THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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Delivered By Email:

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British Columbia Securities Commission

Alberta Securities Commission

Financial and Consumer Affairs Authority of Saskatchewan

The Manitoba Securities Commission

Ontario Securities Commission

Autorité des marchés financiers

Financial and Consumer Services Commission (New Brunswick)

Nova Scotia Securities Commission

Attention:

Josée Turcotte
Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporated Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
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Montréal (Québec) H4Z 1G3

Dear Sirs and Mesdames:

RE: CSA Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward Their Clients

We are writing to provide you with comments on behalf of the Members of The Investment Funds Institute of Canada ("IFIC") with respect to the Canadian Securities Administrators' ("CSA") *Consultation Paper 33-404 – Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients* (the "Consultation Paper" or "Paper"), published on April 28, 2016.

The industry reiterates its long-standing support for placing the interests of the client ahead of the interests of the registrant, where those interests may conflict. This objective can best be met by enforcing the current rules and addressing any gaps in the regulatory framework. We support reforms that improve the investment process and caution against adopting measures that are unclear in their application and may misalign client/adviser expectations.

We urge regulators to ensure that the regulatory framework continues to make investment opportunities available to all Canadians and that it does not jeopardize access to advice for

small investors and the durable economic value advice delivers. This means giving investors continued access to a wide range of financial products and services appropriate to their needs, at competitive prices. It also means not imposing detailed targeted reforms that attempt to regulate investment outcomes – something the markets should do. Attempting to do this through regulation may distort outcomes for investors which will not serve their interests well.

We have organized our comments into four parts:

1. Essential factors to consider in framing the proposed regulatory reforms
2. New requirements that should be re-considered
3. Comments on creating a Regulatory Best Interest Standard of Care
4. Comments on the key aspects of the targeted reforms

Also, as the Paper requests, we provide answers to the individual questions posed in the Paper in Appendix A.

We note that in Part 8, the Paper sets out a number of specific factors and practices the proposed best interest standard is not intended to change or suggest. Included among them are:

- not prohibiting charging clients for services or offering proprietary products;
- not interfering with registration categories;
- not guaranteeing that clients' investments will never lose value, always result in lowest cost product, or garner the 'highest' returns.

These are important and necessary qualifications as they clearly recognize the existing registration regime, current business models and what firms can practically be expected to deliver. We assume, therefore, that the CSA intends these qualifications apply equally to the targeted reforms. Our comments in this brief reflect this assumption.

Part 1: Essential factors for consideration

The Paper identifies the investor protection concerns which give rise to these proposals. It gives no consideration, however, to several factors that would constructively inform regulatory actions – in particular, the broad and lasting benefits of working with an adviser, the impact of regulatory changes recently implemented, and the significant market forces at play.

Broad and lasting benefits of working with an Adviser – particularly for clients with smaller amounts to invest

The Paper identifies client outcomes as one of its concerns, but at the same time notes that it has **not** (emphasis added) considered "findings related to the benefits that registrants may provide to their clients, for example, with respect to increased saving." This omission narrows the focus to assessing the value of advice based solely on portfolio returns relative to a benchmark. It ignores the significant additional returns that can be generated in a portfolio over time through, for example, regular savings contributions, the avoidance of common investment errors, and acting on relevant information for participating in registered accounts such as RRSPs and TFSAs.

The research cited in the Consultation Paper provides important insights. However, like all research, none is free from methodological constraints. We provide a brief review of the cited papers in Appendix B of this submission and describe the limitations of each in assessing the value of financial advice and the impact of conflict of interest in client-adviser relationships. Appendix B also summarizes the findings of five recent studies, not reviewed in the Consultation Paper, that quantitatively address the value of advice. We conclude that a broader examination of the evidence is required to inform the significant proposed regulatory reforms.

Requirements that are designed without considering their impact on the client-adviser relationship can result in unintended consequences for investors. For example, if the proposed measures were to restrict client access to individual financial advice, particularly for those with smaller amounts to invest or those just starting to invest, then many Canadians would be denied the substantial benefits that financial advisory relationships create.

Impact of Recent Rule Changes

CRM2 and Fund Facts reforms are sometimes described as being about transparency and disclosure only. This ignores the impact they are having on registrant and client behaviour. In fact they are generating significant business conduct changes including, for example, the shift to fee-based accounts.

The CSA has anticipated the transformational nature of these changes in the design of its multi-year research project announced August 22, 2016 [press release]. The release notes: *'the research will measure outcomes related to investor knowledge, attitude, and behaviour, registrant practices, and fund fees and product offerings'*. It also recognizes that the changes must be measured over a period of time to understand the full effects and *'will cover activity from 2016 through 2019 and is expected to be completed in 2021'.*

The results of this research will identify what works and what remains to be done. Proceeding to implement significant new reforms without waiting to know the research results will create disruption to the investing public and the industry, as well as distort the results of the CRM2 and POS initiatives. This seems contrary to the CSA's long-standing prudent approach to implementing an evidence based regulatory framework.

Market Evolution

Significant market forces are transforming product and service offerings, distribution channels and pricing structures. Technology is introducing new ways to deliver products, services and information and bringing new players to the market. Demographics are bringing a new generation of clients with different expectations of services and access. Market conditions and new products are driving heightened competition and lower prices [1]. The Consultation Paper makes no reference to any of these developments nor does it consider their impact.

Regulators should respond to, not lead, market developments. They should ensure investors are treated fairly and are risking their capital in a fair market. They should not pass judgement on the merits of investment products or choose winners and losers among various service offerings. Some of the targeted reforms will disproportionately disadvantage certain business models over others, potentially creating a less competitive market.

International Regulatory Developments

The CSA should consider investor outcomes in jurisdictions which have introduced significant changes to the regulation of the client-adviser relationship as well as those which have declined to adopt those changes. In the U.K., regulators banned bundled distribution fees and have subsequently identified evidence of an advice gap. To entice investors to seek advice UK regulators have proposed allowing investors to take out £500 multiple times from their pension plans to pay for investment advice. In New Zealand, the Ministry of Business, Innovation and Employment consulted extensively with industry and consumers to identify problems with their Financial Advisors Act and reported in July 2016 their decision not to ban commissions because of the risks it would pose for access to advice.

[1] Investor Economics' July 2016 Monthly Update reports that "since the beginning of 2015, 22 fund companies have taken steps to lower the cost of ownership of their products; such pricing actions impacted 759 funds and $409 billion in assets".

