Kenmare Associates
Dedicated to Investor Protection

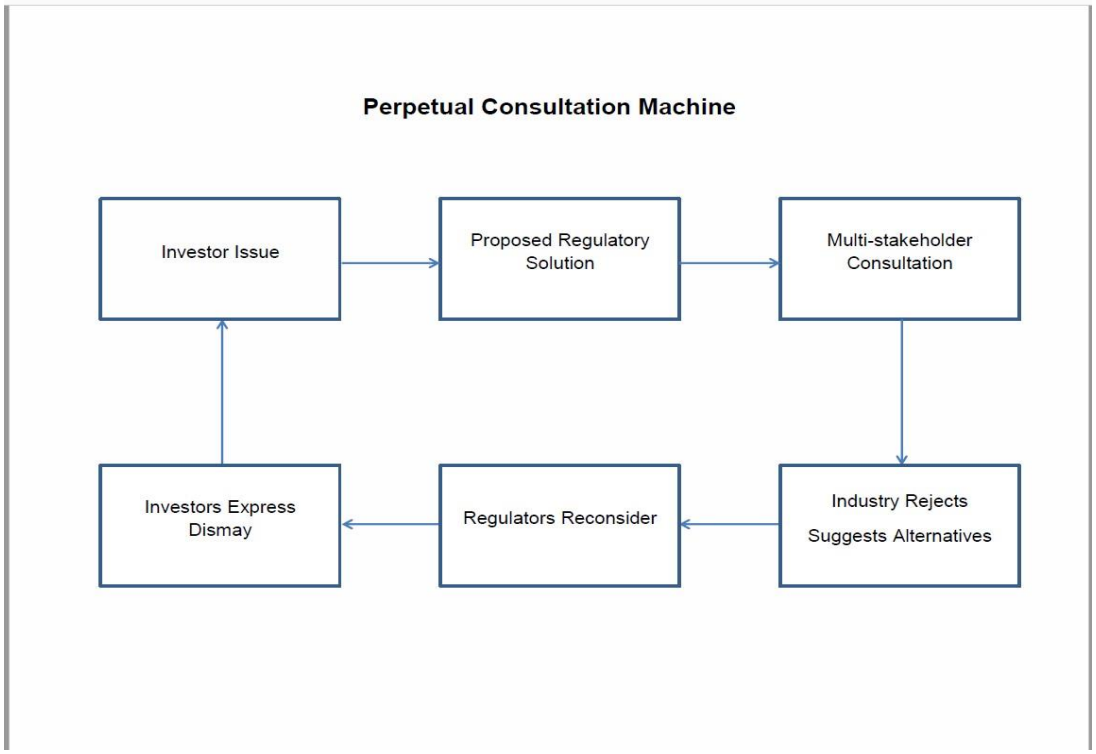
April 4, 2019

Robert Day
Senior Specialist, Business Planning and Performance Reporting
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

(416) 593-8179
rday@osc.gov.on.ca

ONTARIO SECURITIES COMMISSION NOTICE 11-785 – STATEMENT OF PRIORITIES REQUEST FOR COMMENTS REGARDING STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2020
https://www.osc.gov.on.ca/documents/en/Securities-Category1/sn_20190328_11-785_rfc-sop-end-2020.pdf

Introduction



A word from the IMF:*"...Finally, the securities regulators should continue to take steps to ensure timely decision making in policy formulation. By its own nature policy making requires time to allow for consultation so that the impact of policy proposals can be evaluated and incorporated. However, the current*

governance arrangements, based on a consensus building approach across several entities, might affect timeliness of decision making..." ***IMF report on Canada*** https://www.imf.org/external/pubs/ft/scr/2014/cr1473.pdf

Kenmar is an Ontario- based privately-funded organization focused on investment fund investor protection via on-line research and education papers and Investor ALERTS hosted at www.canadianfundwatch.com . Kenmar also publishes *the Fund OBSERVER* on a monthly basis discussing investor protection issues primarily for retail investment fund investors. An affiliate, Kenmar Portfolio Analytics, assists, on a no-charge basis, retail investors and/or their counsel in filing complaints and restitution claims. Additionally, we are active in regulatory affairs and regularly participate in public Consultations. Through these engagements we are able to take the pulse of investor protection in Canada.

