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June 9, 2017

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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

Dear Sirs/Mesdames:

Independent Financial Brokers of Canada (IFB) welcomes the opportunity to provide further input to this important discussion. IFB has made previous submissions on this topic in 2015, and more recently responded to the CSA's Consultation Paper 33-404*: Proposals to enhance the obligations of advisers, dealers and representatives toward their clients*, which explored 10 targeted reforms and a best interest duty.

IFB is the pre-eminent voice of financial advisors who have chosen to be independent. Its members are self-employed, generally operating small-to-medium sized financial practices in communities across Canada. To be clear, they are not career agents, or employees of financial institutions. They do not work for proprietary firms. In fact, IFB members pride themselves on their ability to offer financial advice on insurance, wealth management and every day financial planning. They can access products from a range of providers to address their individual client's needs. The majority are dual-licensed as mutual fund registrants and life insurance agents. These advisors, and their clients, stand to be impacted the most by these proposals, and IFB frames its response to this submission with this uppermost in mind. To learn more about IFB and how it supports its members, please visit www.ifbc.ca.

IFB appreciates the CSA's efforts to gain a deeper understanding of the interplay between the current compensation practices in the securities sector, and positive investor outcomes. To wit, the CSA's public interest mandate is both to protect investors **and** encourage a competitive and efficient market. It is imperative that in advance of implementing this Proposal, and initiating very fundamental change to this market, there is a fulsome discussion of the consequences – both intended and unintended. It's important to get it right from the outset, to minimize future change and disruption.

The CSA should consider, and measure, whether regulatory objectives could be achieved effectively through less burdensome means. IFB believes this calls for a more principles-based approach when setting regulatory policy to ensure it remains adaptable to change. Principles-based regulation allows regulators to set desirable outcomes to shift the market. In this instance, a principles-based approach to compensation, coupled with some targeted prescriptive measures to deal with specific higher-risk situations, will be better positioned to endure over cyclical and evolving markets, while at the same time preserving choice for investors.

IFB is responding on behalf of its nearly 4,000 individual advisor members. IFB is a member-driven association – it gives a voice to its members, and they guide its direction. To inform this response, IFB conducted an informal online survey comprised of many of the CSA questions posed in this consultation paper. Participation was voluntary. Hundreds of advisors responded – often with in-depth and detailed answers. Advisors from nearly every province and territory participated. Most respondents were from Ontario, with Alberta and BC respondents making up the next largest groups.

Throughout this submission actual quotes from these respondents are highlighted, so the CSA can hear directly from advisors in communities and provinces across Canada.

Potential Impact on Competition and Market Structure:

Independent advice channel will be disproportionately affected

The CSA has asked for input on the potential effects of a ban on embedded fees and trailers (the "Proposal") on representatives in the mutual fund industry. IFB welcomes the opportunity to contribute to a better understanding of the potential impacts on independent advisors.

According to the MFDA's latest statistics, there are currently 83,000 licensed mutual fund representatives. 32,000 are licensed through Financial Advisory firms, where they are responsible for building their own book of business. These advisors, which include IFB members, currently service 2.36 million households.[1] This is not an insignificant number of advisors, or households, which stand to be disadvantaged through this Proposal.

[1] MFDA Client Research Report. May 2017. Page 19.

Many IFB members started their career as employees, or captive agents, of a financial institution. They then moved on to start an independent financial practice, which allowed them to offer clients advice, and products from a wider range of providers. This is reflected both in the age of the survey respondents (62% are between 51-69 years of age)[2], and their years of experience (80% have been financial advisors for over 15 years).[3]

They have built their businesses through the only compensation model available to most of them – commissions and trailers. As self-employed individuals, they have no pension plan. They rely on the trailers to help offset the cost of servicing smaller (less profitable) accounts, and to help finance their business expenses. It is also a source of income to support their families, to fund their retirement, and to enhance the value of their book of business when sold.

> *My retirement would be in ruins, since my book of business would be close to worthless.*
> - IFB Survey Respondent

> *I wouldn't be able to feed my family. I would have to leave the business.*
> - IFB Survey Respondent

IFB and its members believe that the outcome of the Proposal will have the most detrimental effect on independent firms and advisors operating in the MFDA channel, and by extension their clients. Most of these advisors serve clients and families with modest accounts or investable assets. The Proposal as set out will force many of them out of the business, and leave their clients with little recourse to access personalized advice.

