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Re: CSA Notice and Request for Comment dated June 21, 2018 Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms)

General

We appreciate the efforts by Canadian securities regulators to protect and inform retail investors. Thank you for the opportunity to provide our comments regarding the proposed amendments.

Huxton Black is registered as a portfolio manager and exempt market dealer in Ontario. We specialize in using technology to offer low cost portfolio management to clients and have several referral partners we use to help service our client base. We operate as a fiduciary to our clients and advocate a robust KYC process that is technologically advanced and based on a client's risk capacity, loss aversion, and other behavioural based risk tolerance assessment factors. In addition, we work with our referral partners to uncover as much about the client's financial situation as possible before making a portfolio recommendation. Given our current small size the referral process is invaluable in gaining a better understanding of the client and their needs while keeping our costs low. All our advisors are registered in some way to a self-regulating organization whether it be MFDA, FSCO, or other. We view our services as complementary to other professionals who are limited in their ability to offer low cost products such as ours. In fact, over 50% of our revenue is currently generated through introductions made to clients through referral agreements. Our clients agree to pay the referral fee, that we disclose to them during the sign-up process. These referral fees pay for emotional coaching and financial planning, activities that have been shown to improve client outcomes over the long term according to studies completed by Vanguard.

Our clients benefit from our ability to adjust portfolios to their personal goals. We can also adapt to changes in the marketplace that could negatively impact their portfolio's growth. Our clients also benefit



from the fact that we are truly independent and free to offer our clients portfolios and products that best suite their unique financial situation.

Comments

We believe that the contemplated changes to National Instrument 31-103, are broad reaching and have the potential to increase protection for clients, there are a few that could create several negative unintended consequences including decreasing competition, increasing average investor cost, and reducing the democratization of financial advice. I'm speaking of the proposed limits on referral fees.

1. Decreasing Competition

Financial services in Canada are dominated by a few players, leading to some of the highest fees paid by investors in the entire world. Investors, unbeknownst to them, often end up in vertically integrated sales channels owned by product manufacturers. An alternative business model using referral arrangements and portfolio managers can provide these same investors with a fiduciary that provides advice independent of product and often at a substantially lower cost.

2. Increasing Costs

Mutual funds and segregated funds are some of the most expensive investments available. While some of their features and benefits are desirable for a limited number of investors there have been few alternative options until now. By limiting a client's ability to find qualified fiduciaries to manage their assets via referral arrangements and the high cost structure of the industry will be perpetuated. This is particularly true for those investors with smaller amounts of savings. These clients are increasingly being pushed out of higher service sales channels and into high cost mutual funds.

The proposed limited time put on referral fee payments may also create a propensity for advisors to move clients every three years, which could create increased transfer costs for clients. Alternatively, client service levels may drop substantially as the client approaches the sunset date on their referral agreement.

Reducing Options for Smaller Investors

With technology there are many ways to provide alternatives to the traditional mutual fund business model while providing more objective and standardized investment advice. I believe that this business model improves outcomes for clients due to limited conflicts of interest (the referral partner is referring a client to a service, not selling a product). Referral fee models allow some advisors to specialize in financial planning, tax planning, or estate planning, leading to a more team-based approach. With more specialized input on one client's situation, the client benefits greatly by getting more detailed, yet more well-rounded advice. Smaller investors through this team-based approach can benefit from wealth management typically reserved only for those with enough wealth to justify a team.



Alternative Methods

We understand the risk of possible abuse in using referral arrangements, particularly by those who do not belong to any financial regulatory body whatsoever as well as creating the potential for conflicts of interest. We believe there are alternative ways to achieve risk mitigation without negatively impacting businesses that use referrals positively to provide more well-rounded advice. Particularly those practitioners that believe that advice does not stop at selecting a suitable product or portfolio, or thirty-six months later, but it is an ongoing process. We continue to advocate for increased financial literacy for clients being part of any advice process, this helps clients gain a better understanding of the markets and can lead to greater stability. We are firm believers in market-based systems and complete transparency when it comes to cost, however, we feel that these proposed changes do more to protect the status quo rather than protect investors.

We'd like to again thank the regulatory authorities for taking the time and effort to advocate for clients and accepting our feedback on the proposed changes.

Regards,

Matthew Gibson, MBA