October 18, 2018

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 of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

c/o The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8

Dear Sirs/Mesdames:

Re: CSA Request for Comments - Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)

Tacita Capital Inc. serves the investment and wealth management needs of Canadians. It is a portfolio manager registered in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. Tacita Capital is also an Exempt Market Dealer in British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick and Nova Scotia and an Investment Fund Manager in Ontario and Quebec. We would like to thank you for the opportunity to comment on the proposed reforms to enhance the client-registrant relationship.

We believe Canadians are best served by capital markets that are efficient, competitive and transparent; provide the widest possible investment opportunity set for investors to diversify their portfolios in a manner consistent with their needs and circumstances; allow for innovation in the design and delivery of improved advice and products to all Canadians; and recognize that investment strategies for individual investors are most effective when integrated into a financial plan. We fully support the need for stringent educational, experiential and professional standards for industry participants and the need to ensure reasonable safeguards for investors particularly in respect of know your client (KYC), suitability of investment, know your product (KYP) and clear disclosure standards.

Our specific comments are as follows:

Referral Arrangements

Major changes have been proposed to the referral arrangement provisions of NI 31-103, which were not contemplated in the Canadian Security Administrator's 2016 Consultation Paper 33-404. We believe these changes will not improve outcomes for clients particularly in allowing more advanced, customized portfolio management solutions to be accessed by a broader range of Canadian investors and integrating investment portfolios into the comprehensive financial plans of Canadian families. These changes will also stifle innovation and competition and contribute to the further concentration of the investment industry in the hands of a few major financial service companies.

The current referral arrangements have provided portfolio managers with a mechanism to work on an ongoing, long-term basis in multi-disciplinary teams with referring parties, both from the securities and insurance industries, in delivering more customized portfolio management services to investors, including less affluent households, while meeting the investors' broader needs for financial planning advice and insurance solutions. It has also allowed smaller, independent portfolio managers and securities firms to compete with the holistic investment, insurance, financial planning and credit solutions increasingly offered by multi-disciplinary teams from Canadian banks.

Technological advances combined with the proliferation of low-cost exchange traded funds (ETFs) have made it possible for portfolio managers to construct and manage robustly diversified multiple asset class portfolios for clients in a mass customized fashion at an economic cost. In the United States, turn-key asset management platforms have established an essential presence, growing from $14 billion of assets under management 20 years ago to more than $3 trillion today, evidencing how these investor-focused portfolio management solutions are gaining broad acceptance. Turn-key asset management programs (TAMPs) offered through independent registered investment advisors and broker-dealers and their advisors has been a major area of growth with assets of the major TAMPs approaching $700 billion.

TAMPs are increasingly used by financial planners in the US. The financial planner employs a more advanced investment solution for their clients (e.g. greater customization and diversification, tax conscious vehicle allocation across household accounts, automatic rebalancing, tax loss harvesting, open architecture product selection, superior product due diligence, enhanced reporting) while freeing up time for financial planning analysis and advice (e.g. retirement planning, estate planning, insurance solutions, cash flow planning, tax planning). Technological and system advances have driven down the annual fee charged by some TAMPs to 0.3% to 0.5% per annum for their portfolio management services. A separate annual fee component is paid to the financial planner's investment firm, typically in the 0.75% to 1.0% range. Combined with the extraordinary low cost of ETFs, this is a truly economic solution that meets the needs of investors for customized, tax managed, multiple asset class portfolio management in conjunction with ongoing financial planning.

Portfolio managers providing turn-key asset management services are a comparatively new participant in the Canadian landscape, but their numbers are growing. Under existing securities laws, referral arrangements are the primary means by which such portfolio managers form ongoing working relationships with referring parties who separately provide financial planning and other services to the clients. The portfolio manager is fully responsible for the KYC, suitability and KYP requirements as integral elements of the investment management process. The proposed changes to referral arrangement will eliminate the ability to form ongoing working relationships and hence, curtail the access of many Canadians to a more advanced and customized portfolio management solution.

In regard to existing referral agreements, the three-year expiry date will result in the termination of long-term working relationships between portfolio managers and referring parties that will inevitability result in the dislocation of many investors. Consequences that can occur include a shift to less customized and diversified portfolios, unneeded capital gain tax realization, and the anxiety of investors being deprived of the services of a multi-disciplinary team after many years of satisfied use.

We respectfully recommend that the proposed changes to the referral arrangements be placed in abeyance and a broader consultative approach be adopted. We suggest an advisory committee be formed to investigate in-depth the elements of a referral arrangement that can meet the concerns of the regulators while supporting the delivery of more advanced, customized portfolio management solutions to a broader range of Canadian investors in a more innovative and competitive market place. Having worked in the US with a firm that included a TAMP, I would be more than willing to sit on such a committee.

Know Your Client

We support the expanded KYC requirements. However, many investors allocate their investable capital across different portfolio managers and/or securities firms. For example, an investor may allocate their monies for fixed income investments to one manager and their equity investments to another. These investors are assuming personal responsibility for the asset mix decision that, in a well-diversified portfolio, is the primary determinant of the investor's overall portfolio's return and risk.

Hence, the KYC process including the determination of objectives and risk profile must be tailored not only to the client but to the mandate for which the registrant is being retained. The responsibility of the registrant must be limited to ensuring the mandate is compatible with the client's goals, liquidity requirements and time horizon for the capital allocated to them (e.g. an equity mandate for long-term retirement); explaining the risks related to particular mandate; and ensuring the investor has the risk profile, both in terms of capacity and tolerance, to assume the risks of the particular strategy. The registrant specifically should have no requirement to advise the client in respect of the overall asset mix if they are not retained to give such advice and should not be responsible for the consequences of an unsuitable asset mix.

Conflicts in Fee Based Accounts

In the treatment of fee-based accounts that hold securities with embedded commission, custodians may retain the embedded commissions, and these are not paid to the portfolio manager. In certain circumstances, funds with embedded commissions may be transferred into a client's fee-based account and may be determined to be suitable considering the costs of the deferred service charge and/or taxable gain on sale. These funds may be retained in the client portfolio, at least until they can be converted into a no commission share class or sold on a tax-optimized basis. In these instances, if the custodian receives the embedded commission and not the portfolio manager, the custodian (if a registrant) and not the portfolio manager should be responsible for making the client whole.

We would like to thank you for the opportunity to make this submission.

Yours truly,

Michael Nairne, CFP, RFP, CFA
President