

June 7, 2017

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

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Re: Canadian Securities Administrators (CSA) Consultation Paper 81-408  
Consultation on the Option of Discontinuing Embedded Commissions (Consultation Paper)

Dear Sir or Madam:

Thank you for the opportunity to comment on the CSA Consultation Paper 81-408. I found the document to be a very interesting read that presented a comprehensive and balanced overview of the current state of the industry and some of the challenges we are facing. I thank you for producing this consultation paper and for the opportunity to provide comments.

As an advisor, I felt it important to provide my perspective on actions that should be taken to improve the industry in a manner that will help Canadians achieve a more secure financial future. It is a privilege to work in this industry, and I am very passionate about educating the public and enhancing the experience of every Canadian consumer.

Please note that all comments are only mine and do not in any way reflect those of the dealer I work with or other advisors that I am associated with.

### **My Story**

I would like to begin my comments by telling you my story, and why I believe my perspective is unique. I began my professional career as an Occupational Therapist and worked in that field for 5 years, starting in the late 1990s. Once I'd accumulated some money and paid off my student loans, I became interested in investing and sought out a financial advisor to help me. I found the process to be challenging and frustrating in the sense that the industry was very confusing for me as a consumer. (I believe this issue still exists today some 20 years later.) I then decided to pursue investing on my own and began to read countless books. During this time, I quickly made thousands of dollars in stocks like Nortel, Ballard Power, and some e-commerce companies (that no longer exist). However, I lost it just as fast—probably faster.

But the process of investing intrigued me, and I decided to go back to school to change careers and was fortunate to be accepted to the MBA program at Columbia University in New York. After graduating from Columbia University in 2004, I also completed the CFA designation. For the next few years, I worked on the institutional side of the industry at firms such as BNP Paribas and Alberta Investment Management (AIMCo).

I began working with individual investors in Canada during 2009, because I wanted to share my experience and apply my knowledge to enhance the financial outcomes of Canadian families. I believe I am one of the few financial advisors in Canada who has seen the industry from the lens of both the institutional and retail investing worlds.

To me, being an advisor means truly providing a holistic wealth management experience. It's about making sure that every client has all the rooms of their financial house in order (investing, insurance, retirement planning, estate and legacy planning, etc.). It's about being a behavioural coach to clients to make sure they are saving enough for retirement and sticking to their investment plan, rather than making emotional decisions at inopportune times. It's about making sure that families are adequately insured in the event something catastrophic were to happen. It's about making sure that both members of a couple are adequately informed of their financial situation. It's about speaking to the client's accountant and lawyer to make sure all the client's professionals are on the same page so the client achieves the best outcome. It's about helping clients to understand and mitigate (to the extent possible) their financial risk. It's about helping retirees design tax efficient income streams. It's about helping clients with tax effective estate planning. It's so much more than solely focusing on investing. With respect to the debate between active and passive investing, I would like to add that while fees are important, in my opinion there is room for both passive and active strategies within a properly constructed portfolio.

As was the case 20 years ago, when I first sought out a financial advisor, I believe the industry is very confusing for the average Canadian consumer to navigate. Differences in qualifications, licensing, compensation structures, investment philosophy, services provided, and level of true independence are only some of the issues. I have been so frustrated with this over the years, that I decided to write a book for Canadian consumers. In March 2017, I released *Your Money's Worth - The Essential Guide to Financial Advice for Canadians*. It is my hope that this book will help Canadians navigate our industry and find the advice they need.

### **Embedded Commissions**

In my humble opinion, consumers should have a choice in how they pay fees. Ideally, all consumers would be able to choose whether they pay fees directly or via embedded commissions. In fact, I have had many clients over the years mention that they prefer to pay costs using the embedded commissions model. Consumers should also understand that dealers have costs for the services provided to advisors, and collect a portion of the embedded commissions, or other fees charged to clients.

While I agree with much of your report with respect to the challenges of embedded commissions, I strongly feel that choice is important and that banning embedded commissions is not the silver bullet to solve the industry's challenges. To be clear, a ban on embedded commissions would have very limited impact on my practice as the vast majority of the clients I work with are on a fee-based platform.

