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October 4, 2021

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

The Secretary  
Ontario Securities Commission  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto, Ontario  
M5H 3S8

M<sup>e</sup> Philippe Lebel  
Corporate Secretary and Executive Director, Legal Affairs  
Autorité des marchés financiers  
Place de la Cité, tour Cominar 2640, boulevard Laurier, bureau 400  
Québec (Québec)  
G1V 5C1

Dear Secretary of the Ontario Securities Commission and M<sup>e</sup> Philippe Lebel,

## **CANADIAN INSTITUTE OF FINANCIAL PLANNING RESPONSE TO REQUEST FOR COMMENT ON CSA POSITION PAPER 25-404 – NEW SELF-REGULATORY ORGANIZATION FRAMEWORK**

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Thank you for your request for comment letters regarding the establishment of a single, enhanced New SRO.

The Canadian Institute of Financial Planning (CIFP) is pleased to represent the views of its more than 7,000 students. Further, our submission also represents the comments of our affiliate member organization, The Canadian Institute of Financial Planners (CIFPs), which represents over 10,00 members.

Thank you for taking our comments into consideration. Please contact **Keith Costello, President and Chief Executive Officer** of CIFP at (647) 723-6447 or [kcostello@cifps.ca](mailto:kcostello@cifps.ca) if you have any questions or, if you would like to meet with us to discuss this matter further. We look forward to and welcome an opportunity to participate in further discussions or consultations that you decide to undertake.

Yours very truly,



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

## OVERVIEW

The Canadian Institute of Financial Planning commends the Canadian Securities Administrators for proactively conducting a review of the current framework for the two Self-Regulatory Organizations with a view towards enhancing the public interest mandate of the regulatory framework and in so doing, promoting public confidence. In principle, the Canadian Institute of Financial Planning is supportive of the approach and the solutions proposed in the CSA Position Paper to achieve this objective.

The perspective and constructive recommendations of CIFP as it pertains to the request for comment on the *CSA Position Paper 25-404 – New Self-regulatory Framework* are detailed in the pages that follow.

# SOLUTIONS TO ADDRESS ISSUES IDENTIFIED IN THE CONSULTATION PAPER

In general, CIFP supports the approach taken by the Working Group and the solutions it has arrived at to ensure the issues identified in the Consultation Paper are consistent with the CSA targeted outcomes from the Consultation Paper.

CIFP agrees with the premise of the Guiding Principles: ‘to support the development of a regulatory framework that has a clear public interest mandate and fosters capital markets that are fair and efficient’. A regulatory framework that focuses on ‘investor protection to promote public confidence and to accommodate innovation and change’ is prudent and forward-thinking and is the basis of a model that can stand the test of time.

Of particular note, CIFP commends the inclusive and accommodative nature of the solutions be it in relation to reducing the barriers to registrants who service the needs of investors of different demographics, including the less affluent and rural investors, providing risk-based regulation that is proportionate to different types and sizes of registrants and business models, facilitating meaningful consultation and input from all types of registrants, including smaller and independent firms or, recognizing and incorporating regional considerations and interest from across Canada.

If Canada is to ever see a harmonized regulatory framework that is truly representative of the public and industry stakeholders, these characteristics, along with improved regulatory efficiencies and a reduction in investor confusion, are the hallmarks that must be at the forefront of the program.

## WORKING GROUP METHODOLOGY

CIFP endorses the methodology adopted by the Working Group to determine the most appropriate option for enhancing the current SRO framework. The approach is objective, allowing for numerous potential solutions, comprehensive and importantly, does not appear to be unduly influenced by pre-conceived ideas. CIFP applauds the systematic and fact and data-based process that was utilized and the efforts to capture broad and diverse viewpoints by drawing from public comment letters, extensive supplementary independent research, including academic publications, and the perspectives of those that are often not given a prominent stage on these types of matters (e.g. the less affluent, rural investors, different types and sizes of registrants and business models).

This methodology serves to enhance public confidence and validates the conclusion of the Working Group that of the six options considered, a new SRO, and the specific solutions relating to it, is in fact the best path forward for the regulatory framework.

