal review on a yearly basis, or more often if needed. Major changes in the market and life events will also trigger a discussion with the client to rebalance the portfolio accordingly.

**Example: Key activities performed by the Financial Advisor in Step 5 – Monitor the recommendations as identified by IAFE:**

- Develop a client service strategy to monitor the client’s financial goals, needs, and situation; including, where appropriate, specific review triggers.
- Maintain appropriate contact with the client’s other professionals.
- Maintain a written log of contact with other professionals and the client.
- Servicing client inquiries, concerns and ongoing requests for changes.

**ENDNOTES**


207 Ibid.

208 Ibid.

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Appendix E: Bibliography

INDUSTRY PROFILE

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**IMPACT OF FINANCIAL ADVISERS ON THEIR CLIENTS**


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**THE SMB FINANCIAL ADVICE INDUSTRY: DEFINITION, OPPORTUNITIES AND CHALLENGES**


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ECONOMIC IMPACT ASSESSMENT STUDY


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4 SMB Financial Advisors Serve ‘Main Street’ Households
5 Economic Impact of Ontario’s SMB Financial Advice Industry
5 The Need for Appropriate Regulation
6 A New Way Forward — Raising Financial Advisor Professionalism to Protect Consumers
8 About Advocis and its Members
Value of Financial Advice

Financial Advice Spans Entire Life Cycle of Ontario Families

Financial advisors help people to prepare for important events and needs throughout their lives, become more financially self-sufficient, save and plan for their future, and protect their savings. They do this through comprehensive planning and offering a wide range of life and health insurance solutions that protect the savings of clients and their beneficiaries, provide a stream of income well into retirement, and assist in difficult times of disability or critical illness. Financial advisors are experts who provide financial services including retirement and estate planning, wealth management, risk management, and tax planning. People with greater access to professional financial advice enjoy a higher level of financial literacy.

Benefits of Working With a Small Business Financial Advisor

Small and medium-sized business (SMB) financial advisors help people make sound financial decisions, manage their daily finances, and adapt to changing circumstances. Many individuals, families and small businesses lack the time, training or inclination to achieve sufficient comfort in their financial knowledge to make important financial decisions on their own. Financial advisors offer the benefit of their knowledge and experience, and help clients achieve financial security and peace of mind.

Source: Task Force on Financial Literacy Report

Building a Long Term Relationship — The Financial Advice Process

The process by which SMB financial advisors provide advice, products, and services can be considered a cycle, requiring a commitment by both the advisor and the client in order to develop a lasting relationship.

Source: Sound Advice, PwC Study on Insights into Canada’s Financial Advice Industry, July 2014
People who receive financial advice accumulate significantly more financial wealth, are better protected, and are better prepared for retirement and unexpected events than people who do not receive advice.

Studies have shown that, on average, advised households have three to four times the financial assets of non-advised households across all income levels and number of years working with an advisor.

SMB Financial Advisors Serve ‘Main Street’ Households

SMB financial advisors, who operate out of independent mutual fund and securities dealers, independent insurance agencies, and as exclusive agents of life insurance companies, are uniquely positioned to provide advice to ‘Main Street’ households. SMB advisors enhance consumer access and choice in financial services by offering their clients a comprehensive range of advisory disciplines, products and services that can be tailored to a client’s objectives and lifestyle needs.

Greater Access to Financial Advice Means Less Reliance on Government

The financial security and independence of middle-class households is vitally important since they will become less reliant on the government for future financial needs such as retirement income, health needs, long-term care, and disability. This ultimately helps the government to deal with the mounting fiscal pressures of an aging population.
The SMB financial advice industry is a vital part of Ontario’s economy, and is crucial to the long-term financial health of families and small businesses. Ontario needs a competitive market for financial services that offers consumers a range of choices, including access to SMB financial advisors.

Economic Impact of Ontario’s SMB Financial Advice Industry

The SMB financial advice industry is a vital part of Ontario’s economy, and is crucial to the long-term financial health of families and small businesses. Ontario needs a competitive market for financial services that offers consumers a range of choices, including access to SMB financial advisors.

Cost of Regulating the Financial Advice Industry is Skyrocketing

At a time when growth in the industry has been relatively slow, regulation has been a growth business. Red-tape compliance costs continue to rise sharply, threatening the business model of SMB financial advisors who serve middle-class households and small businesses.

Regulatory red tape makes financial advice less affordable and less accessible. If compliance costs are not reined in, consumer choice and access to professional financial advice will diminish. The current regulatory trends are creating significant barriers to entry for new advisors. More appropriate and streamlined regulation is needed that will protect the public without hampering the ability of financial advisors to serve their clients.

The Need for Appropriate Regulation

ECONOMIC FOOTPRINT OF ONTARIO’S SMB FINANCIAL ADVICE INDUSTRY

$8.4 billion in direct GDP

84,400 jobs

$2 billion in government tax revenues
Canada’s Rising Cost Of Compliance

COMBINED PROVINCIAL REGULATOR OPERATING BUDGETS (IN MILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget (in millions)</th>
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<tbody>
<tr>
<td>2007</td>
<td>$335</td>
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<tr>
<td>2008</td>
<td>$415</td>
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<tr>
<td>2009</td>
<td>$447</td>
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<td>2010</td>
<td>$473</td>
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<td>2011</td>
<td>$495</td>
</tr>
<tr>
<td>2012</td>
<td>$551</td>
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<tr>
<td>2013 (E)</td>
<td>$586</td>
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Note: Includes Investment Industry Regulatory Organization of Canada and Mutual Fund Dealers Association; Excludes most provincial insurance regulators
Source: Fusion Consulting, 2014

Current Regulatory Reform Proposals Will Widen the Advice Gap

Regulatory proposals by the Ontario Securities Commission such as **banning embedded commissions** on all investment products, when full commission disclosure and transparency is already being implemented, will drive financial advisors out of business, leaving significantly more consumers without access to professional financial advice. According to a recent PricewaterhouseCoopers LLP jurisdictional review, the banning of embedded commissions and introduction of a statutory fiduciary standard in the UK and Australia have resulted in a major advice gap – millions of middle class consumers are now without access to professional financial advice.

A New Way Forward — Raising Financial Advisor Professionalism to Protect Consumers

**Raising the Bar for all Financial Advisors — An Effective Regulatory Approach**

The most effective way of regulating financial advice is through a requirement that all financial advisors belong to an accredited professional association with a code of professional and ethical conduct and high education standards. Industry-led professional standards will assist in protecting consumers by removing unethical advisors and tracking down fraudsters, and by instilling greater public confidence that consumers are dealing with a professional.

Consumers need to know that they are dealing with an ethical, professional financial advisor. While provincial insurance licensing and securities registration oversees life insurance and securities transactions, the advisory conduct of financial advisors remains an area of concern as it varies greatly among advisors. Financial advisors and
planners are one of the last groups of specialized practitioners whose professional title is not protected. Examples of practitioners whose titles are protected in law include doctors, lawyers, accountants, and engineers.

**Advocis has a Detailed Proposal**

Anyone selling financial products to consumers in the province of Ontario should be required, as a condition of being licensed, to maintain ongoing membership in a recognized professional association. An accredited association would have:

1. Code of professional and ethical conduct
2. Requirement that members maintain errors and omissions (E&O) insurance
3. Enhanced minimum initial proficiency standards
4. Continuing education addressing substantive and professionalism matters
5. Published best practices manual
6. Governance structure that includes representation from the public
7. Complaints and disciplinary process, with powers to suspend an advisor’s membership
8. Public database whereby consumers could conduct a one-stop check of advisor credentials and disciplinary history

**Ontario has Committed to Moving our Profession Forward**

Following its 2015 Budget, the Ontario Government announced the appointment of its expert committee to review tailored regulation for financial advisors, including financial planners. The expert committee will consult with industry and consumers and will make its recommendations to the Minister of Finance within a year. Advocis strongly encourages the Minister to move quickly following the committee’s final report to accredit qualified professional associations to raise professional standards. Advocis is working with other interested provinces, such as British Columbia, Alberta and Saskatchewan, to raise professional standards.

**Key Benefits: All Stakeholders Gain From Enhanced Professionalism**

**CONSUMERS**

- Assurance that financial advisors meet a consistently high level of professionalism and accountability
- Greater protection from unqualified and unethical financial advisors
- Complaints and disciplinary process when an advisor has violated their professional code
- One-stop online database to review credentials of financial advisors
- Greater access to professional financial advice that will assist in raising financial literacy

**FINANCIAL ADVISORS**

- Enhanced public trust, status and confidence in advisors as professionals
- Professional standards would be set by financial advisors, just as lawyers oversee the legal profession and accountants oversee the accounting profession
- Streamlined regulation as current regulators will negotiate with accredited associations to eliminate regulatory duplication and overlap
- Removal of unethical individuals who tarnish the industry

**GOVERNMENT AND REGULATORS**

- Delivery of enhanced consumer protection and the reining in of unethical advisors who can potentially move from sector to sector
- Additional protection of the wider public from unqualified and unaccountable individuals
- Implementation of a low-cost, industry-led regulatory option
- Benefit from the combined expertise of professional associations, all of whom will contribute to the development of public policy and implementation of effective regulation

**PRODUCT PROVIDERS AND DISTRIBUTORS**

- Greater trust in the professionalism of financial advisors representing their firms
- Prevention of unethical advisors moving from one company to the next
- Stronger platform for supporting the recruitment of new advisors into the industry through enhanced professional standing
About Advocis and its Members

Who We Are
Advocis, The Financial Advisors Association of Canada, is the association of choice for financial advisors and planners. With more than 11,000 members across the country, Advocis is the definitive voice of the profession, advocating for professionalism and consumer protection. Professional financial advisors and planners are critical to the economy, helping consumers make sound financial decisions that ultimately lead to greater financial stability and independence. Advocis works with decision-makers and the public, stressing the value of financial advice and striving for an environment in which all Canadians have access to the advice they need.

Working Cooperatively With Government
Advocis has a long-standing tradition of working cooperatively with government and regulatory bodies to ensure consumers of financial services are adequately protected, have ample choice and access to professional financial advice, and that the financial advisory business continues to be an important part of Ontario’s economy. Our 5,000 members across Ontario are a vital resource with a great deal of expertise in areas of importance to the government, including retirement planning, pension plans, health care, and employee benefit programs.

QUESTIONS?
If you have questions or comments, please contact:

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Raising The Professional Bar


A New Way Forward

Advocis®
The Financial Advisers Association of Canada
Dear colleague,

Financial advisors play a central role in helping millions of Canadians realize their goals and aspirations. Families and businesses across Canada rely on advisors to provide advice on and access to suitable financial products and services. Obviously, Canadians should be able to place their confidence in their advisors, trusting that he or she meets rigorous standards of professionalism, proficiency and accountability. Unfortunately, this is not always the case.

Let’s justify Canadians’ confidence in advisors
In a country which has professionalized everything from accountants to veterinarians, it is surprising that anyone can hold themselves out as a financial advisor, regardless of training, licensing or financial acumen. What’s more, important consumer safeguards on those who sell financial products such as mandatory continuing education and minimum levels of errors and omissions insurance vary widely by both province and industry sector. All too often, our current patchwork of laws and regulations leaves consumers exposed to unnecessary risks, such as incompetence and even outright fraud.

Let’s raise the professional bar for all financial advisors
Advocis has a straightforward, cost-effective and efficient solution to this patchwork problem: a requirement that anyone who holds himself out to the public as a financial advisor be required to maintain membership in a recognized professional association of financial advisors. The provincial government would accredit only those advisor associations which meet our proposal’s strict professional criteria. Advisors would be free to choose which association they wish to join; and consumers could pick their advisor based on the reputation of the advisor, his employer, and his association.

This professional association model will significantly enhance consumer protection. Consumers will be able to easily verify their advisor’s credentials and disciplinary history across industry sectors. Advisors will have to comply with rigorous proficiency requirements and obey professional and ethical standards of conduct. An effective complaints and disciplinary process will deal with “rogue” advisors. And regulators and distributors will realize a variety of efficiencies through ongoing improvements in the competencies of all advisors.

Let’s complement existing regulation, not duplicate it
The existing regulatory framework primarily focuses on insurance and securities products. Rather than introduce yet another layer of regulation, Advocis’ proposal simply closes off current regulatory gaps. The result will be a regulatory regime which will provide effective review of the comprehensive approach to financial advice that most Canadians receive.

Given the tremendous gains our model promises to deliver to regulators, product producers and distributors, advisors and, most critically, Canadian consumers, now is the time to raise the professional bar.

Yours truly,

[Signature]

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Advocis, The Financial Advisors Association of Canada
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eskwarek@advocis.ca
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Problems with the Current Regulatory Framework

Financial advisors play a critically important role for millions of Canadians. Through the provision of financial planning and investment advice, retirement and estate planning, disability coverage, long-term care and critical illness insurance, advisors help the public prepare for life’s events and secure their financial futures. This is ever more important in an economic climate where governments, facing their own fiscal challenges, are expecting Canadians to be increasingly self-reliant.

Given their critical role, Canadians should be able to trust that financial advisors are proficient, up-to-date in their knowledge and in compliance with the highest standards of conduct and ethics. While this aptly describes the majority of advisors, there are inevitably some who do not meet these standards, and due to gaps in the current regulatory framework, consumers are exposed.

Problem #1: Anyone can call themselves a financial advisor, which means consumers face significant – and unnecessary – risk exposure.

Anyone, regardless of their training, experience or education, can hold themselves out to the public as a financial advisor – which means that anyone can provide the public with what is purported to be “financial advice”, even with little or no financial acumen. This regulatory gap is exploited by fraudsters such as Earl Jones, who represented himself as a financial advisor despite not being registered with securities authorities. This is an extreme example, but it highlights the significant harm consumers could suffer when they place their trust in a title that they believe is regulated, but which does not actually guarantee any expertise.

Problem #2: Existing regulation is focused on the sales of products, not the ongoing relationship of trust between financial advisors and their clients.

Financial advisors help clients develop comprehensive financial plans and provide advice on investments that can help achieve those plans. This is often a multi-year relationship built on the client’s trust in the advisor’s expertise. Advocis believes that all professionals in such positions of trust should subscribe to a code of conduct and ethics that establishes an overriding duty to their clients. They should also maintain errors and omissions insurance to protect clients in the event that the advisor fails to live up to that code.

But rather than focusing on this important relationship, existing regulation is based on the sales and distribution of financial products, and is further fragmented based on the type of product, whether it be life insurance, mutual funds or other securities. There is no industry-wide requirement that advisors subscribe to codes of conduct or maintain responsible levels of errors and omissions insurance. The result of this is that, depending on the type of product purchased, consumers could be receiving substandard levels of protection. Advocis believes that consumers should enjoy high
degrees of protection governing their entire advisory relationship, and this should not vary with the type of financial product that is needed to fulfill the consumer’s financial plan.

**Problem #3: There is no firm and clear requirement for advisors to keep their knowledge current.**

Before obtaining their license to sell life insurance, mutual funds or other securities, financial advisors must demonstrate their initial proficiency in the product. Life insurance advisors are required to meet provincial licensing standards and to pass the Life License Qualification Program. The Mutual Fund Dealers Association of Canada (MFDA) designates as Approved Persons those individuals who meet the MFDA’s registration standards and pass a designated mutual funds licensing exam. The Investment Industry Regulatory Organization of Canada (IIROC) designates as Registered Representatives those individuals who meet IIROC’s registration standards and pass the Canadian Securities Course.

While these measures ensure the advisor’s understanding of the product at the time of licensing, the industry is constantly evolving and static knowledge quickly becomes obsolete. But under the current framework, regulators’ requirements for continuing education (CE) vary by product sector and even by province. In the life insurance sector, some provinces require advisors to complete several CE credit hours each year, some permit holders of educational designations to satisfy reduced requirements, and other provinces have no CE requirements whatsoever. For mutual funds, MFDA Rules speak only vaguely to CE, stating that it “should be provided”. IIROC takes a clear stance and requires that advisors complete CE on both compliance and professional development matters.

Advocis believes that, regardless of product sector or province, advisors should be required to complete CE to maintain their license in good standing. Current regulations could allow advisors to become seriously deficient in their knowledge, posing a risk to consumers.

