

February 28, 2019

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario
M5H 3S9

Re: Regulatory Burden Reduction

Coerente Capital Management Inc. was started by my partner Marc Trottier and I in December 2012. I am the Ultimate Designated Person. We have \$1.2 billion under management of high net worth and family foundation funds; all assets are held in segregated accounts with independent custodians. We purchase only publicly traded securities for our accounts and operate with offices in Toronto and Montreal as well as being registered in B.C., Alberta, New Brunswick, Nova Scotia and PEI. I have a unique perspective to share with you in regard to the regulatory burden as I have managed both a very large and small independent money management firm.

For twenty-six years I was with Jarislowsky Fraser Limited where the firm grew to manage \$60 billion. In my last fifteen years at the firm I was President and Chief Operating Officer. Regulation and Compliance are much more easily handled at a large firm where ample resources in the form of money and people are available. Regulation cost is a relatively small percent of revenue. At a small firm such as ours, it is much more significant and can be measured in "basis points". Coerente takes a low fee approach starting at 0.5% for assets under management and tapers further for large amounts. Being able to provide a low fee alternative entails containing costs. Also important at a smaller firm are the people or time cost involved for regulatory issues. At a large firm you benefit from exclusive compliance personnel to deal with all regulatory matters. At a smaller firm, the burden falls typically on the same individuals involved in the portfolio management of client funds.

My overall recommendation is that there must be better co-ordination by provincial regulators and a recognition that the risk in operations differs across participants in the wealth management industry. The design and implementation of any regulation must take this into account. Registered "portfolio managers" are not similar to "advisors" at bank or insurance owned firms. Portfolio managers have the highest level of proficiency, education and registration. The use of pools, funds and non-public securities also changes the risk profile of a firm. **Regulators need to rank firms in terms of their "risk of operations" and regulate accordingly.**

We have been in business for six years and have already had three audits by various regulators. We had an on-site audit by the OSC in Toronto in year two. After the implementation of CRM2, the OSC conducted an audit that was not on site but required significant manual accumulation and submission of information. A few months ago, we had another complete on-site audit by the AMF (Quebec Securities Commission) in our Montreal office. The time cost for these audits were extraordinary as the demand for information was immense. **The first suggestion is for better co-ordination and communication between the various provincial agencies.** A securities commission audit, on average every three years, is excessive. Quite simply, not much changes in the way we do our business and nor have we ever been found to have significant deficiencies. **If we are to have a "passport system" then let's make it truly without provincial barriers as well as eliminate separate fees to each province and "agent fees" required and paid to local law firms.**

While Fintrac obligations are not part of security commission regulation they have become part of the regulatory cost and tangle.

As an aside, we have also had two CRA audits in our six years of existence. One was a common "GST audit" and the other a "consulting and other fees" audit. I.E. the CRA wanted to know who we paid and the purpose of our registration and provincial agency fees. I now have greater sympathy for the hurdles that a small business faces in dealing with multiple government agencies!

The CRM2 changes appear to have been developed to target financial advisors and larger financial institutions. Essentially firms that dealt with "retail" as opposed to "institutional" clients. Small independent portfolio management firms were also included in the regulation despite their different business models and much higher level of professional registration. My experience in participating on the OSC Registrant Advisory Committee was that while larger firms had significant dialogue with regulators during the implementation process about what and how disclosure was to be presented, the smaller portfolio management firms' concerns about cost were largely ignored. At Coerente Capital we had to make significant upgrades to our portfolio management system in order to calculate money weighted rates of return. This continues to be an added cost that I can say with great confidence has only resulted in client confusion. Explicitly outlining fees and fee schedules is easy and virtually costless (was already in place at our firm), but explaining why a money weighted rate of return is higher or lower (depending on withdrawals, deposits and market direction) than the industry standard (and already presented) time weighted return is difficult. The complexity has added an element of distrust by those that may have had a bias against our industry in the first place. **Money weighted rate of return reporting should be immediately abandoned. It has added only cost and confusion.**

KYC rules also need not be "one size fits all" which is the direction the industry has taken. Consultants and regulators are outlining specific items that need to be asked or updated on a regular basis for all clients. The same information is expected to be gathered by an "on-line" manager, bank employed advisor and independent portfolio manager. Whereas, the client may be an unsophisticated \$10,000 net worth individual or one of Canada's wealthiest investors. Similarly, the amount of client/manager interaction cannot expect to be standardized and should vary by client.

My conclusions and recommendations essentially suggest that regulation must take into account the type of registrant and their business model. Money management at large financial firms have very different issues from small independent firms or for that matter from new "on-line" participants. The current approach has created a significant burden on smaller portfolio management firms. If regulators continue on the current path it will most likely result in higher fees to clients and a number of firms consolidating or simply leaving the business. I believe this would be truly detrimental to the industry since it is the smaller firms that grow larger and provide effective competition in an industry that remains dominated by large financial institutions. Better coordination between the provincial agencies will also help facilitate the expansion of local firms to regional or national status. CRM2 clearly targeted advisors at larger firms but the cost consequences for smaller participants was sizable. KYC requirements also need flexibility which would recognize the knowledge level of the client as well as the expertise and proficiency of the investment professional.

Sincerely,



Len Racioppo