Part 2: New Requirements that should be re-considered

1. Most likely to achieve client's investment needs and objectives

Firms currently follow robust due diligence procedures when choosing the products they offer for sale to their clients. SRO rules ensure compliance with these procedures. The Paper introduces the new requirement for firms to choose products which will *'most likely meet the investment needs and objectives of its clients based on its client profiles'*. This test puts the regulator in the position of deciding what investment products and services will "most likely" meet the investment objectives of clients, a task they are not equipped to perform. To the extent the phrase *'most likely [to] meet'* seeks to regulate investor outcomes it should not be part of the rule.

2. "One size fits all" suitability proposal

The proposed suitability requirements may create the expectation that firms will provide financial planning services to all clients regardless of their actual needs or size of account. These provisions significantly expand the information to be collected. This level of detail is not required for the assessment of financial needs of most clients – keeping in mind that 74% of Canadians with investable assets have under $50,000 to invest [2].

The new requirements will increase the costs of setting up and managing accounts. The result will be an increase in account minimums to a level that can support the basic cost of such a service. Clients will be reluctant to engage in such a time-consuming exercise and provide detailed levels of data for a relatively simple investment transaction.

We agree that enhancements to KYC and suitability requirements can be made, but such enhancements should give firms the flexibility to develop "fit for purpose" financial needs analyses, and scalable solutions that meet the investing needs of their clients. Therefore we recommend that the CSA provide guidance and leave the details of the information to be collected with the SROs.

3. Knowledge of all products on a firm's shelf

Currently there is no expectation that each adviser is fully knowledgeable or familiar with every product on a firm's shelf. Advisers focus on products that will meet the needs of their clients – this is usually a sub-set of the whole product shelf. The new requirements ignore the firm's gatekeeper role in assessing and selecting products for their shelves and in working with representatives to identify the appropriate products to meet their clients' needs.

We do not believe it is practical that representatives be knowledgeable about products they do not sell or are not licensed to sell.

KYP provisions exist in the SRO rules and guidance. We note that KYP, as discussed in NI 31-103 and 31-103 CP is less onerous than the requirements and guidance of the SROs. We support strengthening the National Instrument to mirror the SRO rules.

4. Target Rate of Return

A requirement for an agreed-upon target rate of return for every size of investment and account along with a best interest standard of care will likely be misinterpreted by clients as a guaranteed rate of return. More helpful and relevant to clients, is to reframe the guidance in the rule into an appropriate target savings rate or contribution rate needed to achieve the savings objectives of the client.

[2] Investor Economics, Household Balance Sheet, 2015

Clients will be able to see their rate of return in the annual account statement, now required by CRM2. That information should initiate a discussion with their adviser about the right contribution rate.

5. Managing conflicts of interest in Mixed/Non Proprietary products

The requirement for firms with mixed/non-proprietary products to perform a fair and unbiased market investigation of all products and to list only those products which are most likely to achieve client investment needs and objectives will be difficult, if not impossible, to comply with. The CSA has stated elsewhere in the Paper that it does not intend to prevent firms from selling proprietary products. This requirement should not be implemented without further clarification on how firms will be able to demonstrate that they have met this new requirement.

6. Differentiating Registrants based on Business Models

Throughout the discussion of targeted reforms, the CSA differentiates registrant titles and disclosure based on whether the firm is proprietary or not, rather than focusing on the registrant category or conduct. We suggest that the proposed reforms apply the same treatment to licensed registrants who are subject to the same proficiency and conduct requirements, and not apply them differently based on whether products sold are proprietary or not. Differentiated treatment would seem to be at odds with proposals to achieve best interests for clients in a system that captures all registrants.

Part 3: Comments on creating a Regulatory Best Interest Standard

Regulatory Best Interest Standard

The industry agrees that the client’s interests must come first in the provision of all financial services where there is a conflict.

The regulatory standard of care governing the registrant-client relationship contained in the securities rules [3] requires registrants to “deal fairly, honestly and in good faith with his or her clients”. The CSA proposal (except for the BCSC) adds the words ‘”and act in their clients’ best interest”. The Paper does not explain what these additional words mean.

Conflict between the interests of the client and the firm arise almost exclusively in the investment process. The SRO rules and CSA guidance (described in more detail below) already require the firm to put the interests of its clients ahead of firm in the resolution of any conflict of interest.

The proposed best interest standard of conduct will create an unmanageable and perhaps unnecessary degree of regulatory, compliance and legal uncertainty best described by the BCSC:

> *“The adoption of a broad, sweeping and vague best interest standard will create uncertainty for registrants and may be unworkable in the current regulatory and business environment. Introducing an over-arching duty called a best interest standard while continuing to permit certain fundamental conflicts to exist between registrants and their clients is not in the public interest.”*

[3] Section 2.1 of Ontario Securities Commission Rule 31-505 *Conditions of Registration*, section 14 of the Securities Rules (British Columbia), section 75.2 of the *Securities Act* (Alberta), subsection 33.1(1) of the *Securities Act* (Saskatchewan), subsection 154.2(2) of the *Securities Act* (Manitoba), section 160 of the *Securities Act* (Quebec), subsection 54(1) of the *Securities Act* (New Brunswick) and section 39A of the *Securities Act* (Nova Scotia).

We share these concerns, and question further how the industry would supervise compliance with an aspirational over-arching rule. What will be prohibited under a best interest standard of care that is permitted under a duty to act fairly, honestly and in good faith?

Part 4: Comments on the key aspects of the targeted reforms

Conflicts of Interest

The MFDA and IIROC have clear rules which govern conflicts of interest.

MFDA Rule 2.1.4 requires their Members and Approved Persons to take *'appropriate action to ensure that the conflict is addressed in the best interests of the client'*. It further creates the *'obligation to address the conflict by the exercise of responsible business judgement, influenced only by the best interests of the client.'*

IIROC's Rule 42.2(3) creates a similar responsibility – *'Any existing or potential material conflict of interest between the Approved Person and the client that cannot be addressed in a fair, equitable and transparent manner, and consistent with the best interest of the client or clients, must be avoided'*.

These rules are in fact more stringent than the guidance found in 31-103 CP, Section 13.4 *Avoiding Conflicts of Interest*, and IFIC supports strengthening NI 31-103 with these SRO rules.

Know Your Client

We support the provision of additional CSA guidance regarding the collection and use of client information. The proposed changes, however, when read with the enhanced suitability requirements, suggest that every client must be treated as if they are looking for a financial plan.

The additional data will need to be recorded and housed in systems. New processes will be required for account opening, supervising and managing accounts. This will inevitably lead to higher costs to clients. Beyond costs, a more important consideration is whether all clients require, or expect to pay for, financial planning services when they seek advice.