**Problem #4: There is no effective, industry-wide disciplinary process.**

Individual insurance or securities regulators are empowered to impose a variety of sanctions on advisors found guilty of misconduct, including stripping those advisors of their license or registration. However, a regulator’s enforcement powers are limited to its respective sector - which does not reflect the business reality that the majority of advisors operate across sectors, and in assembling a client’s financial plan, the advisor will likely recommend a combination of products that span those sectors.

This sectoral approach leaves consumers exposed. The types of serious misconduct that warrants an advisor’s outright expulsion from one sector, such as fraud or gross negligence, speak to that advisor’s conduct and ethics and are not sector-specific concerns. But currently, if an advisor is expelled from the mutual fund sector, for
example, that advisor can continue to sell segregated funds in the insurance sector. Advocis believes this type of “sector hopping” must be eliminated.

Also currently lacking is an easy mechanism for the public to verify their advisor’s registration credentials. Regulators maintain their own individual websites where the public can verify their advisor’s registration, but the information is valid just for that sector. Generally, the public does not understand the product-centred approach to regulation and the need to verify their advisor’s status with each individual regulator. In the example above, if the advisor’s client had only reviewed the advisor’s standing with the provincial insurance regulator, the client would not have become aware of the serious sanction in the mutual funds sector.

The Solution: Require that Financial Advisors belong to an Accredited Professional Association

Fortunately, the solution to the problems identified above is simple, straightforward, and does not require significant government action or resources: anyone using the professional title of “financial advisor” should be required to maintain ongoing membership in an accredited professional association.

To be accredited, the professional association would be required to have the following characteristics:

- a code of conduct and ethics requiring, inter alia, the prioritization of the client’s best interests;
- a requirement that members maintain errors and omissions insurance;
- elevated minimum initial proficiency standards, including addressing the proficiency standards of fee-only planners who do not sell financial products;
- continuing education requirements that address both substantive and professionalism matters;
- a best practices manual or practice handbook and information resources for members;
- a governance structure that includes representation from both financial advisors and the public;
- a complaints and disciplinary process that empowers the association to suspend or cancel the advisor’s membership; and
- a public-facing database whereby clients can conduct a “one-stop” check of their advisor’s credentials and disciplinary history.

Today, many financial advisors voluntarily choose to belong to professional associations such as Advocis that feature many of the characteristics listed above. These associations help advisors maintain high professional standards in serving their clients. This proposal seeks to codify that commitment to professionalism to encompass all advisors, and builds on the current sales-focused regulatory framework.
In essence, the proposed solution emphasizes proficiency, ethical standards, and accountability in the client-advisor relationship.

Membership in a professional association would mean that sellers of financial products and services put the interests of consumers first and provide them with proficient professional service. In particular, consumers would benefit through:

- the ability to review the credentials and disciplinary history across product sectors of a prospective financial advisor in an easily-accessible format;
- greater assurance that the financial advisor they select will meet a consistently high level of professionalism and accountability;
- greater protection from unqualified and unethical financial advisors, due to both higher licensing standards and the presence of errors and omissions insurance; and
- a responsive and robust complaints and disciplinary process that can remove unscrupulous actors from the industry and prevent further harm.

Regulating usage of “financial advisor” is timely, appropriate and necessary

Financial advisors are one of the last groups of specialized practitioners whose professional title is not regulated by law. While other professions such as medicine, law and engineering have had their professional titles regulated for over a century or more, in recent years many other areas of professionalized activity have become similarly regulated. For example, in Ontario, the title of Social Worker is restricted to registrants of the Ontario College of Social Workers and Social Service Workers, and in Alberta, the Alberta Boilers Safety Association, and the Petroleum Tank Management Association of Alberta is restricted to registrants of these associations.

With so many people struggling to meet their retirement goals, with new families starting out without proper financial planning in place, and with government policies increasingly shifting the responsibility for Canadians’ future financial needs onto individuals, now is the time to regulate the use of the professional title of “financial advisor.”
This paper now turns to a more detailed look at the characteristics of proposed professional associations. (For an overview of the current regulatory framework, its shortcomings, and the virtues of the proposed professional association model, please see Appendix A, attached hereto.)

**a. Who will belong?**

Subject to several narrow and easily identifiable exceptions listed below, everyone who sells financial products to consumers, and everyone who offers financial advice and planning to the public, should be required to maintain membership in a recognized professional association. This would include:

- individuals who are licensed to deal with the public with regard to life and health insurance under insurance legislation;
- individuals who are registered by a securities regulator in any advisor category under National Instrument 31-103 and are licensed to sell or provide advice to the public with respect to financial products;
- individuals who hold themselves out by titles or claimed credentials that suggest financial advice-giving expertise, such as “financial advisor,” “investment advisor,” “wealth planner,” “wealth advisor,” “financial planner,” “estate planner,” and “retirement planner” or such other titles as may be designated by regulation, regardless of whether they are required to be licensed or registered to sell or provide advice regarding financial products; and
- individuals who hold themselves out as pensions or group benefits consultants who are not otherwise captured by the criteria above.

**b. Who will be excluded?**

It is important to note that the professional association requirement will not capture these clearly identifiable classes of financial services practitioners whose activities may be characterized as a form of “financial advice,” such as:

- mortgage brokers and real estate agents;
- bank tellers who offer advice about deposit products;
- licensed accountants (CAs, CGAs, and CMAs) who provide financial advice ancillary to their provision of accounting and tax advice; and
- lawyers who offer financial and tax advice ancillary to providing legal advice.

**c. Membership in a professional association as a condition of continued licensing**

Individuals who hold themselves out as financial advisors would be required to belong to a professional association. Proof of membership would be a condition of the individual’s registration or licensing (including license renewals) in the securities or insurance sectors. If an individual ceases to be a member of a professional association, his or her licensing or registration would also contemporaneously be in abeyance.
d. Regulators will designate associations

The relevant regulator would publicly designate as an approved professional association any membership association which it recognizes as fulfilling the necessary criteria (as described in Section 1 of this document). This would require regulators to draft the conditions of recognition necessary for accreditation as an approved professional association, to identify existing organizations as plausible candidates for recognition, and to invite candidate organizations to apply for recognition.

To be successful in their application for accreditation, candidate associations would have to agree to the following conditions:

- a commitment to meet specific criteria, which could include guidelines for the management and governance of all aspects of the operation of the association;
- execution of a memorandum of understanding with the regulatory body whereby the candidate association agrees to meet the aforementioned criteria while maintaining its accreditation;
- a commitment to pay for periodic audits, commencing with an audit within 12 to 18 months following recognition; and
- an acknowledgment that the regulatory body may revoke recognition of the candidate association.

It is likely that more than one association would be recognized by the regulator at the outset of implementing the proposed professional association model. Recognized associations would register financial advisors as members while building the systems and infrastructure required to meet their commitments to the regulator. If a professional association was found to have failed to meet its obligations and is unable to correct such deficiencies within a reasonable period, its recognition could be terminated. At that point, the defunct organization’s members would be required to transfer to another professional association, and be directed to meet the new association’s registration requirements within a specified period of time.

e. Proficiency standards for all financial advisors

All recognized professional associations would publish their proficiency standards. All financial advisors would be required to file an annual Certificate of Professional Standing issued by their association, as a condition of ongoing licensing or registration in the industry. In addition, all financial advisors would be required to meet a proficiency standard that encompasses the knowledge and competencies that their recognized professional association considers to be appropriate.

Initial proficiency standards for membership would be premised on the assumption that everyone who is licensed or registered to sell financial products meets the initial requirements for membership in a recognized professional association. However, all members would be required to fulfill ongoing continuing education requirements, which would have a structured component.
Accordingly, all recognized professional associations would accept, for the purposes of admitting individuals to membership, certain approved evidence of initial proficiency. For individuals who are life agents or securities representatives, sufficient evidence would lie in the fact that they currently meet the respective licensing or registration requirements for life agents or securities representatives. In the case of the individual who is a fee-only financial planner and receives no compensation directly or indirectly from the sale of financial products, the evidence of initial proficiency would lie in the fact that he or she currently holds a recognized financial planning designation. However, associations could, upon application, designate an individual as proficient, based on relevant education and industry experience.

The following designations would be granted initial proficiency recognition, provided that the fee-only advisor is in good standing with one of the designation-granting bodies:

- Certified Financial Planner™ (CFP™), sponsored by the Financial Planning Standards Council;
- Personal Financial Planner (PFP™), offered by Canadian Securities Institute;
- Certificate in Financial Planning (Planificateur financier [Pl. fin.] designation), sponsored by the Institut québécois de planification financière (IQPF);
- Registered Financial Planner (R.F.P.), sponsored by the Institute of Advanced Financial Planners;
- Chartered Financial Consultant (CHFC), sponsored by Advocis, the Financial Advisors Association of Canada;
- Certified Health Insurance Specialist (CHS™), sponsored by Advocis, the Financial Advisors Association of Canada;
- Chartered Life Underwriter (CLU®), sponsored by Advocis, the Financial Advisors Association of Canada; and
- Chartered Financial Analyst (CFA), sponsored by the CFA Institute.

Under the proposed model, all financial advisors who hold themselves out as financial planners would be required to hold in good standing one of the above-noted financial planning designations.

**f. Continuing education requirements**

All financial advisors would be subject to ongoing continuing education requirements. These would include course requirements established by professional associations in consultation with industry regulators and firms. Individuals would be given credit by their association for mandatory continuing education taken in compliance with the requirements of regulators, but could be subject to additional requirements set by their professional association of choice. For example, all financial advisors could be required by their association to take courses on professional ethics and their association’s code of conduct within a specified time after becoming members.
The main features of the proposed membership model with regard to continuing education include:

- all financial advisors would be required to fulfill competency-based continuing education requirements established by their association;
- professional associations would complement the proficiency standards and continuing education requirements of regulators and coordinate their continuing education programs with the requirements of regulators;
- professional associations would be required to credit their members for all continuing education completed in compliance with the requirements of a securities or insurance regulator or licensing body;
- professional associations would develop systems that facilitate the tracking of continuing education course requirements and course completions, with such systems being readily accessible to members and regulators; and
- professional associations would require all members to take continuing education courses related to professional ethics and to the association’s professional standards and code of conduct, within a prescribed period of time after an individual becomes a member of the association.

g. A code of professional conduct
All financial advisors would be required to subscribe to their professional association’s code of professional conduct, and abide by their association’s rules of professional conduct in all of their dealings with third parties (i.e., the application of the code and rules would not be limited to the financial advisor-client relationship). Any code of professional conduct would of necessity establish and explicate:

- the priority of the client’s interest;
- issues of misconduct (including criminal convictions and regulatory infractions);
- the duties surrounding conflicts of interest;
- the duty to provide competent service;
- the duty to act with honesty and integrity;
- the duty to preserve and protect client confidentiality; and
- the duty to cooperate with the association and regulators.

h. An errors and omissions insurance requirement
All financial advisors, and their corporations and/or agencies, would be required to carry professional liability insurance relating to the activities they ordinarily engage in as financial advisors.

i. A public registry of financial advisors
Professional associations would participate in a public registry of financial advisors which would be accessible on the Internet and through other appropriate modes
of public inquiry. The public registry would enable any member of the public to conveniently access information about an individual’s qualifications and registration/licensing status and professional conduct as a financial advisor.

j. A best practices manual and information resources for members
Professional associations would be required to compile and make available online a best practices manual/practice handbook. They would also be required to prepare and circulate information materials, such as online and e-mail bulletins concerning regulatory requirements and developments, and membership disciplinary proceedings.
For reasons of Canadian constitutional law, the proposal for financial advisors to belong to a professional association would need to be implemented at the provincial level. Securities and insurance regulators would require individuals who are licensed to sell financial products, or who otherwise hold themselves out to the public as financial advisors, to belong to an association. Fee-only financial planners who do not sell financial products and are outside the scope of securities and insurance legislation would still be required to be members of an association.

a. Models of self-governance: self-regulatory organization vs. delegated administrative authority

The professional association must be recognized as an official regulatory body of financial advisors by provincial governments. This recognition can be accomplished in two primary ways: (i) as a full-fledged self-regulatory organization; or (ii) as a delegated administrative authority.

(i) self-regulatory organization

The self-regulatory organization model is the traditional approach to professional self-regulation. Examples of organizations constituted under this model include the Law Society of Upper Canada, the College of Physicians and Surgeons of Ontario, the Mutual Fund Dealers Association of Canada and the Investment Industry Regulatory Organization of Canada.

Regulatory power is vested in these organizations through provincial legislation (such as the Law Society Act) or official recognition by a government agency (such as a CSA recognition order of the MFDA). Obtaining this recognition is relatively challenging; the vetting process is rigorous, the standards to be met are high and the process can take several years.

Once approved, though, this model grants the organization a relatively large degree of autonomy – the organization is empowered to make rules governing a wide array of matters (including newly emerging areas) without having to go back to the province for approval. They are not subject to continuous government oversight; they are largely trusted to govern their own affairs, with only occasional reporting to, and reviews by, the government. To maintain the public’s confidence as being a true professional regulator, they generally do not engage in any public-facing advocacy efforts that promote the profession or the organization’s members.

(ii) delegated administrative authority

The delegated administrative authority (DAA) model is a relatively new way of obtaining recognition as a professional regulator. DAAs are not-for-profit corporations that assume the day-to-day operational responsibility for licensing, education, complaints handling, inspection and enforcement matters as described in government legislation. DAAs reduce the government’s footprint: the association’s employees
are not public servants and they are self-financing, largely through fees paid by the association’s members. This model has gained acceptance in several provinces: notable examples include Ontario’s Travel Industry Council, Alberta’s Boilers Safety Association, and the British Columbia Safety Authority.

While the process of obtaining DAA recognition is less cumbersome than obtaining recognition as a self-regulatory organization, the powers granted to the DAA are more limited in scope. The province retains overall accountability and control of relevant enabling legislation; it monitors and remains accountable for the overall performance of each authority. DAAs have certain reporting obligations to the government, such as annual reports and audited financial statements, and they can be subject to operational reviews.

b. What organizations are likely to qualify for accreditation as a professional association?

The answer will largely depend on the accreditation standards that are set by the regulator. Also relevant will be the estimate, on the part of potential applicant organizations for accreditation, of the potential benefits and costs of meeting the accreditation standards and of operating as a professional association.

The requirement as outlined is not premised on onerous accreditation standards. It should be assumed that the standards would not be so burdensome that they would not be satisfied by a number of existing organizations, including associations that currently provide professional resources to financial advisors.

c. Requiring membership in a professional association in the securities sector

Most Securities Acts across the country allow that province’s securities commission to prescribe rules, including criteria that an applicant must satisfy prior to registration: see, for example, sections 143 (1) and (2) of the Securities Act (Ontario) or 223 and 224 of the Securities Act (Alberta). Using this discretion, securities commissions could make membership in an association one of these criteria. Alternatively, National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations could be amended to require membership in an association as a condition of registration.

d. Requiring membership in a professional association in the insurance sector

Most Insurance Acts across the country do not provide the province’s Superintendent of Insurance with the explicit authority to prescribe licensing conditions. However, most of these acts do provide broad latitude for the Superintendent to set the standards for determining whether a candidate is “suitable” for licensing.

Using this broad latitude, the Superintendent could deem that membership in a professional association speaks to the candidate’s suitability to obtain and maintain
an insurance license in the province. In provinces where the Superintendent is not granted this discretion regarding suitability, the province’s Insurance Act could be amended to either give the Superintendent such discretion, or the membership requirement could directly be prescribed in the Insurance Act.

e. Governance, discipline, and enforcement

(i) promoting the public interest

It is essential that any approved professional association represents the interests of consumers and the broader public interest, as well as the interests of its member financial advisors. Approved professional associations should be not-for-profit entities dedicated to financial advisor professionalism in the public interest. It is essential that professional associations be entirely independent from financial institutions, as well as product manufacturers and distributors.

The governance arrangements of all recognized professional associations, which would be set out in their charters, would include provisions for effective public representation. In particular:

- every recognized professional association would have public directors on its governing body, and also on any board committee responsible for professional conduct, discipline, advocacy, and policy and regulatory affairs; and
- public directors would be appointed in accordance with a suitable process that is appropriately independent in nature and designed to recruit qualified individuals.

