From:	Jason Pereira
To:	comments
Subject:	Commentary on NI 31-103
Date:	October-18-18 7:43:22 PM

Dear Secretary:

Thank you for the opportunity to comment on the key concerns identified in the CSA Notice and Request For Comment Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations Reforms to Enhance the Client-Registrant Relationship (Client Focused Reforms).

> **"1. Clients are not getting the value or returns they could reasonably expect from investing:** in their suitability analysis, some registrants fail to consider all of the factors relevant to helping clients meet their investing goals."

It is apparent to me that where 'registrants fail to consider all of the factors relevant to helping clients meet their investing goals', these registrants are often operating in the limited capacity of an investment / insurance advisor or salesperson, and not that of a professional financial planner. The issue is that the client may believe the advisor has education and skills they do not possess. This is largely due to the confusion in the marketplace created by the many titles and designations that exist.

Using financial planning software to produce a financial plan is not the same as client-focused comprehensive financial planning, which takes into account the need to understand a client's unique personal goals, preferences and limitations which will most assuredly change over time. As a member of the IAFP (Institute of Advanced Financial Planners) and an R.F.P.® designee, it is a requirement that I approach the client engagement in a holistic manner whereby they obtain all information relevant to the client's stated goals, concerns or questions. Investing is only one component of a true financial plan.

I must also obtain relevant continuing education of at least 30 hours annually. A minimum of 2 out of 7 different subject areas must be covered in each year, including at least one credit in Professional Ethics. Other subject areas include essential components of comprehensive financial planning - namely, cash and debt management, tax planning, retirement planning, wills and estates, insurance and risk, and investments.

This requirement to maintain competency across multiple disciplines reflects my commitment to promoting a comprehensive approach to financial planning – the only approach truly in the best interests of consumers since each of these subject areas holds the potential to critically impact the others. I also agree to abide by The

Professional Standards of Practice for an R.F.P.® which also includes:

1. adherence to the Six-Step Financial Planning Process (see below)
2. the use of an engagement and disclosure letter for every financial planning engagement, and
3. the inclusion in every financial plan of related subject areas required to provide comprehensive financial planning services (unless one or more subject area is specifically excluded by the terms of the engagement and disclosure letter for that client engagement.)

The *Six-Step Financial Planning Process* required by the IAFP includes these essential steps with every client:

Step 1: Gather data and summarize the client's current situation

Step 2: Establish client goals, priorities and concerns

Step 3: Identify problems and opportunities

Step 4: Provide written recommendations and alternative solutions

Step 5: Take action on implementation

Step 6: Perform periodic reviews, updates and revisions to the plan

I strongly support the CSA's intent to review "titles and designations, including the use of "advisor" in the near future". I believe the success of any new regulation that may be imposed will be determined by how effectively the myriad of financial designations and titles are rationalized to resolve this key concern. Specifically, titles should reflect the activity and competency of the title holder.

I encourage you to work with other industry participants and governmental agencies to adequately restrict the use of the title financial planner to include only those registrants who have the appropriate education, skills and experience to implement the Six-Step Process as outlined above. In my estimation, this would be limited to R.F.P.s, CFPs (Certified Financial Planners) and the Planificateur Financier.

> "**2. Expectations gap:** clients often have misplaced reliance on or trust in their registrants, which exacerbates the agency problem inherent in the client-registrant relationship and can result in sub-optimal investment decisions."

I welcome changes that 'require registrants to promote the best interests of clients and put clients' interests first.' Since at least 2003, Canon 1 of the IAFP's Code of Ethics has been: "Members shall act in the best interests of their clients and shall place the interests of their clients above their own."

> "**3. Conflicts of interest:** the application in practice of the current rules is, in many instances, less effective than intended in mitigating conflicts of interest."

I also welcome changes that would 'clarify for clients what they should expect from their registrants.' It is a requirement of all who hold the R.F.P.® designation that the nature of client engagements is clearly documented in a Letter of Engagement that is co-signed with the client. The Letter of Engagement must include disclosure of any conflicts of interest, as well as method and sources of compensation, registrations held by the R.F.P. and the scope of services to be provided.