> *Clients wouldn't be able to afford to pay fee-for-service. I would leave the investment industry completely. I wouldn't be able to continue to work and not make money.*
> - IFB Survey Respondent

This "unplanned" exit was borne out in the IFB survey results. When initially asked, 62% of advisors said they do not plan to retire in the next 5 years. However, when asked (later in the survey) how likely they would be to exit the business if embedded fees and trailers were banned, the number of those who said they would retire, sell or otherwise leave the business, jumped significantly. Nearly 70% indicated that a move to fee-for-service would motivate them to exit the business[4].

> *I have a Succession Plan in place and it depends upon trailers to make it happen. To preserve my family's income, I would close the business and 9 employees would be let go to find employment elsewhere.*
> - IFB Survey Respondent in British Columbia

[2] 30% of respondents are between 51-60 years; 32% are between 61-69 years of age.
[3] 33% have 16-25 years of experience; 47% have over 25 years of experience
[4] 21% said they would retire, 46% said they would sell or otherwise leave the business

This points to the potential for a sudden exodus of many highly experienced independent financial advisors from the industry. It is difficult to see how this will benefit investors – and the small to mid-sized investor in particular.

IFB reiterates its comments, made in the last consultation, that regulatory policy should not affect market competition to the point of driving those who make a legitimate living, working under the current regulatory regime, out of the market. At the end of the day, selling investments and providing investment advice is a business, and an advisor must be able to derive sufficient income from his or her business for it to be a going concern.

It is alarming that the CSA appears to accept as a given that its Proposal will have the greatest negative impact on independent firms and, as a result, reduce the number of independent, smaller mutual fund dealers and advisors. This impact has also been asserted by the MFDA in its recent Client Research Report[5]. It is unclear how reducing the advisory choices currently available to investors contributes to the CSA's investor protection mandate, or to a fair and competitive marketplace.

> *Embedded commissions and trailers represent the years that advisors do not have any pension plan or union to protect them. No EI coverage. No mandated employee benefit plan, and no retirement age. No overtime or statutory holidays. Plus, advisors, like lawyers, spend the first half of their career underpaid and sacrifice family life.*
>
> - IFB Survey Respondent based in British Columbia

The vast majority of consumers in communities across Canada are satisfied with, and value, their relationship with their advisor. Yet, as previously stated, the survey results demonstrate that the most experienced independent advisors (those with 25 years of experience) are likely to exit the business if trailers and embedded commissions are banned. The CSA suggests this 'gap' can be filled by bank channels or robo/direct investment firms. IFB and its members fail to see how either of these choices is a suitable replacement for the advice of experienced advisors.

Change in investor experience and outcomes

The CSA has asked for input on the effect the removal of embedded commissions will have on investors.

IFB agrees with the regulatory objectives of ensuring investors are treated fairly, understand the fees they pay, and that incentive-based compensation arrangements should not undermine the provision of sound financial advice. IFB fully supports the regulatory goals of insurance and securities regulators, and self-regulators, that clients should be provided with clear and transparent reporting on the costs associated with their investments, and the performance of their investments. IFB members feel strongly that they add substantive value to their client relationships in this regard, that investors who use online channels do not have access to.

[5] MFDA Bulletin #0721, Client Research Report. http://mfda.ca/wp-content/uploads/Bulletin0705-C_2.pdf

> *The cost of compliance and service could not be met on a fee-for-service basis. E.G. 25K account pays me now $125. My cost per client has me losing money at that point. Now service for my entire book remains possible based on larger average accounts.*
> - IFB Survey Respondent from a small town in Alberta

It is equally important to note that IFB Members' clients are often the middle income (mass market) individuals and families who might not otherwise gain access to professional, personalized advice. Removing trailers is unlikely to create better outcomes for these clients if firms and advisors can no longer service them. Today, many financial institutions and firms are increasingly concentrating on more profitable high net worth clients.

> *I have a smaller practice, with less than 100 families. As it is, the revenue from embedded commissions from larger clients essentially subsidizes the level of service that I can provide to my smaller clients. I can't very well charge a smaller client with, say, $25,000 in assets $1,000 or more a year, yet in terms of time required that would be what it costs to provide the level of service that I give to all clients. Often, it seems, the smaller clients are the ones who are on a shoestring and need more advice than the larger client does!*
> - IFB Survey Respondent in a large Alberta urban area.

As the CSA, itself, points out: *"A potential negative impact of the discontinuation of embedded commissions for mass-market households is that some independent fund dealers may choose not to continue to service these households.*

Overwhelmingly, survey respondents stated that the Proposal will force many of their clients away from personalized advice, because clients will not be able to afford the kind of direct fees the advisor would have to charge if the account is no longer supported by trailers. Some of these advisors today offer choice in the ways clients can pay them. However, they see no value in reducing these choices for all investors, and thereby harming those with small accounts. The ability to cross-subsidize income received from trailer fees allows advisors to service smaller clients.