"Our agenda is centred on streamlining regulations to enhance the experience of those who invest and do business in Ontario" - OSC

The stated mandate of the OSC is to provide protection to investors from unfair, improper or fraudulent practices, to foster fair and efficient capital markets and confidence in the capital markets, and to contribute to the stability of the financial system and the reduction of systemic risk.

The OSC's new stated regulatory goals are to: Promote Confidence in Ontario's Capital Markets, Reduce Regulatory Burden, Facilitate Financial Innovation and Strengthen the OSC's Organizational Foundation.

Let's look at *Key Priorities is to Promote Confidence in Ontario's Capital Markets*. The first bullet listed is *Continue Developing and Consulting on Client- Focused Reforms*. It is a statement that suggests to investors that no decision on Client- focused reforms is imminent. It actually states that there will be still more consulting. Consultation, contemplation and procrastination are not evidence of investor protection.

The second bullet tells us that the OSC plans to *Continue CSA Policy Work on Mutual Funds Embedded Commissions* .Why? The OSC has numerous reports on the harm embedded commissions cause the retail investor. It has its own Mystery Shopping Report. It has the Cummings report. It has the feedback from investors and investor advocates. On June 21, 2018 it formally stated that embedded commissions are here to stay in Canada. It has the input on the so-called Client-focussed consultation. It has the input on DSC and Discount broker Consultation. It has the decision of the Ontario Govt. that DSC sold mutual funds are not to be banned. All it needs to do is make some decisions on Policy. One no-brainer here would be to direct IIROC regulated Discount broker dealers to immediately cease selling A series mutual funds on their platform. Why not just do it? That would save Canadians nearly $200 million each year. That would be real investor protection. It would also help Class Actions get resolved. See this class action [https://www.siskinds.com/mutual-fund-trailing-commissions/] filed against TDAM for paying discount brokers for services and advice they knew the Discount broker could not and would not provide.

The third bullet *Improve Experience for Retail Investors* is not what the OSC has previously stated as a priority. In the past, the priority was to improve investor outcomes. Investors have made it clear for at least 5 years – they want a Best interests(BI) standard for personalized financial advice ,they want to know what services they can expect to obtain and the costs of those services. We know that the CSA has no plan to introduce BI and that CRM3 is in a regulatory swamp, valiantly driven by the MFDA.

The fourth bullet *Expand Systemic Risk Oversight of Derivatives* sounds like Business as Usual, not a particularly high level priority for the Commission.

On the fifth bullet *Timely and Impactful Enforcement Actions*, all we can say is- just do it. Enforcement is a key role of the OSC. If the OSC has some special plan to improve the impact of enforcement, it should reveal it-otherwise it's just regulatory Pablum. More prison terms for white collar criminals would be an indicator of increased impact.

The last bullet Support *Transition to the CMRA* is a real priority as it requires extraordinary work by staff. It is also our biggest fear. Investors' concerns are many including the fear that the OSC's demonstrated investor protection emphasis will be subsumed into a body that from the outset doesn't even want an IAP.

Investor advocates have provided a list of suggested priorities for over a decade. These include but are not limited to a fiduciary standard for advice, elimination of advice-skewing compensation practices , stronger oversight of IIROC , a laser focus on protecting vulnerable investors, improved cost reporting, contemporary complaint handling rules , a binding recommendation mandate for OBSI and greater competition/ lower fees. The 2018 Kenmar **Investor Protection in Canada** report painted a grim picture of investor protection. Copies have been provided to senior OSC executives. It was the worst year since we started writing the report a decade ago. There is only one conclusion- the current system is **Caveat Emptor** so investor confidence and trust is low.

