The Canadian Institute of Financial Planners
(“CIFPs”)

WRITTEN SUBMISSION
REPORT

Submitted to: **Expert Committee to Consider Financial Advisory & Financial Planning Policy Alternatives**

Dated: **September 21, 2015**

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Building a strong profession today, for tomorrow
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The Canadian Institute of Financial Planning
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<u>VIA EMAIL</u>

September 21, 2015

Expert Committee to Consider Financial Advisory
& Financial Planning Policy Alternatives
Attention: Mr. Malcolm Heins, Chair
c/o Frost Building North, Room 458
4th Floor, 95 Grosvenor Street
Toronto, Ontario
M7A 1Z1

Dear Mr. Heins:

RE: Writtten Submission Addressing Questions Posed by the Expert Committee to Consider Financial Advisory & Financial Planning Policy Alternatives

Thank you for your request for submissions regarding this important consumer protection initiative to review policy alternatives in the delivery of financial advice and financial planning services. CIFPs sees this as an opportunity to increase the quality of financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice to enhance consumer protection and maximize consumer utility.

On behalf of its 6,500+ members, The Canadian Institute of Financial Planners (CIFPs) is pleased to provide you with this submission commenting on the above-noted issues, which are very important to its members. Further, our affiliate educational organization, The Canadian Institute of Financial Planning (CIFP) is pleased to represent the views of its 7,000 + students. We appreciate being asked to provide you with our views.

CIFPs is the professional association for financial planners in Canada. Many of the members of CIFPs are Certified Financial Planners (CFP®), which is the designation granted by the Financial Planning Standards Council (FPSC) to individuals who have met its educational standards, passed the FPSC Certified Financial Planner® Examinations, satisfied work experience requirements and agreed to abide by the FPSC Code of Ethics.

CIFPs provides its members with continuing education through courses and conferences, practitioner support services including mentoring, best practices and technical publications, regulatory support, and advocacy services on issues that have potential to impact financial planners. All members of CIFPs subscribe to the CIFPs Code of Conduct and Ethics.

As financial planners, the members of CIFPs include individuals registered as dealing representatives who are agents of firms registered as mutual fund dealers (members of the Mutual Fund Dealers Association of Canada) or as investment dealers (members of the Investment Industry Regulatory Association of Canada). CIFPs members can also be licenced insurance agents and many members are duly licenced as securities dealing representatives and as insurance agents. Our members operate in all provinces and territories of Canada, and individual members are registered and licenced in each of the provinces and territories where they work with clients residing in those provinces and territories.

CIFP has been involved in the delivery of high quality financial planning education to Canadian financial planners since 1972. Currently, CIFP offers educational programs in financial planning, retirement planning, and delivers customized financial education and training programs to many organizations in the financial services industry.

Additionally, CIFP through its CIFPs Retirement Institute is the licensing body for the Registered Retirement Consultant (RRC®) and Registered Financial & Retirement Advisor (RFRA®) designations. These designations are supported by a rigorous educational program of study and examination, work experience, annual continuing education, code of conduct & ethics, and standards of practice. Over 2,000 RRCs are currently licensed to provide the pre and post retirement, and life style planning needs of Canadians. With over 3,000 students currently registered in the RRC program, CIFP expects over 5,000 RRCs serving Canadians within the next 18 months.

Over 70% of our members, licensees and students reside in Ontario.

CIFPs is also a founding member of the Financial Planning Coalition which also includes the Institute of Advanced Financial Planners, the Financial Planning Standards Council and the Institut Québécois de Planification Financière. The Financial Planning Coalition has developed and is now promoting a common set of financial planning standards for Canada.

CIFPs and CIFP's strong focus and commitment to high standards of practice and education will guide and shape our comments to your questions in our submission.

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Thank you for considering our comments. Please contact Keith Costello, the President and Chief Executive Officer of CIFPs at 647-723-6447 or kcostello@cifps.ca if you have any questions about our comments or you would like to meet with us to discuss them further. We would be very pleased to meet with you and hope that you will include us in any further discussions or consultations that you decide to undertake.

Yours very truly,

Keith Costello, BADM, MBA-Strategic Planning
President & Chief Executive Officer

Executive Summary:

The current advice environment for Ontario financial consumers does not provide the optimum balance between quality of advice, and its affordability and accessibility to consumers. We stress that we believe the objective of any legislative changes to the financial advice environment in Ontario should improve the quality of advice while maintaining the affordability and accessibility of this advice.

In the current advice environment, we see the following issues that may cause potential consumer utility and consumer protection concerns:

- The definition of financial planning versus other types of advice is not clearly delineated to Ontario financial consumers. Moreover, there are no standardized definitions and qualifications for other advice types. Due to this confusion, some financial consumers may perceive that they are receiving financial planning advice when they are not. The consumer protection issue is that financial consumers may not be getting the appropriate advice to meet their overall financial and life plan;
- The oversight of advice is inadequate depending on the type. There is a comprehensive advice oversight model for financial planners through the Financial Planning Standards Council but is not recognized by regulators or legislators, and therefore, is a voluntary model. The oversight of other advice types (specific-targeted) is inconsistent and dictated by various titles and designations by credentialing bodies of varying standards. Product advice has effective oversight by current regulatory bodies except that full harmonization on rules has not been achieved. Finally, financial consumers may be given advice by those not registered in the financial system. The current oversight regimes cause consumers an inconsistent experience where they are not certain whether the advice is of high quality and standards per each advice category;
- There is no clarity as to the level of duty of care that financial consumers will receive from financial planners and financial advisors. This causes confusion and costs for both when seeking resolution to complaints. There is also no uniform central directory to check if financial advisors and financial planners are in good standing. This reduces the financial consumer's ability to proactively seek qualified and reputable advice;
- The level of education of individuals may not be appropriate for certain types of advice because the education provider may not be of the high quality of standard required to train individuals with the body of knowledge required to deliver the advice. As a result, financial consumers get unqualified advice in some engagements;
- The current advice environment is not cost-effective for financial consumers due to duplication and lack of harmonization reducing the affordability and accessibility of advice to consumers;
- Commission compensation payments for advice cause a perception of bias advice but commission payments are used to pay for the advice in may consumer advice engagements. Depending on how commissions are regulated, there may be a consumer

utility issue – less access to affordable advice or a consumer protection issue – bias advice.

We recommend the following to enhance the advice environment for financial consumers in Ontario. Further, these recommendations will foster quality financial advice that is tailored, affordable and accessible to consumers.

1. Recommendations – Financial Planning Advice:

   Recognize through legislation the system operated by the Financial Planning Standards Council for financial planners, and restrict the use of the title "Financial Planner" to only those who belong to and meet the requirements set by this proposed professional body;

2. Recommendations – Product Advice:

   Encourage full harmonization of rules and structures to reduce costs, and facilitate affordable and accessible advice to financial consumers. Require any advice giver outside of the system to be registered with the appropriate body and set severe penalties for non-compliance;

3. Recommendations – Other Types of Advice (Specific-targeted):

   Further study and define these advice types to delineate from financial planning and align with product advice. Use the United Kingdom system as a blueprint for a new oversight system for these advice types. Specifically:

   - Set definitions for types of advice,
   - Set standards for titles and designations that provide the body of knowledge for these new redefined advice types,
   - Register all education providers and require them to meet a common standard for their education programs, and their organizational processes and procedures,
   - Have applicable regulators certify these education / member bodies, and require them to issue an annual certificate in good standing of its members – education, standards & complaints;

4. Recommendations – Compensation, and Complaints and Conflicts of Interest:

   Create a new compensation model for advice that gives financial consumers a choice between paying directly for advice or having their financial advisor compensated from an independent advice fund – funded by commission payments but not linked to product purchases.

   Create a graduated system of duty of care increasing from product advice to specific-targeted to a full fiduciary duty for financial planners under the proposed professional body.

Create an integrated and uniform central registry for any individual and/or entity providing advice to Ontario financial consumers. This will facilitate consumers to proactively select reputable advice givers that are in good standing.

We believe these recommendations will enhance the advice environment for financial consumers in Ontario while providing the maximum consumer protection and consumer utility.

Introduction and Background:

We will answer your six posed questions in the context of our analysis of the current Ontario financial consumer advice environment, and our recommendations for a new improved advice environment for Ontario financial consumers. Therefore, the answer to each question will be presented in two parts – its relation to the current state, and solutions to each question under an improved state.

We have also included and will reference a schematic illustration of our analysis of the current advice environment, and recommendations for an improved advice environment from page 21 to page 28 of this submission.

We have also enclosed a research paper that CIFPs commissioned on the Retail Distribution Review (RDR) in the United Kingdom. We feel this is the most indicative model for Ontario to review and take learnings from to help with developing policy solutions for the retail financial distribution system for Ontario consumers.

We strongly believe the objective on a macro basis should be to:

To increase the quality of financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice.

We present that there are the following spheres of influence that will help achieve financial consumer protection and utility:

- Definitions of advice
- Advice standards and oversight
- Educators who offer education and designations
- Proficiencies of advice givers – financial planners and financial advisors
- Compensation models for advice givers

We will further address the relevance of these spheres of influence in our detailed answers to your questions.

Achieving this objective will enhance consumer protection and maximize consumer utility. We do not believe that quality advice needs to be achievable at the sacrifice of affordability and accessibility but rather the right balance will deliver better financial consumer outcomes.

Moreover, it is essential to take a consumer approach to the solutions that you seek in this review. Ultimately, what is good for financial consumers is also good for our stakeholders.

Current Advice Environment Available to Ontario Financial Consumers:

Analysis:

Question 1: "What activities are within the scope of financial planning? Is the provision of financial advice different from financial planning? If so, please explain the distinction."

