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CONSULTATION ON OPTION OF DISCONTINUING EMBEDDED COMMISSIONS

SUMMARY TRANSCRIPT

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-- WEBINAR COMMENCED

MR HINZE: Hi everyone. I’m John Hinze, Director of Corporate Finance, of the B.C. Securities Commission. Welcome to our fourth consultation on the option of discontinuing embedded commissions. Today’s group is definitely our largest yet. We probably have about 30 people in the room. Probably about another 60 people participating by webinar. So that does present a couple of challenges. I will get into that [in] a little bit. You’re certainly also our most diverse group yet. I mentioned this is our fourth session. Our first three sessions were closed sessions . . . . So today we have sort of a wide open [group] and, of course, it includes both advocates from industry as well as advocates from investor groups, etc. So thank you for participating today.

Several other BCSC team members are here, today, helping, and so I’d like to recognize, in particular, Melody Chen, from Corporate Finance, Ami Iaria from Capital Markets, Robert Frey from Capital Markets, Geordie Hungerford from Corporate Finance, Stacey Reddick from Capital Markets, and Brenda Benham from Communications. And then, in the back, right in the far back, we’ve got Gordon Smith and Christopher Soo, also from Corporate Finance and Capital Markets. So thanks for your help, everyone coordinating this.

So before we start the first topic, I do want to spend a couple of minutes explaining today's objectives. Your input today will help us determine which way to move forward, whether to move forward with the option of discontinuing embedded commissions or whether to pursue alternatives. So, as we noted in the . . . questions, the reason that we're studying this issue is that we have some specific investor protection and market integrity concerns around embedded commissions.

First, we feel that they misalign representatives and investor interests. What I mean by that is, embedded commissions can make advisors essentially prioritize their compensation over investor needs. Second, embedded commissions can also lower investor awareness of, and control over, advisor compensation. And then, thirdly, the fees paid don't necessarily align with the services that investors actually receive. So those are broadly our concerns.

The comment period for 81-408, which is the CSA's paper on this, closed in June. We received over 140 letters, sort of 1800 pages. Thank you for all of that and those comments. I know a number of you in here, today, also participated by sending in written comments. Really appreciate that.

Many perspectives in the written comments, including from dealers, fund manufacturers, investors, advocacy groups, law firms, etc.; so a broad cross-section.

We have begun analyzing those comments, and . . . it’s fair to say there’s two general camps. Many industry commenters would not ban embedded commissions, and many investors and investor advocates would ban embedded commissions. Our analysis of that feedback continues and it will continue through the fall.

This is an important and complex issue and we understand that the outcomes will affect both investors and industry. That is why we’ve supplemented our regular, written consultation process with these in-person sessions as well.

And I mentioned this is our fourth. Last month we met with independent fund managers, with independent dealers, and integrated firms as well. And so today is our last session. Several other jurisdictions have had, or will have, in–person consultation sessions as well.

Unfortunately, we don’t have time, today, to summarize the written comments, so we did send you some. . . questions, and we did pick those questions to help us understand the impact of pursuing the option of discontinuing embedded commissions, but also to better understand or clarify some of the options that some of the commenters had submitted to us.

I do want to be clear about our purpose here today. It is to hear your answers to the circulated questions. We're not here to debate the CSA proposal. And given today's format, particularly, we're not in a position to answer questions from the floor, generally. We will absolutely record all of your comments, including any questions that you have, but our focus, today, is your specific views on today's questions, so that we can better understand the impacts and alternatives, concerns and opportunities that you see.

This is a large group and we do want to give everyone a chance to speak. We would also like to make sure that we spend some time on every topic. To help us do that, please, when you're speaking, try and keep your comments to a maximum of three minutes, so that we can give others an opportunity to participate. Please do your best to stay on topic. Hopefully, we will have some time left at the end, and then, if there are sort of additional feedback or comments, we can certainly circle back to that.

And then, for everyone on the webinar, please submit your feedback using the webinar question function.

We probably mentioned there are about 60 people on the webinar. We won't have time, today, to review all of the webinar feedback, likely, with the entire group, but, of course, we are recording all of that and the personal feedback that we are receiving today.

We will try to also note speakers' names. I should have mentioned that as well. When you do speak, it would really help us if you would start with your name and your firm or . . . your affiliation. That will help us give context to the comments. So we would like to note speakers' names.

And then next week, we will publish the comments from today's session, as well as a summary of the webinar comments on our public website.

MS. CHEN: Thank you, John. So our first topic for today is deferred sales charge or the DSC purchase option, and we have evidence that strongly suggests DSC products harm investors the most. We have heard investor complaints about suitability and restrictions on their ability to redeem or change their investments. Some of the comment letters that we received suggested that we should eliminate only the DSC purchase option as an alternative to banning all embedded commissions.

So, today, we would like to hear your view on this question: Should we ban DSC products as an alternative to banning all embedded commissions. So I invite you to give your comments.

MR. MIDDLETON: Hi, everyone. Rich Middleton, financial advisor, London Life Quadrus, Freedom 55 Financial. I don't think the problem is with the commitment device – deferred sales charge. I think that the problem is that perhaps in the past there may have been instances – . . . few [or] numerous – where financial advisors have not explained to their clients about the three different fund loads. Even through the training program that I went through, very, very detailed, eight years ago, I have to be honest, I don't remember a specific training course that educated advisors on how to communicate the benefits and advantages of the three different fund loads to the client.

The first, obviously, front end load zero, essentially for a client who needs to withdraw the money in the first three years, and I would tell the client that right off the bat. That's the first issue, is that a lot of financial advisors, perhaps, aren't having the discussion.

Low load and deferred sales charge is the top prize for the financial advisor who works for embedded commissions, like me. And I recommend that financial advisors tell their clients that. We have decided on a fund choice for you. If you need the money in the first three years, it has to go in front end load zero. The bad news for me, as the advisor, is I don’t make commission on that, but I will make a trailer that is embedded inside the mutual fund. If it’s a hundred grand, I’ll get $500 divided by 12; over the course of a month, $41.66 per month. Now that, to me, is a great liquidity solution for the client.

But if we can look at the whole financial plan and we can identify, are any of these buckets of money not going to be needed in the first three years or in the first seven years? Because the prize, for me, is if we can identify that you’ve got a bucket of money here that you’re not going to need for three years, I would ask you to consider low load, which is going to pay your financial advisor a 1.25% commission plus bonus from the fund company. It doesn’t come out of the client’s pocket.

This is something also that I think hasn’t been communicated to clients in advisor/client meetings. And I tell clients, the biggest prize for me is finding a client who wants to remain committed for seven years to the deferred sales charge fund load, because it pays the biggest commission to the financial advisor; 2.5% plus bonus from the fund company.

And I tell my clients, of all these buckets of money, if you can commit to seven years on a deferred sales charge, there are giant buckets of commission waiting at head office (gathered in dust, covered in moths, bats flying around, unclaimed money) and it is for the client to identify whether or not a deferred sales charge is a good option for them. And I'll tell them that that is the main prize for the financial advisor.

That's the discussion that has to be had, and, in my opinion, that is a discussion that has not been taking place, perhaps. It's a problem with marketing the message. Advisors are scared to discuss commissions and compensations with their clients, and I don't think there's ever been a time where we've needed to justify the advice we give [more than at this] moment. I'm a big proponent of the DSC. I think it's a great solution, if it's explained effectively.

MR. HINZE: Thank you. And I think we had, over here?

MR. METCALFE: I'm Frederick Metcalfe. I'm a private investor. I represent myself. I think it would be wrong to just get rid of the deferred sales charges and call it a day, because they mean nothing to me, because I don't buy any using that methodology, so, therefore, what I'm concerned about is the trailing commission. So I would say, get rid of all of the commissions. I don't want you to get rid of this one and not deal with the trailing commission.

MR. GARDINER: My name's Chris Gardiner. I'm a financial advisor at Freedom 55, along with Richie. And I come from a different background, country-wise. I think the price of being an investor in Canada is quite high, and one of the reasons that that price is high is because it supports the DSC environment. . . . The money has to come from somewhere. It only comes from clients. . . . I do believe in client choice and disclosure, . . . but I do believe that remuneration for advisors should be linked to the success or failure of the client, and I don't think an upfront commission links you, as an advisor, to the success or the failure of the client.

The trailing commission versus a fee, I like to run portfolios on a fee percentage-wise, which links my remuneration directly with the success or failure, I think is a much better way to do it. And I don't think any prospectus from a fund manager says that they must pay trail or DSC. So I like to take control of my destiny in terms of my own business' remuneration.

So I think it's, . . . a thing that increases the cost of investment here, which is internationally too high, and I think we should look for other ways. But whether you do it through a portfolio fee annually, or an embedded trail, is a moot point. I can put somebody with $25 a month onto either an embedded or an unembedded fund right now. So the question isn't, is a segment of society not gonna be served, it's just whether a particular advisor wants to deal with that person at that level of portfolio or not. And so that's my thought.

MR. BAUML: Hi, I'm Rob Bauml, from Vernon. I'm a financial advisor. And the first comment I have is I'm a little concerned about the actual question or comment that you made. . . . I would say, it's very accurate if you have investor complaints that they occasionally pay the DSC fee. But if Fund A is suitable for an investor, whether I provide that to them in Advisor Series, DSC, F-Class, or any other way, the fund is suitable. So it's a bit misleading.