(ii) governance issues

Initial membership application. With regard to applying for membership in a professional association, financial advisors would be permitted to apply for membership in an association of their choice. This would be the case even if they are already affiliated with a professional association at the time when they are required to apply to a recognized association for the purpose of membership. For example, the fact that an advisor holds a financial planning designation and is affiliated with the professional association that issued the designation will not make him or her a member of that association for the purposes of the professional association proposal.

Membership suspension or termination. An individual whose membership in a professional association is suspended or terminated as a consequence of his or her association’s disciplinary proceedings, or whose membership is suspended as a consequence of the suspension of his or her license or registration by a regulator, would not be able to be employed in the industry as a financial advisor until he or she is again a member in good standing.

An individual who has had his or her license or registration suspended, cancelled or made subject to ongoing conditions, or who has had his or her membership in an association...
suspended, cancelled or made subject to ongoing conditions, would be required to disclose his or her current status when applying for membership with a recognized association.

**Show cause.** An association would be entitled to require an individual who has had his or her license or registration suspended, cancelled or made subject to ongoing conditions, or who has had his or her membership in any association suspended, cancelled or made subject to ongoing conditions, to show cause why he or she is fit to be accepted as a member or to continue as a member.

**Sharing of membership information.** Professional associations and regulators would inform each other in a timely manner with regard to any changes in the membership and licensing or registration status of individuals. Upon being informed that the licensing or registration status of a member has been suspended, revoked, or made subject to conditions, or that the member is the subject of disciplinary proceedings, an association would take appropriate steps. Similarly, regulators would initiate a review of the licensing or registration of an individual upon being informed that his or her association membership has been suspended, revoked, or made subject to conditions, or that his or her license or registration has been revoked, suspended or made subject to conditions by another regulator.

It would be necessary to carefully consider how to design a system where licensing and registration and association membership are inter-dependent, so that suspension or termination of any one (licensing, registration, association membership) could result in suspension or termination of the other(s). Fairness and due process implications would need to be studied, and a process would need to be designed to ensure fair treatment for the individual.

(iii) the complaints and disciplinary process

**No duplication.** Professional associations would complement but not duplicate the enforcement and disciplinary functions of regulators. In particular:

- a professional association’s complaints and disciplinary process would enforce the association’s rules and standards;
- a professional association’s complaints and disciplinary process would not replace or supplant the disciplinary process of securities and insurance regulators;
- a professional association would have considerable discretion with regard to the investigation of complaints and the initiation of professional discipline, in order to ensure that association resources are used effectively to protect the public and complement the efforts of regulators; and
- a professional association, in considering whether to investigate complaints or initiate a disciplinary proceeding, would seek to conserve association resources and avoid duplicating the complaints and disciplinary processes of regulators.

**Priority to public protection.** As well, a professional association, in its complaints and disciplinary processes, would give priority to protecting the public by:
• ensuring that individuals who violate industry requirements in any one sector are not permitted to continue to be employed in the industry without further review; and
• exercising its authority to suspend or revoke an individual’s membership in the association in specified circumstances that, while outside the scope of the regulatory jurisdiction of industry regulators, demonstrably indicates a lack of professional integrity or unsuitability to offer financial services to the public (i.e., convictions for criminal and regulatory offences, which indicate a lack of professional or personal integrity).

Initiation of proceedings. A professional association would be entitled to initiate disciplinary proceedings where there is reason to believe that a member has violated the code of professional conduct. Public directors of the association would participate in directing the investigation of complaints and the initiation of disciplinary proceedings. The association would be entitled to initiate disciplinary proceedings whenever it considers it appropriate to do so, and would be empowered, in the course of its disciplinary process, to suspend or terminate membership, and to impose conditions on membership.

Power to delegate. Investigations and the prosecution of disciplinary proceedings could be delegated by a professional association to a third party accountable to the association, which could establish its own hearing panel. Alternatively, two or more professional associations could jointly establish a tribunal to hear and determine matters for any associations willing to participate in a joint fashion. The members of such a tribunal would be drawn from the participating associations.

(iv) advisor competence and incapacity
A professional association could investigate a member’s competence and capacity to provide services to the public, and initiate proceedings and suspend or revoke membership or impose other conditions.

(v) administrative sanctions
A professional association would have the authority to suspend or terminate membership, and to impose conditions on membership for administrative reasons, including for non-payment of fees, for failure to fulfill continuing education requirements, and for suspension or termination of licensing or registration by a regulator.

(vi) cooperation with all industry regulators
Professional associations would cooperate with financial industry regulators with regard to complaints and disciplinary matters. Individual members would be required to consent to the sharing of information with financial industry regulators in regard to complaints and disciplinary matters. In general, a professional association would not proceed with any complaints or disciplinary proceedings in the event other
proceedings, initiated by a regulator and based on the same impugned conduct or circumstances, are already underway. As well, professional associations would cooperate with financial industry regulators with regard to continuing education programs and, when possible, participate in their policy development processes. Finally, the relevant regulators would establish a process for accrediting professional associations and monitoring their compliance with standards.
a. Promoting the interests of clients and consumers
The proposed membership model would promote the consumer interest in a number of areas.

(i) a mandated code of professional conduct and ethics
As noted above, all financial advisors would be required to comply with the code of professional conduct of their association of choice. Such a document would explicitly codify the following:

- recognition of the priority of the client’s interests over those of the advisor;
- duties respecting conflicts of interest, including disclosure to the client of all real and apparent conflicts;
- the duty to provide competent service, performed with honesty and integrity;
- the duty to respect client confidentiality; and
- an accessible enforcement mechanism for disciplining and punishing members for misconduct, including criminal convictions and regulatory infractions.

(ii) proficiency standards and continuing education – the cornerstone of professionalism
Professional associations would establish initial proficiency standards for financial advisors, and would administer continuing education requirements designed to ensure that all financial advisors maintain a high standard of proficiency.

Such associations would be required to actively administer their codes of conduct, so the public is assured that member advisors understand and fulfill the ethical obligations they owe to their clients. Moreover, all financial advisors would be required to file an annual “Certificate of Professional Standing” issued by their association. This would be a condition for maintaining a provincial license or registration to sell financial products – and to ensure that the high standards to provide ongoing financial advice are met.

Individuals who want to hold themselves out as competent practitioners in areas of professional specialization, such as financial planning, would be required to hold in good standing the necessary recognized designations.

Professional associations’ annual continuing education requirements would focus on the financial advisor’s duties to clients. These CE requirements would complement and build on the practice proficiency standards and CE requirements of regulators.

(iii) best practices and member information resources
Professional associations would publish information resources for members, such as a best practices manual, and periodic bulletins updating members on important regulatory requirements and developments, further ensuring client protection.
(iv) professional accountability — integrated across sectors

Professional associations would be empowered to suspend or revoke membership, or impose various conditions on membership for unprofessional conduct, including violations of regulatory requirements, failure to cooperate with regulators, and criminal and regulatory offences. Actions or omissions which impugn or bring into disrepute the advisor’s professional integrity or competence, or that of the profession as a whole, and their suitability to offer financial advice to the public, would be reviewable.

An association’s disciplinary action would have consequences for a member’s ability to sell financial products as a provincial licensee or registrant. If a member of the association is expelled, that individual would be prevented from selling financial products. As well, if any regulator revoked or imposed conditions on a member’s ability to sell financial products, that member’s association would take appropriate action to suspend, revoke or impose conditions on his or her membership. Such measures would further buttress the actions of the particular regulator by imposing conditions on selling products or providing advice.

As noted above, a regulatory requirement that advisors must be in good standing with a professional association would prevent unscrupulous individuals from simply moving to a different financial sector and seeking licensing or registration.

The resulting regulatory umbrella created by professional associations would close current gaps in the enforcement and disciplinary reach of regulators, by ensuring that individuals who violate industry requirements in any one sector would not be permitted to continue activity in the industry without proper review.

Membership associations would have considerable discretion with regard to the investigation of complaints and the initiation of professional discipline, in order to ensure that association resources are used effectively to protect the public and complement the efforts of regulators. Associations would publish disciplinary proceedings and would follow a process of natural justice regarding procedural rights (hearing, tribunal, appeal process, etc.).

(v) ease of public access to information on financial advisors

Professional associations would be required to make information about their members conveniently accessible in a single public database. This would enable the public to easily determine if an individual is a member of a professional association and review his or her credentials.

b. Benefits to other key actors in the securities and insurance sectors

The proposed membership model would work to promote the interests of financial advisors, governments and regulators, and product providers and distributors.
(i) financial advisors would benefit from:

- enhanced public trust, status and confidence in advisors as professionals,
- access to resources that complement and facilitate standards and compliance with regulatory requirements, and
- a raised professional bar, through improved education and standards and the ready removal – in a public and effective manner – of unethical colleagues who tarnish the industry as a whole.

(ii) government and regulators would benefit from:

- the delivery of enhanced consumer protection and the “reining in” of unethical advisors who move from sector to sector;
- additional protection of the wider public from unqualified or unaccountable financial advisors;
- additional professional support for the government policy objective of increased individual financial responsibility for future financial needs;
- a reduced regulatory burden created by the various professional associations proactively complementing the current regulatory requirements and enforcement; and
- the combined expertise of the various professional associations, all of whom will contribute to the development of policy and implementation of effective regulation.

(iii) product providers and distributors would benefit from:

- the reliable professionalism of financial advisors representing their firms and products;
- the prevention of unethical advisors moving from one company to the next; and
- the development of a stronger platform to support the recruitment of new advisors into the industry through enhanced professional standing.
The following table indicates the limitations and drawbacks of the status quo and the benefits to consumers, advisors, and other stakeholders.

## Advantages of professional membership over the status quo

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<td>Public represented in governance?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td><strong>Yes</strong></td>
</tr>
<tr>
<td>Financial advisors are “at the table” when regulators make policy?</td>
<td>Only to a limited extent.</td>
<td>Dealer members of the MFDA are the main stakeholder consulted.</td>
<td>Dealer members of IIROC are the main stakeholder consulted.</td>
<td><strong>All associations</strong> will advocate with regulators on behalf of member financial advisors and consumers</td>
</tr>
<tr>
<td>Standards focus on consumer interest or on distributor / dealer interest?</td>
<td>Insurance focus</td>
<td>Mutual fund dealer focus</td>
<td>Securities dealer and consumer focus</td>
<td>Consumer / client relationship focus</td>
</tr>
<tr>
<td>Establishes proficiency requirements for all financial advisors to meet?</td>
<td>Licensing requirements focus on insurance</td>
<td>Registration requirements focus on mutual funds</td>
<td>Registration requirements focus on securities</td>
<td><strong>Builds on standards of insurance, MFDA and IIROC with structured continuing education requirements</strong></td>
</tr>
<tr>
<td>Mandatory competency-based Continuing Education?</td>
<td>No mandatory client-focused content</td>
<td>No specific continuing education requirement</td>
<td>No mandatory client-focused content, but focus on product knowledge to ensure proper service to investing public</td>
<td><strong>Yes.</strong> Mandatory courses on ethics, conflicts of interest, duty to client, leveraging, regulatory / compliance developments</td>
</tr>
<tr>
<td>Use of a Code of Professional Conduct outlining duties and obligations to clients and public?</td>
<td>No enforceable dedicated Code of Professional Conduct articulating duty to clients, as such, but Insurance Councils in Western Canada have codified conduct rules in their by-laws</td>
<td>No dedicated Code of Professional Conduct articulating duty to clients, as such</td>
<td>Yes through the importation of CSI’s Conduct and Practice Handbook</td>
<td><strong>Yes</strong></td>
</tr>
</tbody>
</table>

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**Appendix A: The Current Regulatory Framework and the Professional Association Proposal**

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Raising The Professional Bar 22
## Advantages of professional membership over the status quo (continued)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Insurance</th>
<th>MFDA</th>
<th>IIROC</th>
<th>Proposed professional association membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in a public registry that covers all financial advisors?</td>
<td>No</td>
<td>No</td>
<td>No (IIROC Advisor Report is limited to advisors with IIROC members)</td>
<td>Yes</td>
</tr>
<tr>
<td>Can curtail ability of unethical or unregulated individuals to hold themselves out to the public as financial advisors?</td>
<td>No. Only able to suspend or cancel insurance license.</td>
<td>No. Only able to suspend or cancel status as MFDA advisor.</td>
<td>No. Only able to suspend or cancel status as IIROC advisor.</td>
<td>Yes. Including remedies against individuals who do not belong to an association (the “Earl Jones” problem)</td>
</tr>
<tr>
<td>Ability to prevent employment as a financial advisor of individuals who do not meet standards?</td>
<td>No. Loss of insurance license does not prevent employment as MFDA or IIROC advisor</td>
<td>No. Loss of MFDA status does not prevent employment as IIROC or insurance advisor</td>
<td>No. Loss of IIROC status does not prevent employment as MFDA or insurance advisor</td>
<td>Yes. While an individual’s professional association membership is suspended or cancelled, they are barred from acting as an insurance, MFDA or IIROC advisor.</td>
</tr>
<tr>
<td>Ability to deal with misconduct relevant to integrity and suitability that is not within the regulator or SROs scope?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

With over 11,000 members organized in 40 chapters across Canada, Advocis serves the financial interests of millions of Canadians.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members are professional financial advisors who adhere to an established professional Code of Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain appropriate levels of professional liability insurance, and put their clients’ interests first.

Across Canada, no organization has members who spend more time working one-on-one on financial matters with individual Canadians than us. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.
Questions?

If you have questions or comments, please contact:

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February 20, 2013

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
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Dear Sirs/Mesdames:

Re: Canadian Securities Administrators Consultation Paper 33-403: The Standard Of Conduct For Advisers And Dealers: Exploring The Appropriateness Of Introducing A Statutory Best Interest Duty When Advice Is Provided To Retail Clients

We are writing in response to the Canadian Securities Administrators' ("CSA") Consultation Paper 33-403 (the "Consultation Paper") entitled The Standard Of Conduct For Advisers And Dealers: Exploring The Appropriateness Of Introducing A Statutory Best Interest Duty When Advice Is Provided To Retail Clients.
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A. About Advocis

Advocis, The Financial Advisors Association of Canada, is the country’s largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history of serving Canadian financial advisors and their clients. Our over 11,000 members are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to our published Code of Professional Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients’ interests first. Across Canada, no organization’s members spend more time working one-on-one with individual Canadians on financial matters than do ours. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.

B. Introduction and Executive Summary

Financial advisors play a critically important role for millions of Canadians. They provide comprehensive financial planning and investment advice, disability coverage, long-term care, critical illness insurance, and retirement and estate plans, all of which help millions of Canadian households and businesses prepare financially for life’s events. This is ever more important in an economic climate where governments, facing their own fiscal challenges, are expecting Canadians to be increasingly self-reliant.

Academic studies have confirmed that Canadians derive tremendous benefits from financial advice, and are substantially better off than their non-advised peers. Given their critical role and impact, Canadians should be able to trust that financial advisors are proficient, up-to-date in their knowledge and in compliance with the highest standards of conduct and ethics. Advocis supports sensible regulatory initiatives that elevate the professionalism of advisors and enhance consumer protection. At the same time, regulators must ensure that initiatives intended to protect consumers do so without inadvertently creating barriers to Canadians’ ability to access financial advice.

Over the years, achieving the “best interests of the client” has often been cited as a motivating factor behind regulatory initiatives – including in the CSA’s current Consultation Paper. We agree with this objective wholeheartedly. But too often, the concept of the client’s best interest is conflated with a notion that consumers can somehow be insulated from harm by creating layers of additional regulations. The cumulative effect of this approach has created a heavy and costly compliance burden on advisors, without (in many cases) meaningfully enhancing consumer welfare. As a result, existing advisors are leaving the industry and fewer new advisors are entering, leaving consumers less able to access the financial advice that they require. We believe that this outcome is clearly not in the best interests of consumers.

1 For example, the MFDA's 2012 Annual Report (available at http://mfda.ca/about/AnnReports/AR2012.pdf) indicates that the number of Approved Persons under its supervision has been flat or declining in recent years: 74,768, 73,291 and 73,289 Approved Persons in 2009, 2010 and 2011, respectively.
The statutory fiduciary standard considered in the Consultation Paper would further exacerbate the burden on advisors and provide little benefit to consumers. This is especially true in Canada, where we already enjoy a principles-based fiduciary standard that is well established in common law. This common law duty serves clients and advisors alike extremely well, as it allows for the consideration of the specific relationship at issue and other important factors in context. Canada's common law fiduciary duty represents the type of principles-based regulation that regulators should be striving for more broadly.

