

October 19th, 2018

To Whom It May Concern:

For 32+ years, I have been in the business of providing financial advice to residents of Ontario. For 20+ years I have been working with those clients in conjunction with a few investment counsel firms where our compensation is through referral fees from the Investment Counsel firm. Over my long career, I have always placed my client's interests at the forefront and felt I needed to respond to the recent CSA Proposals. I am submitting this on behalf of the clients in our firm who we have referred to external portfolio managers and where our firm receives referral fees. All of these clients receive a written financial and estate plan, regular in person reviews and typically are paying lower fees than the market (from what we typically see). In addition, many of these clients have been working with us for 20+ years...a demonstration that this works.

I am pleased to see many of the changes proposed in the regulations with a notable exception to the proposals surrounding referral arrangements. I do agree that anyone receiving a referral fee must be a registrant as this will aid in ensuring competency and compliance. I understand that the proposed changes may seek to stop referral arrangements to those who are not registrants but the proposals as worded would end up negatively impacting those who are registrants and engage in the legitimate provision of financial advice/planning.

I do not agree with the limitation period of 36 months or a notional 25% limit of total fees charged by the portfolio manager. Arbitrarily eliminating and/or capping these referral fees would upend a long-established relationship between clients, their financial advisors/planners, and their investment managers. It may also make financial advisors/planners recommend investment products which may permit them to get paid, but which may not be the lowest cost to the client or the most suitable to the client. It is untenable to assume an advisor/planner will be able to perform their duties without adequate compensation.

A recent IFIC article lays out many Canadians prefer indirectly compensating their advisors if they are aware of the costs. Advisors could certainly look to other methods of directly billing but this will inevitably add administrative costs that will be passed on to the investor.

The industry is changing to be one that is client-focused, something we have embodied since our founding. I find it concerning that proposals would be put out which would make it difficult, if not impossible, for an advisor/planner to recommend solutions that will put the client in the best possible position while still being paid fair value for the advice/planning services being offered. It is worth noting that in referral arrangements we are often paid less than if we retained the asset management piece in-house (this highlights our client-first focus).

I believe the best approach is one that we already follow which is simply disclosing the referral relationship, the fee and/or formula, and the responsibilities of each party. This way the client is fully aware of the costs and benefits of the arrangement and can determine at any point if that relationship is providing fair value.
I thank you for reviewing and considering my concerns.

Sincerely,

Michael G. Sheffar, B.A., C.L.U., CH.F.C., C.F.P.