Financial planning and financial advice are very different from each other. Without using detailed jargon definitions, financial planning is a process to provide comprehensive holistic advice dealing with an individual's overall financial and life goals on an ongoing basis.

Whereas, financial advice has many forms. We will refer to financial advice as "specific-targeted advice" and "product advice". It is usually driven by an event and can be one-off. It is not comprehensive and does not deal with a consumer's overall financial and life needs. Examples are 1) choosing the best mortgage, 2) purchasing life insurance upon buying a house or having your first child, 3) my uncle died, and left me $10,000 which I need to invest to list a few. Although these specific advice decisions may be inputs into a financial consumer's overall financial and life plan, there is no representation that the advisor is dealing with the comprehensive picture.

For a more comprehensive definition of financial planning, we accept the definition provided by the Financial Planning Standards Council:

"Financial planning is a disciplined, multi-step process of assessing an individual's current financial and personal circumstances against their future desired state, and then developing strategies that will help meet their personal goals, needs and priorities in a way that aims to optimize their financial position. Financial planning takes into account the inter-relationships among relevant financial planning areas in formulating appropriate strategies, including financial management, insurance and risk management, investment planning, retirement planning, tax planning, estate planning and legal aspects.

Furthermore, financial planning is not a one-time event. It is an ongoing process involving regular monitoring of an individual's progress toward meeting their personal goals, needs and priorities, re-evaluating financial strategies in place and recommending revisions when and where necessary."

We purpose that financial planning is well defined and brings clarity to financial consumers. Unfortunately, there is consumer confusion between financial planning and these other types of advice. The most likely reason is that financial advice and financial planning are not properly delineated to the detriment of Ontario financial consumers. Moreover, the definitions for non-financial planning advice (specific-targeted) do not have standardized definitions and qualifications, and are in some consumer engagements misrepresented as financial planning services.

To conclude, we observe that depending on the level of advice given, moving from product advice to specific-targeted to financial planning, consumer protection certainty may vary. Consumer protection should be consistent at all levels of advice so, therefore, we highlight this consumer protection issue to you. We re-enforce that “definitions of advice” is a major sphere of influence that will help meet the objective of :

To increase the quality of financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice

We illustrate this point in a schematic fashion on page 21.

Question 2: “Is the current regulatory scheme governing those who engage in financial planning and/or the giving of financial advice adequate?”

We propose that the answer to this question be presented in three categories:

1. Financial planning advice oversight
2. Specific-targeted advice oversight (as per our earlier stated definitions)
3. Product advice oversight

Financial planning advice has a strong self-regulation standard and oversight by the Financial Planning Standards Council which includes a high education standard, annual professional development, ethics, practice standards, best interest of client, financial planning definitions, standards and competencies, and a rigorous enforcement and discipline regime. There are other competing regimes but the Financial Planning Standards Council’s model is by far superior. The weak point in the financial consumer environment for financial planning is that this system is purely voluntary and not recognized by regulators and/or legislators. We highlight this as a consumer protection issue for Ontario financial consumers.

The oversight of financial advisors in the specific-targeted advice segment is inconsistent and dictated by various titles and designations by credentialing bodies of varying standards. The consumer experience is uneven depending on the credential the financial advisor has obtained. This causes a consumer protection issue as financial consumers can never be sure how well the advice given is backed by high quality knowledge and expertise.

Product advice oversight is performed by various regulators including the Ontario Securities Commission, the Mutual Fund Dealers Association, the Investment Industry Regulatory Organization of Canada, and the Financial Services Commission of Ontario depending where the financial advisor is licensed – insurance, mutual funds or securities. These systems appear to work very well. The only concern is the issue of harmonization across these financial sectors. With different rules, financial consumers may not experience a consistent experience when engaging with a financial advisor. We understand that harmonization is an ongoing objective of the regulators but full effective harmonization has not been achieved. This a potential consumer protection issue over the long-term.

Another financial consumer issue is advice that has no oversight because the advice giver is not registered with any regulator, self-regulation body or government. Under this situation, the financial consumer is at risk as there is no oversight or control as to the quality and appropriateness of the advice offered.

We re-enforce that "Advice standards & oversight" is a major sphere of influence that will help meet the objective of:

To increase the quality of financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice

We illustrate this point in a schematic fashion on page 21.

Question 3: "What legal standard(s) should govern conflicts of interest and potential conflicts of interest that may arise in financial planning and the giving of financial advice?"

The discussions concerning the most appropriate legal standard(s) for conflicts of interest has been intense whether it is a full fiduciary duty or best interest standard proposed. Some legal experts argue that the remedy for conflicts is already covered in case law in Ontario, and the introduction of an enhanced duty of care will case more lawsuits, and increase dramatically the cost of Errors and Omissions insurance in Ontario.

Various advisor groups argue that not all advice levels warrant this enhanced duty of care while consumer advocacy groups question – "why would you not put your client's interest first?".

Regardless of the legal standard adopted, the lack of clarity for both financial advisors and financial planners, and financial consumers on this standard is a consumer protection and utility issue.

Question 4: "To what extent, if at all, should the activities of those who engage in financial planning and/or giving financial advice be further regulated? Please consider the following in your response:

(a) Licensing and registration requirements;

(b) Education, training and ethical responsibilities;

(c) Titles and designations of individuals who engage in financial planning and/or the giving of financial advice;

(d) Specific activities that should be included or excluded in a regulatory scheme;

(e) Costs and other burdens of regulation;

(f) Regulation of compensation; and

(g) Complaints and discipline mechanisms."

In answering question 4 in the context of the current advice environment, we will highlight some of the issues and problems with the various items listed under this question. This will drive our recommendations as to what should be regulated and how under the new advice environment section of this submission.

Education, training and ethical responsibilities;

Titles and designations of individuals who engage in financial planning and/or the giving of financial advice:

First, as per our schematic on page 23, we believe strongly that the area of education is a major sphere of influence and is paramount to meeting our stated objective of:

To increase the quality of financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice

Specifically, the following areas are of concern:

- The proficiencies that financial advisors and financial planners obtain through education and training,
- The titles and designations that financial advisors and financial planners hold out with when servicing financial consumers,
- The education providers who deliver this education and training, and related titles and designations.

These areas can again be analysed by the category of the advice – Financial planning, specific-targeted advice, product advice and advice from non-registered advisors.

The biggest issue for financial consumers is that there is a mismatch between the proficiencies that advice givers have, and the level and type of advice that they offer to financial consumers.

For example, some financial advisors hold out as financial planners or conduct financial planning activity without the proper level of proficiencies.

More specific to the question of education, and titles and designations, the financial planning advice category is represented by a well defined and high quality standard supported by comprehensive education programs and providers under the Financial Planning Standards Council CFP® model. There are competing models by the Canadian Securities Institute and the Institute of Advanced Financial Planners but the CFP®is the most comprehensive model. Again, the weak point is that this model is voluntary and not recognized.

In the specific-targeted category of advice, there are inconsistent education standards. Leading educators such as the Canadian Securities Institute, the Canadian Institute of Financial Planning, and Advocis have well established standards, programs and oversight for the designations and titles that they offer in this advice category.

On the other hand, many small educators are offering many titles and designations within this advice category without the proper level of standards and oversight. As previously noted, a financial consumer protection issue is present with the consumer unable to distinguish between the quality and standards of the various titles and designations that advice givers hold out with.

The education standards set by the existing regulators across the mutual fund, securities and insurance sectors are in order to protect financial consumers although harmonization remains an ongoing issue to protect financial consumers seeking product advice.

Finally, there is no data to measure the level of education of non-registered advisors which implicitly points to a financial consumer protection issue.

Complaints and discipline mechanisms:

There are many complaints and discipline mechanisms offered in all advice categories in the current advice environment by various organizations including CIFPs. There is no effective integrated approach to complaints and discipline across industry sectors or advice categories causing a reduction in financial consumer utility, and ultimately consumer protection.

Costs and other burdens of regulation:

Lack of harmonization and duplication of oversight by both formal regulators and self-regulating bodies is clearly shown in the schematic on page 21 through 28 of this submission. Further, regulation appears to becoming more prescriptive than principles based in the current advice environment. This regulatory structure is costly and works against the balance of quality advice and oversight with the need for affordable and accessible advice for Ontario financial consumers.

Regulation of compensation:

Compensation models are of great importance to both financial advisors and financial planners who give advice, and financial consumers who receive advice. The reality is that ultimately advice is funded by commission fees for many advice engagements while the fee for service model – direct payment for advice by financial consumers is a small segment and struggling. It is important to get the compensation issue right to ensure that financial consumers get quality advice that is accessible and affordable.

Question 5: "What harm(s) and/or benefit(s) do consumers experience in the current environment? Please provide specific evidence to support your views where available."

We have throughout this section outlined in the answers to the first four questions consumer protection issues in the current advice environment. We will summarize our concerns in the overall advice environment under this question. Our analysis, to restate, is based on the objective that the advice environment should provide quality financial advice to Ontario financial consumers while maintaining the affordability and accessibility of this advice. The biggest potential harm to financial consumers is that the advice that they receive is what it is represented to be, and of the quality that is needed.