Supplanting Canada's common law fiduciary standard with one based in statute would: (i) fail to recognize important differences among "retail" clients; (ii) impose significant additional costs on financial advisors; (iii) put well-accepted business models into jeopardy; (iv) detract from principles-based regulation; and (v) cause a misalignment of standards in the financial services industry. Cumulatively, these problems would force many financial advisors out of the industry, harming the ability of lower- and middle-net worth Canadians to access financial advice and running counter to the CSA's stated objective of improving consumers' financial literacy. A statutory fiduciary duty would also fail to address the most serious consumer risks, including fraud or incompetence.

Furthermore, although other jurisdictions such as the United Kingdom, Australia and the United States are considering, or have implemented, some form of statutory fiduciary duty, a review of the evidence demonstrates that those jurisdictions have their own unique structural problems that have harmed millions of domestic retail investors. Regulators in those jurisdictions face enormous pressure to react on a grand scale, even if that reaction is flawed. In contrast, Canada has not experienced similar problems and can be considered a world leader in that regard. Therefore, importing foreign jurisdictions’ regulatory proposals into our domestic market is not in the best interests of Canadian consumers.

We believe that the interests of average, middle-income consumers are best served (i) when they can access high quality and affordable financial advice; (ii) that is delivered by professional and proficient financial advisors; (iii) within a regulatory framework that encourages transparency and accountability for unscrupulous behaviour. Therefore, rather than imposing a statutory fiduciary standard, we propose a better solution that is based on enhancing advisor professionalism. We believe that our proposal would achieve the CSA’s objective of improving consumer protection, while ensuring a thriving and accessible market for average Canadians and advisors alike.

C. The Value of Financial Advice

Academic studies have confirmed that Canadians benefit tremendously when they are able to access financial advice. In July 2012, Professor Claude Montmarquette and Nathalie Viennot-Briot of the Montreal-based Centre for Interuniversity Research and Analysis on Organizations ("CIRANO") released Canada's largest and most scientific independent study to date on the value of advice. The study, entitled Econometric Models on the Value of Advice of a Financial Advisor (the "CIRANO Study"), is based on data collected from over 10,000 households in 2010 and 2011 and provides strong evidence of the connection between financial advice and the accumulation of financial wealth.

After accounting for more than 50 other variables that could also influence wealth accumulation, the CIRANO Study reported the following:
1. **Advice has a positive and significant impact on wealth accumulation, relative to non-advised persons.** Notably, the researchers found that the longer the relationship with the advisor, the greater the beneficial impact for consumers: households with four-to-six year long relationships accumulated 58% greater assets than non-advised households, whereas households with 15+ year relationships accumulated 173% greater assets.

2. **Advice is not exclusively for the wealthy.** Despite consumers' general misconceptions, financial advice is not only beneficial for high net worth clients. In the CIRANO Study, the median initial investment for advised households was only $11,000, demonstrating that financial advice is beneficial to the lower- and mid-net worth segment of the market, and that advisors are serving this segment under the current regulatory regime.

3. **Advice positively impacts savings and retirement preparedness.** The researchers found evidence that points to improved savings behaviour being the key to the success of advised households in accumulating assets relative to their non-advised peers, and the important role of the financial advisor in encouraging this behaviour. There was a significant gap between advised and non-advised households in their reported feelings of confidence regarding their preparedness for retirement.

4. **Advice positively impacts levels of trust, satisfaction and confidence in financial advisors.** The CIRANO Study found that advised households reported a higher degree of trust and confidence in financial advisors, relative to non-advised households. This demonstrates that even if consumers are initially apprehensive about the value of advice and question what financial advisors can offer, actually working with an advisor and seeing the results first hand confirms, from the consumer's perspective, the value of the advisor.  

The CIRANO Study confirms previous research conducted by the Investment Funds Institute of Canada ("IFIC"). In each of 2010 and 2011, IFIC released studies (the "IFIC Studies") that indicate a likely correlation between financial advice and higher levels of financial assets, retirement readiness and financial literacy among consumers.

Amongst their findings, the IFIC Studies reported that advisors: promote values that benefit clients throughout their investing lifetimes (such as the early adoption of a savings and investment mindset); help clients build wealth through tax-efficient plans based on asset mixes that are sensitive to clients' particular circumstances and risk tolerances; and contribute to the financial literacy of Canadians by taking the time to explain important concepts. The 2011 IFIC Study concluded that these and other factors "provide net return advantages that exceed the additional cost for advice that is contained within the mutual funds or other financial products used by the investor."

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2 For more details about the CIRANO Study, including the methodology used, we encourage the CSA to review the document in its entirety, which is available at www.cirano.qc.ca/pdf/publication/2012RP-17.pdf.

The IFIC and CIRANO Studies confirm that financial advice provides tremendous value to Canadians. This value is manifested not only in quantitative terms, such as the substantially greater accumulated wealth enjoyed by advised households, but also in the peace-of-mind and confidence in knowing that one is prepared to deal, at least financially, with life's most significant events. The fact that working with a financial advisor increases trust and satisfaction in financial advice demonstrates that non-advised Canadians may undervalue what financial advisors can offer, leading to sub-optimal outcomes. While it is up to the industry to solve this informational inefficiency, regulators should be careful not to exacerbate the issue by enacting policies that would act as a further barrier to Canadians' ability to access advice.

D. **The Current Regulatory Framework**

Current securities laws governing advisors’ standard of conduct state that financial advisors must deal fairly, honestly and in good faith with their clients, and includes an advisor's obligation to assess suitability. Further, depending on the facts of each relationship, a common law fiduciary duty may arise.

i. **The suitability standard**

The suitability obligation requires that advisors apprise themselves of both:

(i) the general investment needs and objectives of their client and any other factors necessary to determine whether a proposed investment is suitable (*know your client*); and

(ii) the attributes and associated risks of the products they are recommending to their clients (*know your product*). Based on this information, before proceeding with a transaction, advisors must ensure that a product that is recommended to or requested by a client is a "match" for that client, given the client's financial situation and risk tolerance. The CSA states that "the suitability obligation requires that a dealer or adviser ensure that an investment is suitable or appropriate. This does not necessarily mean that the product must be the "best" product for the client." The tone of the CSA's commentary suggests that it believes that the suitability standard is wanting, and that it would be better if advisors only provided clients with products that are, *in the advisor's opinion*, "best" for the client. But such a change would actually eliminate an important degree of flexibility that allows advisors to serve experienced clients who wish to retain greater investing autonomy. As further explored in Section E below, there is a wide variety of retail clients, some of whom are very sophisticated. Naturally, there will be occasions when a sophisticated client disagrees with the advisor's good faith opinion; but as long as the advisor believes the sophisticated client's decision is suitable, the advisor can continue to assist that client – even if the course of action would not have been the advisor's first choice.

---

5 See CSA Staff Notice 33-315 *Suitability Obligation and Know Your Product* (September 4, 2009) at 32 OSCB 6890.
6 (2012) 35 OSCB 9568.
This outcome makes sense because, ultimately, it is the client’s money that is invested, so the client should have greater say as his or her sophistication reasonably allows. This flexibility to better serve a wide range of clients, combined with the common law fiduciary duty discussed below that applies for vulnerable clients, is one of the greatest strengths of our current regulatory framework.

**ii. The common law fiduciary standard**

As acknowledged by the CSA, even though the advisor-client relationship does not give rise to a *per se* fiduciary duty, an *ad hoc* duty may apply in certain relationships, depending on the characteristics of that relationship. In *Varcoe v. Sterling*, the court stated that this determination is dependent on the circumstances of each individual case, with the presence of certain elements, including trust, confidence and reliance, being determinative.

*Varcoe* was cited with approval by the Supreme Court in *Hodgkinson v. Simms*, where La Forest J. noted that:

“*Varcoe* represents an accurate statement of fiduciary law in the context of independent professional advisory relationships, whether the advisers be accountants, stockbrokers, bankers, or investment counsellors. Moreover, it states a principled and workable doctrinal approach. Thus, where a fiduciary duty is claimed in the context of a financial advisory relationship, it is at all events a question of fact as to whether the parties’ relationship was such as to give rise to a fiduciary duty on the part of the advisor.”

[Emphasis added.]

Over the years, courts have developed a set of well-defined principles to help inform the factual analysis as to whether a particular relationship is elevated to having fiduciary status. The Consultation Paper references *Hunt v. TD Securities Inc.*, where Gillese J.A. discussed the following five factors:

1. **Vulnerability** — the degree of vulnerability of the client that exists due to such things as age or lack of language skills, investment knowledge, education or experience in the stock market.
2. **Trust** — the degree of trust and confidence that a client reposes in the advisor and the extent to which the advisor accepts that trust.
3. **Reliance** — whether there is a long history of relying on the advisor’s judgment and advice and whether the advisor holds him or herself out as having special skills and knowledge upon which the client can rely.
4. **Discretion** — the extent to which the advisor has power or discretion over the client’s account.
5. **Professional Rules or Codes of Conduct** — help to establish the duties of the advisor and the standards to which the advisor will be held.

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8 [1994] 3 S.C.R. 377 [*Hodgkinson*].
10 (2003), 66 O.R. (3d) 481 (C.A.) [*Hunt*].
As acknowledged in the Consultation Paper, the inherent flexibility and fluidity of the fiduciary duty doctrine at common law has allowed it to be applied often, resulting in the creation of a robust body of case law. This in turn gives market participants confidence in their understanding of their rights and obligations in any given relationship, as they know the circumstances under which fiduciary obligations are likely to apply.

iii. A principled foundation

We believe that this framework governing the standard of conduct, based at its core on suitability, and enhanced to a fiduciary relationship where warranted based on the facts, represents a strong, principled foundation for the advisor-client relationship. It is flexible to accommodate the wishes of sophisticated clients while ensuring the highest protections for vulnerable ones. In fact, we do not believe that there can be a more sensible and straightforward principle than "clients who require a higher duty of care receive it, and those who do not require the duty do not receive it." Therefore, we disagree with the CSA’s expressed concern in the Consultation Paper that there currently exists an inadequate principled foundation for the advisor-client relationship.

While we certainly agree that "advice for investing in securities is arguably not just like any other business transaction or interaction", the existing principled foundation is not at all like that of "any other business transaction or interaction where the principles of 'buyer beware' ... are sufficient". In other business transactions or interactions, the counterparty cannot be deemed to be a fiduciary where circumstances call for it. This is a fundamental difference that the CSA must recognize in furtherance of a productive and open dialogue.

iv. Fiduciary duty warrants a principles-based approach

Canada’s context-based common law approach to fiduciary duty, through its use of well-established principles, is an excellent example of the type of principles-based regulation that regulators are increasingly attempting to adopt. Principles-based regulation is outcomes-focused and based on high-level principles. As articulated in the Consultation Paper, "[t]he advantage of any principle-based approach to regulation is that regulators do not have to introduce detailed rules for every element of a relationship being regulated." Further, by focusing on the spirit of the regulation, principles-based regulation is also harder to evade by those actors who would attempt to adhere minimally to the letter of the law.

As mentioned, courts have established that certain advisor-client relationships warrant fiduciary protections, while other relationships do not merit this standard of care. Rather than simply labeling any relationship as fiduciary, courts take a context-driven approach because the determination of a fiduciary relationship creates significant repercussions for both the advisor and the client.

This is because the fiduciary standard is the highest standard of care in law, requiring the fiduciary to act solely in the beneficiary’s interests, without regard to one’s own. It suggests a significant imbalance of power between the parties: the beneficiary of the duty is characterized

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14 Ibid.
as vulnerable and the fiduciary acts as a caretaker on the client's behalf. In the Supreme Court's judgment in *LAC Minerals Ltd. v. International Corona Resources Ltd.*,\(^{15}\) Sopinka J. stated that fiduciary obligations "must be reserved for situations that are truly in need of the special protection that equity affords."\(^{16}\)

Clearly, a fiduciary duty is not one to be taken lightly. It is not a duty that applies to most commercial relationships, including from most professional service providers. Courts have prudently recognized that advisors can play a critical role in the lives of the public, and we would agree. So there are indeed certain advisor-client relationships that merit fiduciary protections— but others do not and the context is critical. By making such determinations on a case-by-case basis, guided by the balancing of well-established principles, the common law approach to fiduciary duty exemplifies the type of principles-based regulation that benefits regulators and market participants alike, and its use should be encouraged.

E. Problems with a Statutory Fiduciary Duty

The Consultation Paper discusses the merits of introducing a statutory fiduciary duty for financial advisors. We strongly recommend that the CSA not proceed with this initiative, as we believe that such a standard would create significant deleterious effects that would leave both advisors and clients worse off. As noted securities litigation lawyer Joseph Groia states, a statutory fiduciary duty:

"... will put all honest financial advisors and brokers in the same position, regardless of the sophistication of their client. The breadth of work which financial advisors and brokers perform is broad and varied, and thus in our view, it would be inappropriate to assign all of them with the same duty and corresponding liability. This will also add significant cost and inefficiency to the relationship."\(^{17}\)

In the subsections below, we explore several of the reasons why a statutory fiduciary duty would not be in the best interests of clients or advisors.

i. Retail clients are not homogeneous

In recognition that a fiduciary duty is not appropriate for all advisor-client relationships, the CSA's proposed articulation of the statutory duty would apply only in respect of retail clients. In making this distinction, the CSA may be acknowledging that institutional clients lack the vulnerability that warrant fiduciary protections: after all, institutional clients likely have substantial investing experience and knowledge, are therefore fully cognisant of the risks posed by undertaking a particular investment, and are able to absorb losses stemming that are a foreseeable consequence of those risks. Advocis believes that this distinction is sensible given the principles behind fiduciary obligations, articulated above.

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\(^{15}\) [1989] 2 S.C.R. 574.

\(^{16}\) Ibid. at 312.

However, even restricting fiduciary obligations to "retail" clients is overbroad, as retail clients themselves are not a homogeneous group. Many retail clients possess the sophisticated knowledge and experience that is characteristic of the institutional class of investor. In Varcoe, a case concerning a retail client, the court pointed out that when it comes to the advisor-client relationship, "the circumstances can cover the whole spectrum from total reliance to total independence."18

Indeed, retail clients can range from neophytes who completely depend on their advisor's expertise and guidance, to seasoned veterans who may value their advisor's informed second opinion but ultimately wish to make their own decisions. Case law that has considered the common law fiduciary duty illustrates real-world examples of this wide range, key examples of which are canvassed below.

(a) Vulnerability and discretion

At one end of the spectrum is the vulnerable client who has little understanding of financial products and is completely reliant on the advisor. In such cases, courts have rarely hesitated to find that a fiduciary duty exists. Ryder v. Osler, Wills, Bickle Ltd.19 is an extreme example of a situation where an unsophisticated client, an elderly widow who became the beneficiary of a trust, was completely reliant on a dishonest advisor who churned and margined the account despite the direction that the investments be conservatively managed.

At the other end of the spectrum is the situation in Srdarev v. McLeod Young Weir Ltd.20, where an experienced client used his advisor as an order-taker to execute the client's aggressive investing strategy. The advisor's advice was not sought and written warnings from the advisor were ignored. After suffering losses, the client sued the advisor for breach of fiduciary duty. The claim failed as the court found the client had made his own decisions and had not reposed trust and reliance on the advisor.

Somewhere in the middle of these two extremes is a situation where a relatively sophisticated client sees the advisor as a "sounding board" to discuss potential investing strategies, while retaining ultimate control of the account. This situation arose in Bishop v. Richardson Greenshields of Canada Ltd.,21 where the Court concluded that there was no fiduciary relationship between the parties because the client exercised his independent judgment, based upon which he gave instructions to his advisor.

The distinction between a discretionary and non-discretionary account was also persuasive in Hunt;22 there, because the clients were knowledgeable in financial matters and operated their account as non-discretionary, the Court did not find the relationship to be fiduciary, despite the fact that the clients were elderly and their entire life savings were at stake. Further, in Kent v. May,23 although the client never rejected the advisor's recommendations, the relationship was not fiduciary because at all times, the client retained discretion for each decision and was kept fully informed through frequent contact with the advisor.