Clients are best served by KYC requirements that allow for a fit-for-purpose assessment by firms that offer tiered or scaled services to meet their needs.

For example, we support flexibility in updating the KYC and suitability requirements through an invitation in the annual statement that the client contacts the dealer or adviser to discuss what has changed and whether an update is required, or restrictions on trading in accounts where the KYC has not been updated for a period of time – PACs would be excluded.

Suitability

IIROC and MFDA registrants must comply with detailed suitability rules designed to ensure that their recommendations, including recommendations not to sell or buy, will meet their client's investment needs and objectives.

We support the incorporation of similar standards in NI 31-103.

Proposed additional requirements to assess *'basic financial suitability'* and *'investment strategy suitability'*, and the identification of a *'target rate of return'*, may not be relevant for a simple financial needs analysis: for example, to determine whether or not a client should open a TFSA or an RRSP and what initial investments they should consider. Clients demanding less sophisticated services through the branch and financial adviser channels may resist providing additional information.

The market for investment services ranges widely from those just beginning to save – often with less than $5,000 to invest – to those who are well into their savings and investment years and have many millions to invest. The large majority of investors – estimated at 74% – never go beyond the $50,000 threshold. Client needs are varied and most begin their saving journey requiring limited services. The regulatory framework supports registration categories that recognize a variety of business models to meet the diverse needs of clients. A "one size fits all" approach to regulating suitability may result in clients receiving services that are not suited to their needs, that they do not want and are not prepared to pay for.

The proposed approach may deter firms from developing innovative technology-supported offerings that target specific market segments or are designed to deliver a particular narrow set of services.

A requirement to conduct a suitability assessment after a significant market event will also be challenging and may not be in the client's best interest. It presumes agreement on what constitutes a *'significant market event'* and that it can be determined at any point in time whether or not the event reflects permanent valuation changes or one which will be reversed immediately or over the course of time. When, for example, would it have been appropriate to require a suitability reassessment for all clients following the market downturn of 2008, or more recently in the case of the 'Brexit' vote in the UK? Could such a review be executed within a reasonable period of time across millions of clients? Would different clients be affected differently by different types of events? And what would the consequence be of heightened focus on events where the best approach would be to stay the course? Would the additional focus encourage clients to take unadvised actions?

Know Your Product - Representative & Firm

The requirements that advisers know every product their firm may sell is unrealistic. In the case of mixed/non-proprietary firms with thousands of mutual funds and other products, a requirement for advisers to know every product on the shelf would require significant additional training and would not yield measurable benefits to the client.

As noted above the requirement for the adviser to identify products 'most likely' to meet the client's needs is problematic. The proposed standard implies the 'mostly likely' investment can be identified objectively and will meet the test of time. This will create unrealistic and unattainable expectations for the client.

Firms are required to be the 'gatekeeper' of products offered by their representatives[4]. They are required to fully disclose who they are and the products and services they offer prior to engaging a client. We recommend these rules be vigorously enforced.

Currently, firms have internal policies designed to establish their product shelves based on their own business model, expertise, capabilities, and client needs and characteristics. The consultation paper includes guidance for firms with mixed/non-proprietary shelves to develop their product lists in accordance with policies and procedures that require a "fair and unbiased market investigation, a product comparison and an optimization process" that will ensure that the products listed are "most likely" to meet the needs and objectives of their clients, generally.

By setting these regulatory expectations around a firm's internal policies for establishing its shelf, the regulator is placing itself in a role best performed by the market, and is making the role of the dealer as gatekeeper of products superfluous. It suggests, unrealistically, that there

[4] A firm's KYC obligation found in MFDA Rule 2.2.1 can only be discharged by the firm if it fully understands the products that are being recommended to clients as outlined in MFDA Staff Notice MSN-0048. IIROC firms are subject to the proficiency obligation in s.3.4 of NI 31-103 and the accompanying discussion in 31-103 CP. IIROC Guidance Note 09-0087 provides guidance on the introduction and supervision of new products.

is a list that can be 'approved' or 'rejected' – in fact, it may lead dealers to seek regulatory approval for the products they put on their shelves.

One foreseeable impact of these requirements is that firms will narrow their shelves to a level they feel they can safely defend when facing a regulatory review. Those with proprietary products will create fewer products, and those with mixed shelves will be more selective when deciding which third party funds they will carry. This will mean clients will have fewer product choices. Since most clients' needs change over time and these needs cannot be foreseen with any certainty, a narrower shelf may impair the registrant's ability to service the client in the future.

The most negative impact is likely to be felt by independent fund managers who will be competing for narrowed shelf space. It cannot be in the client's best interest to constrain the products and services the firm can recommend or make available.

Relationship Disclosure

The industry supports relationship disclosure that gives clients a clear understanding of who the firm and representatives are and what products and services they offer. If the current SRO relationship disclosure requirements are not meeting regulatory objectives to fully inform clients about the nature of the firm and the products and services offered, the appropriate action would be to enhance the disclosure requirements. Section 14.2 of 31-103CP already provides detailed requirements in this area and we support including these requirements in the Rule.

Categorizing IIROC or MFDA firms as "restricted", "proprietary" or "mixed/non-proprietary" will be misleading for clients. For example, a proprietary firm may offer a broader array of products than a mixed offering firm. A proprietary firm may also offer a broad range of sub-advised products so that clients have access to multiple independent investment strategies.

The term "restricted" could also be negatively construed by a prospective client and not be consistent with the diversity of products a firm may offer.

We favour allowing firms to build tiered systems, requiring them to fully disclose to clients who they are and what they offer, and allowing clients to choose what products and services they want.

Proficiency, Titles and Designations

We support enhanced proficiency standards for registrants to ensure they have the appropriate education, experience and training to deal with clients.

Continuing education for registered representatives should be mandatory. The industry and the SROs should together develop appropriate standards for continuing education requirements.

We support a limitation on the number of titles a firm and an adviser can use, and agree that the CSA should include rules in NI 31-103 establishing a principles-based approach to regulate titles in firms.

We agree that dealers should have an obligation to manage the use of titles and ensure that they are not misleading. The titles that are mandated should be consistent across a registrant category and not be differentiated by product shelf.

The industry will work with the SROs to develop a constructive approach for managing the usage of titles.

Role of the Ultimate Designated Person and Chief Compliance Officer

We support clarifying the language defining the roles and enhancing the proficiency requirements of the UDP and the CCO to reflect any rule changes resulting from these consultations.

