

Remarks by:

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CHECK AGAINST DELIVERY

**ACHIEVING A CONSISTENT
INVESTOR-FOCUSSED APPROACH**

One of the most anticipated events is the status report the CSA will issue sometime in the next few months. The report will tell us what they may or may not do about the structure of mutual fund fees; and the creation of a best interest duty for advisors.

While I have a preferred outcome, I don't have any more insight than anyone else as to where that report will land.

So I am not going to speculate on what it might say; instead I want to talk about the underlying concerns that triggered the review and analysis and lay out some of the solutions that we support to deal with those concerns.

But first, I want to reiterate IFIC's position on banning commissions.

We are opposed because it is not effective in dealing with the underlying issues – and the evidence emerging from those jurisdictions that have introduced a ban clearly demonstrates this.

Our regulators, together with the industry, have already embarked on a better approach than resorting to banning certain pricing structures and creating new legal standards that would add unnecessary complexities and limitations to the market.

Three jurisdictions – the U.K., the Netherlands and Australia – have banned commissions paid by the product provider. In all three cases, the ban cuts across a range of products. In the UK, it applies to the advised sale of retail investment products including pensions, annuities, onshore and offshore bonds and collective investments.

In the Netherlands, it applies to mortgage credit, various aspects of the insurance industry and retail investment services. In Australia it applies to all retail financial products except non-life-insurance products and basic banking products.

None of these jurisdictions have focused on mutual funds exclusively the way Canada proposes to do. In fact, the regulators in all of those jurisdictions would tell you that targeting a single product is poor regulatory policy and will lead to arbitrage that would be harmful to the investor.

In all three cases, the decision was triggered by unique and distressing local circumstances. The RDR in the U.K. and the commission ban in the Netherlands were introduced following a number of miss-selling scandals in the insurance and mortgage sectors. The Australian reforms were established in reaction to the collapse of three major financial firms.

In all three countries, a ban solved some problems but created others.

In the UK, it created an advice gap for less affluent consumers and caused the banks to shut down the advice services that they used to provide through their branches. While it raised the level of professionalism in advisors, those advisors are pitching services to clients with a minimum of £100,000 in investable assets and abandoning those with less.

The UK regulator hopes that internet solutions and so called robo-advisor offerings will solve the problem; but those options are raising concerns about putting individuals into unsuitable investments. In the Netherlands, the ban has made the banks more dominant and threatened the viability of independent providers; in both the UK and Australia, investors remain confused about the level of fees they pay to their advisor.

The lesson to be learned from other jurisdictions is that we should be careful about importing solutions. When comparing the circumstances of the UK, Australia and the Netherlands to Canada, there are several key elements that stand out:

- None of them have the well-developed hands-on market conduct regulators that Canada has established with IIROC and the MFDA – remarkably only Canada and the USA have these organizations.
- None of them has the kind of detailed disclosure regime that is currently being implemented in Canada through CRM2.
- None of the retail markets in those countries are as well served with advisors as the Canadian market. In the whole of the UK, for example, it is estimated that there were 30,000 advisors pre-RDR for a population that is almost twice the size of Canada. In Canada, the total number of MFDA and IIROC registered advisors exceeds 110,000 people.

By any measure, it seems Canada has done a pretty good job of creating a very robust body of laws and regulations that make sure we all keep our eye on the ball. We don't have to look to other jurisdictions for best practices – in fact we can be a model for others. I am not saying we

are perfect – that would be a very un-Canadian position to take – so let me concede, there is room for improvement.

At the heart of the fee and best interest issues – is the question of what rules and practices need to be put in place to ensure that there is a consistent investor-focussed approach in the delivery of investment products and services.

Over the last year, we at IFIC have turned our attention to areas where improvements could be made that would deliver a better investor experience.

Our starting point for identifying improvements was to go back to the CSA discussion papers on fees and best industry duty to better understand the issues identified. We met with senior securities regulators across the country to get at what was really concerning to them; and we had lots of conversations with our Members about solutions we could bring to the table.

What came out of all that was a list of specific initiatives – many already identified in the discussion papers as possible ideas – which we have started to push forward.

I want to share some of the initiatives with you today. They focus on several key areas:

- understanding fees and portfolio performance
- the professionalism of advisors
- the suitability process
- vulnerable investors
- complaint resolution
- financial literacy

Understanding Fees and Portfolio Performance

One of the earliest decisions we took was to get behind the CRM2 rules by helping the industry implement effectively.

We created several committees and recruited the largest number of industry volunteers in the history of IFIC dedicated to one project. Some of you here are part of that, and you know what tremendous time and effort is being spent on it – I expect the work to continue well into 2016 and beyond if necessary, until implementation is complete.

The industry recognized early on that doing a good job on CRM2 wasn't a competitive issue but a 'neighbourhood issue' that needed to be tackled together for the benefit of the investor.