According to a 2018 survey by the Edelman Trust Barometer Research Team Financial services is again the least-trusted industry—only about half (54 percent) of consumers trust the industry. This result is troubling because financial services should strive to be one of the most trusted. The reason for this disparity can be found in one of the most misunderstood and complex areas of the financial world—the "fiduciary" standard. https://www.wealthmanagement.com/industry/financial-services-least-trusted-industry-and-heres-why

Introduction

This Consultation again paints a picture of a fragmented, staggeringly complex financial service industry regulatory structure gingerly testing the waters on a number of inter-related Investor protection measures. Sometimes these investor protection initiatives are abandoned entirely (e.g. the abandonment of the Best

interest standard by the CSA), sometimes they move ahead incrementally (e.g. CRM2 the improved disclosure of how much investors pay to their dealers) but more often than not governments and regulators kick key decisions down the road by consulting...and then consulting again...and again....for decades. The 1995 report ***Regulatory strategies for the mid-'90s: recommendations for regulating investment funds in Canada*** by Glorianne Stromberg sounds almost current today!

Over the past two decades the financial services industry has rebranded itself from a transaction business to an advice business and more recently to a Wealth management business but remained anchored in a transaction-based regulatory environment. Corporate culture has remained tied to a sales and marketing mindset rather than as a trusted provider of unbiased investment advice. Regulators have allowed this disparity between reality (the suitability standard) and advertising and marketing to persist by permitting dealers and salespeople to hold themselves out to Canadian consumers as trusted advisors despite significant conflicts- of- interest that adversely affect the advice provided.
A report ***Lack of truth in advertising deceives investors*** from the Small Investor Protection Association (SIPA) illustrates the divergence of the advisory services promoted vs. the actual services delivered.
http://www.sipa.ca/library/SIPAsubmissions/720_SIPA_Report_Deception_20150505.pdf

A Report from the SIPA entitled "Listen to the Voices" reveals the financial and emotional impact on ordinary Canadians of weak investor protection. This report presents the voices of the silent majority- the victims of financial assault by Canada's financial services industry. Improved financial literacy is not an adequate Government response to the threats to Canadian's financial well-being. Enhanced conduct standards, no-nonsense enforcement and an effective financial Ombudsman service are urgently needed. Any person reading it will understand why.
http://sipa.ca/library/SIPAsubmissions/ListenToTheVoices_letterForward_20180414.pdf

When we saw the 2017-18 priorities we were surprised at how little investor protection progress had been made. Last year we were disappointed at the many projects that had to carry over. And this year we are disillusioned at the projects that have been dropped altogether and the new go- forward plans. We have the highest respect for OSC leadership and every individual we have ever had the privilege to interact with. It therefore gives us great pain to have to document our forthright observations on many of the proposed priorities. We sincerely hope Staff will consider it Tough love.

Part I Detailed Commentary on Stated Priorities

We recognize that the OSC is one of the 13 regulators so is constrained in just how far it can deviate from the consensus view of the other member

Commissions of the CSA , political masters and influential industry players. The OSC is also likely limited by what it can publicly say given its possible absorption into the CMRA, some of whose members have wildly differing views on investor protection and redress. That being said, we are obligated to be forthright in our commentary on what is put before us. We appreciate that the OSC makes its planned priorities public and gives all stakeholders the opportunity to poke away.

Our comments are limited to immediate retail investor issues. We leave it to others to deal with such issues as shareholder democracy, insider trading, OTC Derivatives, HFT, syndicated mortgages, diversity on Boards, reverse takeovers, Bitcoin etc.