> "**4. Information asymmetry:** the current regulatory framework is, in many instances, less effective than intended in mitigating the consequences of the information and financial literacy asymmetry between clients and registrants."

The R.F.P. is the *only* designation that requires aspiring designees to qualify by submitting a sample financial plan for approval before being granted Professional status and thus permission to use the designation on an annual re-qualification basis. A key requirement for the financial plan is that it educate the consumer in addition to providing alternative solutions and recommendations. In this way, as a member of the IAFP I am seeking to improve the financial literacy of Canadians.

> "**5. Clients are not getting outcomes that the regulatory system is designed to give them:** this over-arching concern is to a large extent due to the combined effect of the concerns listed above."

"The Value of Financial Planning", commissioned by the *Financial Planning Standards Council* (FPSC, May 1, 2013 https://issuu.com/fpsc/docs/value-of-financial-planning) in conjunction with the *Financial Planning Foundation*, provides a comprehensive evaluation of the financial planning activities of Canadians by measuring its perceived impact on emotional and financial well-being. The study revealed that Canadians who engage in comprehensive financial planning report significantly higher levels of financial and emotional well-being than those who do no planning or only limited planning.

Those with comprehensive plans feel:

- More on track with their financial goals and retirement plans
- That they have improved their ability to save in the past five years
- More confident that they can deal with financial challenges in life
- Better able to indulge in their discretionary spending goals

I believe that to mitigate the CSA's key concerns, the number of titles currently in use in the financial services industry should be reduced. In particular, we believe that the use of any title that includes the word 'planner' be restricted to those individuals who can demonstrate by exam and example that they are capable of producing a credible, understandable, educational financial plan. As stated previously, this would be limited to R.F.P.s, CFPs (Certified Financial Planners) and the Planificateur Financier.

It is clear to me that Canadians need, want and benefit from comprehensive financial planning. Therefore it is a concern to us that the CSA would consider implementing proposals that would reduce Canadians' ability or inclination to pursue an ongoing relationship with a qualified financial planner. I am referring specifically to the proposed restriction of Referral Fees where external Referring Parties be limited to 25% of total Management Fees charged with a maximum payment period of 36 months (NI 31-103 Section 13.8.0/1). I believe that this proposed change would have the opposite effect to that intended and would be detrimental to clients of practicing financial planners. This proposed restriction could compromise consumers and their ability to achieve the "outcomes the regulatory system is designed to provide".

I provide financial plans and ongoing financial planning advice in tandem with a registered Portfolio Manager for a number of my clients. The current disclosure requirements for R.F.P.s and my licencing clearly identify the responsibilities and limitations of each party. Current disclosure requirements also clearly identify the compensation paid to each party. In my experience, my clients benefit from this arrangement in that they receive both expert financial planning advice and separate investment management services for one low and clearly defined fee. Rather than a one-time referral, it is an ongoing, synergistic and client-focused relationship.

By limiting the amount and duration of referral payments, two potential outcome are that clients will receive financial planning advice for a finite period of time, after which they may be forced to seek out other portfolio arrangements that carry higher costs (in a hidden, embedded format that they do not understand or acknowledge in any way) in order to continue receiving much needed financial planning advice. Or they may relinquish established, trusted relationships with a compensation structure that they understand and acknowledge.

I recognize that some advisors or salespeople may be receiving compensation for services they are not providing, and agree that this is not in the clients' best interest. In particular, I know of instances where an advisor or salesperson receives ongoing embedded commissions on a portfolio of mutual funds or segregated funds without providing ongoing financial planning or advice. Further, there are also instances where an advisor or salesperson receives an ongoing asset management fee on a portfolio of ETFs or individual securities without providing financial planning services or advice.

I would encourage the CSA to take steps to address this particular example of how "Clients are not getting the value … they could reasonably expect from investing"

In conclusion, I congratulate the CSA on its intent to strengthen protection for the public through examination and regulation of those who provide investment advice and services. I strongly encourage you to reinforce the distinction between investment advice and comprehensive financial planning services by restricting the use of the terms financial planner and financial planning to those who have demonstrated their competency in those areas. Further, I ask that the CSA ensure there is an even hand applied in matters relating to compensation for all participants in the financial services arena.

Yours truly,

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