It's also misleading to say that there are restrictions. You can sell your DSC funds any time you want. You just might have to pay a fee. As long as that's disclosed upfront, it's easy.

And then also changing investments, I don't know about the rest of the advisors in here, but I manage my DSC investments, the few that I have, and it is a rare, rare occurrence that one of my clients ever sees a DSC fee. If you're good at what you do, you'll move from a balanced fund to an equity fund within the same company. DSC fees rarely come up.

So I think . . . the question that you've asked, "Should we ban DSC," I would say, from my perspective, if that's the option I have, then ban DSC, but do not ban embedded compensation. And the reason for it is that when I talk to my clients, and I'll probably answer other questions, so I'll say this now, is that I've spoken to all of my clients very seriously about this, because this is something that I believe is on our horizon, and I don't want my clients sideswiped by it. So I said to them, "These are your options. What would you choose?" And since May, I've asked every single client that I've met with, and every one of them has said, "I do not want to pay a fee. I don't want to write you a cheque. If I have to do that," one of them said, "it's going to feel yucky. I won't want to come and see you anymore."

So my clients like the way it is, overwhelmingly. Not a single one has chosen the other option. And I've been very sincere and very straightforward in how I explained it to people.

So if the option is get rid of DSC and keep embedded comp., for those clients in my block who fit that mold, they want to keep it.

MS. KANE: Martha Kane, from Capital Direct. I'm not particularly an advocate of DSC, but I am less an advocate of a client having to pay upfront. I think that’s where we were many, many years ago, when we had front end funds that charged, and now everyone, for large part, actually go front end zero and why, because they don’t want people taking dollars out of principal, so that you . . . have to make that up before you start gaining. Therefore, I would be an advocate of trailers.

MR. CLARK: My name is John Clark. I’m with Pacific Spirit Investment Management. We manage money for high net worth client individuals.

I don’t believe that the question is an either or an or. I believe that you have to assess each of them on their own merits. Should DSC be banned? Should embedded commissions be banned?

I’ll talk, first, to the DSC product. We would never invest in a DSC product. In our office, we call them handcuffs. They lock the client into a mutual fund family, and we don’t think that that’s an appropriate thing to do. Thank you.

MR. HAMMER: Steve Hammer, from Salmon Arm. I’m a financial advisor with Salmon Arm Financial. . . . Should DSCs be banned? I guess short answer, no. The biggest reason is, . . . it needs to be disclosed. The handcuffing might be . . . a valid argument, but the thing about it is, we need to leave all the options on the table for a client/advisor relationship. If we start taking options away from a client, who has that authority and who has that right to mandate how clients interact with an advisor.

I do believe that full disclosure is needed, and that has come with CRM2. And in our office we do not use DSC at all, either, but I believe it’s a valid option for small investors out in the marketplace and new advisors getting into the business. And I believe that it is a valid option, it has to be disclosed, it has to be upfront, signed off on, but I believe client choice must maintain in a free enterprise world.

MS. CARPENTER: Hi, my name is Leslie Carpenter, and I’m the President of Advocis, which is a financial advisory association in Vancouver.

I’m not a fan of banning anything, whether it be books or DSC or embedded commissions. I’m a fan of choice and disclosure. If you do not want to pay trailers, there’s a thing called F-Class. If you want to have DSCs and it’s fully disclosed, you can have DSC. If you want to have a low load, and only be in for a short period of time, you can do that. The choice is out there right now. And as long as everybody discloses and tells them what is available and what their options are, a lot of . . . investors have been told exactly what they're getting, but they forget.

As long as it's told to them and they have the choice of how they want to invest, who they want to invest with, and how they invest; [who] the investment advisor wants to deal with . . . and who they want to run a practice with, it's fine. As long as it's disclosed, I'm in favour of choice. It can all work in the system we have.

MR. BLANES: My name is Alan Blanes. I'm from Coquitlam. I've been researching financial fraud on the elderly for about the last decade.

I would like to follow up with the president of Advocis on the issue of confirming that there has been disclosure. I don't think that that's necessarily very frequent. I think that IIROC Rule 2500 is treated like a mirage and there's no real willingness to enforce any action against the people who have perpetrated deceptive practices against clients, and if the record shows that the IIROC 2500 verification process is never done, it doesn't seem to make any difference.

So I would suggest we have to start looking at making it absolutely required that the *Criminal Code* rules against fraud (351 to 353 and 380 of the *Criminal Code)* be understood by every person who is selling securities and every person who is taking complaints. You also have to make sure there's a really good knowledge of contract law, because if those two things are not present, you get a really quicksand situation.

MS. PASSMORE: Marian Passmore, FAIR Canada, the Canadian Foundation for Advancement of Investor Rights. FAIR Canada's position is that if you eliminate deferred sales charges but you don't also eliminate embedded commissions, you'll get rid of some of the worst side effects that are out there, but you won't get rid of the actual illness. So, in other words, problems that have been set out in the consultation paper to do with investor harms and market efficiency will not be addressed if you solely get rid of DSC. So you need to do both.

Canadians, if you only get rid of DSCs, will not have access to proficient objective advice that isn't influenced by the incentives that are present under the current embedded compensation structures. What we need is to have advice separately paid for directly rather than embedded in a product so that consumers who purchase advice and purchase a product can assess the quality and value of each of those things.

Right now, mass market investors do not have a choice. Unless they have sufficient assets, they are only being offered embedded commissions by huge numbers of firms rather than this alleged choice between fee-based and embedded commissions. And most people do not know what all their options are. They're approached, mutual funds are sold, not bought, and so this idea of choice is illusory.

MR. PARNELL: Nick Parnell, CFP with Freedom 55 Financial. I'm also the VP of Advocis Vancouver here. To talk about those points, I do believe clients actually have choice. If you have embedded commissions and you can sell any type of company, you know, I was hoping to answer this later, but as far as I have last checked, I actually would receive the same embedded trailing fee from any company that I choose to use. And I can also use F-Series and, you know, from dollar zero as well. So I have a lot of options out there.

I think what the biggest problem here is, with this discussion, and even including embedded commissions is, yes, choice. Clients need choice, first of all. But, second, is why are we addressing fees and how that works, when the main concern is transparency and who's giving advice and the value of advice. Should we not look at raising our standards and creating a professional association, because that's what we're trying to do. And I think if you raise the bar and who is involved in the industry, everyone's going to be out there looking after their client's best interests.

And I don't know about everybody else, but I'm 31, I've been doing this since I was 23. I'm looking to do this until whenever, at least 60, if not longer. Each and every client I bring on now I want to have later. They're important to me, and I'm looking after them.

So I don't believe that just getting rid of DSC products or embedded commissions is better for a client or not. What's better for a client is how they choose to pay somebody. What's better for a client is who's giving them the advice and how they're qualified, which is, really, probably the main issue here. And I think that we should really start there.

So taking away choice, taking away the ways people can pay people, taking away what options are on the table is kind of a backwards way of looking at things, I feel. So I think that's really where we need to start on it. And, you know, just saying, Hey, mutual funds is a product that's sold, not purchased, is completely incorrect. Whether it's mutual funds or securities, or any type of investment, it should align with the client's goals and values. And that's where an advisor needs to start. And if that's done properly and it's explained to the client and it's disclosed, then it is not an issue. And so to have a broad sweeping statement like that is completely unacceptable, first of all, but also, if we raise the standard of who's in the profession, it's not going to be an issue anyway.

So I think that's my comments and that's where I'd like to leave that.

MR. HAMMER: Steve Hammer, again, from Salmon Arm. Just one last comment, and it's sort of an answer, a little bit, to Marian Passmore's sort of look on the deferred sales and embedded commissions, et cetera.

Every person can go online and buy the mutual funds or the whatever product that every advisor in here sells, if they so choose. Go online, search it out, and purchase it. But that's not what they're looking for. They're looking for advice. They're looking for help in choosing that. That has to be paid for in some way.

We look at billing clients, we look at F-Class, we look at advisor series, we give the clients a choice. In 99.99, and I can say 100 percent in our office, has been, "We like it the way it is. We do not want to write you a cheque. We don't want you to send us a bill."

So I think the choice is out there, and if clients truly want to go buy it online and not have advice, it's available.

MR. HINZE: I think, unfortunately, our time is up for this specific question. So if we do have time at the end, we'll come back for those of you who didn't have a chance already.

So we'll move onto the next question.

MS. Iaria: Thanks, John. So we're going to move to discussing trailers from DSC. Some of the comment letters we received on 81-408 suggested that capping or standardizing trailing commissions might sufficiently address the conflicts that are created by embedded compensation.

In your opinion, would capping or standardizing trailing commissions address the key issues identified in the consultation paper?

MR. METCALFE: Hi, Frederick Metcalfe again. The simple answer is, no. Capping does nothing to deal with the three issues that were raised as the key issues. And I guess simply capping it just doesn't address anything. I will comment that setting any fee – anything that standardizes an improper action is really improper to sell. So, no, that's not a solution.

MS. BURGESS: Sian Burgess, from Fidelity. I would argue that capping or standardizing commissions would help with the conflict of interest, but wouldn't be the sole answer. I think it helps because we saw, obviously, in the Professor Cummings Report, that fund managers who paid more than one percent, got higher flows, regardless of performance. So we know that a standard of one percent would at least take that off the table. Payment would be the same for everybody and then you could think about performance.