Our committees approached the work to be done in a very practical way – the objective was to provide forums where the industry could work together to implement CRM as smoothly as possible - and on time.

We had two work streams – one focused on internal technical and operational matters; a second focused on the more public customer-facing aspects.

Working with our regulators, the technical groups have resolved a host of implementation issues.

On the client-facing side, we are particularly proud of two documents we released just last week – a model charges and compensation report, and a model investment performance report to help the industry achieve the goals of CRM2.

The charges and compensation report will tell investors how much they have paid to their dealer – in dollars and cents – for the services that they received. In our model, a covering note summarizes the information clearly and on page two, we have provided clear descriptions of different types of commissions.

The performance report will help investors understand whether they are on track to meet their financial goals. Investors will see their personal rates of return – again in dollars and cents. IFIC's model includes graphic presentations of the data to help investors understand their results.

Earlier this month, we also released a Dealer Checklist that provides insights and practical Information to support dealers as they prepare to incorporate new required elements into their client account statements. The Dealer Checklist provides prescribed language where required, and offers consistent plain language definitions in other areas to promote investor understanding.

All three documents have benefitted from input from the staff at the MFDA, for which we are grateful. IFIC's model reports fully conform to the CRM2 rule requirements and build on the sample documents created by the regulators with additional plain language, easy-to-follow designs, and clear explanations of terms. All of these documents are publicly available on our website.

We continue to work on new materials, such as tools to help advisors talk to clients about the many changes they'll be seeing through CRM. We are also working with our members to create a clear description of minimum common services provided by dealers and advisors in exchange for trailing commissions.

Successful implementation of CRM2 – and you can see from the materials that I am showing you that we are working very hard ensure that this happens – will help to improve investor knowledge. Both of our model reports encourage investors to meet with their advisors regularly and to ask questions about their products and services that will improve their understanding and help them make better financial decisions.

Some have described the CRM2 rules as 'just disclosure' pointing to other jurisdictions like the UK and Australia as places where regulators have taken more aggressive action. But it is

instructive to take a good look at the UK and Australia experiences. Investors there are confused about the cost of advice, and they are not entirely clear on what they are paying.

It is causing their regulators to go back to the drawing board to see what they can do to improve disclosure. In fact, when I share our materials with industry colleagues in the UK, Australia and the Netherlands, they are impressed with the level of detail and transparency that investors are given, and they confirm that they have a way to go to catch up to us.

The Professionalism of Advisors

We have over 110,000 advisors in Canada. They must all be registered and are required to meet specific licensing requirements. MFDA and IIROC registered financial advisors must meet ongoing fitness for registration standards; they are subject to active regulatory oversight; they must meet prescribed standards for providing investment advice and dealing with clients; the dealer firms that support financial advisors must have internal controls, risk management and compliance systems.

But robust as it is, the regulatory regime that governs mutual fund advisors would be greatly enhanced by creating a mandatory continuing education program. In a survey of our member firms, we discovered that a majority were already providing ongoing education and training on a voluntary basis. Formalizing the program, with specific modules that would serve to refresh areas of knowledge and expertise and deliver information on emerging issues would be well received by the industry. We expect to see a proposal from the MFDA sometime this year and have already assured them that it will meet with the full support of IFIC.

Another initiative we fully support is the creation of a financial planning professional designation. We are awaiting the Ontario's finance ministry's promised appointment of an expert committee that will lead consultations on this issue. Again we have let the Ministry know that the funds industry will fully support such an initiative.

Suitability Process

At the core of the advisor-investor relationship is ensuring that the investments the advisor recommends are suitable for the investor. The identification of suitable investments is primarily arrived at through the Know Your Client and Know Your Product processes, which make use of formal document but also rely on the discussion between the advisor and investor. In their audits of dealers, the MFDA and IIROC pay particular attention to how advisors are executing on their responsibility. They also review the guidance they provide advisors on how to perform the KYCs with a view to improving the process.

When the SROs conduct their audits of firms they continue to identify suitability as an area where advisors could do a better job. The provision of more detailed questionnaires for advisors that allow for a more granular discussion of the extent to which the investor can tolerate market losses help investors understand and identify the level of risk they are prepared to take.

While the rules are quite robust, we encourage both the MFDA and IIROC to continue to guide dealers in improving the processes they have in place to guide their clients into suitable investments.

Vulnerable investors

Our demographics in Canada point to a society that is growing older. The good news for those in that category is that they are wealthier than everybody else; the bad news is that, as we age, many of us will experience some form of cognitive decline.

Advisors are often the first to see signs of cognitive decline – and they face considerable challenges in knowing how to help these clients. When does simple memory loss stop, and diminished capacity start? Do privacy laws trump concerns over sound financial decision-making? Is a legally appointed power-of-attorney defrauding a vulnerable client? These and a host of other questions will confront more and more advisors in the decades ahead.