Conclusion

In conclusion, the industry expresses its long-standing support for the principle of placing the interests of the client ahead of the interests of the registrant where there is a conflict. We believe that this objective can best be met through enforcing the current rules, and reforms that address gaps in the current regulatory framework.

Where we have found the proposed reforms to be impractical or unachievable, we have attempted to illustrate their potential negative impacts for investors and, where possible, have offered alternative solutions.

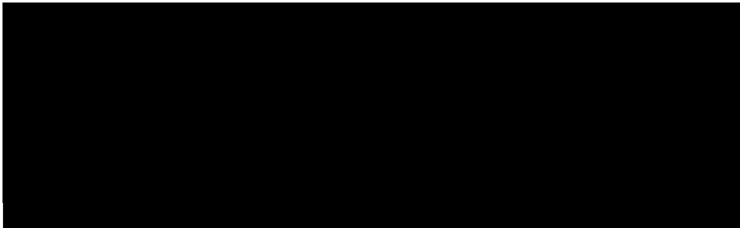
We urge the CSA to take a measured and practical approach and consider the impact of CRM2 and Point of Sale reforms as it proceeds to add to the regulatory framework.

* * * * * *

Thank you for the opportunity to provide comments. We look forward to our continued participation in any further public consultation on this topic and would be pleased to discuss our input in greater detail with you. Should you have any questions or wish to discuss these comments, please contact me directly by phone at 416-309-2300 or by email at pbourque@ific.ca.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Paul C. Bourque, Q.C.
President & CEO

Enclosures:

Appendix A – Responses to Detailed Questions

Appendix B – Research Reports briefing note

APPENDIX A

A. REGULATORY BEST INTEREST STANDARD

CSA Question	IFIC Comment
36. Please indicate whether a regulatory best interest standard would be required or beneficial, over and above the proposed targeted reforms, to address the identified regulatory concerns. 37. Please indicate whether you agree or disagree with any of the points raised in support of, or against, the introduction of a regulatory best interest standard and explain why. 38. Please indicate whether there are any other key arguments in support of, or against, the introduction of a regulatory best interest standard that have not been identified above. 65. Should the Standard of Care apply to unregistered firms (e.g., international advisers and international dealers) that are not required to be registered by reason of a statutory or discretionary exemption from registration, unless the Standard of Care is expressly waived by the regulator? 66. Do you believe that the Standard of Care is inconsistent with any current element of securities legislation? If so, please explain. 67. Do you agree that the Standard of Care should not apply to the underwriting activity and corporate finance advisory services described above? If not, please explain. 68. Do you think this expectation is appropriate when the level of sophistication of the firm and its clients is similar, such as when firms deal with institutional clients?	36 – 38, 65 – 68. The current regulatory standard contained in the Securities Rules requires registrants to 'act honestly, fairly and in good faith" with their clients (Section 2.1 of Ontario Securities Commission Rule 31-505 *Conditions of Registration*, section 14 of the Securities Rules (British Columbia), section 75.2 of the *Securities Act* (Alberta), subsection 33.1(1) of the *Securities Act* (Saskatchewan), subsection 154.2(2) of the *Securities Act* (Manitoba), section 160 of the *Securities Act* (Québec), subsection 54(1) of the *Securities Act* (New Brunswick) and section 39A of the *Securities Act* (Nova Scotia). The Consultation Paper proposes the addition of the words "in the best interest of the investor" to the current regulatory standard of care. The industry has consistently agreed that the client's interests must come first in the provision of financial services where there is a conflict. In addition to the current regulatory standard of care, there are SRO rules in place for managing conflicts of interest and removing biases in compensation. We believe that the current regulatory standard of care, and the SRO Rules and Guidance which govern conflict management, are designed to put the interests of the clients ahead of the interests of registrants where there is a conflict. That is the business environment in which our members operate. To the extent that there remain uncertainties about this obligation in the client-adviser relationship, we believe that the appropriate approach would be to enforce the current rules and, to the extent necessary, clarify the rules and guidance through targeted reforms. It is unclear how compliance with a best interest standard could be implemented. What will be prohibited under a best interest standard that is currently permitted under the duty to act fairly, honestly and in good faith? In trying to assess the potential impact of the proposed standard on dealers and advisers, we examined the standard of care in section 3.9(1) of NI 81-107 applicable to members of Independent Review Committees, which uses similar wording as is proposed in the Paper: "act honestly and in good faith, with a view to the best interests of the investment fund'. To help reassure IRC members about the liability they would incur under this standard, in sections 3.9(3) and 3.9(4) of NI 81-107 the CSA included an explicit due diligence defence to both parts of the standard of care. We recommend the CSA offer a similar due diligence defence in the proposed best interest standard to help reassure registrants as to their potential liability. We concur with the BCSC that "the adoption of a broad, sweeping and vague best interest standard will create uncertainty for registrants and may be unworkable in the current regulatory and business environment". Given the strategic importance of enforcement in defining regulatory obligations, and the significant uncertainty surrounding a best interest standard of care we believe there should be a discussion concerning the current status of enforcement efforts regarding the duty to deal fairly, honestly and in good faith with clients and how the CSA proposes to enforce a best interest standard of care.

B. CONFLICTS OF INTEREST

CSA Question	IFIC Comment
1. Is this general approach to regulating how registrants should respond to conflicts optimal? If not, what alternative approach would you recommend? 2. Is the requirement to respond to conflicts "in a manner that prioritizes the interest of the client ahead of the interests of the firm and/or representative" clear enough to provide a meaningful code of conduct? If not, how could the requirement be clarified? 3. Will this requirement present any particular challenges for specific registration categories or business models?	1 – 3. The general approach of responding to identified conflicts "in a manner that prioritizes the interests of the client ahead of the interests of the firm and/or representative" is already present in MFDA Rule 2.1.4, IIROC Rule 42.2(3). Codifying this in the Rule would be a valid approach. The industry also supports additional reforms that would require firms to assist clients in understanding disclosures. The requirement to "fully" understand disclosures is an impractical standard to meet as registrants cannot know when a client "fully understands". Further guidance from the CSA and the SROs as to what would be expected of registrants to meet this obligation beyond what is done today is necessary to implement this requirement. For example, the CSA should consider how the understanding of the risks of purchasing exempt securities can be confirmed by the person distributing the security in 45-106F9 and 45-106F12. The Companion Policy also notes that conflict disclosure must be prominent, specific, clear and meaningful to the client, and it must explain the conflict of interest and how it could affect the service the client is being offered. We agree this should be in the Rule. 44 – 53. Note: IFIC has limited its responses to questions pertaining to the retail businesses of its members and has no comment on questions 44 - 53.