But there's more to it than that. There's still other conflicts of interest, like what happens to that one percent on the grid of the dealer. So if you have dealers who sell proprietary funds who pay more of that one percent to sell a proprietary fund, that's a problem. And that's a conflict that's already addressed in 81-105 and probably that should be enforced, and I think that would help a fair bit.

And then there's also the issue of giving investor choice. And then, lastly, let's not forget that besides mutual funds, there are lots of other competing products, now, being sold that are similar to mutual funds and are paying much more than one percent. So I fear that when you standardize or cap the commission, as we've already seen, a lot of assets are going over to those UMAs [Unified managed accounts] / SMAs [Separately managed accounts] where, you know, they're paying 1.5 percent, 1.7 percent.

MS. PASSMORE: Marian Passmore, FAIR Canada. As was pointed out in the roundtable that was held in Ontario, capping commissions would deal with the advisor incentive to favour one product possibly over another, would not deal with the other conflicts that exist. So it won't deal with the problems that – the three issues that have been identified in the consultation paper. It won't promote market efficiency, and would likely lead to higher prices rather than promoting price competition.

It would also not address the fact that there would still be incentives to have someone in a trailing commission fund rather than look objectively and decide that maybe a different type of investment product that doesn't have an embedded commission might be better for the client.

And so what we want is advice provided to the client that's in their best interest, and that would mean objectively looking at what is the best type of product to put the client in, as well as providing unbiased advice. And so capping commissions would do nothing to address that.

MR. ROTSTEIN: Stephen Rotstein, from the Financial Planning Standards Council. I will probably have words to say on some of the other topics, so I just want to specifically talk about the capping part.

So one of the problems that were identified that needed to be addressed was the misaligning of services with the fees tag. And I guess I just don't see how capping at a certain amount is going to address that issue. You basically will get paid something whether you are delivering services. As an organization, we promote professional financial planning, and we fundamentally believe that, you know, people should be getting certain services. And by just capping it and not relating to what services they're getting is not addressing that one fundamental issue.

There are others, but that's the key issue that has been identified that needs to be addressed. Thanks.

MS. MORRIS: Thank you. Wanda Morris. I'm the Vice-President of Advocacy for CARP, the Canadian Association of Retired Persons. Capping, as with eliminating the deferred sales charge, we're trying to reform something that is fundamentally harmful, and reforms are simply not sufficient. Even with a cap on a mutual fund, you will still have individuals being guided to mutual funds when other investments perhaps would be in their better interests, and I think we only have to look at the penetration of ETFs in Canada, compared to the US and globally. It's certainly not the best investment for every Canadian, but the fact that, comparatively, so few Canadians are invested in this lowest cost of investment I think is telling.

I will just add a few general comments. There is a fundamental information imbalance. We've talked about choice, and certainly it is absolutely true, people have said that advisors have options, but clients aren't always aware of the options that they have, and their advisors, who they depend on to share that information don't always do so.

There is rampant and significant financial illiteracy. Many, many individuals can't even comprehend the time value of money or compound interest, let alone being able to understand and distill in making informed choices about their investment.

And I would like to say that I believe in those individuals here and support you for the work that you do in helping your clients, and most of the financial advisors I have met are incredibly committed to their clients and to building their portfolios over time. Nevertheless, when we polled our clients– our members about their belief in embedded commissions, 79 percent of all our members support a complete ban on embedded commissions.

We heard a number of people say that their clients don’t support that. When we polled our members independently, 79 percent did support it.

MR. PARNELL: First off, on the topic of capping and standardizing trailer submissions, I mean, I have the option, as a CFP, to charge my clients hourly, I can use F-series funds, which separate the embedded commission, or I can use just a standard fund that has trailing fees. And I can use that across all funds. So, for me, I don’t see how this changes an issue. And I’d like to get back to the gentleman from FPSC. I completely agree, it’s just about evaluating the client’s needs and using what tool is right. Getting rid of this platform may eliminate options. It also may eliminate a lot of the people that definitely need the advice from receiving that advice.

I don’t know about everybody else in the room, I think I’m probably one of the younger people here. When I started, and even now, I have lots of clients that are in university, starting their first jobs, you know, maybe they’re putting a hundred bucks away a month, maybe less than that, and they just want to get started and build a habit and learn how to create something. And, you know, I don’t get paid on that. I do a lot of my business front-end load. I’m making like, what, two bucks a year off that. But in the long-term for them, it makes a big difference.

And to speak to the lady from CARP, like I agree, like there needs to be more disclosure on what happens. But also, I think, really, what people need to understand is, what does embedding trailing commissions mean? Do they still understand they're paying for something but it's going to be done differently? I think in a lot of cases they don't really understand how that's going to work, and how that would affect the people that are going to be able to give them advice.

And really this comes back to my original point, like if we change the standards of entry and create a professional association, which already exists, but right now is a voluntary association that 12,000 people across the country are members of, and we have a code of ethics. As a CFP with FPSC we have a code of ethics and a fiduciary duty to follow as well.

If we change that, then advisors are the right people and they are giving the right advice to their clients, and if they have options, then the client can't choose those options because they haven't been presented. If they don't have those options, it doesn't solve who's giving the advice. It doesn't make the advice better. I could charge somebody whatever fee I want if there's no embedded trailing commission. It doesn't make my advice good or not.

So we need to raise those standards. And that's really, I think, the main issue here. Like fees are moot. I can charge whatever and however I want. It doesn't matter.

MR. BLANES: I'd like to ask the last speaker from the Advocis, if you could describe how you objectively determine the client's needs. And I would really like to also know, of the whole question of suitability, who defines suitability and how do we create an objective definition?

MR. PARNELL: A little off topic, so I apologize. We could take this off-shelf later. Short answer, my regulators define suitability, but, also, it's up to me to work with the client to understand what their suitability is, based on time horizon, their expectations for returns, things like that, to put them in the right vehicle. And if you're not doing that for your client, you're doing them a disservice. So you need to be able to do that for sure.

MR. HINZE: Yes, thank you for just keeping that short. I'll just remind everyone, please stay on topic as best you can. I appreciate that. Please go ahead.

MR. JOANES: Neville Joanes, WealthBar. I don't think that's bad advising or capping fees solves the issue and it creates more problems. It doesn't address the issue. The discussions about fees and proper advice should be that between the client and the advisor, and that should be separate from a fund company charging a fee and dictating what that value of advice that the client receives.

MR. HINZE: Secondly, if I can also just remind everyone, even if you're speaking again, the people on the webinar can't see you, so please repeat your name and affiliation every time you speak.

MS. KANE: Martha Kane, Capital Direct. So, again, I'm not that much of an advocate of capping it, but I do think it's something to be considered. I do know that there are concerns that people will gravitate to the highest level but, you know, we're fooling ourselves, we don't think that's going to happen in a Fee-Based environment. In fact, Fee-Based environment is, in large part, an ability to negotiate a fee, but the only person that knows they're negotiating is the advisor, and the advisor negotiates all day long. And if the investor negotiates once and probably doesn't do a good job at it, again, because they don't know negotiating, and they're going to end up with a higher fee, and it is all going to be regardless of asset class at times going to be the same fee, which would be the same effect as, you know, the funds that are at a lower trailer fee right now gravitating to the cap.

Perhaps there could be standard pricing, let's say I’m going to make the top one percent, and where you are going to charge more than one percent be that in Fee-Based or in trailers that you have to justify that.

I think that some of the comments that are being made today are applicable to pre-CRM2 and not appreciative of the length of positive movements that regulators have ensured that the industry has made.

MR. MIDDLETON: Richie Middleton, Freedom 55 Financial. Just regarding the point of would capping or standardizing trailing commissions address key issues identified in the consultation paper. Our firm already has a cap on trailers on F-Series, I believe it’s 1.25. Kind of a moot point, certainly in our office. We’re already capped. We can’t go any higher. That was my point.

MR. BAUML: Thanks. Rob Bauml, from Vernon. The whole thought of the conflict of interest, I don’t really get it. I’m not gonna lie, when I do my work for my clients, I am tied to their success. And if you think about it, with a trailing commission in 2008, when most people’s clients went down 20 or 30 percent, guess whose income dropped by 20 or 30 percent that year? I felt the pain more than they did, because my investment account went down as well.

So there is a connection between them being successful and me being successful. I also work in a small town, and not everybody's from Vancouver, but if I don't treat my clients right, my business will eventually close and suffer. So I have to treat my clients right or else I just won't last.

But the conflict of interest thing bothers me because I don't get it, that these higher trailer paying funds – so I phoned up 11 mutual fund companies that I've worked with in the past, and out of those 11 mutual fund companies, I asked them, "What is your total assets under admin for Canadian investors to invest in?" They gave me the numbers.

And then I asked them, "Do you sell any funds that pay a trailer greater than one percent?" Out of the 11 companies, only one did. I asked how many assets under admin were there. The alarming total is that .33 percent of the funds that Canadian investors have access to, for those 11 companies anyway, .33 percent of the money that is invested in funds that pay a trailer greater than 1.25 percent. And I'm pretty sure that if you expanded that to all the other independent fund companies, that you would find that that number probably wouldn't change a lot. Now, this isn't an empirical study; I just made a phone call and asked for numbers.