Advice Gap.

The CSA suggests that there will be no advice gap created by the Proposal, largely because it surmises that consumers will obtain advice and products from deposit takers, like banks, or online channels or other means of direct investing. What underpins this viewpoint is the assumption that online advice is interchangeable with face-to-face advice. Many investors, however, are unlikely to be comfortable in <u>completely</u> replacing personalized advice. Financial advice has value that extends beyond the selection of a financial product, as articulated in various studies the CSA has referenced in its paper. Some investors will be comfortable with non-advised channels, but this should not be a forced choice.

> *Smaller accounts would likely end up in bank deposits because fees would be too high for the client.*
> - IFB Survey Respondent

Many of my clients are young professionals or families without a lot of investable assets, and would not be able or willing to pay the cost associated with an upfront, out-of-pocket fee. Upfront commissions help compensate me for my time, without them paying out of pocket.

- IFB Survey Respondent

IFB strongly believes the Proposal will lead to an advice gap for a particular segment of investors. It will reduce the ability of mass market households to receive personalized advice, especially those households with less than $100,000 in investable assets. Studies, supplemented by our survey results, have shown this group of investors is less likely to be able to afford, or willing to pay, upfront fees.

The MFDA's Client Research Report indicates that 37% of investors with less than $100,000 in assets are over 55 years of age[6]. This statistic takes on greater significance when viewed in conjunction with the IFB survey results, which show many advisors would exit the business in the face of this Proposal. Under this scenario, clients nearing retirement will have fewer experienced advisors to rely on, and at a time when more, not less, advice is needed.

In a fee-based world, AUM will dictate whether you work with a client or not, given the significant costs associated with being an independent advisor, and yet it is those lower income families that really require the help of a professional.

- IFB Survey Respondent

IFB shares the grave concerns of its members that a ban on embedded fees across all investment funds will impair investor outcomes. Mutual funds are the investment of choice for mass market households.

Removing choice from the market will create additional concerns that can be better addressed by education, better transparency and disclosure of costs. Consumers have choice in how they invest now. They can opt for a fee-for-service model, or use online self-directed investing platforms, or go to a bank that doesn't charge upfront fees but incents its salesforce through bonuses and other means. ETFs are a fast-growing segment of the investment market. This provides choice for investors who do not want to deal with an advisor and/or wants to reduce their costs.

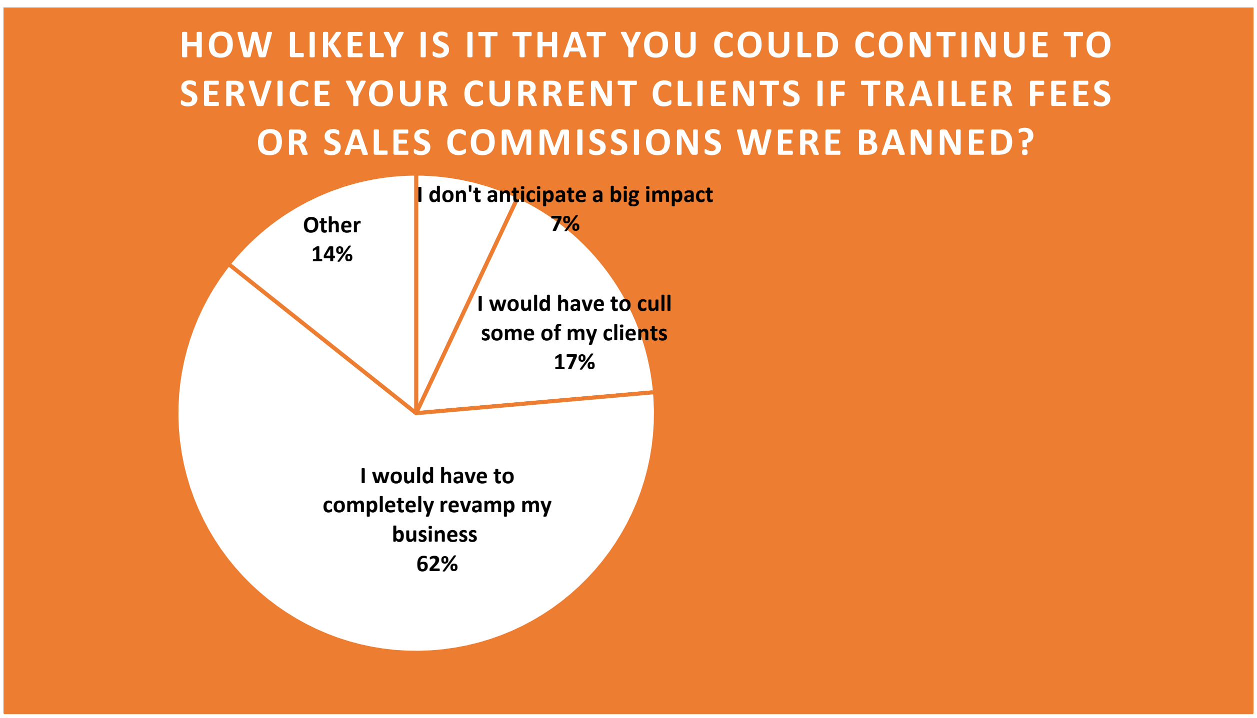
It reduces us to piecemeal pricing and that is just not good for clients who need to be able to call us with any financial question without us charging them each time we do something.