At IFIC we are spearheading a major project to address the needs of vulnerable investors. We have created a task force – the first of its kind for IFIC that includes dealer members, regulators including the MFDA and NBSC, and investor advocates. We are scoping out the many issues facing advisors, clients and their families and developing tools to assist advisors in identifying and assisting individuals who begin to exhibit cognitive decline. Input on the tools is being sought broadly, including from the OSC, the FCAC and other stakeholders. Aging populations are not a Canadian phenomenon. As part of this project, we are also working with the North American Securities Administrators Association (NASAA) with the goal of creating an international body of best practices.

Unfortunately, seniors are not our only financially vulnerable population. Low-income Canadians, young Canadians, members of aboriginal communities, and new arrivals to Canada all face issues that require attention.

Here again, the funds industry is stepping up as IFIC and several members of the funds industry are providing funds and volunteers for a Prosper Canada pilot that will help social assistance recipients gain the knowledge and behaviours that will help them plan for and achieve financial goals.

Complaint resolution

Offering investors access to an impartial complaint resolution process has been a core component of the funds industry structure since 2002, when members of the MFDA and IIROC were brought into OBSI. At that time, IFIC facilitated the voluntary participation of its fund company members in the organization; and since then we have engaged actively with OBSI on many issues. OBSI, as you all know, is funded fully through fees paid by industry participants and offers its services free of charge to investors.

OBSI's approach to complaints is a continuing point of discussion – and isn't always clear to industry participants.

Even when dealers seem to have done everything they should have done relative to the SRO requirements, they can still be found to have fallen short of OBSI's expectations for the investor. That's because OBSI goes beyond determining whether all the rules have been followed. It applies a further measure, which it calls a 'fairness standard'. The 'fairness standard' is applied to the particular circumstances of the investor as assessed by OBSI.

In one of our many discussions with the Ombudsman, we determined that we could help dealers better comprehend how OBSI arrives at its assessments by creating a business case that would explore the fairness standard from different perspectives. We have since engaged the Ivey business school to do this for us and are looking forward to having this work completed and to using the business case in training sessions with dealers and compliance officers.

Financial Literacy

Helping investors understand and communicate their financial needs, so that they can navigate a path, on their own or with professional advice, to reach their goals has been a core function of advisors. And the vital role of advisors in helping to create sound financial behaviours has been well recognized by Canada's financial educators and regulators.

Advisors who do this well – and the majority of them do – bring tremendous value to their clients. They demystify investing. They cull information and direct clients to appropriate tools to help them adopt good behaviours. And they give clients the confidence to ask questions, and educate them so they know what to ask.

Investors' levels of financial knowledge should get a real boost when they start to receive the reports on the cost of the services and their investment performance.

Once we have a full year or so of experience with this new regime under our belts, we can start to measure the impact and determine where we may need to make any changes.

However, I don't doubt we will see improvements. We will also be able to assess the impact of the Fund Facts document – the two page information summary for each fund.

Advisors are just one way the industry is contributes to the financial capability of Canadians. The investment funds industry has long recognized the merits of having educated investors and advances financial and investor capability through a wide variety of national and local initiatives. Financial education has the greatest impact when it begins at a young age, and many of the industry's and IFIC's initiatives are aimed at youth. Prime examples are the last three winners of the IFIC Investor Education Award.

Our 2014 winner was Sun Life for "Money Up!" – a multi-media gaming system with friendly competitions to build knowledge and an ability to share with friends on social media. Our 2013 winner was Investors Group for its comprehensive "Money and Youth" program, developed in collaboration with the Canadian Foundation for Economic Education. Our 2012 winner was "The

Brandes Scholarship Program”, which teaches youth about investing and KYC, and awards five students with \$4,000 scholarships.

Through IFIC, the industry is a major sponsor of the Jr. Economic Club’s Day on Bay, which brings classrooms of high school students to Bay Street to learn about the fundamentals of finance.

These are just a few examples of IFIC’s and the industry’s commitments to helping Canadians achieve higher levels of financial knowledge, sound behaviours and, ultimately, financial well-being.

Conclusion

Today, I have shared a great deal of information with you about initiatives that are currently on IFIC’s agenda.

As I stated at the outset, IFIC is pursuing all of these initiatives because our objective is to help the industry achieve a consistent investor-focussed approach in everything they do.

The process of regulatory reform has continuously evolved and improved over more than two decades, and many elements have been firmly in place for some time now. We recognize the merit in the continuous assessment of our regulatory framework and making changes when they are called for.

Canada is well-recognized as having one of the best regulatory systems in the world. Even before the ink was dry on the CRM2 rules, independent international bodies recognized the strength of our system.

In June 2014, the World Bank Group ranked Canada 7th in the world in terms of investor protection. In 2006, the OECD ranked Canada 2nd in overall securities market regulation, outranked only by New Zealand.

We encourage our regulators to build on the strengths of the existing framework, to reflect the needs and circumstances of Canadian investors rather than follow what other jurisdictions may be doing.