Specifically, we see the following consumer protection issues:

- **Definitions:**
    - The definition of financial planning versus other types (specific-targeted) of advice is not clearly delineated to Ontario financial consumers. Moreover, there are no standardized definitions and qualifications for other advice types. In some financial consumer engagements, the consumer may believe that he or she is receiving financial planning advice but he or she is not due to this definition confusion. This will harm the financial consumer because he or she is not getting the appropriate advice that they need for his or her overall financial and life plan.
- **Oversight:**
    - Oversight of advice is inconsistent depending on the type of advice that the financial consumer is receiving. There is a comprehensive advice oversight model for financial planners through the Financial Planning Standards Council but it is not recognized by regulators or legislators and is voluntary. Consumers are not assured when receiving financial planning advice that the financial planner is following professional standards of practice and adhering to a code of conduct and ethics. Moreover, financial consumers may not experience the same quality of consumer experience because of this inconsistent financial planning oversight,
    - The oversight of other advice types (specific-targeted) is inconsistent and dictated by various titles and designations by credentialing bodies of varying standards. Financial consumers cannot be assured of the quality of this advice and may receive inadequate and bad advice,

- Product advice has effective oversight by current regulatory bodies except that full harmonization on rules has not been achieved. Financial consumers may experience inconsistent advice as rules may be different depending on the product purchased,

- Advice may also be given by those not registered in the financial system, and there is no way to measure the negative impact on the financial outcomes of financial consumers receiving this advice.

- **Complaints and conflicts of interest:**

  - There is no clarity as to the level of duty of care that financial consumers will receive from financial planners and financial advisors. Consumers may perceive there is a fiduciary or best interest standard. This may cause harm to financial consumers seeking resolution to complaints and the cost of seeking of this resolution. Although there are directories of individuals and entities in good standing and their complaint history. A uniform central directory is unavailable and reduces financial consumer utility in proactively seeking quality and reputable advice.

- **Education:**

  - The level of education and proficiencies of individuals may not be appropriate for certain types of advice because the education provider providing the titles, designations and oversight may not be of the high quality of standard and comprehensiveness needed to meet the body of knowledge required to deliver the most appropriate advice. Therefore, the financial consumer may not receive the desired level of expertise and knowledge depending on the advice type.

- **Costs and other burdens of regulation:**

  - The current environment is adding costs to the ability to provide quality advice that is affordable while accessible to Ontario financial consumers. There is duplication and lack of harmonization adding compliance costs to the practices of financial planners and financial advisors – multiple registration fees, and accreditation fees for contining education, and disclosure reporting are several salient examples. While we promote the highest of standards, a balance between protection and accessibility is key to ensuring advice is accessible and affordable to Ontario financial consumers who need it most.

- **Compensation:**

  - Compensation is one of the most important issues that drives the affordability and accessibility of advice to Ontario financial consumers. The Brondesbury Report shows with compensation that:

    - Returns are lower than funds that do not pay commissions – raw, risk adjusted or after-fee returns,

- Advisors push investors into riskier funds,
- Investors cannot easily access what form of compensation is best for them and readily make optimal choices.

Alternative compensation models also have conflicts of interest:

- Fee-based – does an advisor deserve a greater fee as the value of a portfolio increases so that he or she receives a higher fee for the same service based on different portfolio values?
- Fee-for-service – are hours billed fair or inflated or is the annual retainer fee justified?

The RDR in the United Kingdom banned commission payments with the following effects (We have enclosed a report on the RDR that we commissioned in the appendix of this submission):

- Many advisors have left the financial services industry in the U.K.,
- Many consumers are left without access to affordable advice,
- New review launched.

Depending on what compensation regulations are enacted, there will be a consumer utility issue or a consumer protection issue. Specifically, if commission fees are retained then a perception of biased advice will remain whereas eliminating commission fees may cause a consumer affordability issue to pay for advice and/or may reduce access to advice.

Question 6: "Should consumers have access to a central registry of information regarding individuals and entities that engage in financial planning and the giving of financial advice including their complaint or discipline history?"

We will answer this question in the next section.

A New Advice Environment for Ontario Financial Consumers:

Opportunities and Recommendations:

We will under this section highlight the opportunities and recommendations that we believe will drive a new advice environment that will deliver consistent financial advice with increased consumer protection and utility. This will further foster quality advice that is tailored, affordable and accessible to Ontario financial consumers.

The recommendations will be presented by advice type, and then general recommendations that are applicable to all advice types. Our recommendations are further illustrated in our schematic on page 25 through to page 28.

Recommendations – Financial Planning Advice

The definition of financial planning is well defined and an effective oversight model exists so therefore:

- Recognize through legislation the system operated by the Financial Panning Standards Council by creating a professional body for financial planners. CIFPs is well designed to act as the society for financial planners in conjunction with this proposed oversight body,

- Restrict the use of the title "Financial Planner" to only those who belong to and meet the requirements set by the proposed professional body.

Recommendations – Product Advice

Oversight and standards are effectively performed by existing regulators – MFDA, IIROC, OSC & FSCO but:

- Harmonization of rules and structures are desirable to reduce costs and facilitate affordable and accessible advice to Ontario financial consumers.

Recommendations – Non-registered Advice

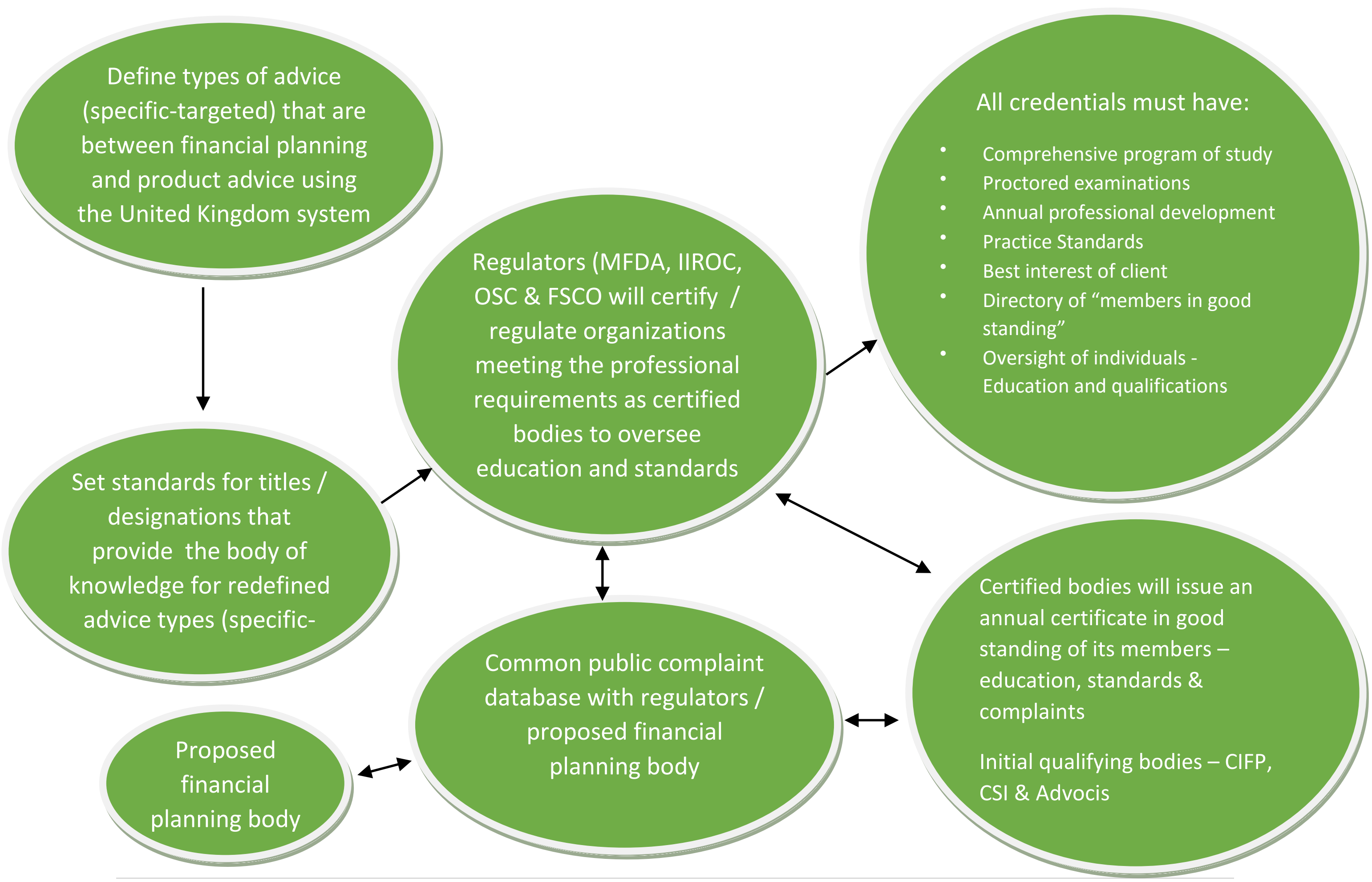
- Require any advice giver outside of the financial system to be registered with the appropriate body depending on the type of advice,

- Set severe penalties for non-registered advice givers.