Here are our recommendations regarding retail investor protection priorities for the 2019-20 fiscal year:

1. Reduce "Burden Reduction "

We presume this really means improved regulatory efficiency. Industry participants often use the term to rationalize cuts in investor protecting regulations. The priority placed on so-called "burden reduction" clearly comes from the Ford Govt. so it is non-negotiable. We did offer our thoughts on the subject via our response to the burden reduction Consultation. In a nutshell, we take no issue with an initiative that eliminates red tape, redundant rules, obsolete processes and the like. Our primary concerns are that the people assigned to the Task Force will not be working on investor protection and that some of the " burden reductions" will be achieved at the expense of investor protection. However, based on the Comment letters and feedback from the March 27 Roundtable , it appears that there are sufficient common sense low hanging fruit projects that our fears of investor protection dilution are alleviated for now.

We remind the OSC that the retail investors face many burdens as well. As industry observer and CFA holder Andrew Teasdale has said ""I think investor advocates have been arguing for reducing regulatory burden for decades. A fiduciary standard for "advice" and a clear demarcation of transaction only services with a caveat emptor would have reduced the regulatory burden. Trying to regulate the transaction while the industry pretends it is operating under a best interest standard and trying to develop a middle ground where rules can capture all the nuances of an impossible regulatory position is insane. We could do away with an awful lot of rules and roads and dead ends and complaints by simplifying the system and regulating the system as opposed to the transaction of which there are millions".

It appears that one burden reduction idea might be to make electronic disclosure the default option and make clients pay for paper copies. All that does is transfer the "burden" from large firms to individual investors. We would not regard that as a positive development.

See also **The Burdens of No-Contest Settlements** – Canadian Business Law Blog
https://businesslawblogsite.com/2017/09/07/the-burdens-of-no-contest-settlements/

2. Continue Developing and Consulting on Client Focused Reforms (CFR)

Draft second publication of proposed rule amendments and Companion Policy Guidance. The wording here is unclear. Is more consulting involved? Will the Client Focused Reforms be implemented in fiscal 2019? Based on our review of industry Comment letters, the OSC/CSA will have to make some tough decisions in order to bring CFR into force. After all, the much touted Targeted Reforms were first gutted and then abruptly abandoned by the CSA after fierce industry opposition. In addition, investor groups also expressed a number of concerns with the CFR proposals. If some reasonable form of CFR is actually approved in fiscal 2019, we would regard that as an incremental, but positive, step forward towards addressing the flaws in the advice industry.

3. **Engage with Fintech/Start-Up Sector**

Who can be against innovation? As long it is for the betterment of society, there should be constructive support. But not every innovation deserves support. We have seen some truly whacky innovative products. Some compensation arrangements are truly innovative. The use of advanced technology can be good for society but it can be bad. It is essential to remember that the core elements of personalized advice require a robust KYC, strong risk profiling tools and "advisors", whether human or digital, that optimize recommendations in the best interests of clients. These systems must also be auditable and audited as well as be physically and digitally secure. We agree that while there can be no progress without change, we also caution that not every change is progress. It would be a huge mistake to mutate today's weak advice standards into digital format. This is a wonderful opportunity for the OSC to use the adoption of advanced technology to drive a change to a higher standard of advice giving, one leaps and bounds higher than the lowly suitability standard we have today.

The traditional marketplace involving transaction-based advice is too expensive and conflicted to satisfy the needs of modest investors. Fintech provides an opportunity for many clients with modest account sizes to have their money managed at a price they can afford without the conflicts-of-interest and high fees associated with traditional investment dealers. Robo Advisors are a prime example of the success potential of Fintech. While we expect the OSC to apply appropriate due diligence, such innovations can be a boon to small investors and their use should be encouraged subject to regulatory oversight.

The planned OSC approach and actions defined in the Consultation paper should provide an environment for the orderly growth of these innovative firms. This is the kind of disruption that the old line wealth management industry needs to jolt it out of its comfort zone. We fully expect these innovators to use AI and other

emerging technologies to move up the value-add chain thereby helping Retail investors economically mitigate the decline in Defined Benefit pension plans.