But it's pretty obvious to me, if 10 out of 11 aren’t even offering the option, that the industry’s already done this, and that I don’t see where the conflict of interest really comes, unless some of my competitors, I don’t know if they’ve – maybe the banks, maybe they’re selling higher trailer funds. I don’t deal with them much. But the bottom line is, I don’t see where it’s coming from. I think that most advisors, if they want their practice to be successful, they have to keep their clients’ interests at heart, and they do a good job of it, and the industry has already gotten in line and said, This is the way it works.

MR. GARDINER: Chris Gardiner, Freedom 55, as an advisor.

There are conflicts, and I agree with the gentleman before that says, you know, that trailers are controlled by the fund managers, which is not the best way for an advisor to build a business. But the difference between a fixed income portfolio and a balanced equity portfolio is half or twice, whichever way you look at it, and so there are always issues. I guess there are issues when you’re not focused 100 percent on the client as whether they’re going into a more fixed income stage of their life, and there’s no way, you know, when you do a fee for service you can calculate a fee that is appropriate for the asset class and for the engagement that you have, which is really what we're talking about, and what is – how does the client value the service and that you regularly talk about that with the client.

So it's not always front of mind when there are embedded trail funds being used. I certainly try and bring that front of mind, because my value to the client, whether I'm being paid through an embedded commission or a fee on an F-Class is exactly the same in terms of my longevity to my business.

But there are conflicts there, you know. It's whether you want to put a band aid over some of the conflicts that are currently out there. Like I can DSC a proprietary fund but I can't DSC a third party fund. I see that as a huge conflict which won't let me touch a DSC with a barge pole, because I don't want . . . to have to answer that question to my client, not that I would want to do that anyway. I'm trying to build a business with a recurring income.

If I use a DSC I can -- 10 percent free for the first 10 years and get the majority onto a one percent trailer instead of a .5 percent trailer. There are some funds out there that pay 1.15 instead of one in the equity space. I understand there are funds that pay three or four. Why don't we do more about one of the off market or whatever offers that have been – someone's rung me up and said I can earn five percent, you know, for a different product. Well, goodness gracious, so I guess you have to decide whether you're going to try and put a band aid over some conflicts that are around at the moment that could be sold, you know, pretty quickly, or throw everything out and start again, which is, from . . . a lobbyist that you have against change and, what have you, can be a big trade.

MS. STEEN: My name is Cathy Steen. I'm an Investment Advisor with HollisWealth. I just, on the topic of standardizing, I don't think it hurts the industry, but I'm not sure that it's really achieving much . . . what it does is it helps disclosure, I suppose. I think, really, the benefit for all of us, investors and advisors, is increased disclosure, and I think somebody said it earlier, we've already moved down that road. We're not finished, we're continuing, it's an ongoing process, and I really do believe that it's a tiny, tiny [majority] of, you know, mishaps in our industry relative to the relationship and the growth and the wealth-building and the benefits to society that our industry works together with people to create.

So, yeah, I don't think capping helps, also, because then it changes how you look between embedded and fee base, because are you going to just start capping fee base as well?

So from a disclosure point of view, definitely that clarifies things for embedded products, but difficult to compare it to other products then.

MR. MIDDLETON: On the subject of conflicts created by embedded commissions, is it not the case, in the mutual fund industry here in Canada, that if a client walks into a branch of the RBC there would be an expectation that they would be walking out the door with some kind of RBC mutual funds product? Is it not the case that if they walked into a branch of Scotiabank, they'd end up with a Scotiabank fund? Credit union, they've got Credential.

Coming to a branch of London Life Freedom 55, would it not be fair to think that a financial advisor would position their expertise as their own proprietary fund, a book of funds where we meet the fund managers, attend the analyst meetings. You know, if someone goes into a Porsche dealership, is it not assumed that they're looking to buy a Porsche, visa-versa, would they have an expectation that that car salesman would show them a Ford Escape going into a Porsche dealership?

Conflict of interest? I don't know. I don't think so. . . . That's my point.

MR. HINZE: I wonder, then, if we might actually have time, Robert, I'm not sure if there are a couple of pieces of feedback from the webinar you could highlight for us?

MR. FREY: Sure. So the first one is from Brad Brain. He states that

> capping trailing commissions would not address the Issues raised because rogues will still find a work-around. Meanwhile, you are hobbling the majority of advisors who are good, honest and ethical.

The next comment is from Robert White. He states:

> With the exception of a few funds, all trailers are the same for each asset class. If there is a higher trailer, it is usually offered by a housed product such as Credit Unions.

Janet Fish states,

> All of this "boils down to conflicts [of interest]" created. I am not sure where that came from. Yes, I am sure there are greedy advisors. I would argue the largest number of independent advisors are in the business to help people.

And Brad Brain again:

There is no limit on fee for service charges. What is stopping someone from going F-class then tacking on an egregious fee? Mutual fund trailers are public knowledge. Individual fee for service charges are not. I know one advocate who states the benefits of fee for service but then charges more than A-class. How is that in the client's best interest?

MR. HINZE: Okay, we'll move on.

MR. HUNGERFORD: So our next topic is about tying the level of compensation to the level of advice. In the 81-408 paper, CSA indicated that we were concerned that the level of advice that investors received may not correlate with the embedded fees that they pay. And we were also concerned that investors may not be clear about what services they are paying for.

So our first question is: What regulatory changes would better align services delivered with fees paid?

MR. PARNELL: To me, this is really an easy question to answer. In industries where you have a professional association that's self-regulatory.

MR. HINZE: Sorry to interrupt, but if I could just have you repeat your name as well?

MR. PARNELL: Sorry, Nick Parnell, Freedom 55 Financial, and Advocis Vancouver here.

In any profession where you have some sort of professional code of ethics or standards, much like you would as a lawyer or a doctor or an engineer or a teacher or any self-regulatory body, you need the proper qualification and the bar is set high enough that anybody working in industry should damn well have their clients, or whoever's, best interest in mind. And if they're not, they're going to get eaten alive.

So if people are going through the proper training, people are going through the proper education, and they have their client's best interest in mind, such as having a professional association or programs like the CFP, through FPSC, like I took, they're going to have that value that is tied to that advice to give. Without that, there is no way. You know, it can vary greatly. And, you know, people are different. They're going to approach things differently. But if you increase education and transparency and qualification, that narrows greatly.

And if people aren't following that, they are going to feel the brunt of it and they're not going to be in the industry anymore, because the people that are following the rules are going to be much angrier and they're going to be much more vocal. And there's a platform which they can use. Right now, there isn’t, you know. I could have an issue with the [MDFA], get my wrist slapped, go to sell securities, get my wrist slapped, go get my insurance licence, get my wrist slapped. That’s not advice. It’s wrong. There’s no way to monitor it.

If you have one centralized platform, a professional association, you can look that up. You can see that advisor, who they work with, what they did, what happened. Or if there’s no complaints, great. And I don’t understand, for the life of me, why this is so hard, in Canada, to make happen. It solves literally all these issues. I don’t understand why it does not, but that’s my two cents.

MR. GARDINER: Chris Gardiner, Freedom 55. I mean, I’ve seen this issue try to be solved a couple of ways, and . . . one that comes back to how you hold yourself out in terms of what the services are that you actually provide to the client. And the differential registration system, where you’re either a sales person or an advisor is an interesting one to consider. The thing I’ve noticed here is that we don’t, in Canada, regulate advice, we only regulate the sales process, which is a little crazy, in my mind. . . . I can fill out a form and have my compliance team tell me it’s wrong, but nobody’s critiquing . . . the quality of my advice for the circumstances and objectives of the client that I have engaged with.

So, you know, some of it, the industry, well, it doesn't matter if we're talking lawyers, solicitors, what have you, and there's things that go wrong in every industry, but . . . you know, my clients believe me, when I recommend something to them. Very seldom is it that I'm seeking just for an investment product decision or an advice decision, if I've brought them along the journey in the correct fashion, or with not enough about what the issue was that they didn't agree and on we go.

But very seldom does a client ever have a comment on a fund manager or fund that I have chosen for them, because I have shown them how a selection of funds together will target a return that's appropriate for their risk and timelines and all that thing.

So, you know, . . . there are regimes that have annual sign-off by a client that's been occasionally looked at by compliance and audit teams that says, you are, you know, you can prove that you're doing a good job and a timely job for your client. So there's a lot of ways to . . . observe that an advisor is doing a good job without compliance on fees . . . but they should, in every case, be doing a good job for their clients.

MR. ROTSTEIN: Stephen Rotstein, from the Financial Planning Standards Council.

It’s a great question that you’re asking, and one as an organization we’ve spent a lot of time on because, you know, just dealing with . . . the fees don’t really address the qualifications or proficiencies of those who are providing the services. So it’s a great question to ask, what needs to get done.

We’ve heard from a couple of speakers that there may be different ways to do this, but there needs to be something to deal with the titles and the proficiencies of the people who provide the services to the client. Right now, with the exception of like one or two restricted titles, there are no restricted titles in financial services, in financial planning, which is the one, as an organization, we feel very strongly about. Anybody can call themselves a financial planner, in Canada, with the exception of the Province of Quebec.

But clients don’t really understand that. And so, when it comes to that relationship with somebody providing advice, they’ve got to be able to distinguish . . . who the person that they’re sitting across from, what skills and competencies that they have. And by restricting titles and by making sure that people use the title if they have the requisite qualifications to back up that title is one of the steps the regulators can take in order to make sure that the clients know that they're getting what they think that they're getting when they're paying a fee for advice. Thanks.

