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Sent: June-09-17 4:18 PM
To: comments <comments@osc.gov.on.ca>
Subject: Comments on CSA CONSULTATION PAPER 81-408 - CONSULTATION ON THE OPTION OF DISCONTINUING EMBEDDED COMMISSIONS

June 9th, 2017

Consultation on the Option of Discontinuing Embedded Commissions – CSA Paper 81-408

To the members of:

- British Columbia Securities Commission
- Alberta Securities Commission
- Financial and Consumer Affairs Authority of Saskatchewan
- Manitoba Securities Commission
- Ontario Securities Commission
- Autorité des marchés financiers
- Financial and Consumer Services Commission, New Brunswick
- Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
- Nova Scotia Securities Commission
- Securities Commission of Newfoundland and Labrador
- Superintendent of Securities, Northwest Territories
- Superintendent of Securities, Yukon
- Superintendent of Securities, Nunavut

In the Care of

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, QC H4Z 1G3

Hello to all of you:

Thank you for allowing me the opportunity to comment on this consultation. I am an Advisor who has been licensed to sell insurance and mutual fund products for 19 years now. I earned my Certified Financial Planner Designation in 2005. I have a wide range of personal and business clients that I work with, in the small city of about 80,000 people where I live.

While I agree completely that client interests must be kept at the forefront at all times, I have several concerns with regard to your proposal, and in general with the direction that CSA policy has gone in the last 10 years. I will highlight these concerns below, and will make comments from my perspective. I will also pass on comments that I have received from my clients. I have spent a lot of time in client meetings discussing these potential changes with them and they do have opinions on it:

Embedded Compensation

This is simply a compensation structure. It is neither good nor bad and it seems short sighted that a Regulator would look at this as “a national problem”. There is nothing wrong with an Advisor being paid for the work they do. There is something wrong when the Advisor’s interests come first. THAT is the problem. But that will be a problem in any pay structure. How can you let Canadians believe that removing a compensation structure will make people behave better? Let me use an example you can easily understand. If a CSA or Securities Commission employee has the option to earn a bonus, they will certainly look at the requirements to earn it and will work towards those bonuses. This does not mean they are doing their job poorly. It simply means that they are working to their pay structure while doing their job to earn some extra pay. If the requirements to earn that bonus changed next year, they may change their work habits to earn that bonus…while still doing their job. Is this now a conflicted employee? They changed their behavior to make more money. This is human behavior. People want to get the most benefit for the work they do. It is part of who we are.

If you take away embedded compensation, you will simply expose Advisors and Consumers to another pay structure that inevitably will lead to the same questions. Someone will still do their best to make the most of their pay structure. You will never get away from it. Removing the embedded pay structure does not fix the human behavior problem which is the real heart of it all. This new policy will change nothing for Consumers from my point of view and falls very short of being a real solution for my clients.

What is the Problem?

There are symptoms of a problem. We hear of Investors who are victims of fraud. This not acceptable. Some Advisors run afoul of the regulatory rules, and should be punished. We hear that Advisors can make more money running their business one way or another at the expense of clients. But these are the symptoms of, and not the problem itself.

In my eyes, it is the behavior of Advisors *and* Investors that cause these problems. (yes, I include investors in this too.) People want things and will do what they have to, to get them. Advisors want to be paid. Clients want high returns with no risk or cost. Clients want Advisors to predict the future with 100% efficiency. These behaviors will never go away no matter what rules you put in force. I believe that removing the embedded compensation system will not make a difference to those behaviors. A 1% trailing commission is not what caused some elderly investor to be defrauded. It was poor behavior. An embedded fee did not get a client a -40% return because they took on more risk than they should have. The problem is behavior. So let’s fix that.

Embedded Fees are Hidden

I see in many other submissions that the fees are hidden. If only consumers could see them, it would change their lives! If only they could understand them! I don’t think this argument holds much water with the advent of CRM2. You may not understand how the fees work, but you can certainly see how much you are paying to your Advisor now. It shows a dollar value and those consumers who are confused must understand that. Have the conversation with your Advisor. Get value for the cost you are paying. It’s up to consumers on this point now. My clients get this. It is simple and I take the time to explain it to them.

At this point it doesn’t matter how the consumer pays. The amount that gets paid to a Dealer shows up on the statement, so this argument is passé, and in the future, should be disregarded completely. If you use an Advisor it will cost you something.

Fees eat away at retirement fortunes.

In many submissions, I hear that fees eat away at retirement fortunes and are unreasonable. I don't understand this. The fee that the lawyer charged me for the will he wrote ate away at my retirement fortune too. How about the car I buy? The groceries? Any product or service that is provided in this world comes with a sales/service cost.