4. **Continue CSA Policy Work on Mutual Funds Embedded Commissions**

Last year the OSC said only that it will, "Publish policy recommendations on embedded commissions to mitigate the investor protection and market efficiency issues," and that it will also publish proposals to enact those recommendations, but did not commit to specific reforms. This, after years of discussion, the Cumming report and endless consultations and Roundtables. On June 21, 2018 we found out that embedded commissions will be with us for a long time.

Professional financial advisor and respected author John DeGoey has enumerated the advantages of a prohibition of embedded commissions .These include transparency , cost arbitrage , tax deductibility for advice , reduced conflict-of-interests , enhanced consumer confidence in advice , increased cost visibility and fee scalability .

It is glaringly evident to us that investment advice robustness needs to be dramatically improved. We again recommend that the OSC move away from the CSA pack and pursue an overarching Best interests regime for Ontario regulated registrants.

As for the CSA Consultation launched in Sept., 2018 it appears the OSC cannot place a ban on toxic DSC sold mutual funds due to a Ontario Govt. decision. It can however deal with the issue of investors being unduly charged for services and advice by Discount brokers via A Series mutual fund trailer commissions. We urge the OSC to do so. There was 100% support by retail investors for an immediate ban on trailers based on our review of investor Comment letters. Investors should not have to resort to Class Actions for basic investor protection.

The Trade Association for the investment funds industry (IFIC) has also called on regulators to act:

"Investors who buy funds directly, for example through a discount broker, should be confident that they are not inadvertently overpaying by selecting a series that includes fees for services that are not available through that platform," - Paul C. Bourque, Q.C., IFIC's president and CEO.
Source: https://www.ific.ca/en/news/limit-series-a-sales-to-channels-that-permit-advice-ific/

In August 2018, IIROC suspended Section 2 from its notice that accompanied guidance for order-execution-only (OEO) services and activities, published in April of that year. The section says IIROC expects OEO firms to make available, whenever possible, series of funds that don't pay trailing commissions for ongoing advice. When no such series is available and an OEO firm offers a series with a trailing commission, IIROC says in the section that it expects the firm to address the conflict—by rebating to the client the portion of the trailing

commission or by "taking other similar steps In the August 2018 Notice http://www.iiroc.ca/documents/2018/5D6C7AC0-A0A8-48B6-B842-D7AAA68DC590_en.PDF IIROC said CSA's rule development process on embedded commissions provides "further opportunity for meaningful input from all registrants and other industry stakeholders on this important issue, and, once it is completed, we will align our requirements with theirs." Talk about a regulatory swamp.

For at least 5 years Kenmar has pleaded with the OSC to intervene. Why is the OSC/CSA not taking swift and immediate action to stop investor bleeding?

5. Improve Experience for Retail Investors

The planned actions here are focused on investor education, outreach, improved disclosure and improved investor tools and resources.

While we agree that there should be continuing effort on investor education, we would like to stress the critical need for that education to include a healthy dose of Street proofing .Kenmar would like to see Webinars, web materials, print literature, TV ads etc. that cover such topics as: How to use CRM2 disclosures in decision making, Pros and Cons of a fee -based account, what to look for in an account statement, writing an effective complaint, what exactly is the suitability standard? , the impact of investing expenses on long term returns, buying into an IPO - risks and opportunities , how to use Fund Facts, completing a KYC / Account opening form, understanding the impact of advisor compensation on advisor behaviour, how to use CSA registration check , avoiding Off Book transactions, etc. Such materials will help counterbalance the risks associated with conflicted advice, the low suitability standard, loose SRO rules and weak dealer supervision. The net societal benefit will be higher investor returns, reduced client complaints and better retirement income security for Ontarians.