18 Supra, note 7 at para. 87.
19 [1985], 49 O.R. (2d) 609 (H.C.).
22 Supra, note 10.
In these cases, the fact as to whether the advisor has discretion to manage the account weighs heavily. This holds true even when the type of client is traditionally thought of as "vulnerable", such as the elderly or clients who have invested a significant portion of their wealth. We believe that this distinction is sensible because in a non-discretionary situation, it would be perverse to judge whether fiduciaries have met the highest duty of care in managing accounts over which they are not actually permitted to use their own skill or judgment.

(b) Inducement and special instructions

Courts have also found that fiduciary duties may apply if advisors induce clients into action based on the advisor's purported possession of special skills or knowledge, even when dealing with sophisticated retail clients. See, for example, *Burke v. Cory*, where an advisor had represented to a client that a particular investment in a resource company was a "very good buy" due to positive initial drilling tests when in fact, no tests had been conducted. The court found that the advisor's behaviour had induced the client's reliance and, in so doing, had created fiduciary obligations.

Retail clients who retain discretion over their account and use their advisor as an order-taker may still be protected by fiduciary obligations where the advisor fails to carry out the client's specific instructions and the advisor knows that those instructions are of unique and particular importance to the client. This was the case in *Laskin v. Bache & Co.*, where the client expressly required the advisor to deliver physical share certificates. The advisor failed to do so, and as a result, the client was unable to close on a subsequent transaction.

(c) No statutory articulation can capture the variety of retail clients

These cases serve to illustrate the wide variety of clients that fall within the retail category; some warrant fiduciary protections and others do not, and it is not a determination that can be made algorithmically based on the "retail" label. Even a more granular classification of retail clients (such as elderly clients, knowledgeable clients or clients investing their life savings) is not an effective means of sub-dividing the group. In the Consultation Paper, the CSA proposes to define retail clients and have its statutory fiduciary duty apply only to that group. But a review of case law quickly demonstrates the impossibility of defining the category – there will inevitably be exceptions that arise.

Instead, the best, fairest and only way to properly assess whether a fiduciary duty should apply is the context-based common law approach that the Supreme Court in *Hodgkinson* described as both "principled and workable." This approach, which is the culmination of decades of case law considered by Canada's most prominent jurists, makes abundantly clear that the advisor-client fiduciary issue must be considered on a case-by-case basis.

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26 See (2012) 35 OSCB 9583, where the CSA suggests proposed limitations to the application of a statutory fiduciary duty, such as a threshold dollar value of a client's net assets, or specific situations where the duty may not apply. While we understand and commend the CSA's motivation behind sensible carve-outs to the application of the standard highest of care to reflect business realities, we believe that no one factor (or set of factors) can ever be determinative, based on the jurisprudence. A balancing of all factors is required, based on overarching principles.
27 Supra, note 8.
It is for this reason that a statutory fiduciary duty is not workable: there is no statutory articulation that can capture every permutation of the client-advisor relationship, so any attempt to codify fiduciary duty in this manner is a disservice to clients and advisors alike. A statutorily-codified fiduciary duty will inevitably over-include certain clients who do not warrant the law’s highest standard of care, while being under-inclusive to other clients. Given the ramifications of fiduciary obligations, this mismatch is so problematic as to make the CSA’s statutory effort harmful and untenable.

Additionally, as noted earlier in our submission, the current suitability standard allows advisors to serve sophisticated retail clients, such as those described in the cases above. These clients may use their advisor as a sounding board for potential investments and as a conduit to execute orders, while retaining ultimate decision-making authority. Even if the advisor disagrees with the client’s view and believes that another strategy would be better for the client’s interests, the advisor can still assist as long as the investment is, in the advisor’s opinion, suitable given the client’s situation.

Trumping the suitability standard with a statutory best interest standard would effectively eliminate the ability to serve this portion of the market. It would result in a polarization of the market: retail clients could either benefit from advice but have to give up investing discretion to their advisor, or would have to forego advice and invest alone, such as through a discount online-only broker. Given the tremendous benefits of advice detailed in Section C above, we believe that many consumers would be much worse off as a result of this polarization.

**ii. A statutory fiduciary duty will increase costs**

A statutory fiduciary duty will increase costs for all market participants. It will greatly increase the volume of litigation in the courts, create new compliance obligations for advisors and dealers alike and result in greater uncertainty in the marketplace.

**(a) Increased litigation**

A statutory fiduciary duty is likely to increase the volume of litigation brought against financial advisors. Currently, under the common law, if a client wishes to sue an advisor for breach of fiduciary duty, that client must first establish that fiduciary obligations apply in accordance with the principles articulated above. This exercise is supported by a large body of case law that quickly allows for the evaluation of the merits of a claim. A statutory fiduciary duty would shift the evidentiary onus: the client would no longer be required to establish the duty. Instead, the duty would be presumed, and if the defendant advisor wished to disprove the existence of the duty, the defendant would be responsible for adducing evidence to that effect.

The plaintiff’s requirement to establish a fiduciary duty acts as a reasonable barrier to litigation, so its removal will almost certainly encourage additional lawsuits. Some commentators may argue that easy access to litigation is beneficial as a consumer protection measure on two fronts: (i) to discourage bad behaviour by advisors; and (ii) to increase the quantum of damages payable to the client where the fiduciary duty is breached.

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28 The feasibility of the Consultation Paper’s statement regarding the client retaining discretionary control in the presence of a statutory fiduciary duty is discussed below in Section E(ii)(c).
Regarding the first point, we believe that a statutory fiduciary duty will only marginally deter bad behaviour: honest advisors will continue to act in good faith, and fraudsters who are already breaching the common law fiduciary duty or other statutory, contractual or tortious obligations will not be motivated into compliance by a statutory fiduciary duty. In fact, it is likely that honest advisors are the ones who are likely to face a disproportionate barrage of new litigation.

Regarding the second point, we believe that fiduciary duty does increase the quantum of damages and over-incentives lawsuits. Since fiduciary duty is the highest standard of care in law, a breach of that standard carries severe consequences – including the fact that defences such as contributory negligence are unavailable, mitigation of losses by the plaintiff is not expected and punitive damages may be awarded. By eliminating these defences or allowing for exceptional damages, the CSA is effectively increasing plaintiffs’ expected value of pursuing a claim, which renders claims on the margin suddenly worthwhile to litigate.

This misplaced incentive is exacerbated by the fact that the additional cases that would be brought forward due to the statutory codification would likely be of questionable merit. They would represent the marginal cases that would not be pursued under the common law regime due to the plaintiff’s lack of ability to bring forward evidence establishing that fiduciary obligations are warranted.

Adding to this wave of litigation would be the perception by many clients that, owing to the higher standard of care expected of fiduciaries, advisors should be responsible for losses suffered in the client’s portfolio – even where the losses are due to market outcomes and not any fault of the advisor. While the courts have made clear that advisors, even when fiduciaries, are not guarantors of positive outcomes for their clients, we already see claims for breach of fiduciary duty thrown into many lawsuits as a general "catch all" after specific allegations, simply due to the gravity that fiduciary duty connotes. If the CSA were to introduce a statutory fiduciary duty, it is signalling to the market its belief that advisors should be liable for a wider range of outcomes; this will encourage lawsuits from clients who conflate the highest duty with an obligation to somehow eliminate market risk.

Cumulatively, will result in a flood of nuisance claims, which will harm both advisors and clients. Advisors will suffer under the weight of having to respond to all these claims – even if the claims are without merit, allegations of breaching fiduciary duty are serious and demand a careful and thorough response. Advisors will be unable to dedicate as much time to productive work and will incur significant additional costs, through legal fees to defence lawyers and through higher errors and omissions insurance premiums.

Clients will experience decreased levels of service from their advisors, as advisors will be increasingly preoccupied with the administrative hassles of managing litigation and will be drawn away from productive work. Additionally, clients who have truly been wronged by a dishonest advisor and therefore have a legitimate claim will find the courts less accessible and unable to handle their claims in a timely manner, as the courts will be saturated with competing nuisance claims in the queue.

In Varcoe, supra note 7, the Court stated that "[s]o long as the broker applies the skill and knowledge relied upon and advises fully, honestly and in good faith, the broker has discharged his or her obligation and is not responsible if the transaction proves unfavourable."
(b) Increased compliance obligations

A statutory fiduciary duty will create significant additional compliance obligations on advisors. As noted in the Consultation Paper, under the current framework, advisors require more extensive KYC information from certain clients relative to others, with more vulnerable clients generally requiring an in-depth consultation. A statutory fiduciary duty would necessitate the advisor conducting an extensive KYC consultation for every client, regardless of their sophistication, as anything less under the highest standard of care would create too great a litigation risk down the road.

This will create tremendous overhead that will not appreciably improve outcomes for consumers. A wealthy client who would like to invest a small amount relative to his overall financial position should not have to justify and document his decision to the same extent as an elderly person who is proposing a high-risk leveraged investment; the risk is simply not the same. But under a statutory fiduciary duty, there is a very real possibility that this context would be lost due to the blanket statutory expectation. The KYC process would become an onerous wave of paperwork that is more about justifying straightforward decisions for fear of regulatory sanctions and litigation rather than serving the client efficiently.

In regards to whether a statutory fiduciary duty would be an ongoing duty or one that is owed at a particular point in time, the Consultation Paper's proposed articulation states that the duty shall apply "when providing such advice".\(^{30}\) This suggests that the duty would be event-specific. Later on that same page, however, the Consultation Paper describes the duty as an "on-going duty in the case of advisers and dealers other than exempt market dealers and scholarship plan dealers. The duty would terminate only upon the termination of the client relationship."

This latter articulation, with the duty applying at all times, would represent a drastic departure from the current suitability standard. Currently, an advisor must assess suitability upon the occurrence of specific events, such as when making a recommendation, accepting an instruction from a client, or, where discretionary authority is given, buying or selling a security for clients. By moving to an ongoing duty, advisors' obligations would become exponentially more arduous. Advisors would have to review around-the-clock changes in multiple markets (such as for corporate bonds, government bonds, foreign equities, money markets, and many more) and analyze, in regards to a specific client, whether any such development warrants any action by the client. This exercise would have to be repeated for dozens or hundreds of clients.

With so many moving parts that are beyond the advisor's control, the compliance obligations demanded by an ongoing statutory fiduciary duty would simply overwhelm advisors and choke their ability to conduct business. Note that the untenable nature of an ongoing duty, even in respect of the current standard of care, is recognized by both IIROC and the MFDA: the Consultation Paper acknowledges that these regulators have expanded their suitability assessment requirements by requiring reassessment at specific triggering events – not by requiring reassessment on a continuous, rolling basis.\(^{31}\)

\(^{30}\) (2012) 35 OSCB 9583.

(c) Increased uncertainty

The Consultation Paper states the CSA’s belief that a statutory fiduciary duty would decrease uncertainty in the marketplace. Specifically, it suggests:

“A statutory best interest standard may clarify that such a duty applies in most instances when an adviser or dealer provides advice to a retail investor. This may help clarify some of the uncertainty currently experienced by both clients and their advisers and dealers regarding what standard of conduct the adviser or dealer will be held to.”

We believe that, in actuality, the opposite is true: the CSA’s proposed statutory fiduciary duty would significantly “muddy the waters” regarding the standard of conduct in the industry, leaving advisors and their clients uncertain about their respective rights and obligations. This is largely because, as the Consultation Paper acknowledges, any statutory fiduciary duty would have to be peppered with a series of carve-outs to accommodate the multitude of existing business models:

“A statutory best interest standard does not have to impose an unqualified common law fiduciary duty on all advisers and dealers in respect of all facets of the client relationship. Distinctions can be made among the constituent elements of a fiduciary duty and addressed in different ways to meet the needs of all stakeholders. That is to say, the elements of a statutory fiduciary duty can be qualified to accommodate specific circumstances including the particular circumstances and business model of the adviser or dealer.” [Emphasis added.]

We agree that any attempt to establish a statutory fiduciary duty requires a series of qualifications to meet the needs of all stakeholders. However, this is much easier said than done: there are so many variations amongst each of the constituent elements of a fiduciary duty that, despite the CSA’s best efforts, it would be exceptionally difficult to codify every type of situation in a manner that is both predictable and not over- or under-inclusive. In Section E, we explored the challenge of defining “retail clients”, and that is just one of many aspects that would have to be addressed. Other aspects, as noted in the Consultation Paper, include the role of scaled advice, restricted advice, ongoing duties and so on.

We would like to draw attention to yet another aspect of the duty that we believe would result in great confusion, disputes and litigation in the courts. The CSA states that:

“[A] retail client would retain complete discretion whether to follow any advice received; an adviser or dealer who disagrees with the investment decision of a retail client and who has so advised the client, would have no further obligation to dissuade the client or to refuse to facilitate an order.”

32 Supra, note 12.
34 General Scope, supra, note 30.
We understand the CSA's reasoning behind this qualification – in many advisor-client relationships (especially those involving sophisticated clients), the client prefers to maintain control of the account, and neither the CSA nor Advocis wishes to eliminate a client's freedom to do so. However, while this qualification may "allow" the advisor to assist the client even when the advisor disagrees with the client's decision, it does not actually relieve the advisor from the fiduciary obligations based on the statutory language.

Therefore, executing a client's instruction which the advisor does not believe is in the client's best interest would be fundamentally incompatible with fiduciary duty, which has inherent to it the concept of the client's vulnerability to, and reliance on, the fiduciary's skills and judgment. As we stated earlier in our submission, it would be perverse to evaluate fiduciaries on their faithful discharging of the highest duty of care if they are not allowed to use their skills or judgment, but are rather overridden by their clients – but that is the situation that this qualification would effectively create.

Consider this carve-out in light of another proposed qualification, which provides that "the best interest standard could not be waived by a retail client as a contractual matter".\textsuperscript{35} Based on this, advisors would not even be able to protect themselves from \textit{ex post} accusations of breach of fiduciary duty through documentation such as risk acknowledgment forms that evidence a client's decision to undertake an action despite the warnings of the advisor.

Ultimately, any codification of a statutory fiduciary duty is likely to contain several intentional ambiguities such as the ones discussed above, to accommodate the wide variety of business models in the marketplace. The CSA has recognized the confusion that these ambiguities will cause, stating that regulators may be required to fill in appropriate guidance as to the application of the standard.\textsuperscript{36} Over time, this \textit{ad hoc} approach will be a reactive attempt to fill in the gaps with prescriptive rules, discussed further in Section E(iv) below.

And in the meantime, misunderstandings between advisors and clients as to the content of the duty, in light of its various carve-outs, will inevitably result in disputes, which will lead to litigation. This means it could once again be up to the courts to flush out the ambiguities by developing, over several years, a series of principles to interpret the statutory duty. So at the end of this long, expensive and unproductive process, we could very well end up somewhere that is very close to where we already are today.

The CSA highlights a purported expectation gap between advisors and clients as motivating factor behind its consideration of a statutory fiduciary duty.\textsuperscript{37} We believe that under the current system, with its well-established body of regulations and case law, parties reasonably understand their rights and obligations. If this foundation is replaced with a new ambiguity-laded statutory fiduciary duty, any expectation gap will be exacerbated and the CSA's objective of certainty will suffer a severe set back.

\textbf{iii. Impact on compensation practices}

The Consultation Paper states that the proposed statutory fiduciary duty could have an uncertain impact on current compensation practices in the industry, especially those involving

\textsuperscript{35} \textit{Ibid.} \\
\textsuperscript{36} \textit{Ibid.} \\
\textsuperscript{37} (2012) 35 OSCB 9581.
embedded commissions paid by third parties to advisors or dealers. While the paper proclaims that a statutory fiduciary duty "does not necessarily mean a change must be made in compensation structures", it also quotes the need for fiduciaries to "scrupulously avoid all actual or potential conflicts of interest involving their beneficiaries."  

Clearly, the impact on compensation practices is yet another major area of uncertainty. Embedded compensation does represent, to varying degrees, a conflict of interest, but its beneficial impact of increasing consumers’ access to advice usually outweighs the harm, if any, from the conflict. However, depending on the eventual statutory articulation and its interpretation by regulators and courts, a statutory fiduciary duty could result in embedded compensation being deemed incompatible, resulting in its eventual abolishment. This would force all client accounts into the fee-based realm, either under a fee-for-service arrangement, or a billing of clients based on an hourly rate or as a percentage of assets. We believe that such a shift would be extremely harmful to consumers for multiple reasons.