C. KNOW YOUR CLIENT

CSA Question	IFIC Comment
	In general, we support the provision of clear guidance, beyond what is already included in Section 13.2 of 31-103CP, that will set the standards for all registrants and help to support the compliance / enforcement activities with regard to KYC. Since no one size fits all we recommend that details regarding the information to be collected be left to the SROs and codified in their Rules.
4. Do all registrants currently have the proficiency to understand their client's basic tax position? Would requiring collection of this information raise any issues or challenges for registrants or clients?	4, 54. Not all registrants are proficient to provide financial planning or tax planning services to their clients. Some clients, particularly clients with modest balances, do not require the collection of the additional data that would be needed for the development of a financial plan. Should these needs arise over the course of a registrant/client relationship the appropriate expertise can be provided to meet their needs. It would be impractical and unnecessary to require that every financial adviser be proficient to provide financial planning and tax advice.
5. Should the CSA also codify the specific form of the document, or new account application form, that is used to collect the prescribed KYC content?	5. A mandated NAAF with prescribed KYC content should be avoided. A one-size-fits-all approach would not be compatible with, or promote efficiency in, the provision of customized services for clients through the various business models in operation in the industry. We support prescribing categories of information that should be collected, then providing firms with enough flexibility to collect the appropriate level of information that is relevant for each client. The SROs can monitor this activity and provide further guidance as needed.
6. Should the KYC form also be signed by the representative's supervisor?	6. Better supervision of the KYC process would not be achieved by requiring the representative's supervisor to sign the KYC form. This is really about how to hold supervisors accountable and we think this should be left up to the firm. Furthermore, representatives are already subject to extensive supervision by the dealer to ensure compliance with SRO rules. Supervisory signatures would consume management time that could be better utilized, and would not add meaningfully to investor protection.
54. To what extent should the KYC obligation require registrants to collect tax information about the client? For example, what role should basic tax strategies have in respect of the suitability analysis conducted by registrants in respect of their clients?	

C. KNOW YOUR CLIENT

QUESTION	IFIC COMMENT
55. To what extent should a representative be allowed to open a new client account or move forward with a securities transaction if he or she is missing some or all of the client's KYC information? Should there be certain minimum elements of the KYC information that must be provided by the client without which a representative cannot open an account or process a securities transaction? 56. Should additional guidance be provided in respect of risk profiles? 57. Are there circumstances where it may be appropriate for a representative to collect less detailed KYC information? If so, should there be additional guidance about whether more or less detailed KYC information may need to be collected, depending on the context?	The proposed reforms for KYC and Suitability suggest that regulators are aiming for a one-size-fits-all approach to the collection of KYC data and the performance of suitability obligations. The proposal requires a higher level of service than many clients need or demand. What is needed is a regulatory approach that allows scalable services to be provided and that ensures the relevant information is collected for these services. We agree that additional CSA guidance could be provided which would: • Permit the client and dealer to agree on the universe of products/strategies to be considered for advice (not necessarily the entire dealer shelf); • Permit KYC inquiry to be limited to the information relevant to the universe agreed upon by dealer and client; • Not require the dealer to complete an annual KYC and suitability update for each client or upon new proposed triggers; the dealer would send, not-less-than annually, an invitation to the client to contact the dealer for an update; the KYC and suitability to be updated at the time of the next trade; • Permit dealers to assess KYC information for pre-set client profiles and model portfolios/ investment strategies o Rules that would prohibit this, or that would require assessments outside of securities transactions (such as debt repayments), may not align with online platforms or business models available for small accounts/infrequent investors (branch mutual fund dealer). 54 – 57. Detailed Rules and Guidance in these areas, proportionate to the service levels provided by the firm, should be left to the SROs to develop. As noted earlier, guidance, if provided, should go no further than setting out the categories of information to be collected as not every client will be well served if single or even scaled templates were set in regulations. Fundamentally the client/registrant relationship is a personal one and should be kept fluid enough to allow for individually-tailored services or information collection.

D. KNOW YOUR PRODUCT – REPRESENTATIVE

CSA Question	IFIC Comment
7. Is this general approach to regulating how representatives should meet their KYP obligation optimal? If not, what alternative approach would you recommend	7. Firms are required to act as 'gatekeeper' of products offered by their representatives. SRO Rule Notices detail processes for due diligence and procedures for identifying and vetting new products, by which members ensure the products offered by their representatives are appropriate for their clients. Currently there is no expectation that each adviser is fully knowledgeable with every product on the shelf. We do not believe that a rule requiring such knowledge for all representatives working within a firm would be appropriate or practical. IFIC would support the inclusion of specific KYP requirements for representatives in NI 31-103 as well as the provision of associated guidance to mirror the requirements in the SRO rules. The SROs are in the best position to develop rules and monitor compliance on KYP requirements for the representatives of their members.