One of the central concepts that both regulators and consumers should understand is that the work of financial advisors extends far beyond managing investment portfolios or selecting specific investment products. For me, the role of a financial advisor is about providing holistic financial advice and direction, in addition to making investment recommendations. While fees are important, the value of good advice can often save the client multiples of what they pay in fees (such as via tax efficient retirement planning, in-kind charitable giving, maximizing estate value, etc.). Moreover, the value of advice can be lumpy and should not necessarily be measured solely on investment returns. For example, what is the value of making sure that a young family is adequately insured and has updated estate documents? I very strongly believe in the value of advice, and without their advisors, many Canadian households would not be where they are financially today.

Whenever I see the image of financial advisors being broadly painted in a negative light, I am disappointed. I can tell you that I take my role as an advisor with a heavy sense of responsibility. Indeed, it is a privilege to work in this industry and help Canadians reach their financial goals and objectives. As in any occupation, there are always "bad apples." However, I can tell you that in general, the advisors in Canada that I have come across are hard-working decent people who care about their clients and do their best to help them achieve their goals and objectives. While we have all heard about the many Canadians who have unfortunately had negative experiences with their advisors, the countless stories of extremely positive outcomes (of people who would not have achieved their financial goals and objectives without their advisor) are generally untold - this is unfortunate indeed.

I believe a key issue was very clearly explained on page 122 of the consultation paper - service standards. I quote: "However, there is currently no securities regulation that prescribes, or guidance that articulates, the specific services that an advisor is expected to provide in exchange for ongoing trailing commissions. Under NI 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103), dealers/representatives are required to provide certain services at the time of

the trade (e.g. suitability, know-your-client), but no requirement to provide ongoing advice focused on the client's portfolio." All financial advisors are not created equivalent and there can be an immense variation in the level of service provided by different advisors. To me, this is at the heart of the issue.

### **Suggestions to Improve the Industry**

1. Introduce a **service contract** to the advisor and client relationship whereby every client would receive the following on at least an annual basis - investment review, insurance review, estate planning checklist discussion (to remind the client to ensure basic estate planning documents are completed) and retirement projections.
2. The advisory industry should move to a stronger and common educational standard that is required to become an advisor.
3. Implement new guidelines for use of titles by advisors to ease consumer confusion.
4. Ensure that there are no incentives for advisors to recommend proprietary products. Mandate all firms to have an "open product shelf."
5. Implement a form of "best interest" standard that is commercially viable to administer without causing unintended consequences.
6. Work with insurance regulators to ensure a level "playing field" for all advisors, and eliminate opportunities for "regulatory arbitrage."
7. Consider implementing an active share threshold (for example, 60%) for mutual funds to be classified as active (and charge associated investment management fees). For example, below this active share threshold percentage, fees charged by the investment manager would need to more closely match index funds. I acknowledge that sector concentration of the Canadian market would pose a challenge to fund managers in this regard.
8. Immediately terminate embedded commissions charged in the discount channel where advice is not provided.
9. Consider adding practicing financial advisors to your respective organizations to provide input. Working together, advisors and regulators can improve the industry for the benefit of all Canadians.
- 10 Work with the provincial and territorial governments to make a financial education course **mandatory** at the high school or post-secondary levels. This course should cover basic concepts including budgeting, investing, insurance, and estate planning. Over the years, I have known of many Canadians who made unfortunate mistakes that were entirely preventable with the right knowledge.

### **Conclusion**

In summary, I believe that banning embedded commissions is not a silver bullet for the challenges faced by the financial advisory industry in Canada. Consumers should have choice in how fees are paid.

Good advice is more important today than ever before because we are living in unprecedented economic times. Advisors can deliver significant value in many areas in addition to investments. The

heart of the issue is service delivery standards in these areas. I urge the CSA to strongly consider some of the suggestions made in this letter.

It is a privilege and honour for me to work in this industry, and I (like so many of my colleagues) take it very seriously. I thank you for this opportunity and sincerely hope that my comments will add to the conversation.

I would like to conclude by mentioning that consumers themselves must also take responsibility for their financial future. I will end with words from Glorianne Stromberg. In her 1998 report, *Investment Funds in Canada and Consumer Protection: Strategies for the Millennium*, Stromberg concluded by stating that the well-being of consumers and investors cannot rest alone on governments and regulators, and that investors “have to do their part. They have to help themselves. They cannot abdicate their responsibility to act prudently and with full knowledge of the facts.”

Sincerely,

Shamez Kassam, MBA, CFA

Author: *Your Money's Worth – The Essential Guide to Financial Advice for Canadians*