A document like the ***CFPBoard Consumer Guide to Financial Self Defense*** http://www.asuupmmc.utah.edu/files/CFPBoard_Financial_Self-Defense_Guide.pdf , and ***Consumer Awareness Booklet*** (28 pages loaded with useful material for the retail investor) http://www.onusconsultinggroup.com/uploaded_files/InvestorAwarenessBooklet.pdf is a concrete example of what we'd like to see.

Kenmar strongly support more accessible information to investors on the proficiency requirements required for individual registration categories – and the corresponding duty of care, set out in plain language - to enhance their understanding of the expertise of investment professionals.

The OSC website design should be enhanced to provide better navigability/search – in particular, the usability of registration check needs improvement using behavioural insights.

We recommend that the OSC organize an investor Town Hall .This will provide first hand experiences of investors interacting with registrants. We regarded the 2005 Town

Hall as very successful. See http://www.sipa.ca/library/SIPAdocs/770-OSC-TownHallReport_20050629_FINAL.pdf

6. Investor Redress

Under the Section entitled *Investor Redress* the OSC says "To achieve better results for investors, the OSC will continue its support for OBSI in its role as the independent dispute resolution service made available to investors" . The word *continue* is controversial to say the least. The CSA/OSC has not supported OBSI very well. In fact, OBSI is weaker today than it was 5 years ago. The 19 recommendations of the June, 2016 Battell Report remain unaddressed.

In Dec. 2016 the OBSI Board agreed with the Battell Report recommendation to secure redress for customers, preferably by empowering OBSI to make awards that are binding on the firm https://www.obsi.ca/en/for-firms/resources/Documents/Response-to-External-Review-Recommendations.pdf . No action has been taken by the CSA/ JRC since that time .

On the issue of dispute resolution and clients' access to restitution, the OSC said in its 2018-19 priorities that it intends to work with the other regulators that oversee the Ombudsman for Banking Services and Investments (OBSI) to strengthen OBSI, but it did not commit to specific policy actions. "The OSC believes that a regulatory roadmap must be developed addressing the recommendations in the independent evaluator's report and, in particular, that OBSI's decisions should be binding on its members," it said. Where is that roadmap? Why do low ball settlements continue?

In 2018-19 the OSC committed to "... publish a plan to enhance compliance with OBSI's recommendations and a response to the OBSI independent evaluator's other recommendations, while providing a robust oversight framework."..." The OSC did not do so. Two successive independent reviews and the OBSI Board have supported binding decisions. The SIPA, Kenmar Associates, PIAC, CARP and FAIR Canada have pleaded for years for such a decision.

Investors want and need a financial ombudsman service that has the mandate and capability to efficiently resolve disputes and deal with systemic issues in a timely manner. For over two years the JRC has been focused on options for strengthening OBSI's ability to secure redress for investors. As CSA Staff Notice 31-351, Complying With Requirements Regarding The Ombudsman For Banking Services and Investments, dated December 7, 2017 attests - **a fair and effective dispute resolution process is important for investor protection in Canada and is vital to the integrity and confidence of the capital markets**. Despite these fine sounding words, there is no sense of urgency at the OSC at providing this vital Investor protection.

Here is an idea or two to quickly demonstrate that support. The OSC could require dealers who disagree with the OBSI recommendation to file a Request for Reconsideration to OBSI. If that resulted in a confirmation of the original

recommendation then the dealer would be obligated to comply with the recommendation. Another alternative would be for the OSC to require the applicable regulator to investigate the complaint to determine whether the dealer complied with NI31-103 and SRO rules .If the dealer is found to be non-compliant, the dealer would be obligated to comply with the OBSI recommendation .No doubt other creative methods can be applied to rejections/ low balls in the interim period until the JRC finally concludes that binding decisions are required. **What would be truly unconscionable is to retain the status quo which is known to harm Retail investors especially vulnerable ones.**

We recommend that OBSI recommendations be made binding on dealers as the ideal solution to the chronic issues, that there be a retail Investor voice on the Board and that OBSI be given the mandate to investigate systemic issues. The time for Joint Regulatory Committee "monitoring" is long past. A decision is required in order to protect investors. What reason can the OSC possibly have for not providing an effective redress system for Ontario citizens right now?