Firstly, for many clients, the embedded fee model represents the most efficient and lowest-cost option. Note that this was the conclusion reached by the U.S. Securities and Exchange Commission (the "SEC"), which reported that "certain retail customers might face increased costs, and consequently the profitability of their investment decisions could be eroded, especially accounts that are not actively traded, e.g., fee-based accounts that trade so infrequently that they would have incurred lower costs for the investor had the accounts been commission-based." The SEC Study suggests that passive investors would be disproportionately affected. These are typically the type of investors who are neither wealthy nor interested in speculative trading; instead, these tend to be the type of clients who are saving towards a long-term goal, such as retirement.

The reality is that embedded compensation accounts are less expensive to administer than fee-based ones. A fee-based account requires billing infrastructure for the creation, distribution and collection of thousands of invoices, each for relatively small amounts, such as for $200 every quarter. This costly overhead means either that it won’t be economical for advisors and dealers to service the smaller accounts of lower- and middle-income clients, or clients will have to pay higher fees than they currently do, which many will find unpalatable. Either way, there is a serious risk that a significant subset of consumers who currently receive advice would not under a fee-based model.

Secondly, our experience working with clients has demonstrated to us that clients are generally unwilling to pay directly for advice, despite the tremendous benefits that accrue to them. Instead, clients are comfortable and satisfied with the embedded compensation model, which is why a majority choose this form of account. Significant studies have not been performed in Canada on this matter, but we can look to the United Kingdom as an example of a jurisdiction that has recently banned embedded compensation.

A study by Deloitte suggests that a ban on embedded compensation could result in up to 5.5 million U.K. consumers being disenfranchised from accessing advice; this represents 11% of

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38 Mark Vincent Ellis, *Fiduciary Duties in Canada*, looseleaf (Toronto: Carswell, 1988), Ch. 1, para. 4(2)(a).
the adult U.K. population, which Deloitte describes as "a significant post-[Retail Distribution Review] advice gap". It also finds that advisors and dealers are likely to de-prioritize a large proportion of customers; they are likely to move upmarket to defend profit margins, with the focus turning to customers with at least £50,000 (approximately $80,000) in investable assets. Recall that in the CIRANO Study, Canadians' median initial investment was only $11,000, meaning that many consumers could be frozen out of advice if similar metrics apply here.

In terms of a consumer's willingness or ability to directly pay for advice, Deloitte found that the wealth of the consumer is the primary factor in this determination; in fact, consumers with greater than £50,000 in investable assets are twice as likely to stay with a financial advisor in the "advisor charging" world. A report by the EA Consulting Group states that the average cost of advice in a post-commission world is an estimated £670, which is thought to be well beyond the reach of the typical middle or mass market client.

While we in Canada have certainly not had the same problems that led the U.K.'s regulators to ban embedded compensation (more on this in Section F below), it is reasonable to assume that Canadian consumers would, broadly, suffer the same ills from the policy: advice would largely become the purview of wealthier clients. Given the significant benefits of advice to Canadians across the wealth spectrum, as discussed in Section C, we urge the CSA to avoid enacting a policy that would make advice more onerous for the very clients who need it most.

Finally, in any discussion regarding a potential ban of embedded compensation, we must remember that fee-based accounts are already available to consumers today and are offered by many financial advisors. A ban on embedded compensation models would only eliminate an important channel that the majority of consumers willingly select; therefore, if the CSA were to eliminate this option, it would be forcing millions of Canadians out of the investment plans of their own choosing.

iv. Loss of principles-based regulation

As discussed in Section D of this submission, the CSA recognizes the value of taking a principles-based approach to regulation which alleviates the need for prescriptive rules. It also points to the inherent flexibility and fluidity of the fiduciary duty doctrine at common law as an example to be emulated.

However, the CSA goes on to state that "[t]he imposition of a statutory best interest standard constitutes a principle-based approach" to addressing investor protection concerns. We believe the opposite is true: a shift from the current principles-based common law fiduciary duty to a rigid statutory one prescribed in legislation would be a regressive step backwards that would negatively impact securities regulation.

Exacerbating this problem is the fact that the matter being considered for statutory codification requires, according to the CSA itself, several conditions and carve-outs in order to

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43 *Supra*, note 12.
accommodate the wide variety of clients, relationships and business models in the industry. Extremely complex matters with many moving parts such as fiduciary duty are much better suited to principles-based regulation, because it is nearly impossible to draft legislation that properly addresses all the permutations found in the real world. Too often, the only way to codify these complex matters is to use prescriptive rules and "bright line" tests that are poor at contextualization and therefore create perverse outcomes.

This problem is already evident in the Consultation Paper. While, due to the preliminary stage of the consultation, the CSA does not include the proposed statutory text of most of the carve-outs to be included, it does discuss certain parameters regarding the definition of "retail clients". The serious problems with those parameters are typical of what happens when one tries to reduce complex analysis into rigid statutory text.

As discussed in Section E above, there is no one characteristic that determines whether a particular retail client is "vulnerable" or "sophisticated" – instead, several factors must be weighed in concert. Further, the use of fixed thresholds (such as having net financial assets of $5 million or less\(^{44}\)), devoid of a contextual analysis, will inevitably be over-inclusive for some, and under-inclusive for others. Similar problems can be expected if and when the CSA attempts to codify other substantive parts of fiduciary duty, such as defining what actually constitutes the "best" interests of a client and the conditions under which an advisor can be reasonably assured that he or she has successfully discharged the duty.

We strongly urge the CSA to consider the challenges of codifying the proposed fiduciary duty, along with its various carve-outs, into statute. Doing so would represent the selection of prescriptive, rules-based regulation that often fails to achieve the overarching objective behind the initiative. And even if all the permutations in the advisor-client world could be codified, at great expense to regulatory resources, many of the "bright line" metrics used as a proxy for analysis would quickly become obsolete in the ever-changing securities markets.

v. Misalignment with the insurance sector’s standard of conduct

Financial advisors help consumers develop comprehensive financial plans and recommend products to help achieve those plans. To best accomplish this, Advocis’ advisors are typically dual-licensed, since both the securities and insurance sectors offer products with unique attributes that complement each other in a well thought-out plan. This seamless, one-stop access to products is convenient for clients and allows advisors to gain a complete perspective of their client’s financial situation, thereby providing more tailored recommendations.

Even though insurance and securities products are offered to clients at one uniform point of sale, in most provinces, they are regulated by different entities. Consumers are generally unaware of this distinction and do not think of their investments as being in different "silos" depending on whether, for example, the product is a mutual fund or a segregated fund; they expect to receive quality advice based on the merits of the product, regardless of the product’s governing regulatory regime.

\(^{44}\) General Scope, *supra*, note 30.
Currently, the standard of conduct for insurance advisors is aligned with those of securities advisors: they have the duty to act honestly and in good faith.\textsuperscript{45} This means that, when it comes to the standard governing the advice through which products are recommended to clients, both insurance and securities products are on equal footing. However, if the CSA were to implement a statutory fiduciary standard, it would only apply to the securities sector, and for the reasons stated above, securities products would become more costly.

The result of this regulatory arbitrage would be an over-subscription to insurance products, relative to securities products. This deviation from the ideal financial plan represents an inferior outcome for consumers. Given the longstanding business model of offering both securities and insurance products side-by-side, and the benefits that clients derive from this model, the CSA should not create a systemic disincentive against securities products by implementing a statutory fiduciary duty.

\textit{vi. The cumulative impact on advisors and their clients}

The cumulative impact of all of these additional costs, direct and indirect, financial or otherwise, means that advisors would not be able to provide the comprehensive service that they currently offer. Recall that advisors currently serve all segments of the market, from wealthy, sophisticated clients to low- and middle-income clients, using a variety of models, such as through embedded compensation or through fee-based arrangements.

A statutory fiduciary duty is likely to result in advisors exiting the industry. While numbers for Canada are unclear at this point, a leading U.K. consultancy reports that 18\% of advisors there are likely to exit the industry solely due to the Retail Distribution Review (e.g. they were not contemplating retirement anyway).\textsuperscript{46} And while we cannot simply apply one jurisdiction’s metric to ours with great precision, we believe it is reasonable to argue that the impact in Canada would nonetheless be devastating – especially because one of the major tenets of the U.K. reforms, the banning of embedded compensation, could become a necessity under the CSA’s proposed articulation of fiduciary duty.

This will harm communities across Canada, where financial advisors often act as owners of small businesses. Not only do they serve clients’ financial needs, they also employ staff and participate in their local economies. It is the smaller communities that are likely to be disproportionately hit, as those communities are not likely to have the scale/client base to absorb the significant additional costs arising from greater litigation, new compliance overhead and operating uncertainty.

These small-business advisors also tend to be independent; i.e., they are not bank-affiliated advisors. Therefore, the remaining advice industry will have a higher concentration of advisors from large institutions, decreasing diversity and competition in the industry and reducing choice, which is not in the best interests of consumers. Further, as demonstrated in the sections above, those advisors remaining in the industry are likely to concentrate on the higher net worth segment of the market. Currently, fee-based advice is largely the purview of high net worth


\textsuperscript{46} NMG Consulting Group, \textit{Implications for the Adviser Sector Insights Report No 4} (January 2009).
individuals, as lower- and middle-market consumers have shown that they are generally unwilling to pay for advice directly.

With many consumers losing access to financial advice, they are less likely to have financial plans and will be underprepared for life’s events. They will not enjoy the valuable benefits of advice that the CIRANO and IFIC Studies demonstrate are achievable for consumers across the wealth spectrum.

Further, as financial advisors are often the best source of financial information for the public, the loss of access to advisors will negatively impact consumers’ financial literacy, especially at the lower end of the market. This will exacerbate, rather than improve, one of the CSA’s identified concerns behind its current initiative, and we will find ourselves in a situation where those most needing of financial advice will be unable to access it. This outcome is clearly not in the best interests of consumers or regulators.

F. International Proposals are Not Right for Canada

In its Consultation Paper, the CSA discusses regulatory developments in other jurisdictions (including the United Kingdom, Australia and the United States) where regulators have implemented, or are considering implementing, *inter alia* a statutory fiduciary duty or a ban on embedded compensation. We believe that these foreign regulatory responses are based on challenges or structural vulnerabilities that are not, nor have historically been, present in Canada; therefore, it would be inappropriate to take a “one size fits all” approach and apply another nation’s purported solutions to the Canadian context.

Furthermore, studies from those foreign jurisdictions demonstrate that those regulatory responses are creating, or are likely to create, severe and deleterious effects in their domestic markets, such as severe job losses, a widening of the advice gap and greater market uncertainty. If Canada were to import those regulatory responses, we would likely experience similar negative effects.

Therefore, given that Canada has not experienced the problems to which foreign regulators are responding, and that we would likely suffer the negative effects of their purported solutions, the CSA should not look to foreign jurisdictions as models for potential regulatory initiatives in Canada. We explore those foreign jurisdictions in greater detail below.

i. United Kingdom

The U.K.’s financial services regulator, the Financial Services Authority (the “FSA”), launched its Retail Distribution Review (the “RDR”) in 2006 to examine how retail investment products are distributed to consumers. The Consultation Paper provides a summary of the RDR, including its emphasis on clearer tiers of advice, the banning of embedded compensation and increased advisor professionalism. What is missing from the Consultation Paper is a discussion of the serious problems that have plagued the U.K.’s financial services market, which were instrumental in the call for regulatory action.

(a) A scandal-plagued system

In recent decades, the U.K. has experienced a series of scandals that have shaken consumer confidence in the financial system. The largest involves the mis-selling of payment protection insurance (“PPI”) policies to retail consumers, beginning in 2005. Financial institutions sold 16
million of these policies, which are intended to cover loan repayments if the borrower falls ill, has an accident or loses their job. PPI policies are often sold at the same time as the underlying loan or extension of credit is made, such as upon the application for a credit card, making consumers particularly vulnerable to high-pressure sales tactics.

A massive number of PPI policies were mis-sold; examples include sales to self-employed people who would never be eligible to claim on them, to borrowers who were wrongly told that taking PPI was a condition for being granted their loan, and even to consumers who did not realise they were purchasing a policy at all alongside the other financial product. The PPI scandal is the largest retail mis-selling scandal in the history of the U.K., with damages estimated to be a staggering £12 billion, or almost $20 billion. There has been justifiable public outrage that has put enormous pressure on regulators to take action.

PPI took the title of largest mis-selling scandal from its previous record holder: the pension scandal of the 1980s and 1990s. In that scandal, more than one million consumers were improperly advised to take out personal plans when they would have been better off in a company scheme, costing consumers £11.8 billion and resulting in disciplinary action against 346 firms. And problems still persist to this day, with new scandals uncovered with alarming regularity: scandals involving interest rate swap arrangements and unregulated collective investment schemes are just coming to light, with the scope of their damage yet to be fully assessed.

These examples evidence a systemic problem in the U.K. that has fundamentally rattled retail investors' faith in the markets. It demands a response from its regulators, even an imperfect one (as discussed below). In short, the RDR is designed to fundamentally reform a dysfunctional system. But the situation in Canada is distinctly different: the CSA has not demonstrated that Canada is afflicted by systemic fraud and our retail investors have not suffered in any manner that approaches what U.K. consumers have experienced. By and large, our system is both fair and accessible, so we should be cautious about importing solutions that are designed to fix another jurisdiction's problems.

(b) The RDR's impact

The RDR is predicted to cause significant disruption to the U.K. financial services industry. Earlier, we quoted studies by Deloitte and NMG Consulting Group which concluded that many advisors are likely to exit the industry, and those that remain will concentrate on the high net worth segment. Middle- and lower-income consumers will struggle to access advice, with Skandia, a leading U.K. investing house, estimating that 40% of clients could be affected:

51 Supra, notes 40 and 46.
"If you take this as a proxy for the whole advised marketplace, then 1.8 million people could be disadvantaged... A prime concern for the advisers in our survey is that those customers who are unable or unwilling to pay separately for ongoing advice on existing products would lose a valuable relationship with their financial adviser."  

Commenting on this RDR-created problem, Lord Howard Flight, a former Conservative shadow economic secretary to the Treasury, recently stated that:

"RDR is an elitist concept. The wealthy will not have a problem in paying advisory fees. But somewhere between 2.5 and 5 million people will find themselves without access to financial advice, for which the in-house products of the banks, which charge commission, will be the only option.

Much of the historic financial advice industry in the U.K. will be destroyed with major job losses. If the 1st January deadline is not delayed, for the industry at large, there will also be a period of chaos which will benefit no one, and especially the consumer, in whose name this policy has been created."

There is widespread consensus that the RDR will have a serious and negative impact on the ability of average consumers to access advice, with the implementation of "advisor charging" being a key cause of the disruption. Perhaps, given the U.K.'s systemic problems, the FSA has deemed these costs justifiable for its own situation. But that calculation is drastically different in Canada, where comparable costs would be incurred, without the benefit of rehabilitating our non-existent systemic problems.

On a positive note, we are in full support of one of the other key tenets of the RDR: the drive to improve advisor professionalism through enhanced qualifications, continuing education and codes of ethics. We believe that professionalism is the cornerstone of consumer protection, but it is not adequately addressed by the CSA's proposed statutory fiduciary duty. Therefore, in Section H below, we provide our solution to enhancing advisor professionalism in Canada.

(c) Administering the RDR

Unlike in Canada, the FSA is a unified regulator of financial services, with the conduct of both securities and insurance sales and advice being under its domain. This has allowed it to implement the RDR across the spectrum of most retail investment products, providing regulatory consistency to advisors.

This is a critical difference from the regulatory framework in Canada, where securities and insurance products are regulated by their own separate provincial regulators. As previously discussed in Section E above, if the CSA were to implement a statutory fiduciary duty, that standard of conduct would only apply to the securities side of an advisor's business. This creates a nonsensical outcome where advisors, the majority of whom offer both insurance and

52 Peter Mann, "The great unadvised" Skandia UK, online: http://www2.skandia.co.uk/Adviser/adviser-support/Informer/Articles-By-Topic/Blog/Our-Mann-onthe-great-unadvised/.
53 Lord Howard Flight, "The pending financial advice shake-up shambles and why RDR must be stalled" This is Money (September 23, 2012), online: http://www.thisismoney.co.uk/money/news/article-2206826/LORD-HOWARD.
securities products side-by-side as part of a comprehensive financial plan, would be subject to different standards of care depending on the product they were discussing with their client. It is clear that the RDR's unified approach to financial services effectively disqualifies it as a reform model for Canada.

ii. Australia

Australia's regulator, the Australian Securities and Investments Commission ("ASIC") introduced a reform package entitled the Future of Financial Advice ("FOFA") in 2010. FOFA is ASIC's response to the 2009 Australian Parliamentary Joint Committee on Corporations and Financial Services report (the "JPC Report"), which inquired into issues regarding the global financial crisis generally, and specifically into the collapse of two prominent domestic firms, Storm Financial and Opes Prime.