Recommendations – Other Types (Specific-targeted Advice)

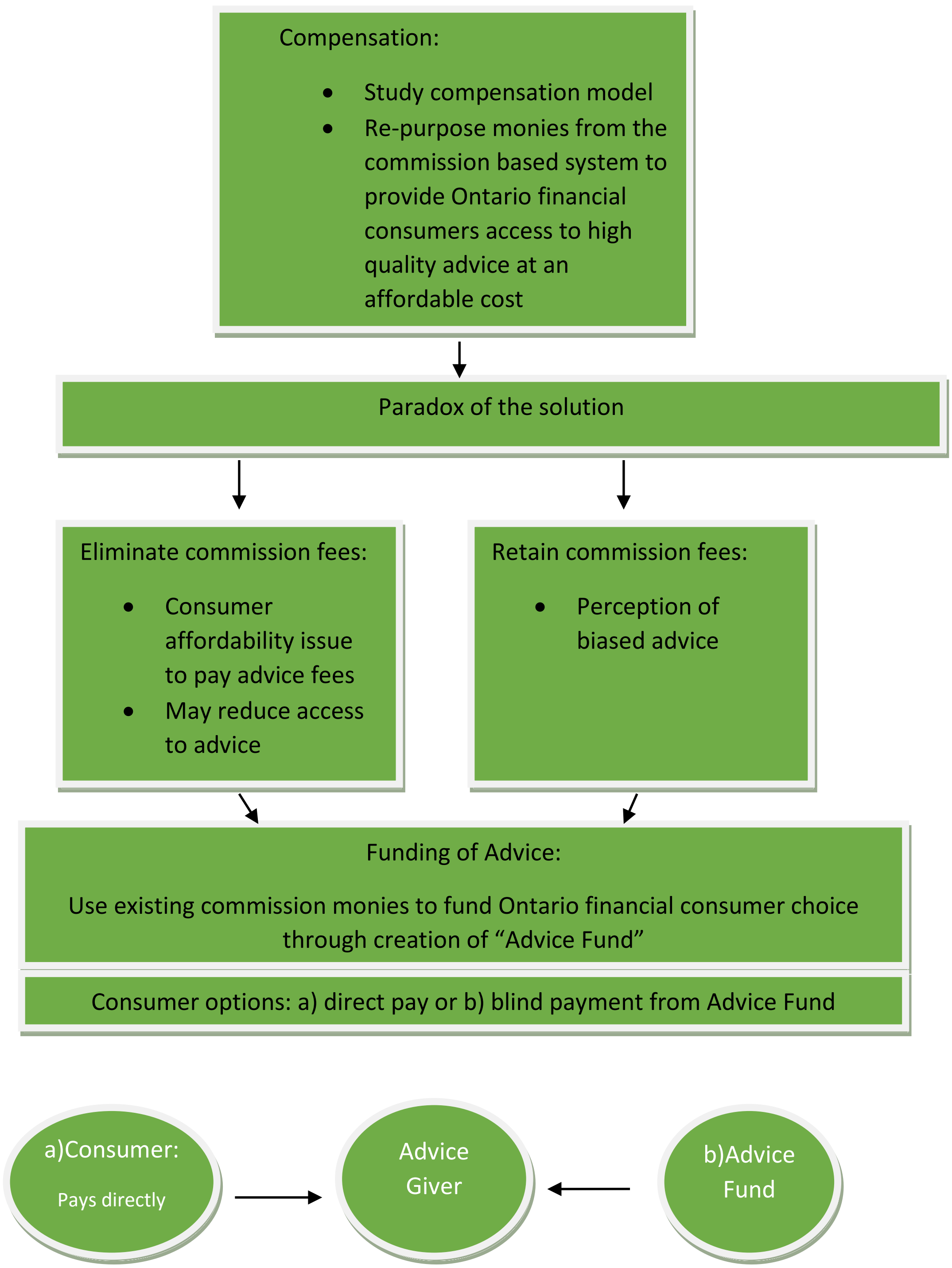
Further study and define these advice types to delineate from financial planning and align with product advice. The following is a proposed indicative model for further study based to some degree on the U.K. system. See RDR report in the appendices.

Proposed indicative model for further study and consideration: (costs minimized by using existing bodies & processes)



General Recommendations – Compensation

We believe that compensation is both a consumer choice and consumer protection issue. The following solution illustrated below may solve the dilemma between bias advice, and affordable and accessible advice. This concept was previously pioneered in the Australian financial consumer advice environment.



General Recommendations – Complaints and conflicts of interest:

To bring clarity to the duty of care that an Ontario financial consumer can expect, and that a financial planner and financial advisor needs to hold out with, we recommend a graduated system of duty of care increasing from product advice to specific-targeted to a full fiduciary duty for financial planners under the proposed professional body.

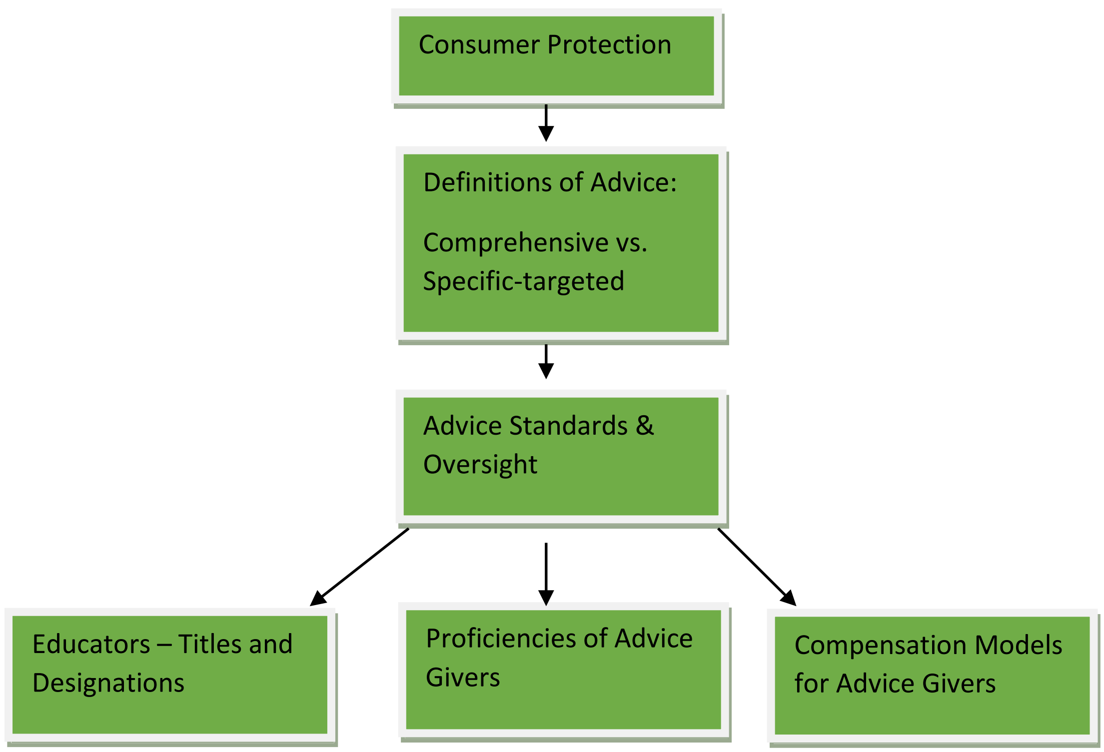
As per your question number six, we recommend an integrated and uniform central registry for any individual and/or entity providing advice to Ontario financial consumers. This registry will be fed information from many existing directories but in a standardized format to allow financial consumers to proactively select reputable advice givers that are in good standing and determine any relevant complaints in their history.

We believe these recommendations will enhance the advice environment for financial consumers in Ontario while providing the maximum consumer protection and consumer utility.

OBJECTIVE: INCREASE THE QUALITY OF FINANCIAL ADVICE TO ONTARIO FINANCIAL CONSUMERS WHILE MAINTAINING THE AFFORDABILITY AND ACCESSIBILITY OF THIS ADVICE TO ENHANCE CONSUMER PROTECTION AND MAXIMIZE CONSUMER UTILITY

SPHERES OF INFLUENCE

QUALITY ADVICE VS. AFFORDABILITY & ACCESSIBILITY



DELIVERY OF EFFECTIVE AND AFFORDABLE FINANCIAL ADVICE TO ONTARIO CONSUMERS

CURRENT ADVICE ENVIRONMENT AVAILABLE TO ONTARIO FINANCIAL CONSUMERS

DELIVERY OF EFFECTIVE AND AFFORDABLE FINANCIAL ADVICE TO ONTARIO CONSUMERS

CURRENT ADVICE ENVIRONMENT AVAILABLE TO ONTARIO FINANCIAL CONSUMERS

Proficiencies of Advice Givers:

- Mismatch of proficiencies of advice givers with the level/type of advice offered to Ontario financial consumers I.E. holding out as a financial planner or conducting financial planning activity without the proper proficiencies and qualifications

Educators – Titles and Designations

Financial Planning Advice:

- Well defined and high quality standards supported by comprehensive education programs and education providers under the FPSC CFP® system
- Competing regimes by Canadian Securities Institute (CSI) – PFP® designation and Institute of Advanced Financial Planners (IAFP) – RFP® Designation
- FPSC model superior

Other Types of Advice:

Specific-targeted:

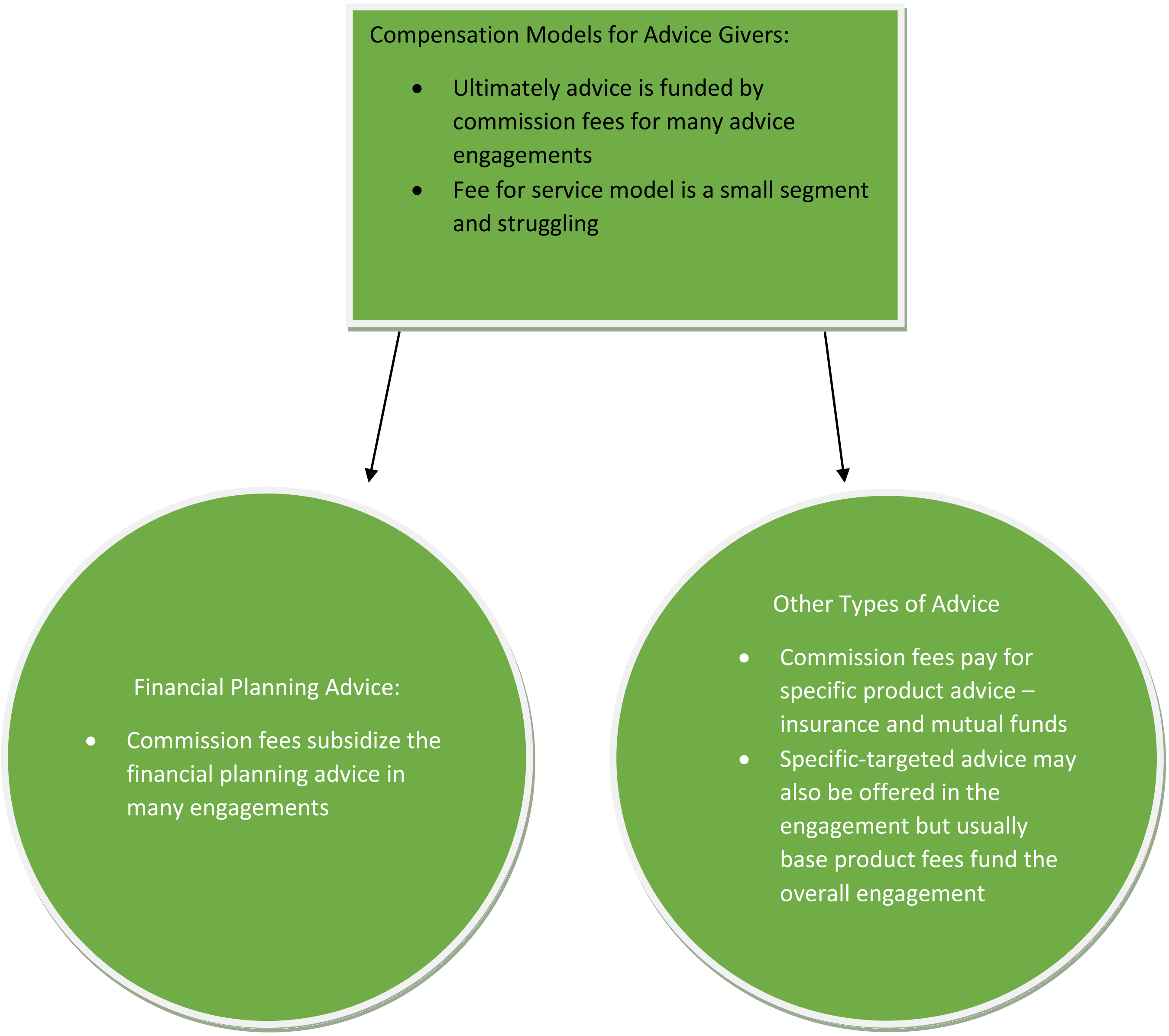
- Inconsistent education standards
- Leading educators such as CIFP, CSI and Advocis have well established standards, programs and oversight
- Many small educators without proper level of standards providing titles and designations within this segment of advice

Product:

Education & standards set and overseen by MFDA, IIROC, OSC & FSCO

Not Registered – No education standard

CURRENT ADVICE ENVIRONMENT AVAILABLE TO ONTARIO FINANCIAL CONSUMERS



Desired Transition to a New Advice Environment for Ontario Financial Consumers

Deliver consistent financial advice to Ontario financial consumers to increase consumer protection and utility through:

↓

Quality Advice that is:

Tailored

Affordable

Accessible

To Ontario Financial Consumers

↓

Recommendations – Financial Planning Advice

↓

Financial Planning Advice:

- Recognize through legislation the system operated by the FPSC by creating a professional body for financial planners giving consumers assurance through:
  - High quality education
  - Annual professional development
  - Ethics
  - Practice standards
  - Definitions, standards & competencies for financial planning
  - Best interest of client first
  - A society for financial planners to serve their professional needs through the Canadian Institute of Financial Planners (CIFPs)
- Restrict the use of the title "Financial Planner" to only those who belong to and meet the requirements set by the proposed professional body

Desired Transition to a New Advice Environment for Ontario Financial Consumers

Recommendations – Product Advice

↓

Other Types of Advice:

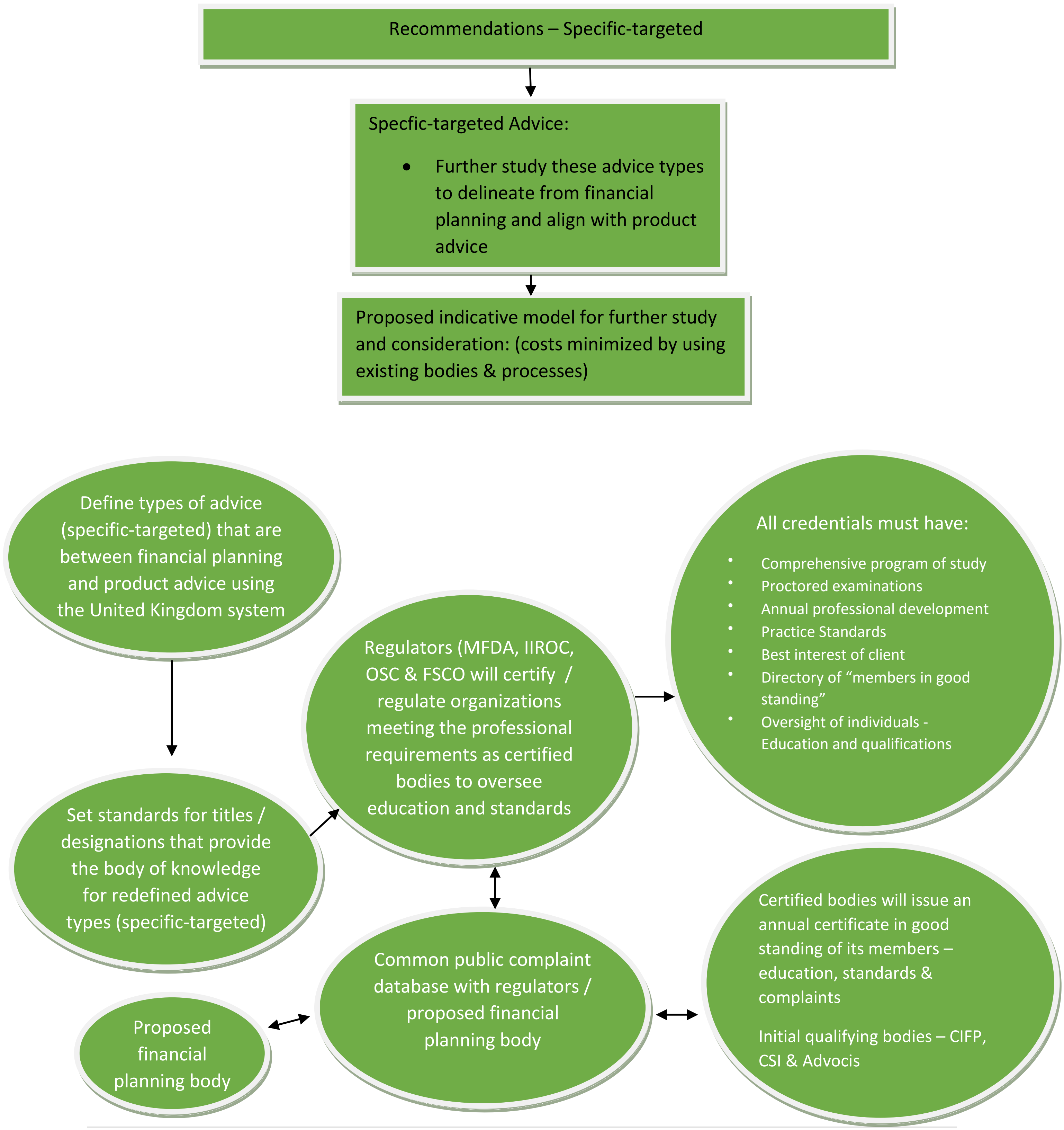
Product:

- Oversight and standards are effectively performed by existing regulators – MFDA, IIROC, OSC & FSCO
- Full harmonization desired