MS. KANE: Martha Kane, Capital Direct. I'd like to actually comment on the preamble to this question versus the question itself. It says, "We are concerned that a level of advice," and I'll stop there. I'm not sure why it says "a level of advice" as opposed to "a level of services". This has been a core issue and problem with the conversation that we've been having over the years, that advice is only part of what the investor is paying for. There is a whole infrastructure of a dealer that has to be paid for to keep the lights on, the technology, and so forth, and that goes for discount brokers as well.

I'm very concerned that discount brokers are going to end up being the sacrificial lamb in this whole thing and that they're going to be forced to strip out the trailers, and then what? What are they going to survive on? What options are they going to have, as investors? Are they going to be starting to pull products off the shelf because discount brokers aren't being adequately paid? But I'll put that comment aside for now, but please take that into account, that it is level of services that should be taken into account and not just advice.

And then, anybody that is asking for elimination of trailers, I think we have to really, really contemplate what that environment looks like. Are we really going to be better off in a pure fee-based environment? What is the pricing going to be, then? What is FAIR going to be commenting there? I mean, the world over there is not going to be alot better than the world over here, so let's be careful. . . .

MR. HAMMER: Steve Hammer, Salmon Arm Financial. And I guess if we were to ask any one of our clients, as a fair comparison, when we ask our clients sitting in front of us how they want to pay us, if I said, "Do you want to pay us or don't you want to pay us?" I think they'd probably say, "Well, yeah, we would like you to work for free." So I think the question where 79 percent of the retired people said they would like to see trailers discontinued, I think there should have been another part to that question, was, "Can you pay for it in another way?"

So I think that these services, I agree, it shouldn't be just tied to advice, it is services. And I think the possible solution, and I don't want to do more paperwork, but if we have a recommendation of X and here's the four different ways that you can pay for the services we're going to provide, and it's DSC, front end load, F-Class with a fee, whether it's charged outside or whether it's embedded. And that's another thing, if the F-Class can also be considered embedded, because sometimes it's paid from the dealership, other times it is billed directly - or hourly, and you have all those choices out there, the client signs off on the choice.

And then, underneath that, is the services that are going to be provided for that, and the dealer/broker/agent/CFP/CLU signs off on that, the client signs off. Now you know what you're paying, you know the services you expect, and you review that on an annual basis. That is a possible solution, not that I want any more paper, but I don't believe taking away something that has been proven – why try and fix something that isn't broken?

MS. PASSMORE: Marian Passmore, FAIR Canada. I think the best way to align services and advice with the fees that are paid and increase awareness of fees and services is to have direct pay arrangement and not permit fees to be buried in the product.

We have CRM2, which does provide, on an annual basis, what trailing commissions are. On that statement, if the firm is not an integrated firm. If the firm is an integrated firm, then it's not necessarily disclosed separately.

So we have limitations in CRM2, and we know that clients are much more aware of fees they pay directly than those they pay indirectly. So to improve and allow clients to have some control over what they pay and to understand what they pay, if there was direct pay arrangements, obviously that would improve it. And to have better awareness of what they're getting is somewhat challenging, because clients do not always understand, at the time it's provided, what the quality of that advice is.

And so, whilst you can have disclosure requirements and tell clients explicitly what they're going to get in exchange for an embedded fee that they're going to pay, they will have difficulty, sometimes, in assessing the quality of that. And the best way to address that is obviously over the long-term to increase financial literacy.

But, in the shorter term, if we align the interests of the client with the advisor and the firm, we are going to more readily deal with the issues of, you know, suboptimal advice and conflicted advice and the conflicts and, therefore, allow better outcomes.

And therefore, I think, having direct pay arrangements allows the client to, on a more timely basis, know what they're getting in exchange for what they're paying, prevents a great deal of the conflict that exists, to which we are concerned and, therefore, it's the better way to go.

MS. CARPENTER: Yes, Leslie Carpenter, from Advocis Vancouver. I had a comment, but I do want to address that one. Pay direct is wonderful for people who can afford it. What happens with that is people who cannot necessarily afford the fees end up getting no advice. They may be able to afford it, and that goes back to CARP's comment, the lady from CARP, her comment is that they would rather get rid of commissions. That's probably true. We would all like to get our service for free. But the question needs to be, do you want to pay a commission or do you want to write a cheque, or do you want no advice, or do you want to go to a bank.

Again, it goes back to what I said in the beginning, which is choice. They are allowed to have that choice. You can do that today. You can pay a commission, you can write a cheque, you can get no advice, you can go to a bank and get limited advice.

The comment, and I'm going to stand, because I'm part of Advocis, and it goes back to – and Steve, from FPSC said it, we are not regulating who can be an advisor. And, as they said, what Marian said is substandard advice, that typically goes to the education and who's out there giving that. We need a standard, a set standard of education, who's holding themselves out with a designation, they should all be CFCs or have some form of level of education that allows them to give proper advice. And right now, if they don't give advice and they don't happen to have a licence, there's nothing you're going to do about it.

Typically, . . . I think the bad seed out there – Brad Brain said it online – the bad seed out there, I think, is very miniscule and it's not happening that often. Most of the people that are out there are giving good advice, or they'll just not be in the business anymore.

We need a standard of ethics. FPSC has one, Advocis has one. Right now, it's voluntary if you want to be part of that, and that's wrong.

MS. BURGESS: Sian Burgess, at Fidelity. I was interested to hear Marian say earlier that investors aren't offered a choice between embedded fees and unembedded fees, and the variety of choices are illusory. And there's been a lot of discussion about choice. And, actually, outside of this room and the industry, when you go and talk to the average person, or if you talk to a politician who doesn't know much about this, you talk to even a bureaucrat who has tried to understand this, or you talk to the average person, when you say to them, “How would you feel if we offered you the choice of embedded or unembedded,” and you actually meaningfully explained it to them, they’d say, “I’d rather have the choice.”

And there’s a couple of benefits to that. First of all, there’s transparency, because you’re going to explain what you’re doing, what your services are, what an embedded commission is, how much it’s going to cost versus paying for it outside, and what that’s going to cost. So you’ve got the transparency. But the second part of it is, you may end up finding that the fee-based accounts kind of fall in line with the trail commissions, and it might help with the issue of fee-based accounts often cost a lot more.

So I would argue that if you mandated how to offer investor choice and you made that choice available, you’d go a long way to helping the average investor understand. And it would take you down the path that CRM2 is already taking you, it’s going to continue to take you, which is an increase in understanding.

MR. MAJETIC: Hi, I’m Stephen Majetic. I’m with Freedom 55 Financial as well.

So aligning services with fees, there is already CRM2. I mean, I spent the last six months of 2016 actively engaging with my clients, saying, “Hey, this is . . . what your statement looks like this year,” and I kept an actual one. “Next year, it actually will have a numeric dollar value, and that’s what I’ve been paid and I want to have a discussion around that.” And I actually told them what that number was before 2017 happened. And I tell them kind of what they’re getting out of it.

Now, I also am dually licensed, so I’m going to do insurance products as well as investment products. So . . . . I think sometimes the client doesn’t sit there and say, “Geez, my MER, my mutual fund, well, geez, you know, well, this guy did this and that,” and they’re very confused. I don’t think they have an idea of what’s going on. And it comes down to me communicating that with them.

And if there’s people out there that aren’t able to communicate that type of stuff to their clients, I mean, like what’s going on? I do that very freely, very openly. It’s something that I talk about. And I don’t really think that, whether they write me a cheque or whether that money comes from the investment companies, the number’s probably going to be the same, right?

And for someone to say, “Well, geez, maybe this guy isn’t working in my best interest,” just as easily as I acquired that client with one signature on a . . . form, they can easily leave me. And that happens every day. So I think the client has the utmost choice of who they want to work with, and if that person is providing the service that they want.

And, you know, I make it very clear the types of services and advice that goes along with it when I first sit down with someone, because how am I supposed to know, you know, what they're after? And I think it's a bit of an odd conversation whether a direct pay or whether an embedded would change the level of service or advice. Someone can come to me or leave me and go somewhere else just as easy. It takes two seconds to sign a form. So, yeah, it's a bit of a confusing concept, but I just wanted to make that comment.

MS. PASSMORE: Marian Passmore, FAIR Canada. I'd just like to raise the issue that people who are paying through embedded commissions are already paying. . . . The idea that they can't afford to pay if they pay through a periodic payment, whether that be fee-based or some other arrangement, there's no evidence to support that.

. . . This idea that they're going to have to write a cheque and no one wants to is a false idea, because they don't have to write a separate cheque.

It could be a periodic payment that comes out of a high-interest savings portion of their investment, or some other method. So they can't afford to pay is nonsense, because they're already paying in perpetuity through embedded commissions. It's just a direct form of payment where you're paying separately for the advice you're receiving as opposed to having it being dictated by the fund manager as previously set out, with no ability to control that.

MS. MORRIS: Wanda Morris, from CARP. There have been a number of references to our poll that we asked our members, and I thought I would just clarify. And the poll is online and I'm happy to share the link with anybody who would like to see it [link added to CARP survey, see Q15 – Q21]. But we clearly said to people that by eliminating embedded fees clients will see how much they're actually paying for advice. So there was never a suggestion that eliminating embedded fees would mean they would get services of financial advisors without charge.

