



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
comments@osc.gov.on.ca and consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: Canadian Securities Administrators Notice and Request for Comment: Proposed Amendments to National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations. Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)

Antares Investment Management, Inc. (Antares) is a Winnipeg-based portfolio management firm and we are grateful for the opportunity to provide comments regarding the Client Focused Reforms. There are two areas in particular we wish to address. The first is conflicts of interest and the second is referral fees as it relates to the five stated investor protection concerns and the ten anticipated benefits of the new proposals being implemented. We also wish to address several points made in Annex E regarding referral arrangements.

Portfolio Managers are Not Sales Organizations

We believe Portfolio Management (PM) firms should not be lumped together with sales-based organizations such as mutual fund dealer members (MFDA), Exempt Market Dealers (EMD), IIROC members, or Scholarship Plan Dealers (SPD) when creating regulation.

Portfolio Management firms should be governed under a set of regulations that address the fact that they are not sales organizations. They are advice givers and use professional judgement that has been acquired by over 750 hours of study time, 18 hours of exams, and 4 years of work experience for those individuals who have the CFA designation. This level of experience and education is simply not comparable to anything else in the industry. Further, the PM's model whereby one is compensated directly by the client for advice and/or action taken calls for different regulation than a model where one is compensated either internally or by a third party for the sale of a product.

General Comments

Antares has the following general comments regarding the Client Focused Reforms:

1. Antares supports enhanced investor disclosure that provides accurate and easily comparable metrics.
2. Antares believes that investors are best served when professionals with different areas of expertise work together, in their respective professional areas, on behalf of investors.
3. Antares is concerned about the increased concentration of investor money invested through large firms within the Canadian financial services industry.
4. Antares supports proposals that put client interests first.
5. Antares supports proposals that promote a fair and equitable industry that supports small firms.
6. Antares believes consolidation in the industry is not in the best interest of individual investors.

It was articulated by the CSA that it is anticipated that the proposed amendments will achieve a number of benefits for investors. We believe that the current referral arrangement model already addresses each one of these, and that many of the proposed prescriptions will lead to unintended consequences that harm investors. It is anticipated by the CSA that the proposed amendments will achieve specific outcomes.

1. Raise the standard of conduct for registrants towards what clients expect it to be.

As articulated by the CSA, investors expect a level of duty to them and are surprised to learn that there is in fact no obligation among certain registrants to look after client interests first: "Most investors incorrectly assume that their registrants must always provide advice that is in their best interest." PMs are the only part of the industry currently operating under a fiduciary obligation, whereby clients can rest knowing their interests are looked after first and foremost.

We encourage a fiduciary standard across the industry, but it will be difficult to achieve outside of a direct billing arrangement such as PM firms are using. PM firms (generally) do not benefit from activity inside an investor portfolio and suffer lower revenue if portfolio values decline. This provides built-in

incentives to reduce losses and achieve gains. In cases where a client is dealing with someone in a sales relationship there will always be a potential conflict of interest which we believe precludes a fiduciary obligation.

While CRM II is a partial remedy, too many investors still have no idea who is getting paid, by whom, and for what work. We are still having too many discussions with investors that are convinced that they are paying far less than they are actually paying, or are convinced by a sales person that they are paying nothing at all.

This is already being addressed by PM firms by way of direct billing to investors, separate sign offs acknowledging management fees that will be charged, regular statements with fees clearly labeled, and an annual fee statement recap (which for most PM firms was initiated many years before CRM II was mandated).

2. Result in more specific and more useful advice for clients.

PM firms are able to tailor investor portfolios for specific cash flow requirements, individual tax situations, personal beliefs, specific dates when cashflow is needed, and other individual needs. The ability to connect directly with the person making day to day investing decisions also ensures that advice and solutions are more useful for investors.