[On the positive side, we are delighted to see the MFDA align its policies with the OBSI Terms of Reference. This will permit increased information flow. Among other things, this would help the MFDA identify any potential systemic issues, and be alerted to cases where OBSI expects that a firm may refuse a compensation recommendation.
http://mfda.ca/wp-content/uploads/Ombudservice-2.pdf 0]

7. Timely and Impactful Enforcement Actions

Last year the Consultation said that the OSC will "Increase deterrent impact of OSC enforcement actions and sanctions by actively pursuing timely and consequential enforcement cases involving serious securities laws violations". It appears this is in fact developing.

We do however have concerns about the usage of no-contest settlements and their deterrence value. A Settlement Agreement with Mackenzie Financial caused us to write to the OSC with our concerns about the size of the penalty wrt the nature of the breaches of law. We found the mitigating factors weak and the absence of aggravating factors disturbing. Another case involving RBC gave rise to much criticism. **Investment industry slams OSC over 'disproportionately small' RBC fine** https://www.theglobeandmail.com/investing/article-investment-industry-slams-osc-over-disproportionately-small-rbc-fine/ We'd like to suggest that fines be increased at least one order of magnitude to begin to be impactful and provide general deterrence.

Of course, for most retail investors it is the enforcement actions of the MFDA and IIROC that are the most relevant. See our commentary on IIROC enforcement http://www.canadianfundwatch.com/2018/01/agravating-and-mitigating-factors-and.html

Investors want to see that justice is done and that white-collar crime is considered a serious form of financial assault. We think a significant number of issues would go away with effective and timely enforcement, a point we make with CSA members several times per year. Ex It took IIROC 19 years to enforce NI 81-105 *Mutual Fund Sales Practices* (issued in 1998) violations.

This initiative is therefore most appropriate and timely. Beyond financial loss, industry wrongdoing affects many aspects of people's lives including stress, marriage and health. The OSC's plan to improve the efficiency, effectiveness and timelines of its enforcement work is welcomed. The penalties contained in settlement agreements often pale in significance to the gains made by those involved in wrongdoing. In fact, many of the fines imposed on individuals are not paid since registrants leave the industry or declare personal bankruptcy. Rather than spend a lot of time, effort and money on collections we believe keeping these individuals away from consumers, along with investor compensation, is more important. Accordingly, we urge the OSC to establish formal relationships with the FCAC, MFDA, IIROC and insurance regulators (FSRA in Ontario) that would eliminate or at least reduce regulatory arbitrage.

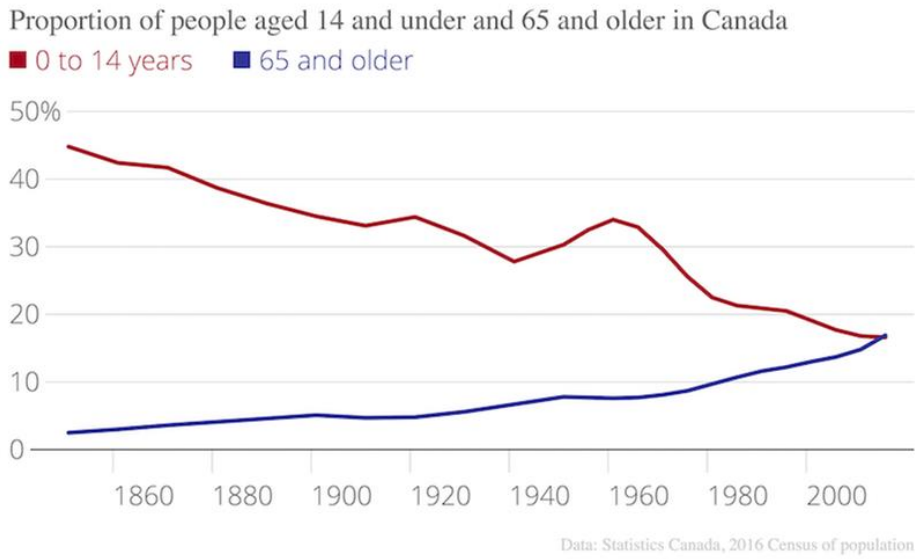
Moreover, investment dealers should be held accountable for any unpaid fines by individuals – in our opinion, such a change would result in an immediate improvement in dealer behaviour and supervisory practices [NOTE: "Financial services providers should also be responsible and accountable for the actions of their authorised agents"-para 6 **G20 high level principles of financial consumer protection**
https://www.oecd.org/g20/topics/financial-sector-reform/48892010.pdf.]