MR. HINZE: So I think there we're going to move onto the next question, just to make sure we have enough time for it as well. And, again, if we do have some time at the end, we will circle back.

MR. HUNGERFORD: So we've started to touch a little bit on this question, but the next question is: In addition to CRM2, so cost disclosure, what regulatory changes would make investors more aware of the fees they're paying for and the services they receive in return?

MR. METCALFE: Frederick Metcalfe, private investor. In this one, I want to comment that in the Investment Funds Institute of Canada's June 9th filing, they agreed that embedded commission arrangements limit investors' awareness and understanding of such costs, and that investors should know all the fees they pay and receive services commensurate with those fees. Further, on the next paragraph of that report, they acknowledge that only the total of the trailing commissions as provided in the CRM2 report.

They go on, another report says the industry has urged the Canadian Securities Administrators to allow full implementation of CRM2 reforms and fairly assess itself. Fair enough.

However, the CRM2 reporting provides only a total for each of the three amounts: the offering charges; transaction charges; and trailing commissions. There's some explanation in the CRM2 for the operating charges. The commission charges can be linked by the investor to each specific transaction, but the lump sum provided for the trailing commission does not provide any useful information on the specific fee and related service.

So if the trailing commissions are not deceiving, the one regulatory change required is disclosure on the CRM2 annual reporting of the specific trailing fee amount related to each named investment as well as the total amount paid on all funds. It's the detail by specific mutual fund investments which will allow the investor to match the advice received with the cost benefit.

It's also been noted that there are some dealers who distribute proprietary product and are part of the larger, integrated financial service providers, do not receive commission revenues such as trailing commissions and, instead, received internal transfer payments from the affiliates. Those internal transfer payments from affiliates must also be reported in detail on the CRM2.

MR. PARNELL: Nick Parnell, Freedom 55 and Advocis here. Just to address this, I mean, first of all, I'd just like to state like our position is all for disclosure and transparency and value advice and showing that to the client, and I think any decent advisor and person does that already. It is the majority of people that do do that.

As coming from anyone who can offer any type of fee payment to the clients, I would say, first and foremost, you do lay them out, and I would say 99 percent of my clients would prefer the embedded commission. And it may just be a psychological thing, where they don't want to cut a cheque, but it definitely is a lot easier for them and more convenient, even if it is F-Series and they are unbundled and having the fund company collect that. It just makes it a bit easier as a process. It keeps my costs down and allows me to charge less to my clients.

If I have to go out and do that all on my own, like there's no way I could survive. And that will be addressed, probably, in topic 4 here, as another problem that might come up.

And I'd also like to say, for those who do use embedded commission, and it is a big part of my book that's front-end loaded, and it is embedded commissions, we used to have something that was mandatory, called a prospectus, which I don't know how you have more detail about how you get paid and what the full cost is to a client. It's in there. And, again, as advisors you should be going over that. Now we have a fund facts, which are a little bit more client friendly and, again, they do have the exact full fee the client is paying there. And you are required to give that to a client.

So I don't, again, understand if you're doing a correct job how a client could not understand what that fee is. It is in there. And if you're not, well, maybe that's the one percent of people we're talking about, and raising the bar on professional standards might solve that issue.

CMR2, very unclear. It went from a couple page statement, now I have one that – because I get them for my stuff - it's like 15 pages long and maybe on page 9 you'll find a fee that outlines my portion, the dealer's portion of commission as one lump sum. It's not very clear, the total amount, which also it included a portfolio manager's fee in there. It's not clear who's getting what, how much he's getting. Like it's pretty simple to me, you have a statement on one side that says how a client's done and what they're invested in, and on the other side it says, here's the total MER that you're paying based on the fund facts and what the fund is charging, here is who gets what, has a percentage and a dot. It doesn't have to be complicated. It's pretty straightforward. I don't know why it's such a hard issue. That's my point.

MR. JAFFE: Bill Jaffe, Vice President and portfolio Manager with Bayswater Group at TD Wealth.

This is really interesting to listen to. The people here, by and large, the industry people, not all of you, are kind of talking like white men in 1950 about the women’s vote, meaning why change things that’ve been good forever. That’s not the way the world works.

One of the first steps, the gentleman from Freedom 55 is very correct, we need to have some sort of discussion and mandatory education for advisors, so it’s just not anyone doing whatever they can. That’s the first step, so that people know when they’re getting advice they know what designations people have and what they actually know.

All fees should be discussed with every client in real dollars, not just percentages. In the 30 years I’ve been around, I’ve taken over hundreds of clients that had DSC accounts that never knew their fee: the percentage or in real dollars. They were told, don’t worry, there’s no fees. By and large, that’s how they believe it to be. It doesn’t matter what comes out of your mouths, folks, it matters what they absorb, what they understand. Their feeling is, oh, there’s no fee, which is entirely incorrect.

In regards to, if we all go fees, which of course is my business, how do they know they’re getting the right fee? A proper person doing any sort of purchase should be talking to two or three separate people and organizations to compare and contrast, right? We don’t buy one car with a sticker price when we walk in. We check other dealers to make a proper decision. The same thing should be done with your investments. I tell every client, when they come to see me, "Go talk to someone else at another firm. I need you to understand what we do, how we do it, and compare and contrast."

We use an investment policy statement. In that, it goes over your fees in real dollars, in percentage, and all the services you get for that. Nothing could be more black and white. We also give them a report stating the education of all the members of my group, so they can go and look and see what our designations are and what they mean. It just being clear, folks, it's just being transparent.

MS. KANE: Hi, Martha Kane, Capital Direct. I just wanted to slip in a comment about leaving money in a high interest savings account to pay the fees. That somehow is advocating that monies left fairly uninvested . . . .

But my comment in regards to this particular question about what regulatory changes, I would actually not necessarily say that the regulatory changes but maybe just reinforcing more so what is already in place and, for instance, the relationship disclosure. You know, the investor has decided or maybe has been given the option to go discretionary, but they are in a relationship where it requires their involvement, and that's what the relationship disclosure information is supposed to instil in them, and yet investors are not, either through unwillingness or lack of education, being engaged to the degree we need them to be engaged to understand this.

So perhaps there should be more focus on investor education . . . and one of those education points should be, if you do not want to be involved to the degree we need you to be involved, then maybe you should be going discretionary.

MR. JOANES: Neville Joanes, WealthBar. So in terms of this question, the relationship between a client and the advisor is dynamic. CRM2 addresses fees on an annual basis. To build on CRM2, we should be showing fees on a regular basis, whether they be monthly, when they get statements, or quarterly, so a client knows exactly what they're paying when they've paid it.

And on discussions with clients that have transferred over to WealthBar, we've seen that clients were unaware of fees they paid simply because they don't open that January statement. And when they go back and they look on it, then they have that clarification, but they have been unaware of it.

MS. MORRIS: Thank you. Wanda Morris, from CARP. One of the individuals who provided some advisory service to CARP is a professor by the name of Alan Goldharp [*sic*], a Professor of Finance. And he did a study with, and an experiment with, his university finance class, where he asked 34 finance students for their opinions. He gave them a fund facts statement. And it's interesting to note the responses of these university finance students. When they're asked, "Can you tell what the client would pay in fees on the initial purchase?" Fifteen of the 34 said, "Yes," and 19 said, "No." So the majority said, "No."

"Can you tell how much the investment advisor would make on each purchase?" Eighteen said, "Yes," 16 said, "No." And in the student comments, one of the comments was, "The total fees are not clear."

I share this specific information to point out the inability of disclosure to meet the objective.

MS. CHEN: Our last topic will be on the option of discontinuing embedded commissions. In your opinion, is there a combination of reforms, not including banning embedded commissions, that can alternatively address the key issues identified in the paper?

MR. PARNELL: Nick Parnell, Freedom 55 Financial, Advocis. Not to sound like a broken record. Make it mandatory to have a professional association or some sort of designation that makes it clear that an advisor has gone through some sort of professional process and has an obligation to a client. It's incredible we still don't have that as a mandatory requirement here.

And I guess like my final comment just would be its choice for the consumer versus no choice for the consumer. So that's my comment towards the fees and the fee changes. Like I'd rather have consumers make that choice, but that depends on the right people being in place who have the proper training, education, and background to give that advice, and the way that you do that is to have a professional association or designations that will address that issue. Thank you.

MR. BAUML: Rob Bauml again. . . . from my experience in the industry, I would love it if everybody was financially literate. I would love that. It would make my job so much easier. I would love it if no one's circumstances ever changed. I would really love that, actually. I would love it if I could do my work for free and just give everybody free services and the knowledge I have, I would love that. But we all know that those things are never going to change.

So when I sit down with a client and I get to know that client and I realize that they are not knowledgeable or they're vulnerable or they're elderly, those sorts of things, it's my job, it's my responsibility to get to know them and to slowly educate them. And the reason I bring it up is because I really don't know how much more disclosure my clients can take.

They get a stack of paper when they leave my office and I will tell you that 99 percent of them throw it in the garbage when they get home. They don't look at a single thing. They remember the things I told them and then, when circumstances change, they forget the things I told them and they say, "Well, I don't remember that." So the problem comes down to just what you said, the more professional an advisor is, the longer the relationship you can have with a client where you can slowly educate them, you can get them . . . to learn about different things, to observe ups and downs in the markets, to understand their cash flow, and those sorts of things. That's what's truly important.