Here is an example: Think of the fees I pay to my Regulators. Year after year, I pay these fees. I have no choice in what Regulator to choose. I can't negotiate the cost or the services I access. I have absolutely no say in the direction or creation of policy in the industry. It sounds like a pretty bad deal when you put it that way. It sounds like any fee increase to me could be perceived as a conflict of interest to the Regulator. And every dollar that leaves my pocket makes it harder for me to feed my family.

But if I want to be in this industry and get the benefits of a solid Canadian financial system, then I must pay. If I don't like it, I need to find another way to do my work or change careers.

Financial advice is the same. I am tired of hearing this argument from consumers. They have many options, and one of those options is to pay a professional advisor to help them. That help will cost you something. Typically it is 1%. The fee will be on your statement. If you don't like it, then you can try to renegotiate a lower fee, or you can save all of those fees and do it yourself. It sounds like many of the consumers out there think that the fees are too high. They are welcome to manage their finances anywhere they like. But if they think that Advisors will work for free, they will be disappointed.

CRM2 – Some great progress.

Let's focus on some good regulation that recently came from the CSA. The fact that the amount of compensation an Advisor's firm is paid is now disclosed on statements has changed everything for consumers. This is a good measure that allows Consumers the opportunity to weigh the value of what they get, for what they pay. **This, more than any other stroke of a pen the CSA can make, will force Advisors to be better and treat their clients the way they want to be treated.** It helps to guide behavior between the consumer and the Advisor **which seems to me to be the problem you want to correct.** I have had numerous conversations with clients in regards to this and not all of them were comfortable for me. The clients asked some hard questions, but in the end, my client and I either chose to work together or not. This is exactly what you were hoping for with CRM2. The CSA should let the ink dry on this initiative to see where the Advisor/Consumer relationship ends up. Don't go wildly down a path of eliminating pay structures that have little to no bearing on encouraging good behavior from advisors.

Clients are assumed to have no knowledge and are vulnerable.

While it is true that some clients are vulnerable, it is flawed on your part to think that consumers are completely helpless when it comes to investing. This is not the case and the idea that you are taking away choices in how my clients deal with me is not going over well. In my discussions with clients, every single one of them has said something along these lines: "Now that I know how much I am paying, why would they take away my choice in how I pay my Advisor? What good does that do me? I'll decide the best way for me to work with an Advisor and how they deliver their service to me. If they can't deliver, I'll go somewhere else." This is exactly the kind of conversation that CRM2 was supposed to encourage. Will eliminating embedded compensation make that conversation better? I doubt it. It will just become another detailed conversation that will confuse consumers about their finances.

The idea that most consumers are vulnerable is overwhelmingly not the norm. Although many clients do not have finance as a hobby, they are successful business people who have taken post secondary education, bought houses and properties, made business deals, raised children and understand how business works. To create rules that limit how these people deal with Advisors is condescending to them and their intelligence. They don't get this type of paternalistic treatment in any other area of their financial lives. My clients demand a choice. You are taking it away from them.

You rule to the lowest common denominator in all areas.

I am not sure where your policy ideas originate from, but I can tell you the direction that they always end up going. They end up punishing every Advisor in this nation with a minutiae of rules and paperwork. It forces unwanted disclosure on clients. It creates a system of boxes and forms that cannot be filled out properly and for the most part does not help consumers understand finances better or reach their goals. This new proposal will simply add another layer of disclosure to an already bloated meeting agenda for Advisors and consumers.

Creating an outstanding number of rules will not solve the problem of keeping consumer interests first, or make Advisors behave better.

CSA policies already are excluding smaller investors from quality advice. This policy will only make this worse.

I can only cite anecdotal evidence from my book of business, but I have discussed this with many advisors from many different companies including banks. The trend in the last 2-3 years has been to increase minimum account sizes. The cost of compliance and disclosure has forced most Dealers and Advisors to focus on their large clients. Smaller clients are "encouraged" to go elsewhere. I can't afford to take care of smaller clients at a price they can afford because of the gigantic compliance burden that is thrust upon us.

Here is the problem for society if this continues forward: My block of business works this way: I need small clients to grow to become larger clients. Aging clients eventually pass away and must be replaced. If I don't have smaller clients growing into my block to replace them, eventually I will go out of business. This proposal will eventually exclude all small clients from accessing advice and will also prevent new advisors from joining the industry as they typically start with smaller clients. As that spiral continues, the advice channel disappears and Canadians are left to manage the complex tax, investment and financial world in Canada on their own.

Check what the account minimum size is now with a broker at a major bank. You will be surprised at the size of client you need to be to get their help. If these trends continue, the CSA may need to offer courses on financial literacy to make up for this gap! My 19 years experience in this industry tells me that most consumers cannot wade through the complex landscape of financial acronyms without any help from a professional?

You seem out of touch with what my clients want.