There is no mechanism to address ALL of these issues together outside of a PM firm. It must be kept in mind that Portfolio Managers are first and foremost Advisers; offering professional expertise and experience to individual client situations outside of a commission-based structure. It is purely fee for service provided.

3. Result in better engagement between clients and registrants.

Our experience is that clients that are referred to a PM firm are more engaged. The referring financial planner is seen as an advocate working for the referred client as opposed to a salesperson looking for a product sale. The planning process is enhanced, while sales activities are reduced. Clients appreciate that they are able to have direct conversations with the day to day decision makers on their portfolios. An added benefit is that by working together each party is able to specialize in their area of expertise, whether it be financial planning or investment management. Only in the PM area are clients able to, and are encouraged to, ask questions and voice concerns directly to the people making the day to day investing decisions on their behalf. We believe there is no higher form of client engagement than the direct link of investors to where their money is managed.

4. Result in portfolios with better diversification, lower costs, and higher risk-adjusted returns over time.

PM firms have been leading the industry in this area. In almost every case, a client reduces their costs by using a PM firm. As one of the few controllable factors in investing, the PM industry has spearheaded discussions on the long-term benefit of lower fees for decades. While many registrants were still trying to convince investors they paid no fees (because they were not separately disclosed), Portfolio Managers chose to fully disclose their fees, even going to so far as to separately and annually provide a statement of fees paid.

A Portfolio Manager is able to provide enhanced risk diversification that considers and incorporates work situation, investors' own company business risk factors, geographic or industry related risk factors into a portfolio. Diversification away from areas that are specific risks for an individual cannot be fully contemplated or incorporated into any other existing framework.

While there can be no claim made that future returns will be higher one way or the other, it is obvious to us that lower fees and greater engagement with investors will lead to results that are more closely aligned to what investors need for their own situation, rather than to what a particular market is doing.

5. Increase the probability that clients will reach their investing and savings goals.

Investors are more likely to succeed when they have two things:

- a. Professionals from different areas of expertise working together for their interest.
- b. An investing process they can understand and will follow.

Different professionals bring different skills and expertise to the table. An investor working with a financial planner is more likely to stay the course during times of market upheaval. And when the planner can rely on a PM to invest money prudently and in a manner that is specific to the investor's need, it is the client that benefits.

By having direct access to Portfolio Managers, clients are able to get a deeper understanding of what they are invested in and the parameters used in coming to investing decisions on their behalf.

The present referral arrangements provide for the flow of information between clients, financial planners, and portfolio managers so that all are operating with the same understanding. A generic portfolio managed at distance without regard to the very investors for whom the money is being invested cannot provide the same level of engagement with investors as a portfolio that is specifically designed for them. The probability of success is greatly increased as investors are more engaged with the professionals working for them.

6. Increase market transparency and confidence, and increase trust in registrants.

One of the surest ways of providing increased transparency is to provide reporting of ALL costs of investing, including who is getting paid and how much. PM firms have been operating this way for decades. Confidence comes from knowing someone is working for you personally and has your best interests at heart. The surest way of knowing someone is working for you is to sign a contract that spells out the parameters of the engagement including the fees that will be charged for professional services rendered, and to be charged directly for those services.

A fiduciary obligation increases trust by providing a direct link from investor to the professional **they have employed** to work for them. Investors will know they have employed someone by the fact they are getting invoiced by that person.

A fiduciary obligation increases trust, and we strongly believe that a fiduciary obligation cannot come out of a sales agent/buyer relationship.

7. Allow registrants the flexibility with the new framework to re-evaluate business models and business practices to find those that best meet their circumstances.

A shared service model whereby financial planners and Portfolio Managers work collectively for the client provides the greatest benefit to investors. Investors have the benefit of having two professionals working for them, direct contact with their portfolio decision maker, and direct accounting of the fees charged. For referring parties, they benefit by being able to concentrate on financial planning aspects of their client relationships.