I'm a member of Advocis, I follow their code of conduct. I'm a CFP. I follow their code of conduct, too. And I think it's extremely important that every advisor who works for the client keeps their client's best interests first. But there are no simple solutions to this problem. Disclosure, I don't think will help. I think that professionalism is really, truly the best option. As long as I'm doing the right things for those clients and slowly educating them, we'll have the best results that we can get.

MS. BURGESS: Sian Burgess, from Fidelity, again. One thing that I find really interesting about this forum is that when we started having this discussion back in 2012, a lot of people said, "Why should we pay financial advisors at all? What are we paying for?" It looks like we've gotten way beyond that, and that's nice to hear. Even CARP acknowledges that advisors need to get paid and that their people need advisors, they need good advice, they need transparency.

And I think the financial advisors here speak so well, and it's great that so many of them are here, because, again, when we started this discussion they weren't here, they didn't come to these things. So that's great.

I do think there's a series of things that you can do, but it's not one thing. We're not in favour of banning embedded commissions, but we are in favour of adjusting conflicts of interest. There's lots of tools to address conflicts of interest. And we've already talked about giving the investors choice.

There's conflicts of interest in Fee-Based accounts. IIROC did a study that came out in December and identified a ton of conflicts of interest in Fee-Based accounts with and without proprietary products.

There’s going to be conflicts of interest in any model that we choose, so it’s about how to address those conflicts.

And we do think that standardizing commissions might help and could help, and I’ve already explained that I think it could help on both sides. You might be able to address the issue of fee-based accounts sometimes costing more. And as I said before, there are clear rules already in existence that need to be enforced. The sales practices rules specifically talks about how you make payments and that the payments should be the same across competing products. We think it should be modified to include some of these new products that have come along, where money is leaving the mutual funds and going to these other products at much higher fees, and I don’t think we can forget those, because those are securities.

And I also agree with a lot of people that have said focus on raising proficiency. You’re dealing with a lot of issues through the targeted reforms. This is about a whole package, but it’s not about taking away the choice of the investor, and allowing them to decide, once they’re fully informed, which method they would prefer.

And I was interested in the CARP study, and I did read it, but the vast majority of studies in Canada say that 50 to 55 percent of investors preferred the embedded model. So we shouldn't take that away from them. Who are we to do that?

MS. PASSMORE: Marian Passmore, FAIR Canada. Is there another combination of reforms, other than banning embedded commissions that will address the issues raised in the consultation paper? I don't think so, but I think banning embedded commissions should also go hand-in-hand with addressing the other conflicts of interest that Sian has pointed out.

So the other types of conflicted compensation structures, looking at all of them that exist and addressing them is what needs to happen as part of a move towards a . . . statutory, best interests standard. Having a statutory best interests standard would also require that proficiency of advisors be raised and be sufficient to provide the type of advice that Canadians expect and deserve, and would also require titles to be clear.

So I think all these things nicely go together, and we can't simply disclose the conflict and let people make a choice. Why? Because Canadians don't understand the implications of conflict of interest, ... the disclosure does not set out what the magnitude of the impact of a conflict is to the client, and so most Canadians just are not able to sufficiently compensate for the knowledge of the fact of the conflict and act appropriately. And that's why getting rid of conflicts of interests that are harmful is so important to do. So avoidance of conflicts will lead to better investor outcomes than simply disclosing them.

MR. ROTSTEIN: Stephen Rotstein, Financial Planning Standards Council. I'll be quick. I think what's key here, and it's interesting, because the CSA, and the BC Securities Commission as a member there, have been engaged in a whole bunch of consultations on a whole bunch of issues. We've just mentioned best interest, obviously, and embedded commission. I was talking about titling. I mean, the truth of the matter is, there's two competing things going on. Number one is, they all are intertwined, and we can't say that one is going to happen, not going to happen, because one does impact the other, and I'll talk about that in a second.

The second thing, though, is, and you know this is usually not our position that basically says, but we hear it all the time from the certificant[?], there's so much change going on in the industry, not just for the client, but for CFPs and you have to understand, you know, we just had CRM2 come through and now we're going to potentially ban embedded commissions. You know, I think if we do, and again, this consultation is going to ultimately determine that, I think we just have to understand just a sense of making sure that there's a phase-in approach, that things happen in an orderly manner for the client and for the financial community.

I do want to speak about this best interest versus titling because, you know, you've heard me, and I kind of sound like some of the people here, talk to Advocis about competency and professions and, . . . I guess I can talk 'til the cows come home of the importance of titling and credentialing. But, you know, I heard about the idea of the best interest, and the best interest is important. The CFP professionals already have a best interest. But I want to be clear, you can't just impose a best interest duty on people. I know that's not the topic today, but it was brought up, so you can't just [impose that duty] – and then assume that everything else will fall out, because . . . if people don't have the competency and the qualifications they're not going to be able to live up to that expectation. And the same with . . . embedded commissions.

So I go back to my first point, which is these things are all intertwined and we have to look at them as intertwined. Thanks.

MR. PARNELL: Just a couple of quick comments here. I would say that removing . . . embedded commissions does not equal conflict of interest. Until that's an actual thing that we've decided on, I don't think that's a fair route to go. And also, just removal of choice, just because – to say Canadians, as a blanket statement, don't understand conflicts of interest, is a wrong way to go as well. It should be up to the advisors to provide the education of their clients through that process, and there's many ways to do that to give them the choice, you know. So just saying you don't have that choice because you don't understand it is a really inappropriate way to address something, and I would hate to see it go that way.

But again, I'd also just say like probably most people in this room have a designation or are a member of Advocis, and these are the people that are engaged and it's important too. Except that doesn't speak to the people that it's important to having a best interest and making a professional association and helping solve the problems in the industry. I don't know what that's – like people that aren't, aren't here. So, thank you.

MS. CHEN: Our last question is, so we received comments on potential unintended consequences for discontinuing embedded commissions. These include an increased advice gap for small accounts and potential shifts in sales to segregated funds and other investment products.

We would like to get your opinion on what are some other unintended consequences that may be possible if we discontinue embedded commissions.

MR. MIDDLETON: Yes, this statement is obviously 100 percent correct. Sorry, Rich Middleton, Freedom 55 Financial. So what happens when we discontinue embedded commissions? Well, first of all I don't know of any fund companies that have . . . an unbundled version of low load and deferred sales charge. So banning embedded commissions and the banning of the DSC appear to go hand-in-hand. There appears to be a one size fits all route into the front end load zero, that's what this statement tends to infer here.

Now, what happens if all of my clients have to go into unbundled funds? That's front end load zero. The financial advisor has now, essentially, been banned from making any commissions at all on investment products. Therein lies a significant problem for the 100,000 financial advisors currently working in Canada right now. No commission. How about that for a reality for a new advisor.

Which new advisor is going to take that deal? Which new advisor is going to drive up to Squamish and prospect that client for $10,000 worth of mutual fund business? The answer is already here, on this piece of paper, and that's an advice gap. That means that the small clients with the ten grand in mutual funds that the advisor can't make any commission off, they are pigeon-holed into the bank, they'll walk into the RBC or the CIBC and see Susie one day and, you know, Wayne the next day. My mom lives in that channel, that's a great fit for a lot of different people.

But option number two, and who also is going to benefit from this, and I read the lobbyists like Tom Bradley of . . . Steadyhand Funds, essentially call-centre investing, robo advisors. This appears to be the new pigeon-holed option for the small account.

And, you know, I read it in the *Globe and Mail* from these new call centre investment advisors, four guys sitting behind a desk in Winnipeg, or wherever it is, ready to take your call, and put you into a no load mutual funds with, you know, I don't know, Investment Voyager. I have no idea what conversations go over the phone, but that's certainly the advice gap, that certainly does not give clients access to retirement income planning, NaviPlan, HelloLife, software planning, a written tailored financial plan.

If we de-incentivize financial advice on the investment fund side, the consequence is right here in writing, and I agree with this statement completely, a market shift to segregated funds and other products not subject to securities regulatory requirements, that's how it's going to go. Absolutely.

MR. BLANES: I just want to follow up on that with a question about what would be the problem with public utility-type investment? Since the investment banks and commercial banks started to comingle in the 1990s, we seem to have a lot of clients at regular commercial banks being lured into seeing their friendly broker. And that has created a lot of trouble for a number of people.

So just on the survey question, I just have this point. I'd just like to find out if anybody would agree that this should be followed up. The industry must become engaged in the practice of enabling public investments to become an option for clients. Where there is no middleman sales function, Canada has to begin to see investment as a public utility for actual underwriting of future goals and economic requirements. It should not be an opportunity for any trace of deceptive business practices.

MS. MORRIS: Wanda Morris, from CARP. I think we'll see two consequences of a ban, two additional consequences of a ban on embedded commissions. One would be that do-it-yourself investors would no longer pay for advice when, clearly, that's inappropriate and right now many of them do purchase mutual funds from discount brokerages, online brokerages, where they actually pay embedded fees.

I think, secondly, individual investors with low asset portfolios would be more likely to be served by Fintech or robo advisors, and to the extent that the research shows that the single biggest predictor of the return of your assets over time is the cost of fees, I think that is also likely to be beneficial.