When I discuss the potential ban on embedded compensation with my clients, they overwhelmingly state that they don't see how this will help me give better advice to them. Why should their ability to choose how they deal with me be limited? Regardless of how many rules you make or change, clients will either trust an Advisor and work with them…or not. Shouldn't they be able to look at the numbers, discuss my services to them and agree on the best way to proceed? It seems closeminded to imply that all clients would want to do business the same way and your proposals are forcing consumers down a path where there will eventually only be one way.

My clients want to deal with a professional that will build a long-term relationship with them. They want to be educated about finance, and to trust the advice and professionalism that their Advisor provides to them. They do not want to become financial advisors themselves. That is what they want us to do for them. If we meet their needs, they will choose how they deal with me and how I get paid. Your proposals are making it harder and harder for the Advisor/Consumer relationship to continue.

Some general comments for the direction of policy in the future – which applies to this consultation as well:

No advisor input.

It baffles me that a Regulator that regulates Advisors, that has so many financial resources, would not jump at an opportunity to include Advisors in policy development. It actually offends me that we are not included. I am making an effort to reach out with this letter because I think this is important for my clients.

Where are the Advisors on your board of directors, policy boards and outreach panels? Do you even have groups like this? Perhaps Advisors who actually deal with consumers on a day to day basis would have some great ideas on how you could solve some of the problems you have identified. I find it hard to believe that you have repeatedly excluded Advisors from this process and feel that as a Regulator, it is your duty to be inclusive of all groups you represent. Put another way, you would be doing your job better if you used all of the resources that are at hand. The Advisor community is an excellent resource. Please consider using it in the future.

No input from Consumers. Is there a real problem for Canadians in regards to embedded commissions?

When I discussed this proposal with my clients, 100% of them were completely unaware of it's existence. It is pretty hard for a consumer to comment on this process when they don't know it is happening. This is a serious issue and part of your responsibility as a Regulator. If this is such a major issue, why are clients not aware of it? Why are they not concerned? Why am *I* bringing it up to them in my meetings and not the other way around? I have two potential answers to those questions: You have done a poor job of promoting and educating people on what you are doing, and/or people aren't nearly as concerned as you imply they are. Maybe this is not an issue with the public? I find it VERY hard to believe that out of all of the clients that I brought this up with that none of them had any real knowledge of the problem. I took the time to explain it to them and they were still not worried about it when they left my office. It makes it seem like this is complete overkill and is not really going to help Canadians at all.

You may defend yourselves and say that you have done a good job in educating Canadians and given them every opportunity to participate. But look at the process for comments. Your document is 100+ pages long! It takes a special consumer to read through this and put in the time to craft a response! I applaud those that did it. This process excludes ordinary consumers and even Advisors by it's sheer volume and complexity. None of my clients are willing to go through that process to defend their financial future against something they aren't concerned with. ***At the***

end of the day, Millions of Canadians will be surprised by an industry change if you go ahead with these proposals.

Advisors can't keep up to the pace of regulation and change.
Overwhelmingly, Advisor colleagues tell me that they cannot keep up with the pace of Regulatory change. You have created a cottage industry of rule making without waiting to see if the last rules you put in force worked. If you gave the industry some time to catch up and implement the changes you wanted, you might see that many new potential policies would not be needed. For the most part, Advisors are out there doing their best. They are truly helping clients. They are trying to improve and be better. But at this point in time most Advisors are frozen in fear to complete a form incorrectly, or have the wrong size font on their business card. This regulatory whirlwind does not help to improve our industry when Advisors and clients can't keep up or understand what is changing. Advisors should be helping their clients. Piling more regulation on top of regulation will not create a good environment for Canadian consumers.

A solution is waiting for you…Increasing Advisor Professionalism

A Financial Advisor Profession
If you increased the professionalism of Advisors, it would solve many of your problems. As a member of Advocis and the FPSC, I am bound by a code of ethics that puts client's interest first at all times. With this as a guide, I see many of the regulations forced on the industry by Securities Commissions as redundant. I don't need to have each minute situation guided by a different rule. I have one overarching rule that guides me through all of the minutiae in a day. It's easy for me, and the largest number of Advisors follow this already.

These organizations (Advocis & FPSC) have a professional solution in place already and they just need to be included in your policy development to make them even more relevant to Canadians. If we can find a way to guide the ethics of Advisors, the other small issues simply become details. I strongly encourage you to reach out to these groups and see what they have to offer to make our industry better. **Making Financial Advisors a profession, will create better advisors, provide a more streamlined approach to regulation and most importantly will provide a great boost to consumer confidence, literacy and outcomes.** If you can accomplish this you will have helped Canadians and our industry to be better.

Thank you again for the opportunity. Please feel free to contact me if you have any questions.

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