E. KNOW YOUR PRODUCT – FIRM

CSA Question	IFIC Comment
8. The intended outcome of the requirement for mixed/non-proprietary firms to engage in a market investigation and product comparison is to ensure the range of products offered by firms that present themselves as offering more than proprietary products is representative of a broad range of products suitable for their client base. Do you agree or disagree with this intended outcome? Please provide an explanation. 9. Do you think that requiring mixed/non-proprietary firms to select the products they offer in the manner described will contribute to this outcome? If not, why not? 10. Are there other policy approaches that might better achieve this outcome? 11. Will this requirement raise challenges for firms in general or for specific registration categories or business models? If so, please describe the challenges. 12. Will this requirement cause any unintended consequences? For example, could this requirement result in firms offering fewer products? Could it result in firms offering more products? 13. Could these requirements create incentives for firms to stop offering non-proprietary products so that they can fit the definition of proprietary firm? 14. Should proprietary firms be required to engage in a market investigation and product comparison process or to offer non-proprietary products? 15. Do you think that categorizing product lists as either proprietary and mixed/non- proprietary is an optimal distinction amongst firm types? Should there be other characteristics that differentiate firms that should be identified or taken into account in the requirements relating to product list development?	A firm's KYC obligation found in MFDA Rule 2.2.1 can only be discharged by the firm if it fully understands the products that are being recommended to clients as outlined in MFDA Staff Notice MSN-0048. IIROC firms are subject to the proficiency obligation in s.3.4 of NI 31-103 and the accompanying discussion in 31-103CP. IIROC Guidance Note 09-0087 provides guidance on the introduction and supervision of new products In accordance with these rules, firms are required to be the 'gatekeeper' of products offered by representatives. In addition, explicit IIROC and MFDA Rules require them to fully disclose who they are and the products and services they offer prior to engaging a client. Fulsome disclosure should obviate the need for the distinctions among firm types described in these proposed reforms. 8. While the intention of this proposed reform is a good one – the promotion of more open shelves and more objective processes for selecting products for firms with mixed/non-proprietary shelves – an unintended consequence of the proposal may be that shelves become more closed and more restricted. It must be understood that the capacity of every adviser to understand every product in relation to every other product on a shelf is limited – therefore to ensure these conditions are met the shelf will be narrowed not widened. 9 – 13. Rules which would direct the selection of products according to specified criteria and the adoption of processes for 'optimization' of their shelves could impede a firm's ability to conduct business. Such rules also imply there are specific criteria as to what constitutes an optimized shelf. Is it the intention of the regulators to set such criteria? If not, how will they practically assess whether a firm has done this? In order not to be second guessed, the inevitable outcome would for mixed/non-proprietary firms to shrink their shelves. This will also appear to allow proprietary firms, not subject to the same requirements, to gain competitive advantage. 14, 15, 58 - 60. We suggest that any proposed reforms be applied the same way across licensed registrants who are subject to the same proficiency and conduct requirements, and they should not apply differently based on whether products sold are proprietary or not. Differentiated treatment would seem to be at odds with proposals to achieve best interests for clients in a system that captures all registrants. The distinction of a firm as either a proprietary or a mixed/non-proprietary firm according to its product list may also be overly simplistic and misleading. Such a categorization does not account for the diversity of business models and product offerings that the industry makes available to Canadians. A proprietary firm could offer a broader array of products, including access to third-party portfolio management, than a mixed/non-proprietary offering firm that offers limited product choices, for example.

E. KNOW YOUR PRODUCT – FIRM

QUESTION	IFIC COMMENT
58. Should we explicitly allow firms that do not have a product list to create a product review procedure instead of a shelf or would it be preferable to require such firms to create a product list? 59. Would additional guidance with respect to conducting a “fair and unbiased market investigation” be helpful or appreciated? If so, please provide any substantive suggestions you have in this regard. 60. Would labels other than “proprietary product list” and “mixed/non-proprietary product list” be more effective? If so, please provide suggestions. 61. Is the expectation that firms complete a market investigation, product comparison or product list optimization in a manner that is “most likely to meet the investment needs and objectives of its clients based on its client profiles” reasonable? If not, please explain your concern.	61. The regulator should not be put in a position to determine whether or not a firm has optimized its shelf in a manner that is most likely to meet the needs of its clients. This is a matter for the businesses to determine. Those who are most successful in meeting the needs of their clients will have the most business success. 58, 59, 61. As noted earlier, it is difficult to see how regulatory guidance could practically direct firms to optimize their shelves. Such direction implies the regulator knows the product attributes and outcomes and can provide reliable criteria against which firms can develop their optimized shelves. 61, 62. These proposals will require the firm to only sell products “most likely to meet the investment needs and objectives of its clients” and will require registrants to identify products “most likely to achieve the client’s investment needs and objectives.” Given the strategic importance of enforcement in defining regulatory obligations, and the uncertainty created by these proposals, we believe there should be a discussion concerning how the CSA plans to enforce these requirements.

F. SUITABILITY

QUESTION	IFIC COMMENT
16. Do you agree with the requirement to consider other basic financial strategies?	16. The proposed reforms are premised on the need for a relatively high level of service for all clients. In the case of small clients not requiring sophisticated advice or financial planning services, the proposed requirements for information gathering may be excessive and unwanted by the client.
17. Will there be challenges in complying with the requirement to ensure that a purchase, sale, hold or exchange of a product is the "most likely" to achieve the client's investment needs and objectives? 18. Should there be more specific requirements around what makes an investment "suitable"? 19. Will the requirement to perform a suitability assessment when accepting an instruction to hold a security raise any challenges for registrants?	17,18,19. SRO members are currently held to detailed and well-developed suitability rules that are designed to support recommendations, including recommendations not to sell or buy, that are suitable for their clients. We agree that registrants should be held to such a standard.
20. Will the requirement to perform a suitability analysis at least once every 12 months raise challenges for specific registrant categories or business models? For example, a client may only have a transactional relationship with a firm. In such cases, what would be a reasonable approach to determining whether a firm should perform ongoing suitability assessments?	20. This may depend on the size of the account. A requirement to update the KYC each year may be unnecessary for clients with modest balances and where no changes have occurred in client circumstances. A possible approach to ongoing suitability reviews may be to provide flexibility to the adviser and client to update the KYC and suitability requirements – for example through an invitation in the annual statement that the client contact the dealer or adviser to discuss an update or restrictions on trading in accounts where the KYC has not been updated for a period of time – PACs would be excluded.
21. Should clients receive a copy of the representative's analysis regarding the client's target rate of return and his or her investment needs and objectives? 22. Will the requirement to perform a suitability review for a recommendation not to purchase, sell, hold or exchange a security be problematic for registrants?	21. This question implies that there is a detailed analysis and agreed-upon target rate of return for every size of investment and account. This is not practical; it occurs with many clients but not everyone. However, all clients will receive an annual performance report, which will provide them with the ability to assess their performance and ask their registrant for additional analysis if warranted. Where an analysis has been done, providing a copy of the representative's analysis and having the client confirm receipt should be allowed to be done via e-mail, as in many cases today that is the client's preferred method of contact.

F. SUITABILITY

QUESTION	IFIC COMMENT
62. What, if any, unintended consequences could result from setting an expectation in the context of the suitability obligation that registrants must identify products both that are suitable and that are the most likely to achieve the investment needs and objectives of the client? If unintended consequences exist, do the benefits of this proposal outweigh such consequences?	62. Such a requirement is likely to set unrealistic client expectations – that the adviser has the ability and the obligation to identify the products that will generate the best performance in the market. After the fact, such an expectation will generate complaints that the adviser did not recommend products that were most likely to meet their needs and objectives. Being able to demonstrate 'most likely to meet' in this after-the-fact context will be challenging, even though it may have been a sound investment recommendation at the time it was made.
63. Should we provide further guidance on the suitability requirement in connection with ongoing decisions to hold a position?	63. Suitability obligations for "holds" should not be ongoing. If required, they should only apply upon client direction or initiative.
64. Should we provide further guidance on the frequency of the suitability analysis in connection with those registrant business models that may be based on one-time transactions? For example, when should a person or entity in such a relationship no longer be a client of the registrant for purposes of this ongoing obligation to conduct suitability reviews of the client's account?	