And I wanted to speak to one more point. The Government of Ontario commissioned a report, called the Financial Advisory and Financial Planning Regulatory Policy Alternative Report. I'm happy to share the link [link added https://www.fin.gov.on.ca/en/consultations/fpfa/fpfa-final-report.html]. Here, today, people have said, "We don't know what would happen if we were to ban embedded commissions." I don't think that's accurate. In the UK there was a ban on embedded commissions, and this report summarizes what happened. And some of the things that it notes, in a nutshell, is that clients have done better, financial advisors have been paid more, and that there is no – little evidence to suggest that the availability of advice has been reduced significantly as a consequence of these measures.

MR. JOANES: Neville Joanes, WealthBar. WealthBar is a digital advice provider. We are robo-advisors that provide advise online. We don’t feel that there would be advice gaps, because in a free market, when you have a gap, companies or individuals will come in, identify the gap, and provide services for that gap. We currently provide financial planning, estate planning, retirement income projections for all clients that request it. For most of our clients, we engage them in the financial planning process because we believe it has value, and we take accounts from $100 upwards. So the size of the account is not a factor that limits that.

What I would say is that we also have the technology to bill the clients a fee and the fee is very low, but we have the technology to do that and process those fees. And that may be one of the reasons why embedded commissions are still popular, . . . the client still pays for fees through that model and it’s processed by a fund company as opposed to the advisor . . . .

MS. BURGESS: Just in response to the idea of the robo-advisor, of course that’s a great alternative. Sian Burgess, of Fidelity, again. Sorry.

I’ve been in the UK four times in the last two years. I've met with the FCA three times, and it's interesting. So back to robo-advisor, of course that's a great alternative. But I was struck by what the FCA said to me, which was, "None of our robo-advisors are profitable yet. Even the biggest one isn't profitable yet." So I wonder, sir, if you're making money yet. I hope you are and I hope you will, but all over the world robo-advisors haven't gained traction and there should be something the regulators can do to help that.

But in terms of whether there's an advice gap, I have to tell you that the FCA commissioned a group specifically to study what to do about the advice gap in the UK. The Treasury said, "We have a problem." So we have people at Fidelity who are on those committees and head up those committees where the focus is how to address the advice gap, how to clear the regulations that created the advice gap, how to help robo-advisors do better, how to find ways to serve a small client, how to fix the fact that investors in the UK will not pay out of pocket for advice. And that's' one of the big things that's come out of this paper, which is that, you know, in the UK advice costs between £1,000 to £2,000 a year, and someone with £50,000 will not pay that. So what are we going to do to help them? That is the focus of that study.

So there is absolutely no doubt that there was an advice gap and there is an advice gap in the UK. I just wanted to make that point.

MS. CHEN: I just wanted to take us back to the question for a second. So we'd like to ask what other unintended consequences are possible, aside from an advice gap and shifts to segregated funds or other investment products. Thank you.

MR. MAJETIC: Stephen Majetic, Freedom 55 Financial. I think some of the unintended consequences, . . . I mean, you can sit there and argue it until you run out of breath. I think it falls on deaf ears. There will obviously be an advice gap. But some of the other unintended consequences, I think, are caused a lot by some of the marketing departments at some of these firms.

I know the ETF industry vilifies mutual funds based on fees. But I compare it to, you know, the flathead screwdriver industry vilifying the Phillips screwdriver industry and saying that, oh, well, we're the same but different. They're two different tools. And I think the unintended consequence there is that mutual funds, in general, will be vilified and, along with that, people providing advice and supplying those mutual funds to clients. And it would be very shameful, but I think it might be something that maybe we've seen it start already, through media and other rhetoric, that advisors should be vilified.

I think we have a legitimate position within society. I think we provide quite the service that people are looking for, otherwise they wouldn't walk through my door, come all the way downtown, hike all the way up to the 12th floor, sit in the lobby, and wait for me. So obviously they're looking at that. And I think if, you know, the focus should not be on a blanket approach to the industry kind of stemming off of what others have said in the back row about upping the level of proficiency and advice that's given by professionals.

You have, unfortunately, these third-string, I would call, sad attempts at financial firms that operate on, you know, multi-level marketing approaches that actually sour the taste of us in the communities at which we operate. And I think that taking the ability away for someone, especially if you have, say, a lower income senior, who is now in a position in their life where, understanding their retirement income, is so crucial and important; understanding their estate planning is so crucial and important. . . . I wouldn't be able to look someone in the face and say, "Hey," you know, "I'm not going to take you, because I'm more or less working for free.". . . That gap could be filled in the marketplace with a robo-advisor, but turn to your grandparents and see how willing they are to turn on a computer, logon to the internet, and use a robo-advisor.

Like I have my grandmother still ask me to reset the 12 o'clock flash on her VCR. So, you know, I really don't think that would be a viable option for some. I think the unintended consequence, beyond advice gap, would be to vilify the industry that is here to actually serve, help, and protect these people. So that was my comment for sure.

MR. PARNELL: Another unintended consequence is really cost to the provincial and federal governments. . . . – Nick Parnell, Freedom 55, Advocis. The advice which we provide is valuable to our clients, but it's also valuable to how the economy runs, in terms of; if clients that we advise have proper health, life, disability insurance in place, the proper investments in place, the proper accounts in place, the proper planning created, this saves costs down the road to governments in terms of having to provide those services.

So if you have, now, a good chunk of the population that does not have this advice. They're not getting it done (a) properly, and then (b) this will raise costs and concerns down the road to the economy as well. So I think that's one thing that's overlooked. It may seem insignificant, but obviously multiplied by years, it's not.

And also, here's another example, because this is what's happened to me this year, and to friends and colleagues of mine, too, though. The people that no one would talk to, when I was 23, and I had to kick their ass put . . .a hundred bucks away, well, this year they all bought homes in a market that's arguably unaffordable for most people. And these aren't the wealthiest people in the world, they just stuck to a plan, they had one, they had the right advice, they got an opportunity to talk to someone, have their time, use the tools that we had, and here we are.

So I think taking that away is a big, big mistake, and it may be an unintended consequence that is not visible, but it's there.

MS. PASSMORE: Marian Passmore, FAIR Canada. I would just like to comment that the question is potential – you state potential unintended consequence being an advice gap and moving to seg funds. There's no independent evidence that there would be an advice gap in Canada, and there are ways to address the issue of regulatory arbitrage, the simplest of which is to make segregated funds a security and regulate it the same way as mutual funds and other funds.

MS. STEEN: Cathy Steen, HollisWealth. Yeah, unintended consequences I think could be increased costs over time. Sometimes I even question . . . what our objective here really is. You know, there's been no discussion of costs versus impact, i.e. performance, and outcome for end user. It's not necessarily, you know, a negative correlation there.

MS. CHEN: Cathy, sorry to interrupt you. When you say "increased costs over time," who is that cost to?

MS. STEEN: Right. So, for instance, as it is right now, with an embedded business that I run, I also have clients that own stocks in their portfolio. I buy GICs for my clients. They have very many other products that I don't get paid on. If I move from the embedded system to the fee-based system, then I'm bound by my company's fee-based rules and everything gets swept under the fee. So it's an increased cost right off the bat, which, really, is something that I discuss with my clients, which is why I, too, have not had very many takers on a fee-based option, when we bring that up.

I also think the increased costs are to the industry itself, because every advisor – this is how it works in reality – . . . is responsible for ensuring there's cash available in a plan. And unless you’re going to literally have cash lying around, doing nothing for a client, you have to phone that client and get permission to sell, unless you’re discretionary. And I’m talking about the average, every day Canadian investor. I’m not talking about somebody with half a million bucks to invest. I’m talking about people with $50,000 to $200,000 of investment. I’m talking about your everyday family. And those people may end up paying more or receiving less.

MS. WONG: Well, actually, I have a question, rather than, you know, answer those questions. . . . My name is Sylvia Wong, from Investia Financial Services. I’m in the business for 23 years. And, okay, looking back . . . , you know, all the questions today, and for the DSC, I think if, you know, it’s quite simple, as far as full disclosure. And I think the industry already address that with fund facts and simplified prospectus. And we have like, you know, plenty of options for client to choose, and we have front end, we have DSC, and we have low load, too, okay?

And for the DSC is how the advisor get paid. And also is for clients, they don’t want to pay, right? Yeah, because if they hold the investment long enough and like RSP, right, after five years, all the DSC is gone and they don’t need to pay a dime upfront. And I think that is good for them.

So, as a matter of fact, investors, they have all kinds of choices. So let's say if you don't want advice, right, you just go to the bank and buy low load funds, right? So say your car is broken down and you can fix your own car and you don't need to go to a mechanic and pay your mechanic, if you want to save some money, right? Yeah, so I don't know why it's so complicated.

And also, unintended consequences, I think, you know, most people they overlook how advisor get paid. Yeah, so if you take away all the compensation, how advisor can survive, right, and that would definitely create many investor, they need to go DIY [Do It Yourself]. And also, for advisors, their role is not just sell the mutual funds, okay? And they do a portfolio of financial planning, retirement planning, how you accumulate, you know.

So we got to not overlook the advisors. We, you know, provide a portfolio of services, like financial planning, retirement planning, and we have our costs of running our own business. We pay the licence fee, MFDA Fees, okay, and bonding fees, et cetera, et cetera.

So if you take away all the compensation, nobody will be an advisor, and this job will become, you know, obsolete in the future.

MR. HINZE: On behalf of the BCSC and also on behalf of the CSA, thank you very much for taking time out of your busy schedules to come and meet with us and share your views on this important topic. We really appreciate it. Thanks, again.

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