# SPECIFIC SOLUTIONS TO SUPPORT THE NEW SRO

CIFP is supportive of the specific solutions identified to support the New SRO.

## Improving Governance

CIFP has a favourable view of the suggestions from the Working Group to improve the current corporate governance structure of the SRO so as to more optimally support and promote its public interest mandate. In particular, a call for greater diversity in the composition of the board of directors of the New SRO, introducing objective criteria to determine the independence of directors and addressing issues of investor confusion are all positive steps.

With respect to the composition of the board of directors of the New SRO, CIFP agrees that any negative perception that the existing governance structure is too tilted in favour of the industry to the detriment of investors and other stakeholders needs to be addressed. Requiring a majority of directors of the New SRO to be independent along with the other specific solutions identified will certainly help.

This said, as is often the case when significant changes are proposed, CIFP would urge the CSA to ensure the pendulum does not swing too far in the opposite direction merely for the sake of optics—certainly, there are likely to be industry participants who are too focused on their own self-interests however, it should not be overlooked that industry participants also bring to the table a unique understanding of and insights into the financial services sector that can be invaluable in policy setting for the betterment of the industry and the public it serves.

Could there be a risk that too much independent representation invites too many divergent viewpoints such that it blunts progress or, is too niche-focussed at the risk of losing sight of the big picture and what is best for the industry as a whole?

CIFP understands and supports the rationale and the stance of the Working Group with regards to improving governance and that a shift from the *status quo* is required but, at the same time, we urge the CSA to strike a sensible balance between industry participants and independent board members—even if the latter group is to form the majority—to ensure, most importantly, the intended goal of promoting the public interest mandate is in fact addressed.

With regards to other aspects of the proposed solutions, CIFP also endorses the requirement for mandatory training for all directors of the New SRO on industry, governance and investor protection issues and especially, the management of conflicts of interest. In the current environment, there is a heightened sensitivity to boards and governance in general so, efforts to improve the understanding of the role and responsibility of members is meritorious.

## Strengthening Proficiency

CIFP is aligned with a push for enhanced and harmonized proficiency standards for investment and mutual fund dealers. This being said, for a solution in this area to be effective, an open education system must be implemented to replace the dated, stagnant and monopolistic structure that is currently in force. Healthy competition is a win for all concerned: education providers have an incentive to continuously improve their product to remain relevant, industry participants have access to better information and greater knowledge and most importantly, Canadian consumers and investors are better served by planners and advisors who have earned a higher degree of proficiency.

Planners and advisors should also have the ability to choose the best *approved* education solution for their particular needs—one that is directly in line with the particular type of business they intend to operate—rather than having to follow a mandated, one-size fits all education path, as per the present system. A closed system provides no discernable benefit to the individual dealer and his or her practise and is in direct contravention of the public interest mandate of the regulatory framework.

A free market education system also dovetails nicely with the solution recommended by the Working Group for increased access to advice. With investment and mutual fund dealers having greater access to multiple sources of education, the benefits derived can be transferred to clients both in terms of the scope of services the dealers can offer as well as the expanded product shelf from which they can draw—be it mutual funds, individual securities or, ETFs—to better meet the needs of their clients.

CIFP agrees the solution from the Working Group calling for more nuanced proficiency-based registration categories will help establish more consistent quality of standards for clients. CIFP is of the opinion that a baseline proficiency model for Approved Persons registered as dealing representatives should be implemented. This baseline competency will need to be supplemented by advanced learning for those seeking to operate as investment dealers.

CIFP also supports the recommendation to promote additional credentials for individual registrants. Simply stated, education, which manifests itself in proficiency, is the bedrock of the planner/advisor and client engagement and the financial services sector as a whole: the higher the degree of knowledge and professional qualifications for an individual registrant, the better he or she is able to meet the needs of his or her clients and the higher the probability consumers and investors will be able to attain their financial objectives. This by extension, will bolster public confidence and trust in individual planners and advisors, the firms they represent and the industry at large.