8. Make it easier for new registrants and less well-known registrants to compete in the market.

It is no secret that getting on a dealer shelf is no easy task, even for well known and well connected industry players. Dealer shelves are shrinking and without referral arrangements in place it will be extremely difficult for new firms and smaller firms to effectively compete in the industry and even to survive. We believe closing off referral arrangements will result in even more concentration in the industry.

9. Make it easier for registrants to compete based on their unique value proposition.

Existing referral arrangements allow registrants to have access to a greater degree of distribution that they would not otherwise be able to achieve.

10. Support enhanced market enforcement.

We believe it is safe to say that the vast majority of client complaints, enforcement actions, and litigation come to the regulators from the sales-oriented part of the industry. Operating as a fiduciary, providing an enhanced client experience through direct engagement with investors, providing lower costs, having increased transparency and accountability leads to better investor outcomes and, we believe, has resulted in fewer complaints and other regulatory issues with regulators, as compared to the sales-oriented part of the industry.

Even dealing with non-registered referring parties is beneficial from a compliance perspective because the PM firm dealing with the client still has all the suitability requirements. Clients are well served in this channel irrespective of where the referral came from as they receive all the benefits of the professionally managed portfolio and are still under the regulatory framework that encompasses PM firms. Non-registered planners are limited in their involvement of the management of a given portfolio the same way that a registered person would be. The added benefit from a regulatory perspective is that the PM firm, who is ultimately responsible for the client and the portfolio, is regulated by the securities commissions. Forcing non-registered planners to limit their income stream will only serve to drive behaviours and dealings further underground.

Additionally, because there is full disclosure to referred clients of the amount of any referral fees paid and to whom they are paid, clients are actually better served than through a channel where they don't know the real cost, don't know how the fees affect them, and don't know who is getting paid.

In a meeting with the Manitoba Securities Commission on July 18, 2018 it was suggested that it was an unintended consequence that referral arrangements also became distribution channels for PM firms. It

was initially contemplated that referrals would be a one-time event rather than being a different business model.

However it was arrived at, the fact that referral arrangements have become distribution channels for PM firms is to the betterment of the investing public and certainly to those investors that have been referred to a PM firm. In its aim to improve the industry and enhance investor outcomes, we believe the CSA would be hard pressed to find a better model than the referral arrangements PM firms undertake with financial planners. On a practical basis, a financial planner is not undertaking registrable activities when they are acting as financial planners. However, once the relationship turns from one of advice giving to one of selling, the relationship is up-ended and an inherent conflict of interest is introduced. Now it is not a relationship based on providing help and advice, but of one offering products for sale.

Referral arrangements have provided positive client experiences and better outcomes in the following ways.

1. Greater accountability – There is no confusion as to how much is being paid, to whom, and for what services. There is a direct link between service received and the cost paid.
2. Increased transparency – There are no hidden charges. Every penny is accounted for and disclosed on statements with annual management fee recaps being sent.
3. Lower costs - Compared to most other managed products investors pay lower fees when they deal with a PM firm.
4. Direct access to the PM – Mutual funds and other investment products generally do not allow investors to chat with the day to day decision makers. Direct discussions help the PM frame the investing decisions and reminds them they are investing clients' money, while it fosters a greater understanding of the investing process on the investor side.
5. Customized portfolios – There is simply no substitute in the industry for the customization that PM firms provide. Portfolios can be individually tailored to specific environmental concerns, professionally imposed investing restrictions, or religious beliefs. Specific foreign currency cash flow needs can also be provided for.
6. Enhanced tax planning opportunities – Because PM firms work either directly with the investor or with a financial planner, there is additional dialogue and tax planning that can take place in regards to tax advantaged income, or crystallization of gains or losses for planning purposes.

PM firms are providing a level of service and customization at a price point that most mutual fund companies do not match. Financial planners are making referrals not because they have to but because they believe these are all things their clients can benefit from.

