

19 October 2018

VIA EMAIL

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 of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8

RE: Client Focused Reforms

Provisus Wealth Management (Provisus) is pleased to have an opportunity to submit the following comments regarding the *Client Focused Reforms - Proposed Amendments to National Instrument 31-103 and Companion Policy NI 31-103CP*. This letter concerns proposed changes to Sections 13.8 (Permitted referral arrangements) and 13.8.1 (Limitation on referral fees).

As background, Provisus is a registered in most provinces as a Portfolio Manager and Investment Fund Manager. Provisus has been operating since 2007 and currently manages money almost exclusively for private clients. Provisus also uses technology to service clients with smaller accounts that are not often served by other Portfolio Managers.

Provisus is very supportive of any measures that increase the high standards of the industry and initiatives to improve investor protection. By working primarily with retail clients, who often have relatively small accounts, we have come to understand and appreciate their unique requirements and objectives. As such we would like to take this opportunity to add our perspective to this discussion.

Many of our clients use financial planners. These planners provide services that many Portfolio Managers are unable to effectively offer. Providing clients with tax strategies, helping them to save for retirement and their children's education, educating clients on their best pension options and assisting with estate planning, are all valuable services to clients and their families. It can be argued that any of these activities are at least of equal importance to the financial well-being of a client as selecting investments.

In terms of tangible value, it has been estimated that advisor services are typically worth a 4.08% annual fee for a client with a \$500,000 portfolio (Brad Jung/Russell Investments [careertrends.com]). This value added is broken down as follows: annual rebalancing 0.20%; managing investor behavior 2.10%; cost of basic investment-only management 0.33%; education, insurance, estate planning and ancillary services 0.75%; and financial and tax planning 0.70%.

Certainly there are numerous advantages for retaining the services of financial planners and advisors, such as:

- 77% of retirees who worked with a financial planner have saved enough money to “sustain them through their retirement years”. (Insights West – “Canadians on Retirement” 2016)
- 82% boost in financial wealth after expanding financial literacy with advisor support. (Lusardi & Mitchell - The Economic Importance of Financial Literacy: Theory and Evidence 2014)
- 1.5% average annual return for 20 years ending December 2013 for typical mutual fund investors who manage their own portfolio vs. 8.3% for Canadian stocks or 6.5% for bonds or 3.3% for cash. (Dalbar 2014)
- Unqualified investors tend to underperform the benchmark. The average investor underperforms by 1.5% while unqualified investors who trade more frequently do worse, underperforming by 6.5%. (Barber & Odean 2000: Trading is hazardous to your wealth)
- 290% more assets for Canadian Households that work with an advisor for 15 years or more; almost 4 times as much as non-advised households. (Centre for Inter-University Research and Analysis of Organizations 2016)

The proposed change to limit the payment of Referral Fees to 25% of total Management Fees, with a maximum payment period of 36 months, will effectively eliminate referral arrangements between financial advisors/planners and investment managers and remove the above cited observable advantages that the synergy of these services can provide for best managing client monies.

Clearly, splitting the responsibility between investment management and financial planning is an efficient and effective way to manage a client’s financial health. Financial planners, by and large, can justify their value added to a client based on the services they provide. A referral arrangement is an effective method to allow for the payment of these services and one of many methods that exist today. Segregated fund trailers, family office fees, and mutual fund trailers are different methods of paying for similar services. To isolate or effectively eliminate a particular payment method available to control the behaviour of a subset of individuals will adversely affect many clients.

Clients benefit by having a relationship with a financial planner without these relationship clients could be jeopardized in the following ways:

- Clients will lose access to financial planning including tax, retirement, education, and estate strategies. Overall, these clients will be worse off financially.
- For seniors, planners are well positioned to detect financial abuse in client bank accounts as they analyze cash flows. Planners are also well versed in advising seniors on their options for using powers of attorney.
- Clients with larger portfolios will likely be able to continue receiving financial planning services as they can afford to pay directly for these services. Client with smaller portfolios may not be able to pay for financial planning services.

- Clients with smaller portfolios will continue to lose options and be left with the cheapest, least personal services available. Millennials in particular can be well served by planners as they are helped to get started with saving by providing personalized, achievable steps such as setting aside a percentage of wages at the start a new job.
- Planners can help clients focus on long term considerations by connecting the impact of current decisions to future consequences as well as by providing regular reinforcement in order to obtain the expected benefit to a client's overall financial health.
- Clients have lifelong relationships with these financial planners. If planners are no longer able to be remunerated through referral fees, clients will be forced to find alternative solutions which may not be in their best interest.
- If clients need to move to a different investment service provider and have large non-registered accounts, they may incur substantial capital gains and taxes.

Additionally, limiting the term of a referral arrangement unduly harms clients by reducing their investment options. Advisors and financial planners enter into referral arrangements as a means to outsource investment management so that they can focus on financial planning. They are not selling their book, so to compare the compensation model as such is unfounded. They are providing valuable and ongoing services and as such should be compensated for their work. For some advisors, in particular those that work on their own and cannot afford assistants and other support staff, referral arrangements are a viable way for clients to receive complete planning and investment services. These advisors are also more likely to take on clients with smaller portfolios and eliminating this compensation model lessens the options available to many clients. Moreover, limiting the percentage of fees that are paid through a referral arrangement is inconsistent with other models and will limit client options. Investment managers are constantly innovating to provide better products for lower fees. By limiting the percentage of the client fee paid to referees without understanding the overall cost of the investment solution to the client is unfair. Additionally, capping referral compensation but not capping compensation amounts for segregated fund and mutual fund trailers does little to ensure that clients are getting value for their money.

While robo-advisors are innovative with building and rebalancing portfolios, they cannot help a client balance competing goals, deal with the financial and emotional impacts of divorce or the death of a spouse, counsel them on too-good-to-be-true investment opportunities, nor advise on any other of the human side of financial advising. Ensuring that a qualified advisor is still in the equation to do what is right for the client is a great thing for our industry. Long gone will be the days of the elderly or young investor being taken advantage of by a system that historically has done a poor job of protecting its most vulnerable customers.

There is the potential for substantial negative consequences should the CSA move forward to limit client options by effectively eliminating referrals. We are appreciative of the efforts by regulators to seek clarification of the current state of referral arrangements with the long term objective of ensuring that the client's best interests are served.

Sincerely,

Chris Ambridge
President
Provisus Wealth Management Limited