- IFB Survey Respondent from small-town Ontario

[6] Ibid. page 10.

Embedded commissions allow advisors to take care of small investors and grow them to large investors. We know we will not make a lot on new investors but if we help them grow their wealth it pays off eventually for both us and for them.
- IFB Survey Respondent from small-town Ontario

Not only did IFB members indicate that clients would likely resist direct pay arrangements, client-focused advisors resist the idea of having to charge the client for every interaction. In today's market, independent advisors bundle advice and services for clients that would not be possible under the proposal. The benefits of this arrangement are not captured in the research done to date. In addition, how will mass market, smaller investors negotiate with advisors? They will lack skill, or perhaps confidence, as well as the investable assets to do so effectively. IFB and its members question whether trailer fees do, in fact, represent a more expensive option for consumers, given this gap in the research.



Direct pay may appear more transparent, and less complex for investors to understand. With CRM2, however, these fees are broken out. Clients can vote with their feet and search out another competitor if they are unsatisfied with the service received relative to the cost of an investment.

If independent firms and advisors are pushed out, clients will be forced to move to the banks and bank-owned firms, concentrating the mutual fund market even more than it is now. The MFDA reports that, *"The deposit-takers have the vast majority of household relationships (72%) and assets (59%) in the MFDA membership. FA firms are the second largest category with 27% of households and 39% of* *membership assets. Direct sellers represent 1% of all household relationships and 2% of assets within the MFDA membership.* [7].

No discussion of conflicts arising from fee based practices.

The lack of consideration given to conflicts that can arise from fee-based advice is, in our view, a major omission in this consultation paper. It is inevitable that all forms of compensation connected to the sale of a product can create a potential conflict. It does not follow, however, that potential conflicts of interest inevitably give rise to inappropriate conduct. And, while direct fees may be more transparent to clients than embedded fees, this is being addressed, and equalized, through CRM2.

In addition, clients, especially those who are inexperienced or those with small accounts, may be uncomfortable negotiating a fee with the advisor, or may not be eligible to engage a fee-based advisor based on their investable assets. This will reduce the investment advisory choices available to them. Under a direct fee arrangement, a client may be aware of the fee they pay from a set percentage, say 1.5% to manage the portfolio, but, this may be no more transparent if the client doesn't know if this is reasonable number.

Merely exchanging one form or compensation for another does not remove conflicts. One common approach to setting fees is to tie it to the client's AUM. This creates an incentive to increase the AUM. The potential downside is that the advisor may not consider other strategies such as more suitable investments, or divestures, or using assets to reduce debt. If the advisor is paid to gather more assets that may well become the focus. Fees deducted directly from the client's account, can be less obvious to the client (as compared to explicit disclosure such as is prescribed with CRM2), and may go unquestioned. A further consequence (as noted by advisors in many of the survey responses) may be that the client will, in fact, pay higher fees for the same level of service.

Instead, IFB recommends that the CSA consider other improvements to the current compensation system which we believe will address its concerns, while permitting investors the greatest flexibility in how, and where, they choose to obtain their financial advice. We believe a fundamental flaw in the CSA Proposal is that it does not distinguish by size, risk or business model.

> *I work in a fee-based Financial Planning practice. Our insurance operation is not the larger part of our business, however, it does pay a portion of ongoing expenses. Our lower net worth clients would not be serviced if we did not have the insurance operation and receive mutual fund commissions.*
>
> - IFB Survey Respondent

[7] MFDA Client Research Report. Page 8. http://mfda.ca/wp-content/uploads/Bulletin0721-C.pdf

Impact of Technology

The financial services industry continues to evolve at a rapid pace. Technology, particularly innovation related to distributed ledger technology and blockchain, stands to substantially reform many of the administrative and compliance processes in place today. It is likely that many paper-based transactions and records, like KYC and client identification, will become digitized and form instant and permanent records. This could well lighten the compliance load for firms, advisors and regulators in the near future.