In Annex E Ontario Local Matters, under the Referral Arrangements section, there is an inference made that referral arrangements provide an incentive for registered individuals to give up their registration. Our experience is that this is not the case. Our experience is that registered individuals are giving up their licence for one of two reasons:

1. They are forced to leave their dealer because they are not doing enough mutual fund business. Despite being paid less, many financial planners were opting to refer clients to a PM firm because they believe that the service provided represented a better outcome for their clients.

2. Their dealer only supports larger mutual fund firms. It is anticipated that the proposed amendments will “make it easier to for new entrants and less well-known registrants to complete in the marketplace” (#8 on the list on Schedule 1 of Annex E). However, the reality is that dealers are reducing what is available and choosing to deal only with a few large companies. Existing referral agreements enable a financial planner to introduce their clients to smaller, less well- known firms.

Current referral arrangement structures also address each of the five investor protection concerns highlighted in the proposals (Annex E). Rather than limiting the scope of referral arrangements, we suggest they should be expanded as they address the concerns of investors better than any other model.

1. **Clients are not getting the value or returns they could reasonably expect from investing.**

The best client outcomes come about when investors are able to work with professionals that are engaged by the investor to provide professional expertise and opinion to their own personal situation. Portfolio Managers provide ground level investing advice and can provide valuable input into strategic planning decisions that financial planners can incorporate into their planning process. Knowing more about the specific tax and legal aspects of a client’s situation can also enhance the resulting portfolio returns on an after-tax basis. Outside of a PM relationship with an investor’s other trusted advisors (financial planner, lawyer, accountant, etc.) there is no opportunity for this level of engagement.

2. **Expectations gap.**

Selling products, especially when coupled with no clear reporting on the total cost to the buyer, exacerbates this problem. A fiduciary relationship should be encouraged, not limited.

3. **Conflicts of interest.**

The greatest conflict of interest comes when one party is selling to another. Hiring someone to provide advice and a service is much different than having someone sell you a product.

4. **Information Asymmetry.**

The internet is bringing more information to more people, but a knowledge gap still exists. The greatest challenge today is not access to information but dissecting it and determining what is useful and what is not. In many cases what is useful in one situation is not useful in another situation. Generic advice is often confusing or misleading. In addition, some investors are simply not willing to put in time to learn, some rely on a smooth sales pitch over substantive documents, and others are overwhelmed by life’s events that finding time to learn is not available on top of all the other things going on in their lives. Greater disclosure is not effective for those in the above categories. A fiduciary obligation to clients addresses this and is singly the most effective avenue for addressing this. When a client hires a PM firm to manage their life savings, the relationship is much different than one where a sales person sells them another product.

5. Clients are not getting outcomes the regulatory system is designed to give them.

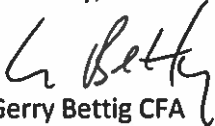
We believe many investors are not getting desired outcomes because much of the industry's registrants are selling products instead of offering unbiased advice. The best way to achieve better outcomes is to provide an avenue for clients to be served by someone providing a fiduciary service to them.

Limiting availability of smaller firms on dealer networks only serves to heighten this problem. Jack Bogle (Vanguard Funds) once stated that "The largest funds are controlled by the giant financial conglomerates. When you get that kind of conglomerate ownership, they are looking for one thing – not a return on the investors' capital, but a return on the corporation's capital." Barron's January 12, 2004. We don't believe anything has changed since then.

Throwing the baby out with the bath water is not the ideal way to deal with the issues the CSA has been trying to address. Referral arrangements, while born of unintended consequences, have served clients extremely well for decades by providing enhanced levels of service, lower fees, higher engagement, and ultimately better outcomes, all while having fewer investor complaints and fewer regulatory issues.

We believe referral arrangements as provided by PM firms with a fiduciary relationship to investors should be enhanced and expanded, as they address the specific issues the CSA is concerned with.

Sincerely,



Gerry Bettig CFA

President