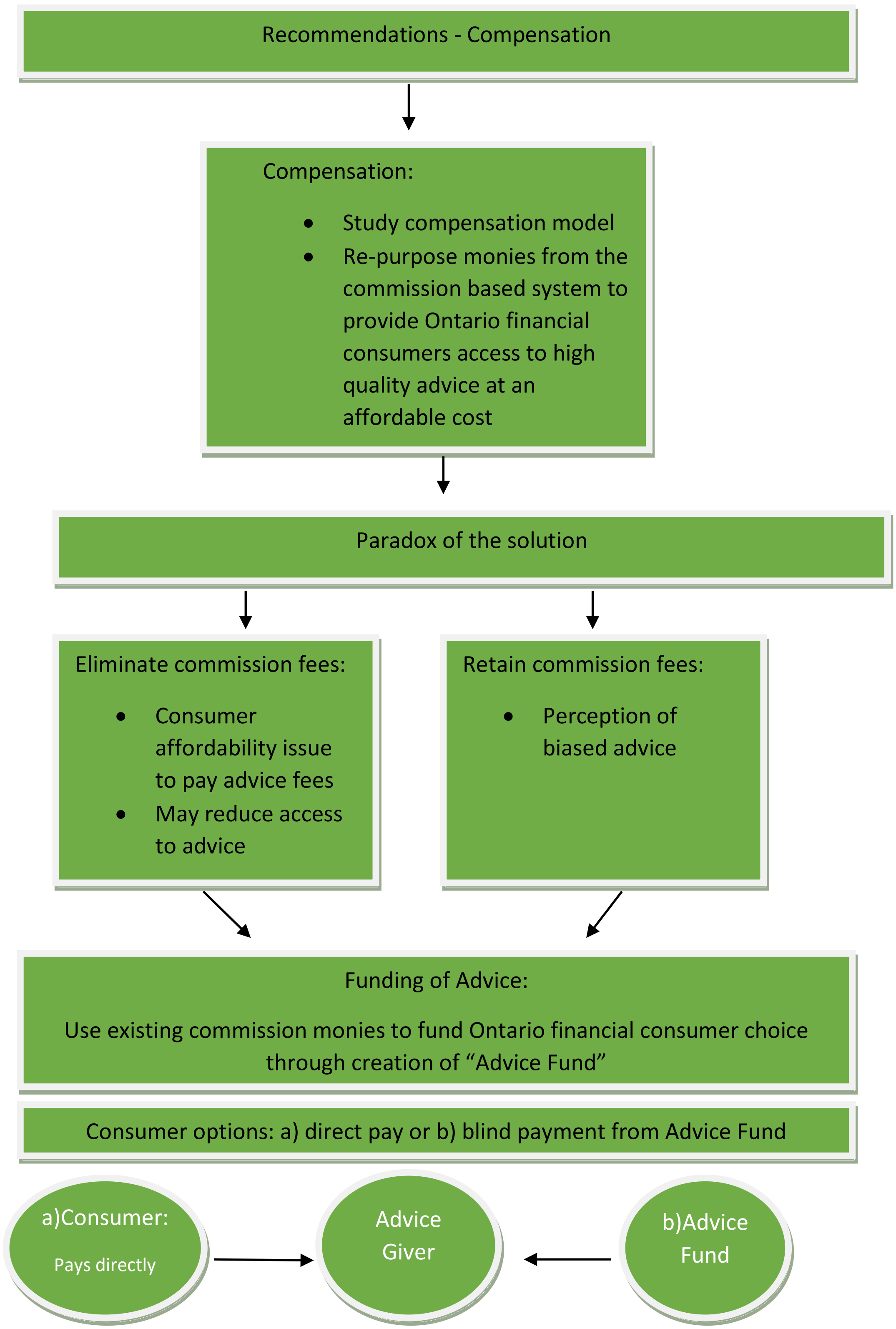
Not registered:

- Require any advice giver outside of the system to be registered with the appropriate body depending on the nature of the advice
- Severe Penalties for non-registered advice givers

DESIRED TRANSITION TO A NEW ADVICE ENVIRONMENT FOR ONTARIO FINANCIAL CONSUMERS



Desired Transition to a New Advice Environment for Ontario Financial Consumers



Retail Distribution Reviews

(“RDR”)

This paper is research primarily focused on the United Kingdom’s (“UK”) RDR; in addition we have provided an overview of the developments in Australia, South Africa and Hong Kong; their approach, impact and relevance to a similar review in another country.

Robert Reid, CanScot, August 2015

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Introduction

Retail Distribution Solutions deployed/being deployed in other countries, focusing primarily on the UK.

Appendices

- Further information on the UK RDR
- What's happened elsewhere?
- CV – Robert Reid

Introduction

In compiling this research we have endeavoured to provide the context in the form of the market conditions prior to the implementation of the RDR UK, which drove this change

Retail Distribution Review ("RDR")

What's happening around the world with a particular focus on the UK?

Other markets are clearly different but they can provide valuable research from their approach implementation and review post change.

Global Fund Distribution Reform

Fund distribution reform is a key change to the changing market shape following the implementation of the RDR.

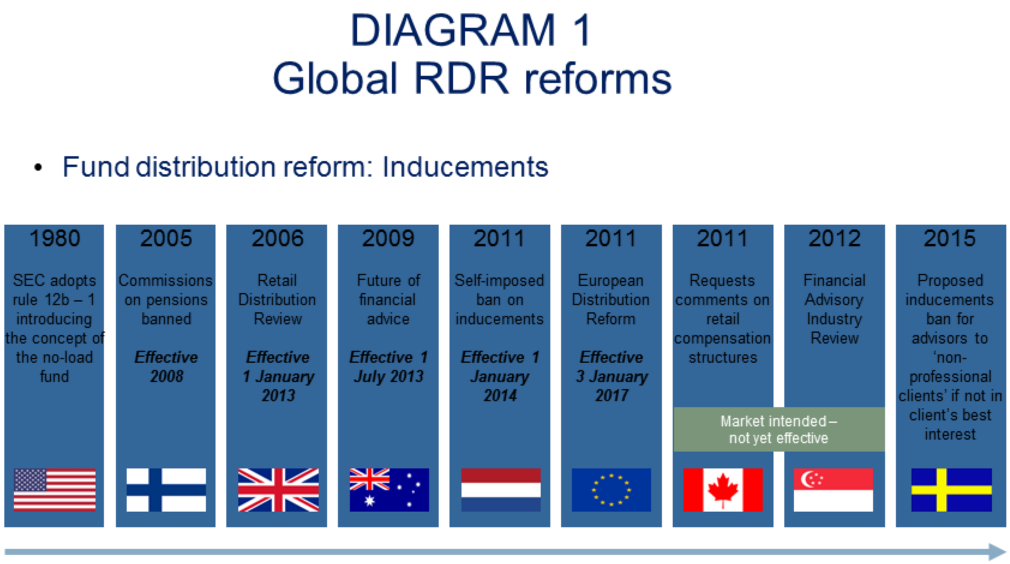
The regulator found key evidence that Inducements were being used, like a "valve", to drive volume and rarely was this with suitability for the client anywhere in the mix.

http://www.fca.org.uk/news/firms/gc13-05-supervising-retail-investment-advice

The regulator in controlling their use, moved the control in the distribution chain away from the provider towards the end distributor. This has impacted on both parties with the distributor using these incentives in the past to subsidise their cost of operation. As these regulations came into force one distributor had to repay several million UK pounds.

http://www.fca.org.uk/news/fg14-01-supervising-retail-investment-advice-inducements-and-conflicts-of-interest

Diagram1 illustrates the various points of progress throughout the world as regulators and governments collectively try and improve the market to a greater point of efficiency and ultimately where the market as a whole is client centric in all decisions.



The UK's Journey through RDR

If the UK regulators were forced to give a sound-bite response; their most likely statement would be that their intention was to move from, 'Conflict of Interest' (provider pays), to 'Alignment of Interests' (consumer pays).

The Retail Distribution Review (RDR) - Timeline

The Retail Distribution Review was initiated in 2006; it had the intention of raising professional standards in advice, removing uncertainty on advisor status (independent v those restricted either to a collection of providers or a single provider). They also sought to remove bias that was being caused by commissions and various incentives such as support payments to help distribution organisations running conferences, provide education etc. The consultation ran for a period from 2007 – 2013 with actual implementation being in 2013.

In the original RDR Review (see DP07/1 A Review of Retail Distribution), there were five work streams/committees, this allowed the regulator to engage with all of the relevant stakeholders reducing consultation time whilst uncovering and flagging potential areas for friction and more detailed research.

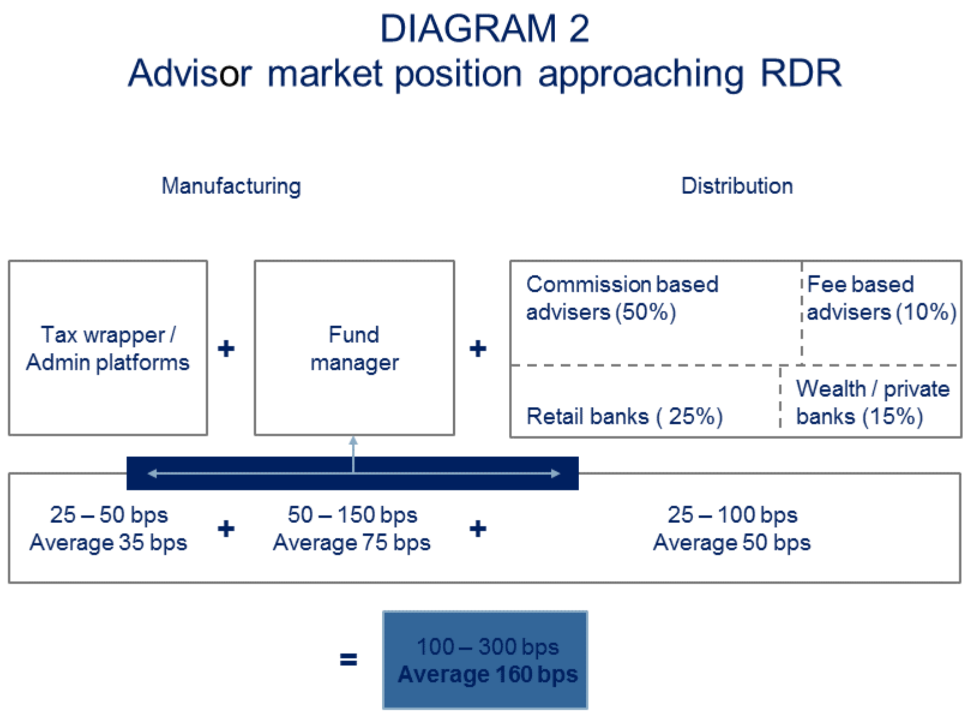
The five work streams/committees were:

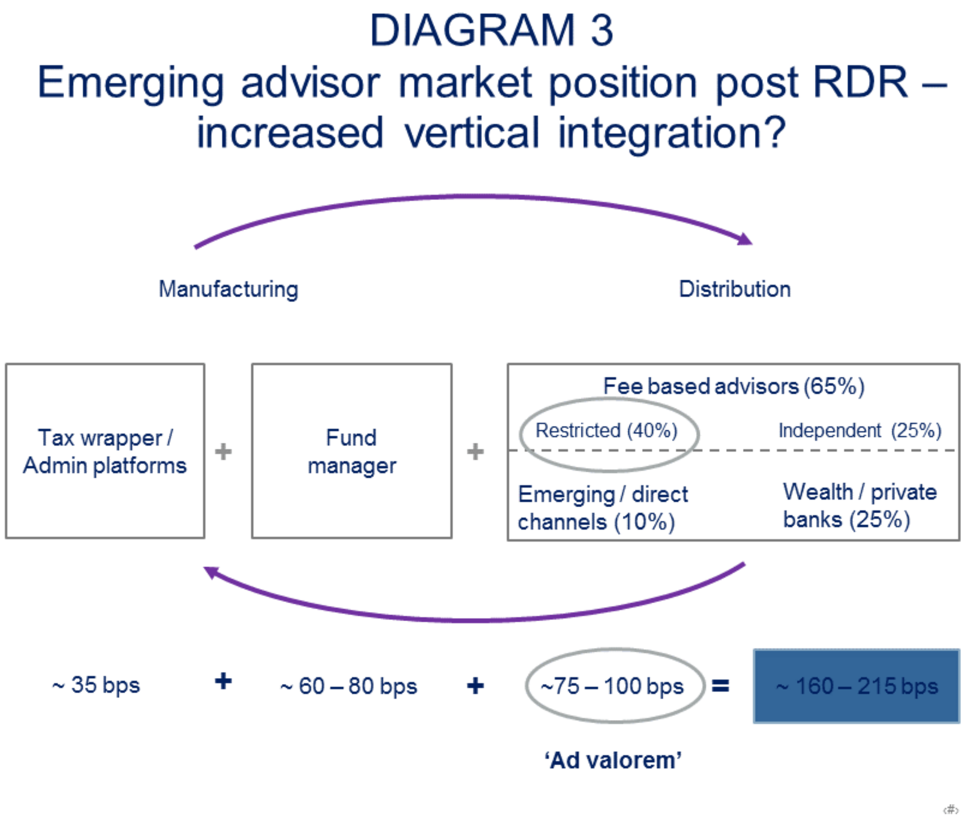
1. **Sustainability of the distribution sector**
2. **Impact of incentives**
3. **Professionalism and reputation**
4. **Consumer access to financial products and services**
5. **Regulatory barriers and enablers**

Since the implementation of the RDR there has been a post RDR review which took place in 2014; in order to evaluate the success or otherwise of the of the RDR post implementation.

Market Shape

Impact on the distribution models in the current market:





The RDR has led to Enhanced Professional Standards

A quantum leap in standards through an increase in tested competence.

All advisors in the UK now meet the higher minimum qualifications as required by the RDR. In 2012, prior to the RDR, around 96% held qualifications with the balance qualifying between 2012 and implementation of the RDR in 2013. To put some perspective on this figure that is an increase from the original number qualified to Level 4, which was 22% in 2010. More importantly an increasing proportion of advisors are going beyond these standards. The proportion of advisors holding chartered or certified status rose from 14% in Q4 of 2012 to 25% in Q2 of 2014 and it continues to rise.

Another output of the Retail Distribution Review and the increase in competencies is that membership of professional bodies has significantly increased, the proportion of advisors that were members of a professional body rose from 77% in 2011 to 89% in 2012. Another important point to stress is that the proportion of complaints against advisors has fallen over the last four years. There has been a drop in the proportion of complaints received by the Financial Ombudsman Service (FOS) relating to financial advisors.

It has gone from 1.5% in 2010 to 0.5% in 2014.

Comparative education matrix

Qualifications matrix – what is Level 6

Level 6 Professional Diplomas:

Level 6 qualifications recognize a specialist high level knowledge of an area of work or study to enable the use of an individual's own ideas and research in response to complex problems and situations. Learning at this level involves the achievement of a high level of professional knowledge and is appropriate for people working as knowledge-based professionals or in professional management positions. Often, registered professionals such as nurses, pharmacists, social workers, teachers and doctors enter their profession with a Level 6 qualification. Level 6 qualifications are at a level equivalent to Bachelor's degrees with honors, graduate certificates and graduate diplomas.

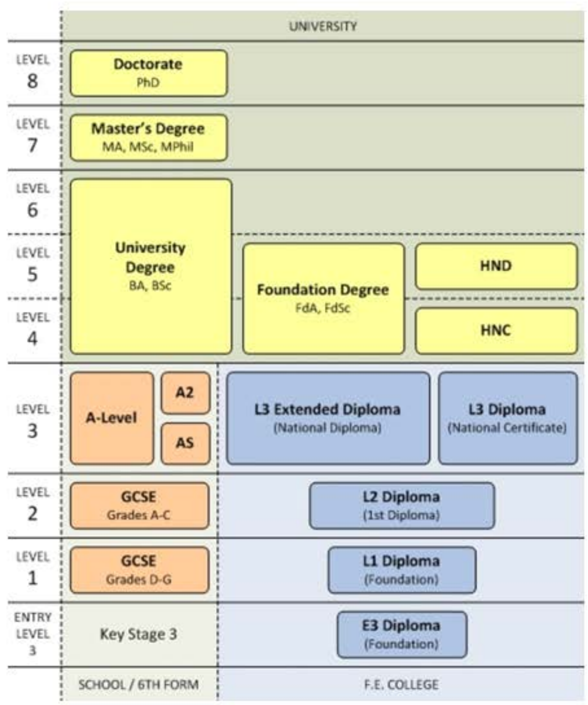
Qualifications matrix – what is Level 4

Level 4 Diplomas

Level 4 qualifications recognize specialist learning and involve detailed analysis of a high level of information and knowledge in an area of work or study. Learning at this level is appropriate for people working in technical and professional jobs, and/or managing and developing others. Level 4 qualifications are at a level equivalent to Certificates of Higher Education.

- HNC BTEC Level 4 Higher National Certificate
- Level 4 Professional Diplomas
- Level 4 Professional Certificates
- Level 4 Professional Awards
- Level 4 City and Guilds Institute Licentiateship
- International Diploma in Computer Studies (IDCS) NCC Education UK. C (Certificate) Diploma Certificate of Higher Education

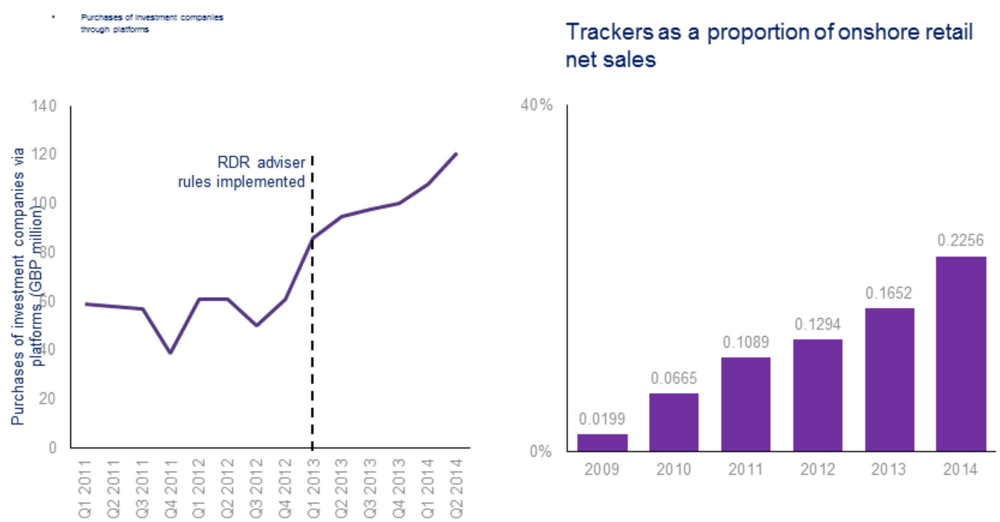
DIAGRAM 4
Qualifications and Credit Framework



Removal of Bias

One of the key tenets of the RDR as set out by the then regulator, the FSA, was the removal of bias. They wanted to move to a far more client centric market and away from a position where remuneration was the sole determinant of product selection in far too many cases. In this move to a more client centric market there has been a corresponding rise in previously difficult to access products such as investment trusts. The evidence collated to date suggests that the RDR has reduced product bias (this is based on gross retail sales at share class level from January 2012 to May 2014).

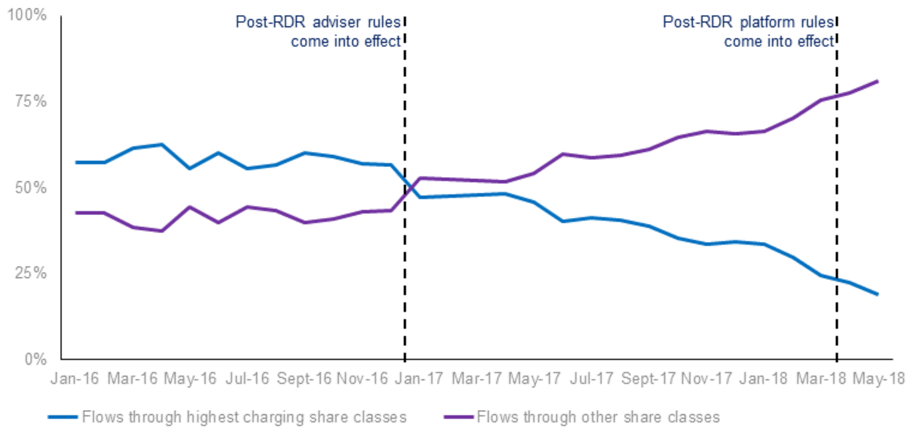
DIAGRAM 5
…with corresponding rise in previously inaccessible products



LHS source: AIC (2014) 'Demand for Investment Companies via Platforms Q4-13'.
RHS source: IMA as at 31 December 2014.