> *I think there will be a group of people that want 'robo' advisor advice. But most clients I deal with want a personal review that includes more than their risk tolerance and some cookie-cutter approach. So in the short term, I think the robo/discount firms will grow and in the process a lot of people will lose their advisor. The advisor will have to leave the business or cull clients – and I am not talking about really low net-worth. Clients with what used to be a good amount (i.e. $100K in assets) now are too small to be a fee-based account.* - IFB Survey Respondent

Better enforcement of existing standards

Regulators, including IIROC and the MFDA, already have considerable authority to discipline firms and advisors, including issuing a permanent suspension from the industry. Better enforcement of existing rules may well address many the investor protection issues without the unintended consequences that this Proposal may bring.

For example, National Instrument 81-105 prohibits dealers from providing incentives that favour the sale of proprietary funds over funds of third party companies.[8] Yet, the MFDA and IIROC found that integrated firms paid higher commissions to promote sales of their own products, and paid hefty referral fees to move investor accounts to associated parts of the company (e.g. to portfolio managers within the bank owned dealer). [9] We look forward to receiving more information on the enforcement action IIROC and the MFDA takes, and to learning more details of these cases. These conflicts should be addressed, and action taken. At the same time, these firms also have the greatest market concentration. A ban on embedded fees will serve to push more investors to these firms, leading to even greater market concentration and reduced competition.

On this point, the Financial Market Authority in New Zealand has noted "*potential conflicts from vertically integrated models is something the FMA has highlighted in its strategic risk outlook as being an*

[8] National Instrument 81-105: Mutual Fund Sales Practices. http://www.osc.gov.on.ca/documents/en/Securities-Category8/rule_20090918_81-105_unofficial-consolidated.pdf

[9] MFDA Compliance Bulletin #0705, Review of Compensation, Incentives and Conflicts of Interest. December. 2016. http://mfda.ca/wp-content/uploads/Bulletin0705-C_2.pdf
IIROC Notice 16-0297, Managing Conflicts in the Best Interest of the Client - Status Update. December 2016. http://www.iiroc.ca/Documents/2016/4dd98e70-f053-4980-bc75-10ceb6f3940d_en.pdf

inherent driver of risk in financial markets in New Zealand". IFB submits that this risk should receive the attention of Canadian regulators, yet it is not addressed in the Proposal.

Setting registrant proficiency requirements is within the regulators' jurisdiction and formed part of CP33-404. We understand the CSA plans to advance the proficiency reforms through a separate CSA project.

In addition, the CSA has indicated it intends to proceed with further refinement of the targeted reforms and best interest evaluation which are intended to strengthen the advisory standard of conduct, and make the client-registrant relationship more centered on the interests of the client.[10] Moving forward on this initiative, the improved disclosure for investors required by CRM2 and POS (Fund Facts) and the findings from the CSA's evaluation study will all contribute to a better understanding of how these changes have addressed the CSA's concerns.

IFB looks forward to commenting on these initiatives as they proceed.

Structural conflicts not addressed.

A ban on embedded fees does not address the wider issue of conflicts arising from compensation strategies within financial organizations. The Proposal focusses on embedded fees as conflicted remuneration between advisors and clients, yet the companies, dealers and manufacturers control how advisors are paid. A broader examination of these structural conflicts needs to be undertaken.

Certainly, the recent revelations by CBC's "*Go Public*" (which has now led to Parliamentary hearings) alleging that consumers faced high pressure sales tactics from bank employees under intense pressure to achieve sales targets – sales targets set by management -- emphasizes this point. Clearly, if executives, senior staff, and middle management all benefit from increased sales, this creates a much wider culture of incentive-based selling, far beyond the control of individual advisors. We believe this speaks to the need to ensure compensation practices dovetail with good governance practices.

> *Young advisors will have no ability to build a book. Trailers are the single most important way to keep an advisor looking after their current clientele. If trailers go away, the advisor will be forced to sell more to new clients, and give less attention to current clients.*
>
> \- IFB Survey Respondent

These allegations are especially troubling, given that the CSA paper states that deposit-taker and insurer-owned MFDA firms administer 90% of mutual fund assets and employ 93% of approved persons. Other MFDA firms account for 73% of member firms but only 6% of approved persons. It is clear, then, that the majority of mutual fund firms also sell proprietary products.