(a) Homegrown collapses

The collapse of these and other firms during the financial crisis caused widespread chaos in Australia's financial markets. Storm Financial had advised many of its clients to take out large margin loans, often pledging their homes as security, in a bid to enhance their returns. As markets plummeted in 2008, many clients were left with huge debts and were unable to satisfy margin calls, causing losses of AUD $3 billion (CAD $3.1 billion).54 In the case of Opes Prime, both sophisticated and retail investors were sold unregulated financial instruments that were unsuitable to their needs. Compounding matters was the fact that several prominent public figures were victims, including a high-profile sporting personality, which generated a disproportionate amount of press coverage.

Also cited by ASIC as a motivating factor behind FOFA was the fiasco involving the 2009 collapse of Trio Capital.55 This involved the loss of roughly $176 million in Australians' superannuation funds due to fraudulent managed-investment schemes, which was the largest superannuation fraud in Australian history. A 2012 Parliamentary Joint Committee report on Trio's collapse essentially placed the blame at ASIC's feet, finding that key checks and balances in the Australian financial and superannuation system failed to identify the existence of fraudulent conduct.56

While advisor mis-selling was a contributory factor in the Australian collapses, many commentators, including then-ASIC chairman Tony D'Aloisio, have argued that even if FOFA had been in place prior to the financial crisis, it would not have prevented the crisis from occurring. D'Aloisio has also made it clear that, if confronted with another Storm Financial situation, he would not have done things any differently: ASIC would not close the company down and it would not warn investors, as it is not within the scope of ASIC's power to do so. In a speech, D'Aloisio noted that:

"The challenge for ASIC is—firstly—to make clear (particularly to retail investors) just what we can and cannot do. For example, you get with the benefit of hindsight calls that ASIC was aware that Storm Financial was in the market and we should have closed it down. This disregards just what powers ASIC has. At the height of the stock market, investors with margin loans were in the ‘black’. How would they have reacted to ASIC (if we had the power, which we do not) seeking to close them out?"\(^{57}\)

Other commentators have stated that "the FOFA reforms will represent only so much window dressing and will certainly not prevent history repeating itself… The problem is that there is nothing in either the FOFA legislation nor the Stronger Super policy to suggest any of this will change or that the Trio collapse will not be repeated."\(^{58}\)

In fact, there is widespread consensus that the underlying cause of the collapse was the sale of unsuitable products, and had existing suitability obligations\(^{59}\) been properly enforced, the collapse could have been avoided. A key finding in the JPC Report itself stated: "It would appear Storm were doing a one-size-fits-all approach to advice… whilst they might have been doing the right thing around disclosure and so on, that is not in line with section 945A of the \textit{Corporations Act} where there has to be a sound basis for the advice."\(^{60}\) Further, a recent Thomson Reuters review pointed to superannuation, a retirement planning mechanism particular to Australia, as a key structural factor behind the country’s problems:

"Recent incidents such as the collapse of Storm Financial and the Astarra/Trio funds have highlighted the risk to superannuation investors, who typically invest for the long term. As such, they are often inclined to take greater risks and any fraudulent activity can take a long time to emerge because of the mandated age limit on redemptions."\(^{61}\)

Clearly, there is skepticism as to whether FOFA is the right response to Australia’s crisis – or whether ASIC should focus on improving its enforcement of existing securities laws or on reforming areas of structural weakness in Australia’s system. We understand the enormous pressure regulators face to deliver wholesale new initiatives after major crises, but as Australia demonstrates, a populist response is not always the best response. We ask that the CSA carefully consider whether emulating Australia’s response, particularly in light of its attendant disruptive effects discussed below, is really in the best interests of Canadians.

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59 \textit{Corporations Act 2001} (Cth), s. 945A(1).


(b) **FOFA's effects**

In terms of the disruption that FOFA is likely to cause, the Dissenting Report from the JPC predicted that 25,000 jobs would be lost, and FOFA would cost $700 million to implement and $350 million annually to maintain.\(^6\) The Dissenting Report found that FOFA would: impose high additional costs on industry participants, resulting in increased costs of advice for consumers; reduce employment levels in the financial services sector; reduce availability and access to affordable high quality advice; and cause a further concentration of advice providers which would lead to an undesirable reduction in competition and choice for consumers. It warned that advice could become a service for the wealthy, with working families and lower- to middle-income Australians who truly need advice being priced out of the marketplace.\(^6\)

Regarding the content of FOFA's best interest duty, the ASIC has included, in the interests of making the standard more workable in the marketplace, a statutory "reasonable steps" safe harbour provision that purports to clarify that the advisor does not need to provide perfect advice and does not need to canvass the whole universe of products. Interestingly, the content of the safe harbour is largely composed of Australia's existing suitability obligations, simply transplanted into FOFA. And while the safe harbour seems to be well intended, it is undermined by the "catch all" requirement in subsection 961B(2)(g) which provides that an advisor must take "any other step that, at the time the advice is provided, would reasonably be regarded as being in the best interests of the client, given the client's relevant circumstances."

This ambiguity is almost certain to lead to disputes and litigation. Consequently, the safe harbour does little to quash uncertainty. Indeed, recent cases on the fiduciary duties of advisors under Australian common law suggest that FOFA's best interest duty will be more open-ended and uncertain than common law jurisprudence. The CSA should note how good faith attempts to accommodate business realities can generate such confusion.

Finally, like the U.K.'s FSA, Australia's ASIC is a regulator of both the securities and insurance sectors. Therefore, the FOFA reforms, whether or not they are Australia's best course of action, will at least be applied equally across sectors. This is a key distinction that puts ASIC on different footing from Canadian securities and insurance regulators.

**iii. United States**

The Consultation Paper notes that the SEC is considering whether to implement a form of statutory fiduciary duty on financial advisors in the United States. However, once again, a review of the facts demonstrates that the context behind the initiative is very different from the Canadian experience.

(a) **A bifurcated retail channel**

In the United States, there are two distinct categories of market intermediaries in the retail investment channel. The first category is broker-dealers, who are licensed to sell securities, are

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\(^{63}\) *Ibid.*
typically paid a commission on each transaction and are not licensed to provide advice. Currently, broker-dealers are subject to the suitability standard: they must have a reasonable basis for believing that the product sold is suitable, based on the facts of the customer’s situation.

The second category is *registered investment advisers* ("RIAs"), who are able to provide investment and product advice and are usually paid a fee for their advisory services. RIAs are subject to a fiduciary duty of care: they are required to act in their client’s best interests at all times. As fiduciaries, RIAs are required to disclose much more to clients relative to broker-dealers, including information about fees and past disciplinary actions.

This bifurcated situation arises from an historical patchwork of regulation, some of which dates back nearly 80 years. Until the 1980s, the dividing line between broker-dealers and RIAs was reasonably easy to discern. However, trends in the financial services market since the early 1990s have blurred that line and the parties’ positions have begun trending towards convergence. Firms are continuously creating and bundling diverse products and services in response to market opportunities and regulatory strictures. There has been a significant rise in the number of brokers who hold themselves out as financial advisors, offer financial planning services, and use two-tiered pricing arrangements and fee-based compensation structures which were previously more common to the RIA industry. ⁶⁴

This blurring of distinctions between the two types of intermediary raises difficult questions regarding the application to broker-dealers of the *Investment Advisers Act of 1940*, as promulgated by the U.S. Congress over seven decades ago.⁶⁵ Accordingly, several times in the last two decades, the SEC has attempted to clarify the boundary between RIAs and broker-dealers, most prominently with a 1999 proposed rule which, by 2005, had evolved into rule 202(a)(11)-1, *Certain Broker- Dealers Deemed Not to Be Investment Advisers*.⁶⁶ This rule, in turn, was challenged and eventually overturned. This is where the matter of harmonizing the standards rested, until the recent and halting efforts made pursuant to the *Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010*⁶⁷ ("Dodd-Frank") to study and possibly implement a uniform fiduciary standard.

It must be noted that this issue of bifurcation and consumer confusion regarding which standard of care applies to them is not relevant in Canada. In our mass-market retail channel (i.e., beyond limited niche categories that are relevant only to high net worth investors), using a principled approach, financial advisors can be deemed fiduciaries if the requisite vulnerability, trust and reliance are in place. We do not have separate categories of advisors that provide consumers with different standards of care from the outset.

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(b) The SEC Study lacks an evidentiary basis

On January 21, 2011, the SEC delivered to Congress its Study on Investment Advisers and Broker-Dealers\textsuperscript{68} prepared pursuant to Section 913 of Dodd-Frank. It was, not surprisingly, the starting point for a wider public debate. Two SEC Commissioners jointly published a statement criticizing the SEC Study’s analytical shortcomings, pointing to in particular a lack of evidence of investor harm caused by the current regulatory regime, and the failure to undertake a reasonable cost-benefit analysis relating to implementation of the proposed standard.\textsuperscript{69}

They noted that a basic premise behind the recommendation to impose a uniform fiduciary duty is a concern that investors are confused about the differences between broker-dealers and RIAs and the duties owed by each – but there is no evidence adduced by the SEC that such confusion causes harm, or that the SEC Study’s own recommendations will resolve or eliminate investor confusion. Rather, the Commissioners argue, they may in fact create new sources of confusion. Further, the SEC Study does not identify whether retail investors are systematically being harmed or disadvantaged under one regulatory regime as compared to the other and, therefore, it lacks a basis to reasonably conclude that harmonization based on expanding the RIA standard to broker-dealers would enhance investor protection.\textsuperscript{70}

It is worth noting the intention of Dodd-Frank was to empower the SEC to draft a new standard of conduct that would account for the distinctions in the business models and the services provided by various financial professionals, rather than simply extending the existing fiduciary responsibilities of RIAs onto broker-dealers. Congressman Barney Frank, one of the namesakes behind Dodd-Frank, explicitly stated so in a letter to the SEC, adding that “if Congress had intended the SEC to simply copy the ’40 Act and apply it to broker-dealers, it would have simply repealed the broker-dealer exemption – an approach Congress considered but rejected.”\textsuperscript{71}

(c) Implications of the SEC’s fiduciary duty

According to commentators, the SEC’s proposed fiduciary duty could end up harming investor protection. Broker-dealers currently adhere to rigorous and strictly-enforced standards of care, and are subject to an elaborate oversight system to ensure that they follow both the spirit and the letter of the suitability standard. Typically, broker-dealer firms are audited by either the SEC or FINRA, the Financial Industry Regulatory Authority, once every two years, and most individual states provide another layer of scrutiny. By comparison, RIAs are regulated by either the SEC or their home state, but not both.\textsuperscript{72} Moving to the RIA standard could reduce accountability and oversight.

Notably, the SEC’s proposed fiduciary duty, through the explicit direction of Dodd-Frank, does not include a ban on embedded compensation, although Dodd-Frank also states that the SEC

\textsuperscript{68} Supra, note 39.
\textsuperscript{70} Ibid.
\textsuperscript{72} Elizabeth Ody, "Whose Investment Advice Can You Trust?" Kiplinger’s (December 2010), online: http://www.kiplinger.com/article/business/T008-C000-S002-whose-investment-advice-can-you-trust.html.
can prohibit or restrict compensation schemes that the SEC deems contrary to the public interest and the protection of investors.\textsuperscript{73} This is yet another example of the confusion caused when a statutory fiduciary duty is meshed with the pretense of preserving business models. As discussed above in Section E(iii), embedded compensation may ultimately be deemed incompatible with fiduciary duty, and it will be a long and costly process before the matter is settled.

Ultimately, \textit{Dodd-Frank} represents a massive political response to a wide set of economic problems in the United States, and advisors are a convenient target that the public can understand. The true causes of the financial crisis, including synthetic CDOs, the robo-stamping of residential mortgages for people with negligible incomes and the failure of ratings agencies to issue proper evaluations, are not issues the voting public can understand \textit{en masse} on a legal/regulatory level. The glacial progress of \textit{Dodd-Frank} reforms demonstrates what happens when a populist approach dominates the regulatory agenda.

\textbf{iv. Canada must chart its own path}

Advocis urges the CSA not to import a statute-based fiduciary duty simply because of trends in foreign jurisdictions, each of which (i) faced unique challenges more severe than anything experienced in Canada; (ii) has its own legal and regulatory traditions to draw on; and (iii) has governments looking for regulatory responses based in part on political expediency.

As laid out above, millions of consumers in the U.K., Australia and the U.S. have suffered due to regulatory failures in the securities markets that have put enormous pressure on the FSA, ASIC and the SEC, respectively, to be seen as responding on a grand scale to their domestic challenges. A statutory fiduciary duty or a ban on embedded compensation may not be the correct solutions for those countries, especially given the enormous disruption these policies will have on consumers' ability to save and invest – but such initiatives are politically saleable.

Canada should not follow down the mistaken path of the U.K., Australia and the U.S. We have not had the massive mis-selling scandals, prominent firm failures or confusing bifurcated channels that plagued those nations. Indeed, in terms of the probity of its financial services, Canada is an international leader. Granted, like retail investors in all countries, some Canadians did suffer as a result of the financial crisis; but in our highest-profile collapse emerging from the crisis, the failure of the asset-backed commercial paper market, only about 2,000 retail investors holding less than 1% of the total value were affected.\textsuperscript{74} This pales in comparison to the massive and systemic problems suffered by consumers elsewhere.

Indeed, if one bases the need for a statutory fiduciary duty on recent regulatory failures and harm to retail investors, then one must conclude that Canada's regulatory environment has been exceptionally effective in averting the problems faced in the U.K, Australia and the U.S. Advocis, like the CSA, believes that scarce regulatory resources should not be spent in the pursuit of merely doing as other regulators have done, in the absence of a real and identified problem existing in Canada.

\textsuperscript{73} \textit{Dodd-Frank, supra} note 67 at para. 913(h)(2).

G. Consumers Would Still Be Exposed

A statutory fiduciary standard would increase costs significantly for advisors, with dubious benefits to the public. It would also harm consumer welfare, as financial advice would be less accessible to lower- and middle-income Canadians. But beyond this, a statutory fiduciary standard would fail to address the most serious gaps in the current regulatory framework. We believe that the following concerns represent a much larger risk to consumers and warrant the attention of the CSA:

i. Fraud and use of the title "financial advisor"

The biggest risk to the public comes from unscrupulous actors who have the intent of defrauding the public from the outset. Consider that in nearly every province, anyone can hold themselves out as a financial advisor, regardless of their training or licensing. The only existing prohibition on making such a representation applies when selling financial products. In our experience, we have consistently found that consumers and politicians alike are surprised to learn that the title of "financial advisor" is not indicative of any credentials.

This dangerous loophole was exploited by fraudsters such as Earl Jones and Bernie Madoff, both of whom represented themselves as financial advisors despite not being registered with securities authorities. These are two extreme examples, but they highlight the significant harm that consumers could suffer when they place their trust in a fraudster who is hiding behind an unregulated title. As such actors are blatantly uninterested in adhering to existing laws, creating a statutory fiduciary duty would do nothing to disrupt them.

ii. Advisor proficiency: the quality of advice

A statutory fiduciary duty would also do nothing to enhance the proficiency of financial advisors: it addresses the duty of the advisor when providing advice, but does not address the quality of that advice. Since the universe of financial products is complex, diverse, and constantly evolving, an advisor's ability to deliver quality advice (which is in the clients' best interests) is directly related to his or her commitment to continuing education (“CE”).

The CSA states that fiduciaries "must ensure that they perform their services with the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances." In our view, this is insufficient – advisors should be up-to-date in best practice methods and be experts on the products in the market. But current MFDA Rules speak only vaguely to CE, stating that it "should be provided". IIROC takes a clearer stance regarding its expectations, but allows for the advisor's knowledge to become stale-dated over nearly three years. We believe that it would be in the best interests of consumers if advisors were explicitly required to complete focused CE each and every year.