DIAGRAM 6
Evidence suggests that the RDR has reduced product bias

- Gross retail sales at share class level
- (January 2012 to May 2014)



Source: IMA (2014), 'Asset management in the UK 2013 – 2014'.

DIAGRAM 7
RDR – 2+ years in…

- Product providers / platforms
- Adaptation to clean pricing to distributors
  - Can't provide commission / incentives
  - No longer retrocession funded
  - Systems alterations complex
- Responding to demand for lower cost access to 'no-load' products eg ETFs
- Pricing transparency creating competition.

Fund managers / investment managers

- Adaptation to clean pricing
  - Can't provide commission / incentives to distributors
  - Creation of 'clean' no-load share classes
- Pricing transparency creating competition
- Pressure on "mediocre" /high cost strategies.
- European contagion probable.
- Return to 'direct to consumer'?

Distributors

- Initial drop in Advice capacity has recovered
- Innovative distribution emerging
- Confident, articulate advisers prospering
- …but price competition yet to emerge

The change in the marketplace has been significant in that the control of the distribution has very clearly shifted from a manufacturer i.e. the insurance company or investment house, across to the advisory firm. This change has resulted in many other side effects such as the adaptation to clean pricing for distributors, the fact that they can't provide commission or incentives and the systems have to change to allow for this going forward. Coupled with this there is an increasing demand for lower cost access to no-load products such as ETFs and as pricing becomes more transparent, competition is stimulated.

Alongside this is the cost of regulation and compensation, the latter is now reaching levels that will inevitably require a radical change in approach to both the regulation and to the operation and funding of the Financial Service Compensation Scheme (FSCS). Recent coverage on the topic of compensation drew the comparison between the current level of annual levies for the sector of £216m against retained profits of £171m for 2014.

One Step Forward – or a Step too Far?

It is quite clear that new pensions freedoms have exposed gaps in the market and any change to any market through a Retail Distribution Review has to be developed and deployed carefully so as not to disenfranchise the very people you are trying to help i.e. the general public. The Government in the UK has announced another review of financial advice (9 August 2015). This has been set in motion not by the FCA but by HM Treasury itself, this latest evolution of the retail market will have a major impact on its future shape. All of this when the market is still getting used to RDR only to find out another review is heading their way.

What follows is a reaction from one of the leading providers in the UK market as to his interpretation of the review of financial advice market.

Old Mutual Wealth director Steven Levin says:

- “There will be huge benefits for the future prosperity of UK consumers if the Government and financial services industry can work together to create a legislative environment that allows financial planning firms to grow while also encouraging consumers to explore the advantages of taking financial advice.”

- "According to research conducted in July*, 63% of advisers think it has become harder to be a financial adviser since the Retail Distribution Review was introduced and the vast majority (75%) say the primary reason is the increasing cost of regulation. As a result, just under half (49%) of financial advisers have had to turn away clients looking to access the pension freedoms because it is uneconomical to service them.”

- "This advice gap is also reflected in consumer research, conducted in partnership with YouGov**. The figures show cost is the main factor that discourages people from getting financial advice, with 37% of people citing it as a barrier and 31% fearing that they may pay for something that they don’t need.”

- "We must make sure advice is accessible but we cannot take professional financial advisers for granted. Financial advice is a tightly regulated profession and advisers are subject to rigorous qualification standards in order to ensure that consumers can depend upon the financial advice they receive being of the highest quality."

- "Unfortunately, few people recognize this. Among those who have not previously taken financial advice, 44% say they are not prepared to pay for advice, a third (33%) say they aren't sure what kind of fee is appropriate and 15% said they would not be prepared to pay more than £250**."

- "Advice does not have to be prohibitively expensive, even for those with modest wealth, but it is important we address this gap in expectations and that people recognize the value of financial advice, not merely the cost."

- "For this review to be a success the FCA must engage closely with advisers as well as consumers. Where it is uneconomical for financial planners to advise consumers the cause must be examined and a solution found."

  **Old Mutual Wealth Adviser Insight Survey conducted in July 2015 with 251 UK financial advisers.*

  ***Old Mutual Wealth Attitudes to Advice survey conducted with YouGov in July 2015 with 1425 consumers age 35+*

- See more at: http://www.oldmutualwealth.co.uk/Media-Centre/2015-press-releases/August-2015/Press-comment Review/#sthash.wBSByZTP.dpuf

Closing Remarks

The recently announced review of financial advice may well result in more than just minor adjustments to the regulation of the retail sector. Given the growing "advice gap" and the pressure on non-regulated bodies to fill this gap with information and not advice; more fundamental change could be the final result.

In Conclusion

The RDR focused on suitability. It also focused on ethics backed by disciplinary process and standardised communications to disclose the nature of the proposition and the competence of the individual. Based on recent research it is evident that Public Education is currently ineffective in making the public aware of disclosure and what it means for them as the end user.

Possibly because of this failure of public education in matters financial the regulator has emphasised that the onus for effective disclosure is on the regulated firm whether they are an investment provider or advice firm of whatever structure.

Appendices

You will see from the appendices attached we have also enclosed some background reading on the RDR which includes some video and some detailed documents on the RDR from the UK with a particular report written by JP Morgan which gives an overview of the initial disclosure document and menu paper which had a major effect on things going forward. Although it was published in 2008, it led to the IDD, the initial disclosure document, and a sample is enclosed. South Africa, Australia and Hong Kong are obviously all under the changed position as to how the market will work going forward.

The two papers relating to the Review and the actual Board Paper from the Financial Services Board on RDR are also attached and included.

There is a significant quantity of information in this paper both through the URL links and the attached documents which will be submitted with it. This research has been done on the basis of ensuring that people realise that exactly what happened in the UK and being in a position to make a considered judgement on those occurrences.

We would be happy to attend to discuss this document at any time in the future either by Skype or by personal attendance.

Thank you for giving us the opportunity to put forward this research. We look forward to being of service to CIFP in the future.

Robert J Reid, London, August 2015

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Background reading on RDR
Enclosed detailed documents on RDR
RDR report from JP Morgan
IDD and Menu FSA doc July 2008
Initial Disclosure Document sample (IDD)
South African process
FPI Retail Distribution Review (RDR) Response & Financial Services Board RDR Paper
Further information on the UK RDR
A video outlining the RDR
http://www.morningstar.co.uk/uk/news/96826/What-is-RDR.aspx
Post RDR review
http://www.fca.org.uk/news/post-implementation-review-of-the-rdr
http://www.fca.org.uk/firms/firm-types/sole-advisers/rdr
Review of financial advice market – July 2015
http://www.professionaladviser.com/professional-adviser/feature/2420366/four-advice-gap-pioneers-the-government-must-speak-to
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Australia
http://www.macquarie.com.au/mgl/au/advisers/keep-up-to-date/fofa?cid=fofa:ad:0313
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Documents are attached to this report
Hong Kong
http://www.hkma.gov.hk/media/gb_chi/doc/key-information/guidelines-and-circular/2015/20150804c1.pdf
http://www.international-adviser.com/news/1024142/hk-advisers-undertake-mandatory-customer-analysis-2016?utm_source=Adestra&utm_medium=email&utm_term=&utm_content=HK%20advisers%20to%20undertake%20mandatory%20customer%20analysis%20from%202016&utm_campaign=international_adviser_newsletter_5_04_08_2015

CV – Robert Reid

Robert Reid APFS, CFPcm Chartered Financial Planner; is a Director of Syndaxi Financial Planning; a fee based firm of Chartered Financial Planners based in the heart of the City in London close to St Paul's Cathedral.

Born in Scotland, Robert entered the financial services sector in 1976, and has since 1985 provided personal financial planning advice initially in Scotland; from 1993 he returned to London where he had worked in the 80's.

He is a past President of the Personal Finance Society (PFS www.thepfs.org); and the Chairman of Practitioners Advice Committee – European Financial Planning Association (EFPA www.efpa-europe.org). Robert led the successful project which secured the Chartered Financial Planner title for the CII/PFS. He is currently a Vice President of the CII (www.cii.co.uk) and Insurance Institute of London (IIL) and is a member of Council of both CII and IIL.

Robert is Diversity champion for the Insurance Institute of London.

Robert is the Readers editor of Money Marketing [UK's leading Financial Advice Weekly Newspaper] he has previously worked with the Financial Times and writes extensively on market conditions and on technical planning issues. Robert is a regular speaker at events in UK, Europe, the Far East and North America.

Robert is an Associate of the Chartered Insurance Institute (ACII); an Associate of The Personal Finance Society (APFS), a Certified Financial Planner (CFP); a Chartered Financial Planner and an Accredited Adviser with Resolution (www.resolution.org.uk) all by examination.

In October 2008, Robert was the recipient of The Widows Lifetime Achievement Award for 2008, an award from Scottish Widows in recognition of his work at the PFS and the work he has done to improve the adviser industry. The Widows awards were launched in 2006 and are an opportunity for the life and pensions industry to recognize success and achievement in the financial adviser community. The Lifetime Achievement Award is given to the financial adviser who has given the most to financial services over his or her life.

In 2013, he was awarded the prestigious Chartered Insurance Institute Bridgewater award which recognizes "exceptional and distinguished service" to the CII.