[10] CSA Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers and Representatives towards their Clients. April 2017.
http://www.osc.gov.on.ca/documents/en/Securities-Category3/csa_20170511_33-319_proposals-enhance-obligations-advisers.pdf

The CSA observed in its report on compensation arrangements and incentive practices of firms that "*these arrangements favour proprietary products over third-party products whether through higher payout rates, bonuses, increased revenue recognition or through other forms of additional compensation. Only integrated firms reported these practices. Some firms reported paying their representatives a higher grid payout rate for all their proprietary mutual funds while others paid a higher rate only for a subset of their funds. Other firms based a part of representatives' annual bonus on the performance of their business unit, which included both distribution and asset management. Other firms also reported annual performance review processes that seemed to focus on representatives' activity vis-à-vis the sale of proprietary products over and above their ability to generate revenue for the firm generally.*"[11]

The CSA has noted that incenting "*representatives and the firm to drive sales of proprietary products…can result in inappropriate advice and inferior client outcomes*".[12]

We expect the Proposal to have a disproportionately negative effect on the ability of independent firms and advisors to remain in business if implemented, which <u>will expose more clients to this inappropriate advice and inferior outcomes</u>.

Improved Investor engagement, through broader consultation.

The voice of investors who have had satisfactory experiences with advisors, often over the course of many years, is absent from these consultations. This has led to an imbalance in perspectives. We hope regulators will actively reach out to and engage with a broader cross-section of the investing public, so the dialogue is representative of a variety of viewpoints.

Promote financial literacy

Financial advisors are also <u>financial educators</u>. Clients report that they turn to their advisor for information and advice. Advisors should have the appropriate level of proficiency to be able to inform clients. Information asymmetry exists in many professional occupations, and financial advice is no different.

> *Clients need help and advice to navigate, not just investments, but government plans and programs.*
> - IFB Survey Respondent

Improving the general level of comfort with, and understanding of, financial information is imperative to improving the conversation between consumers of any financial product and those who offer those products. CRM2 builds on this, as do the Fund Facts.

[11] CSA Staff Notice 33-318 Review of Practices Firms use to Compensate and provide Incentives to their Representatives. http://www.osc.gov.on.ca/documents/en/Securities-Category3/csa_20161215_33-318_incentives.pdf

[12] Ibid. page 4.

Financial literacy is the focus of many regulatory and government initiatives. Industry associations, financial firms, and consumer groups have also been actively providing access to information, increasingly in plain language formats. While much more needs to be accomplished, consumers – especially younger consumers - are more informed and comfortable questioning the information they receive. Statistics show younger consumers conduct as much as 90% of their research online before they get to the purchase stage. We live in an age of consumer activism, driven by social media. We see media reports of consumer whistleblowing leading to large scale action (the FCAC investigation and Parliamentary hearings stemming from the CBC Go Public allegations into bank sales practices is a good case-in-point).

Recommendations.

To improve investor outcomes, while preserving access to independent advice, IFB recommends:

1. Retain choice in compensation models but standardize embedded fees to remove any incentive to promote one fund over another; Set appropriate standards for receiving trailer fees, for example expectations for client service and removing trailers from DIY or other non-advice channels.
2. Retain DSCs, as they have value to some clients, but reduce the time from 6-7 years to 3 years. In effect, create a low load hybrid, which preserves the choice of investing in a DSC.
3. Explore a standardized approach to assessing risk tolerance to be used across the industry. Inappropriate risk tolerance is often connected to complaints, and methodology varies widely.
4. The CSA should encourage a broader perspective of investor feedback to provide balanced input from a wide range of investors.

> *How are any new advisors going to break into the industry? If it's only proprietary or integrated firms with in-house sales personnel, they will sell only their own products, and not what is in the best interest of the client.*
>
> - IFB Survey Respondent

Conclusion

IFB agrees that improvements can be made to the current regulatory system that will lead to better client outcomes. However, we see this happening in conjunction with the full rollout of CRM and CRM2, Fund Facts improvements, and some additional tweaking. <u>We do not see the need for a wholesale disruption</u> – <u>the negative impacts of which will be disproportionately greater for smaller, independent dealers and their advisors</u>. This outcome is especially problematic, because the CSA's and MFDA's own research suggests conflicts related to incentivized compensation is more prevalent in integrated firms.

I fear having to close my doors due to operating my business with a store front in a small community. I am not convinced (my clients) would adapt to paying a fee-for-service. I have a 10-year lease for my office, and a staff and a family to support. I'm very concerned about a commission ban.