With various jurisdictions moving towards legislated restrictions in the use of the titles ‘Financial Planner’ and ‘Financial Advisor’, attempts to promote additional credentials by the New SRO should be significantly aided. It is the hope of CIFP that the CSA will capitalize on this opportunity to aggressively advance this proposed solution.

CIFP also agrees with the implementation of a streamlined continuing education program for all dealer members that is fair, consistent and proportionate. Regular professional development—under which CIFP would encourage an emphasis on ethical conduct in addition to technical knowledge—is essential not only for maintaining and bolstering the proficiency of the individual registrant but also, preserving the trust and confidence of the investing public. CIFP is hopeful the new CE program is developed in keeping with a move to an open education system as identified above.

## Enhancing Investor Education

Consistent with the themes raised relating to the increased education of mutual fund and investment dealers, enhancing investor education is equally important. CIFP is fully supportive of the proposed solutions identified in the CSA Position Paper especially those that aim to reduce investor confusion about how the regulatory system works, the availability and coverage of the investor protection funds and how to access the system and submit a complaint or seek redress.

A better-informed public can only reinforce its trust and confidence in the system and encourage individual investors to participate in the sector to a greater degree and without reservation—a win-win for consumers and industry participants alike.

Improving the financial literacy of Canadians—technical financial literacy as well as literacy from a regulatory lens—is not necessarily a new initiative. Despite these attempts, the prevailing perception is that the general public remains at a loss as to how the regulatory framework operates, who the primary players are and the functions they serve. Even the findings of the Working Group with respect to the possible lack of public confidence attests to this point—a lack of understanding and education being, at least in part, a causal link to flagging confidence or trust.

So, the challenge becomes what is the best format to engage the public and how best to frame the message such that it is easily understood and the public appreciates its importance and direct relevance to their situation. From the perspective of CIFP, any campaign to educate the public should be mindful of these factors to be effective and to distinguish itself from previous attempts that have been made.

## Increasing Access to Advice

The current challenges for investors pertaining to access to advice are well documented in the CSA Position Paper. Of note is the striking difference that exists for investors in smaller geographic centres and rural communities relative to those in urban centres. In the technology-driven twenty-first century, this discrepancy should not exist and the Working Group is correct in tagging this issue as a regulatory concern.

The solutions suggested by the Working Group will certainly help to alleviate this discrepancy.

CIFP would add that an open education system that allows for healthy competition among *legitimate* education providers with a proven track record and that allows for multiple delivery formats to educate mutual fund and investment dealers—subject to meeting established standards—would also increase access to advice. Again, the current system that limits the education path for mutual fund and investment dealers is antiquated and runs contrary to the objective of heightening proficiency and broadening the product and advice capabilities the individual can offer to his or her clients. As the Working Group details in its findings, ultimately, it is the client that is penalized under the current structure.

## Harmonizing Directed Commissions

CIFP endorses an incorporated salesperson model over one that allows individuals to direct commissions to personal corporations. The CSA Position Paper rightly identifies as areas of concern the uncertainty as to when and in what circumstances activities being conducted through a personal corporation require registration as well as the inconclusive tax status of individual registrants who use a directed commission arrangement. Moreover, as much as MFDA Rule 2.4.1 currently permits individuals to direct commissions to personal corporations, they can only do so upon meeting stringent conditions.

In light of this and notwithstanding the requisite and burdensome legislative amendments, the incorporated salesperson model appears to be a better fit. This structure has a running track record having been adopted by other professionals including physicians, lawyers and accountants and would make for a logical crossover into the financial services sector.

This being said, CIFP recognizes the matter of directed commissions is complex and the CSA is taking a prudent approach to delve into this topic in greater detail before settling on a definitive conclusion.

## Consolidation of Databases and Harmonization with Insurance Regulators

CIFP agrees that the consolidation of databases and harmonization with insurance regulators will be positive for the industry.

## CONCLUSION

CIFP would like to thank the Canadian Securities Administrators for considering the comments and perspective contained in this submission. We extend an open invitation to your organization for further discussion of any aspect of this document at your discretion.