

Date: October 15 2009
To: CSA, via John Stevenson, Secretary
From: Chris Horan, Financial Advisor
Re: Point of Sale Documentation, and Investment Policy Statement

The POS idea is based on the very useful 1-page summaries that fundcos and advisors use to communicate key information to investors (in place of the simplified prospectus, which is not read by any client that I am aware of).

However, the POS idea as proposed creates serious distortions in the marketplace **that do not serve client interests.**

Most importantly, the POS as proposed would distort the market: the requirement for the POS doc in mutual fund transactions but not for individual security trades, seg funds, or life policies with funds in them – never mind the Guaranteed Minimum Withdrawal Benefit programs - is a stunning incongruence. What could possibly be the rationale for that?

The key to regulation of the client/advisor relationship is to adopt the Investment Policy Statement model that has been used very successfully in the pension world since 1987. As (I hope) you are aware, the IPS regulations require the parties to address the particular subjects* to the satisfaction of the parties, who indicate their satisfaction with their signatures. These subjects define the relationship.

The IPS, if done properly, removes the focus from individual transactions and places it properly on the nature of the relationship and the investment strategy. It would also tilt the competitive table towards intelligent, educated and experienced advisors that take a longer term strategic view of client interests and assemble diversified, professionally managed portfolios – which is, not incidentally, actually in the client interest.

I would suggest that a proper IPS would define a true client advisory relationship, and the absence of an IPS would define a customer/salesperson relationship that could be subject to more transaction-oriented regulation. The 1-pagers need simply be included in the IPS. I would be pleased to discuss further with you.

Chris Horan,
Financial Advisor and Treasury Manager since 1980.

*The topics are for eg Nature of the assets and the investment goals, risk level, time horizon, liquidity, return objective, management structure/strategy, fees, conflicts of interest, and so on.