- IFB Survey Respondent

The CSA recognizes that a transition to direct pay arrangements would require adopting new business models and processes. There is no doubt that integrated firms will be far better positioned to absorb the cost incurred with migrating away from the current system of compensation. Again, leaving smaller firms and their advisors less able to be competitive.

The Proposal also fails to consider the value independent advisors see in the work they do with clients, and the pride they take in serving them well. They want to help clients be more financially secure. Many have chosen to set up an independent practice after having worked for a bank or proprietary firm. As experienced advisors, they offer clients support that goes beyond product selection.

If the public truly understood how this will impact their financial options, I don't feel they would be in favour. In speaking with many clients over the years and coming from the banking industry myself, it is a fact that just because an advisor is paid an hourly wage does not confirm they will have the client's best interest. I would argue that BECAUSE I ONLY rely on commissions, I have more at risk to ensure my client is receiving the service and education they deserve in order to keep my clients. I don't consider my clients to be 'customers'. My business is not dependent on offering 'transactions'. My business is based on relationships. I am very concerned about being forced to convert my business to fee based. In talking to my clients they do not like the idea of paying a fee for service and said they would likely not continue to work with me if it becomes the case. That has me very concerned. I have invested 18+ years of my life into my career…I don't want to be forced to close my doors if I can't find a way to make this new process work for my client base.

- IFB Survey Respondent

Integrated financial institutions, like banks, benefit from ongoing contact with individuals and businesses who deal with them on a regular basis. This provides them with the opportunity to continually up-sell and cross-sell. Independent advisors, on the other hand, build their own book of business and fund their own business expenses. These advisors must reach out to potential clients, and be persistent to attract and retain them as clients. They spend a great deal of time – often unpaid – before this happens. Commissions and trailers help compensate for this. How will reducing this choice – for both advisors and clients –lead to better investor outcomes or a better marketplace?

We thank the CSA for the opportunity to provide our comments, and urge the CSA to explore options that will address its investor concerns, without creating the negative consequences that we have identified in this submission.

We would be pleased to discuss our submission and the survey results at your convenience. If you wish to do so, please contact the undersigned, or Susan Allemang, Director Policy & Regulatory Affairs (email: [redacted]

Yours truly,

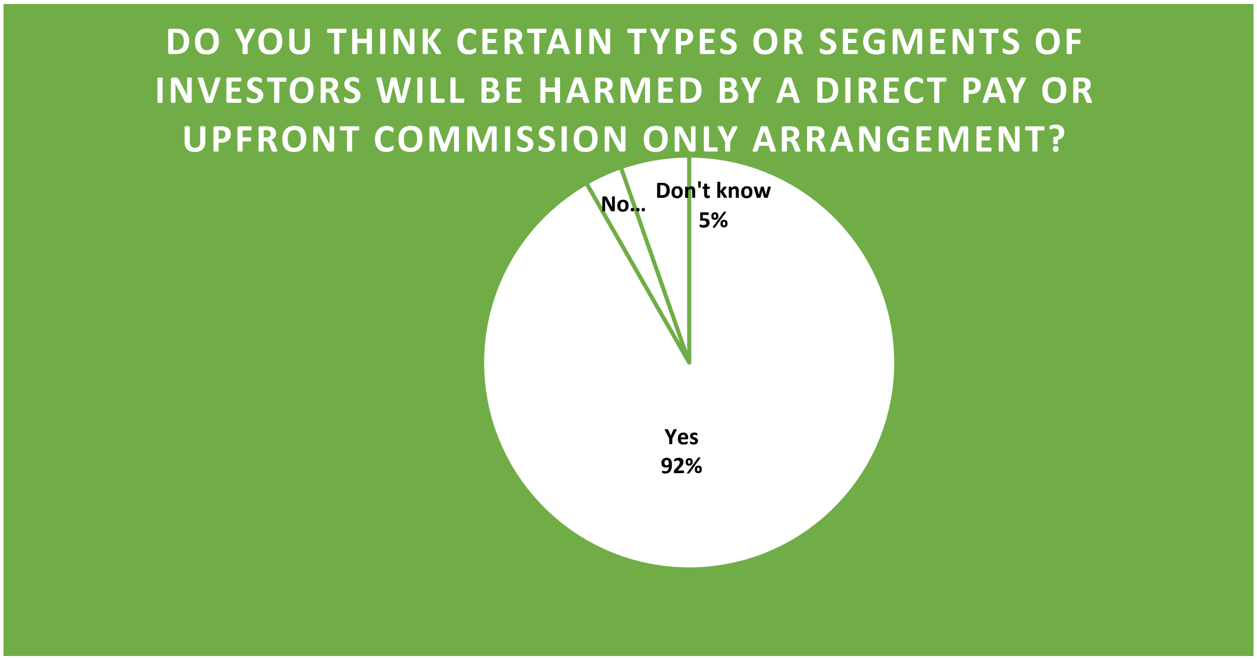
[redacted]