G. RELATIONSHIP DISCLOSURE

CSA Question	IFIC Comment
23. Do you agree with the proposed disclosure required for firms registered in restricted categories of registration? Why or why not? 24. Do you agree with the proposed disclosure required for firms that offer only proprietary products? Why or why not? 25. Is the proposed disclosure for restricted registration categories workable for all categories identified? 26. Should there be similar disclosure for investment dealers or portfolio managers? 27. Would additional guidance about how to make disclosure about the relationship easier to understand for clients be helpful?	The industry supports the plain language relationship disclosures that are presently required by the SROs. These requirements were designed to give clients a clear understanding of who the firms are and what products and services their representatives can offer. There is no need to go further as it will only add detail and jargon that will be difficult for clients to decipher. 23 – 26. Categorizing firms with labels such as “restricted” “proprietary” or “mixed non-proprietary” would be simplistic and would not account for the diversity of business models and product offerings that the industry makes available to Canadians. A proprietary firm could offer a broader array of products than a mixed/non-proprietary offering firm that offers limited product from multiple firms. A proprietary firm could also offer a broad range of sub-advised products so that clients have access to multiple investment ideas. 27. Section 14.2 of 31-103CP already provides detailed requirements in this area. Should there be remaining concerns; additional guidance could be provided for firms to self-identify their KYC/suitability models.

H. PROFICIENCY

CSA Question	IFIC Comment
28. To what extent should the CSA explicitly heighten the proficiency requirements set out under Canadian securities legislation? 29. Should any heightening of the proficiency requirements for representatives be accompanied by a heightening of the proficiency requirements for CCOs and UDPs?	28, 29. IFIC supports enhanced proficiency standards for registrants. Registrants should have the appropriate education, experience and training to deal with clients. The industry should work with the SROs to develop appropriate standards including continuing education and course requirements. IFIC has promoted a continuing education requirement with the MFDA and through its educational affiliate, IFSE, develops content that meets the proficiency needs of registrants.

I. TITLES AND DESIGNATIONS

CSA Question	IFIC Comment
30. Will more strictly regulating titles raise any issues or challenges for registrants or clients? 31. Do you prefer any of the proposed alternatives or do you have another suggestion, other than the status quo, to address the concern with client confusion around representatives' roles and responsibilities? 32. Should there be additional guidance regarding the use of titles by representatives who are "dually licensed" (or equivalent)? 33. Should we regulate the use of specific designations or create a requirement for firms to review and validate the designations used by their representatives?	30 – 33. IFIC would support mandated titles that are consistent across registrant categories and that are based on proficiency, not on the product shelf. The industry will work with SROs to develop rules that manage the usage of titles. Prescribing titles for representatives of a firm based entirely on the firm's product shelf, however, has limitations. As we have noted in our response to Question 15 above, a proprietary firm could offer a broader array of products and services, including access to third-party portfolio management, than a mixed/non-proprietary offering firm that offers more limited choice. We do not favour mandating the use of the title 'salesperson'. The rule should not restrict representatives who are also financial planners, for example, from having 'Financial Planner' in their titles. As well, we do not believe that representatives are "salespersons" if they are held to a Best Interest Standard as some jurisdictions have proposed.

J. ROLE OF THE UDP AND CCO

CSA Question	**IFIC Comment**
34. Are these proposed clarifying reforms consistent with typical current UDP and CCO practices? If not, why not.	34. We support clarifying the language defining the roles and enhancing the proficiency requirements of UDP and CCO to reflect any rule changes resulting from these consultations.

K. STATUTORY FIDUCIARY DUTY WHEN CLIENT GRANTS DISCRETIONARY AUTHORITY	
CSA Question	**IFIC Comment**
35. Is there any reason not to introduce a statutory fiduciary duty on these terms?	35. Where it does not already exist, we agree that provincial securities legislation should be amended to introduce a statutory fiduciary duty for registrants when they manage the investment portfolio of a client through discretionary authority granted by the client.

L. IMPACT ON INVESTORS, REGISTRANTS AND CAPITAL MARKETS

QUESTION	IFIC COMMENT

39. What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on compliance costs for registrants?
40. What impact would the introduction of the proposed targeted reforms and/or a regulatory best interest standard have on outcomes for investors?
41. What challenges and opportunities could registrants face in operationalizing:
(i) proposed targeted reforms?
(ii) a regulatory best interest standard?
42. How might the proposals impact existing business models? If significant impact is predicted, will other (new or pre-existing) business models gain more prominence?
43. Do the proposals go far enough in enhancing the obligations of dealers, advisers and their representatives toward their clients?
	39 – 43. The targeted reforms to KYC and suitability requirements would risk:
	• creating one (high) standard and model for KYC/suitability obligations;
	• having disproportionate impacts on certain business models – increased depth and frequency of inquiry/analyses for transactional models (branch mutual fund dealer);
	• higher costs overall for advice, causing dealers to impose account minimums which would risk creating an advice gap for lower threshold clients;
	• causing firms to reduce diversity of shelf by:
	  ○ restricting themselves to proprietary products;
	  ○ removing high-risk products such as publicly- traded securities;
	  ○ restricting themselves to low-cost/low-risk products;
	• Increasing client self-diversification through self-directed investing, or reducing investments overall, when otherwise they would have sought advice.
	The CSA should conduct research on the above potential impacts before introducing these proposed reforms.

Appendix B

Research Related to Client-Registrant Relationship

The CSA cites research that it believes to be reasonably representative of the key issues in the client-registrant relationship. IFIC supports the use of research as a tool for informing and guiding regulatory policy. Specifically, with respect to the client-registrant relationship, we believe that research should consider the totality of the client-registrant relationship.

The CSA explicitly omits research "…related to the benefits that registrants may provide to their clients..." This is a highly significant omission as it fails to consider a significant body of peer reviewed and published research demonstrating the quantitative value advisors deliver through portfolio management, financial planning strategies, and behavioural coaching.

Conflict of Interest

Much of the research reviewed by the CSA focusses on the interplay of product cost, absence of outperformance and the effects of narrowly-defined conflicts of interest. Indeed, the selection of research positions "interest" as almost exclusively relating to product cost and compensation for outperformance. Furthermore, the studies often compound the distortion of the "fees pay for performance" view by looking for conflict of interest in the context of a mutual fund, and not in the context of the total client portfolio.