75 (2012) 35 OSCB 9561.
76 MFDA Policy No. 2, Part I states that, "[i]introductory training and continuing education should be provided for all registered salespersons."
77 IIROC Dealer-Member Rule 2900, Part III states that, some time between three and five years after the IIROC approval, registered representatives must complete 12 hours of courses dealing with compliance matters and 30 hours of courses dealing with professional development matters, all in three year cycles. There are exceptions for longstanding registrants.
iii. **Hopping between industry sectors**

As discussed above, financial advisors help consumers develop comprehensive financial plans and recommend products to help achieve those plans. Along with securities instruments, these plans also often include insurance products, which are regulated by separate provincial authorities.

If an unscrupulous advisor is found guilty of misconduct while acting in the insurance sector (for example, by mis-selling an insurance product), the relevant insurance regulator is empowered to impose a variety of sanctions, including stripping the advisor's license. The same is true if the advisor is operating in the securities sector, in regards to the advisor's registration. However, a regulator's enforcement powers are generally limited to its respective sector, and there is no mechanism that allows for the quick and coordinated application of regulatory sanctions across sectors.

This sectoral approach leaves consumers exposed. While we appreciate that misconduct in the insurance sector is not within the purview of the CSA, the types of serious misconduct that warrant an advisor's outright expulsion from one sector, such as fraud or gross negligence, speak to that advisor's conduct and ethics and are not sector-specific concerns. For example, under the current fragmented framework, if an advisor is banned from selling segregated funds in the insurance sector, that advisor can simply switch to selling mutual funds. Advocis believes this type of “sector hopping” must be eliminated.

Also currently lacking is an easy mechanism for the public to verify their advisor's registration credentials and disciplinary history. Regulators maintain their own individual websites where the public can verify their advisor's registration, but the information is valid just for that sector. Generally, the public does not understand the product-centred approach to regulation and the need to verify their advisor's status with each type of regulator. In the example above, if the consumer had only reviewed the advisor's standing with the provincial securities regulator, he or she would not have become aware of the serious sanction in the insurance sector.

H. **A Better Solution: Professionalized Advice**

Advocis proposes a solution (the "Proposal") that we believe would address the CSA's most pressing investor protection concerns; it would also address the additional concerns identified in Section G, for which a statutory fiduciary duty would be ineffective. Simply, all persons who hold themselves out to the public as financial advisors, regardless of whether they sell particular financial products, would be required to maintain membership in a recognized professional association.

To be accredited, the professional association would be required to possess the following characteristics:

- a **code of conduct** and ethics requiring, *inter alia*, the prioritization of the client's best interests;
- a requirement that members maintain **errors and omissions insurance**;
- elevated minimum initial **proficiency standards**;
- **continuing education** requirements that address both substantive and professionalism matters;
- **best practices** guidance and information resources for members;
• a complaints and disciplinary process that empowers the association to suspend or
terminate the advisor's membership; and
• a public-facing database whereby clients can conduct a "one-stop" check of their
advisor's credentials and disciplinary history.

i. Benefits for consumers

The Proposal would enhance consumer protection across both the securities and insurance
sectors by raising the professional bar for all financial advisors. In contrast to existing
regulation, which is based on the sales and distribution of financial products, the Proposal
focuses on the relationship between the advisor and the client by emphasizing proficiency,
ethical standards and accountability. The following points highlight some of the key benefits to
consumers:

1. Initial proficiency and continuing education. Consumers would be able to
rely on the fact that, having gained membership in a recognized association, their
advisor had satisfied rigorous proficiency standards regarding the advisor's
training and education. Currently, while initial proficiency standards must be
satisfied before an advisor can sell financial products, there is no proficiency
requirement for fee-only planners who do not sell products. Advisors would also
be required to complete, on a yearly basis, CE credits that address both
professionalism and substantive topics, ensuring that clients benefit from the
most up-to-date knowledge in an evolving market.

2. An enforceable code of conduct. Advisors would adhere to a mandatory code
of professional conduct and ethics which explicitly codifies the advisors' duties to
their clients. These include duties respecting the management of conflicts of
interest, the duty to perform competently, honesty and with integrity and the duty
to respect client confidentiality. The code would be backed up by an accessible
enforcement mechanism for disciplining members for misconduct, with sanctions
that could include expulsion from the association. As membership in an
association would be mandatory for remaining in the industry, advisors would be
inclined to take the code of conduct very seriously.

3. Accountability across sectors. An association’s disciplinary action would have
consequences for a member’s ability to sell financial products as a provincial
licensee or registrant. If a member of the association is expelled, that individual
would be prevented from selling financial products. As well, if any regulator
revoked or imposed conditions on a member’s ability to sell financial products,
that member’s association would take appropriate action to suspend, revoke or
impose conditions on his or her membership. Such measures would further
buttress the actions of the particular regulator by imposing conditions on selling
products or providing advice.

4. One-stop source for public inquiries. Professional associations would be
required to make information about their members conveniently accessible in a
single public database. This would enable the public to easily determine if an
individual is a member of a professional association and review his or her
credentials.
As noted above, a regulatory requirement that advisors must be in good standing with a professional association would prevent unscrupulous individuals from simply moving to a different financial sector and seeking licensing or registration.

The resulting regulatory umbrella created by professional associations would close current gaps in the enforcement and disciplinary reach of regulators, by ensuring that individuals who violate industry requirements in any one sector would not be permitted to continue activity in the industry without proper review.

**ii. Benefits for other stakeholders**

Other stakeholders would also benefit tremendously from the Proposal.

1. **Financial advisors** would benefit from enhanced public trust, status and confidence in advisors as true professionals; access to "best practices" resources that complement and facilitate compliance with regulatory requirements; and a raised professional bar, through improved education and proficiency standards and the ready removal of unethical colleagues who tarnish the industry as a whole.

2. **Governments and regulators** would benefit from the delivery of enhanced consumer protection and the "reining in" of unethical advisors who move from sector to sector; professional support for the policy objective of increasing private financial independence and financial literacy; a reduced regulatory burden through the complementary, proactive work of various professional associations; and the expertise of professional associations which will contribute to the development of policy and implementation of effective regulation.

3. **Product providers and distributors** would benefit from the reliable professionalism of financial advisors representing their firms and products; the prevention of unethical advisors moving from one company to the next; and the development of a stronger platform to support the recruitment of new advisors into the industry through enhanced professional standing.

We have enclosed, as Appendix "A", a document that provides information regarding our Proposal in greater detail. This document is, as of the date of this submission, also available on our website, at http://www.advocis.ca.

**I. Conclusions**

The idea of implementing a statutory fiduciary duty is not a new one: the Consultation Paper notes that the issue has been studied for years, dating back to at least 2004 with the publishing of the Fair Dealing Model by the Ontario Securities Commission. As it has done in the past, we strongly recommend that at the conclusion of this consultation, the CSA should declare that implementing a statutory fiduciary duty is not in the best interests of either consumers or advisors. Therefore, the CSA should not proceed with this initiative.

78 (2012) 35 OSCB 9559.
In this submission, we have demonstrated the severe deleterious effects that a statutory fiduciary duty would inflict on the marketplace: it would increase costs by inviting nuisance litigation and by creating tremendous additional overhead in the form of compliance obligations. It would put the business model that is wilfully chosen by the majority of Canadians, the embedded compensation model, at risk. It would put securities advisors on different footing from their insurance counterparts, and would cause considerable confusion amongst clients who work with dual-licensed advisors to put together a comprehensive financial plan that draws on both industry sectors.

It would also present an incredible, if not impossible, challenge for regulators to codify into statute the elements of a fiduciary duty. This issue is complex and contentious, with disagreement even amongst an expert panel assembled to discuss the topic:

“There appeared to be a lack of consensus on many of the important issues surrounding the possible imposition of a fiduciary duty. For example, the panellists did not agree on what a fiduciary duty encompasses, when it should apply and whether the current regulatory regime for advisers and dealers is functionally equivalent to such a standard, in any event. Regardless, most of the experts agreed that if a fiduciary duty is imposed, it is important to clearly address the expectations around the standard of conduct expected of advisers and dealers in providing advice.”

This daunting challenge is evident throughout the Consultation Paper. We demonstrated how the CSA’s attempt to refine the duty to apply only to retail clients is sensible at a conceptual level, but there are critical logistical challenges when boiling down that concept into text. Similar problems would apply to the various carve-outs that the CSA proposes could be included in a statutory articulation to accommodate various business models. As an example, we pointed to the perversion of holding advisors to a fiduciary standard, the highest standard of care in law, even when they are not permitted to exercise their skill or judgment. These ambiguities would only exacerbate the expectation gap that the CSA is attempting to address, leading to years of costly litigation as parties attempt to understand their rights and obligations under a new framework.

Ultimately, a statutory fiduciary duty would cause many advisors to leave the industry, and those that remain would gravitate to the high net worth segment of the market. Independent advisors in smaller communities would be disproportionately hit, and lower- and middle-income Canadians would struggle to access advice. Given the significant benefits of advice to consumers across the wealth spectrum, this unfortunate result would harm the welfare of millions of consumers and leave them less financially prepared for life’s events. The loss of advice would also demonstrably harm Canadians’ financial literacy, as advisors are the best and primary source of financial information for millions of consumers.

While other jurisdictions may be considering their own statutory fiduciary duty, we have demonstrated why it would be a mistake for Canada to import their initiatives into our domestic sphere. The U.K., Australia and the U.S. each have their own unique systemic problems that are not applicable to Canada. For better or for worse, their regulators have reacted to enormous political pressure, and their solutions will cause significant disruption in their markets.

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79 Megan Harman, "Opinions divided over whether fiduciary standard should apply to Canadian advisors" Investment Executive (March 28, 2010), online: http://www.investmentexecutive.com/-/news-52967.
To follow these jurisdictions down the road of a statutory fiduciary duty would be to suffer their side effects when we do not have their underlying maladies.

All of this is not to say that Canada’s system is perfect. There are serious problems involving fraudulent misrepresentation, forum hopping and the questionable proficiency of certain purported advisors. However, none of these problems would be solved by a statutory fiduciary duty. Instead, we attach our proposal, based on raising the professionalism of all advisors in the industry, as a better solution that would serve consumers, advisors, regulators and product distributors. We believe that our proposal, with its focus on the relationship between the advisor and client, is the best way to achieve our mutual objective of protecting consumers and bolstering confidence in the marketplace.

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Advocis appreciates this opportunity to provide our comments and we look forward to working with the CSA. Should you have any questions, please do not hesitate to contact the undersigned, or contact Ed Skwarek, Vice President, Regulatory and Public Affairs at 416-342-9837 or via email at eskwarek@advocis.ca.

Sincerely,

Greg Pollock, M.Ed., LL.M., C.Dir., CFP  Harley Lockhart, CLU, CH.F.C.
President and CEO  Chair, National Board of Directors
BANNING EMBEDDED COMPENSATION AND IMPOSING A STATUTE-BASED FIDUCIARY DUTY

Our industry is on the edge of radical transformation. Across Canada, financial advisors now face the greatest set of regulatory threats to their profession in living memory. This is not mere rhetoric. It is fact.

We could see a dramatic alteration in how advisors are paid. The time-honoured and trust-based relationship advisors have with their clients could be turned into a regulatory tight-rope. And many Canadians could be left without advice—including those who need it the most.

As advisors we now face an uncertain future

The end of mutual fund fees? That could leave many Canadians without advice and eventually worse off. The Canadian Securities Administrators (CSA) recently issued a discussion paper asking the industry to comment on possible changes to mutual fund compensation. Not only does the CSA see embedded compensation as a problem, there is a strong possibility that it wants to follow the regulatory lead of other jurisdictions and ban commissions in favour of client-advisor fee arrangements. This would be unfortunate. For example, research from the United States shows that the dominance of fee-based platforms and unbundled payment for advice has resulted in higher costs for clients and reduced access to advice for the less affluent.

Can a commission ban work? The latest reports from the United Kingdom are dire.

From the summer of 2011 to the summer of 2012 the U.K. prepared for the banning of commissions under the Retail Distribution Review. Over that period the industry lost about 11.5% of its advisors. Since then, with the ban now in effect, the U.K.’s lost another 13% of its advisors. By any reckoning, these numbers are staggering. One industry observer has stated that as much as 80 per cent of the U.K. population will no longer be able to access advice, including those who desperately need it. By trying to address concerns about possible conflicts of interest that may arise from sales commissions and other forms of embedded compensation, U.K. regulators have caused much more harm than good.

We can’t let the same thing happen here.

Imposing a statutory fiduciary duty? That won’t help most consumers. The CSA also released a controversial consultation paper on the possible introduction of a statutory fiduciary standard of conduct for registered advisors and dealers in Canada. A fiduciary duty means subjecting advisors to the highest standard of care in law. It is the duty to

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1 Kevin White, “FSA RDR attrition stats mean ‘80% cannot access advice,’” FT Advisor, March 27, 2013.
act, first and foremost, in another person’s best interests, without regard to one’s own interests. This is why it is often called the “best interest duty.” As advisors we are already under a fiduciary duty at common law when certain facts are present in the advisor-client relationship, particularly in terms of the knowledge or vulnerability of the client.

So why switch from a common law to a statute-based fiduciary duty? Many people simply assume that such a move will be a good thing for consumers. The truth is otherwise, for doing so will undermine the nature of the advisor-client relationship and create a new set of problems:

- **a dramatic recasting of the client-advisor relationship**: A statutory fiduciary duty would eliminate the flexibility of the common law duty by making all advisor-client relationships fiduciary ones. This puts a much higher legal obligation on advisors by requiring them to adopt a more interventionist role, even where clients wish to retain greater control of their accounts.

- **elimination of embedded compensation**: If advisors are under a statutory fiduciary duty, then they must scrupulously avoid placing themselves in potential or actual conflicts of interest with their clients. Therefore, a full-blown statutory duty could eliminate embedded compensation. Trailing commissions on mutual funds would be banned, since they could easily be characterized as creating a conflict of interest. While studies have consistently shown that the public derives tremendous benefit from financial advice, they are generally unwilling to pay for it directly. Eliminating embedded compensation would result in fewer Canadians receiving advice, leaving consumers worse off.

- **more rules and litigation, with little consumer benefit**: A statutory fiduciary duty would encourage more costly and time-consuming litigation against advisors, particularly for dubious claims that plaintiffs are unable to bring forward under the current framework. It would also increase advisors’ compliance obligations and create uncertainty for all parties as to their rights and duties. Moreover, a statutory fiduciary duty would not solve the most serious consumer protection concerns, including that of unqualified people fraudulently posing as financial advisors.

- **minimal positive impact on consumer protection**: A statutory duty would certainly replicate existing suitability requirements (the Know Your Client and Know Your Product obligations). What additional obligations would be required, other than avoidance of conflicts of interest, is hard to say. But one thing is certain: the cost of advice would rise for all Canadians, as would the cost of errors and omissions insurance for advisors (which would be passed on to consumers). In many cases it is unlikely that a vulnerable client who was ruined by a rogue advisor will be able to finance the costly and lengthy process of litigation, much less recover all of his or her losses. Weeding out rogue advisors before they can cause such harm is the best solution.
Don’t import foreign solutions for problems we don’t have

The CSA repeatedly notes how U.K., U.S. and Australian regulators are considering, or have implemented, similar commission bans and fiduciary duties. Yet those jurisdictions have their own unique structural problems which are not present in Canada, such as widespread mis-selling and high-profile firm collapses wiping out investors’ life savings.

The better way forward: membership in a professional association

Clearly, neither the banning of embedded compensation nor the imposition of a statutory fiduciary duty is in the best interests of consumers and advisors. Instead, Advocis proposes to address consumer protection concerns before any harm is done, by increasing advisor professionalism.

Advocis’ model for advisor professionalism would require anyone holding him- or herself out to the public as a financial advisor to maintain membership in an accredited professional association. Advisors would be required to meet initial and ongoing proficiency standards, satisfy continuing education requirements, adhere to a code of professional and ethical conduct, and maintain appropriate E&O insurance.

Consumers would benefit from knowing that their advisor satisfies the high standards demanded by the accredited association, and be able to easily review and verify their advisor’s credentials and disciplinary history. And by addressing key consumer protection concerns in a united voice, advisors will be able to play a much stronger role in setting their own regulatory framework.

Worried? Learn more by reading our professions model proposal, our fiduciary duty paper and our mutual fund fees paper.