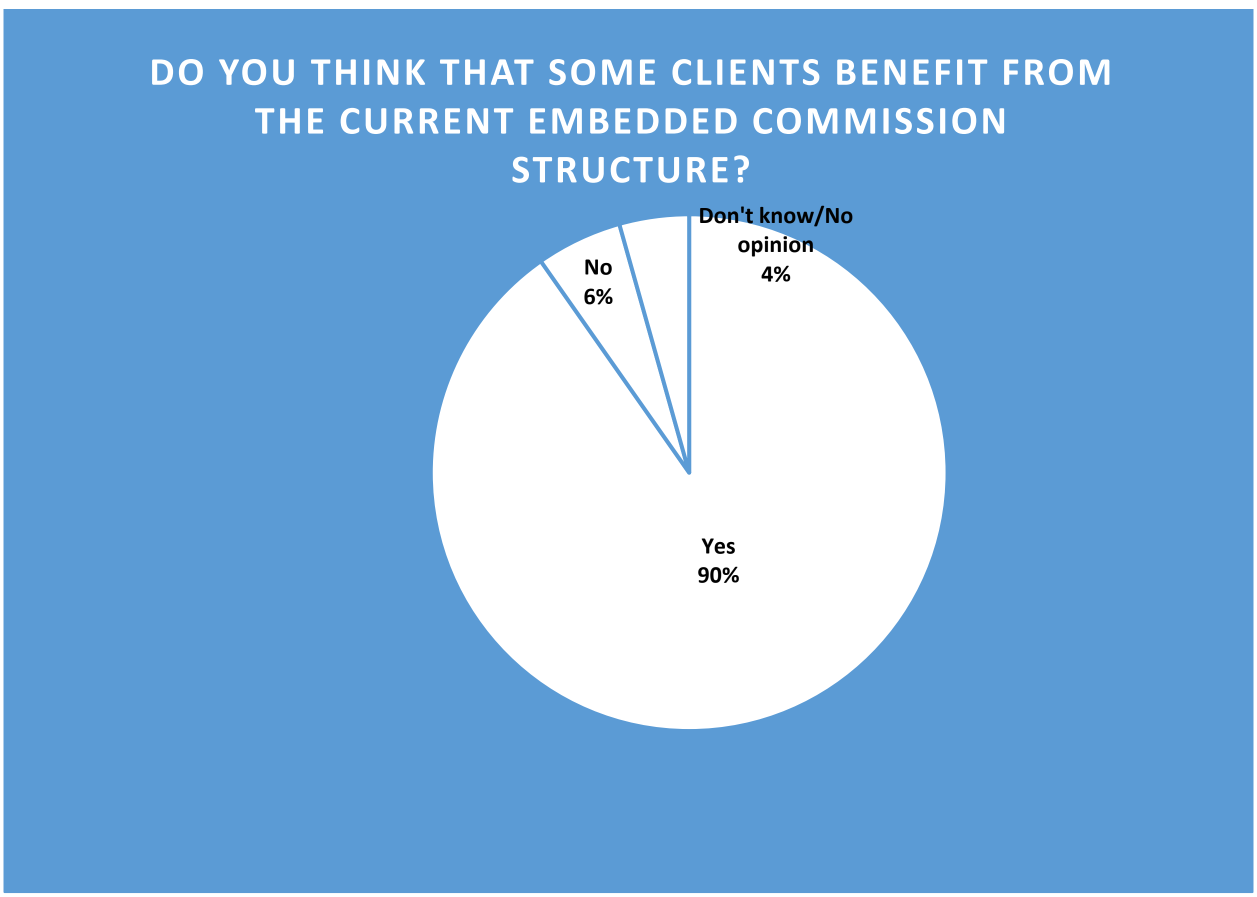
[redacted]

Nancy Allan
Executive Director
[redacted]

Scott Findlay
President & Chair, IFB Board of Directors

Appendix


DO YOU THINK CERTAIN TYPES OR SEGMENTS OF INVESTORS WILL BE HARMED BY A DIRECT PAY OR UPFRONT COMMISSION ONLY ARRANGEMENT?
No...
Don't know
5%
Yes
92%


DO YOU THINK THAT SOME CLIENTS BENEFIT FROM THE CURRENT EMBEDDED COMMISSION STRUCTURE?
Don't know/No opinion
4%
No
6%
Yes
90%