While relevant and important, the research reviewed paints an incomplete picture of the total context of the client-registrant relationship. A complete view must include an examination of the total client portfolio, associated compensation, advisor services, and a full consideration of client interest, to evaluate the value of advice and the presence of conflict of interest.

Limitations of Conflict of Interest Research

While it is important to consider the evidence cited in the Consultation Paper, it is also important to consider the limitations of the quoted studies. With respect to conflicts of interest research, a great deal of weight is put on aggregated fund-level analyses. This sort of research, using regression analyses, can identify interesting trends that may warrant further examination. For example, the *Dissection of mutual funds fees, flows and performance* (Cumming et. al., 2015)[1] study demonstrates that compensation models may impact the flow-performance sensitivity. While this might be indicative of the presence of conflict it certainly does not prove conflict. On the fund level, the report found that the relationship – of better past performing funds generating higher sales – is less strong for funds that pay trailers compared to fee-based funds. However, because this analysis lacks portfolio-level data it is impossible to know if this relationship is harming or even benefiting investors in the long-run.

A specific fund may play many roles in the overall client portfolio. Long-term longitudinal research would need to consider the role that a specific fund (and the associated compensation model) plays in the total client portfolio performance, risk management and compensation to conclude that a conflict exists.

The *Mutual Fund Fee Research* (Brondesbury Group, 2015)[2] report undertakes a comprehensive literature review on mutual fund compensation models. It finds a lot of research showing that commissions lower fund returns and that funds with commissions underperform. However, the report also

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[1] http://www.osc.gov.on.ca/documents/en/Securities-Category8/rp_20151022_81-407_dissection-mutual-fund-fees.pdf. OSC, October, 2015.

[2] http://www.osc.gov.on.ca/documents/en/Securities-Category8/rp_20150611_81-407_mutual-fund-fee-research.pdf. *OSC, 2015*

finds that while removing commission lowers product cost, advisory fees typically rise as a means of paying for the cost of service.

Similar to Cumming (2015), the review concludes that fund flow-performance sensitivity may be impacted by compensation models. The applicability of this research, as with the Cumming research, is limited because of the focus on fund-based (as opposed to portfolio-based) analyses, and because it does not consider broader value created for the client in a client-advisor relationship. These limitations are critical to consider if this research is to inform regulation.

It is notable that the Brondesbury report has made a significant effort to highlight research gaps and shortcomings. For example, the report comments that compared to embedded commissions, other compensation models have associated conflicts and have not been shown to lead to better investor outcomes.

One study that was able to use Canadian household data, Foerster (2014) *Retail Financial Advice: Does One Size Fit All?*[3] found that registrants influence investors' trading choices but that their advice underperforms passive investment benchmarks. The research appears to suggest that portfolio customization and outperformance are the principal determinants of the advisor value proposition but fails to consider other value-added services that an advisor may also provide such as education, diversification, increased savings, market discipline and tax-efficiency.

Value of Portfolio Management and Behavioural Coaching

There is a substantial and growing body of research that measures the quantitative value of financial advice. Below is a review of five key studies in this area which are not referenced in the Consultation Paper.

Planning strategies that increase retirement income

Research by David Blanchett and Paul D. Caplan (2013), Morningstar, entitled "*Alpha, Beta, and now… Gamma"* and published in the Journal of Retirement[4], focuses on the deccumulation stage of retirement assets. By using Monte-Carlo simulation, the research evaluates five specific financial strategies during retirement – total wealth asset allocation, annuity allocation, dynamic withdrawal strategy, liability-relative optimization and asset location and withdrawal sourcing. The research concludes that disciplined pursuit of these strategies can lead, on average, to 22.63% higher retirement income. This is equivalent to an outperformance (traditional alpha) of 1.59%. The paper further notes that other decision-based strategies are possible that can lead to net positive value-added.

Quantitative value of coaching and strategic discipline

"Advisor's Alpha: Canada", a Vanguard research report by Donald G. Bennyhoff, and Francis M. Kinniry, Jr. (2012)[5] note that pursuing outperformance is *a priori* a very difficult proposition and hence focus on crafting an alternative value proposition. The proposed advisor value proposition consists of provision of portfolio construction, wealth management and behavioural coaching advice. Their estimate of the value-added is "about 3%", after-tax incremental return.

Advisor influence on accumulated assets in a household

In two consecutive studies by Claude Montmarquette and Nathalie Viennot-Briot, the authors found that, after adjusting for nearly 50 socio-economic and attitudinal differences, investors with advice were found to accumulate more assets.

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[3] http://www.nber.org/papers/w20712

[4] http://www.iijournals.com/doi/full/10.3905/pa.2014.1.4.036

[5] https://www.vanguardcanada.ca/documents/aa-advisors-alpha-research.pdf

In the first study, published in 2012 in the Annals of Economics and Finance[6], the authors' found that participants using a financial advisor accumulated substantially more assets (173% more over 15 years) than comparable non-advised participants; and that the difference can be explained by higher savings rates and a greater allocation of non-cash investments. The updated research, published in 2016[7], found that investors with advice accumulated 290% more assets after 15 years than comparable non-advised investors. By examining results for respondents who participated in both the 2010 and 2014 samples they were also able to report that households that dropped their advisors between 2010 and 2014 lost a significant percentage of their asset values while those that continued to be advised gained in asset values.

A Swedish study found results very similar to Montmarquette and Viennot-Briot. Hermansson & Song, 2015[8], after studying a large sample of clients of a Swedish bank, found that meeting with financial advisors produced increased savings behaviors towards mutual funds, especially for younger customers, as compared to the control groups that did not engage in meetings with advisors. The authors noted that the 22% average increase in fund savings is likely only the minimum effect, since observation of the meeting effects lasted only a few months.

Implications for Policy

Regulatory intervention deliberations need to consider the total context and full extent of the client-registrant relationship and to be mindful of the limitations of existing research. A full review of research suggests that while conflicts are unavoidable in all compensation models, and may be detected at the fund level in embedded fee models, access to advice is critical to investors building long-term wealth. Any future policy proposal must be measured against the degree to which it promotes or hinders access to advice.

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[6] http://aeconf.com/Articles/May2015/aef160104.pdf

[7] https://www.cirano.qc.ca/files/publications/2016s-35.pdf

[8] Financial advisory services meetings and their impact on saving behavior–A difference-in-difference analysis.
C Hermansson, HS Song. *Journal of Retailing and Consumer Services* 30, 131-139