In the majority of cases it is the policies, practices, sales quotas, commission grids, compensation arrangements and other non-financial incentives of dealers that incent "advisors" to push the envelope of compliance. We have also encountered cases where supervision share in branch commissions earned! Until this model is changed, it is unlikely investor protection in Ontario will improve.

At the same time, we must note that Securities commissions and SRO's often take too long to investigate and discipline, so by the time the fines are levied, years have passed and there is no money left. Speeding up core investigation/enforcement processes would be productive.

Back in March 2018 the Wynne Government budget proposed changes to the rules governing capital markets, giving the Ontario Securities Commission new tools to confront white-collar crime, stop repeat offenders and improve data sharing with other financial regulators. The change of Government put those proposals on the back burner. We call on the Ford Government to reactivate the proposals. A more robust regulatory framework will attract investments and business to Ontario.

8. Protection of Seniors



According to Statistics Canada projections, the above observed trend will only increase. By 2031, the Agency predicts that nearly one in four Canadians will be over 65. Seniors tend to have significant accumulated wealth, so are attractive targets for "advisors". Add in the normal emotional, physical and cognitive issues associated with aging and investor vulnerability increases. We call on the OSC to act NOW to prevent a socio- economic disaster.

The OSC report http://www.osc.gov.on.ca/documents/en/Securities-Category1/sn_20180320_11-779_seniors-strategy.pdf on Seniors demonstrated the need for prompt affirmative action to protect the elderly and other vulnerable investors. According to the Consultation, the OSC plan to publish a Staff notice and rule amendments for comment to address financial exploitation of seniors and vulnerable investors. Much more is needed and faster.

Indeed, the best ways to protect seniors would be for the implement the strategies outlined in the Report. Kenmar Associates, has issued an informative report on 'Securities regulators and the protection of seniors'. The report highlights many challenges seniors face relating to their finances, including fraud, outliving their savings, and mental decline. The report provides a detailed overview outlining what regulatory agencies (in Canada and the U.S.) are doing to protect seniors. The report makes thirteen suggestions to improve the regulatory landscape for seniors, including 'tackle the core issue of regulating advice', 'treat misleading advertisements more seriously', and 'clamp down on the use of inflated/misleading "advisor" titles'.

One obvious action would be to implement the recommendations contained in a 2017 FAIR Canada document REPORT ON VULNERABLE INVESTORS: ELDER ABUSE, FINANCIAL EXPLOITATION, UNDUE INFLUENCE AND DIMINISHED MENTAL CAPACITY http://faircanada.ca/wp-content/uploads/2017/11/171115-Vulnerable-Investor-Paper-FINAL.pdf We expect to see an affirmative OSC commitment to make this happen in fiscal 2019.

The OSC also need to make a decision on registrants' use of confusing and misleading titles, designations and marketing practices related to seniors/ retirees It must also strengthen complaint handling and work with other regulators and organizations to conclude policies and programs to help seniors in areas such as Powers of Attorney and privacy laws. And finally, a better approach to handling complaints from Seniors. See ***Complaint handling for Seniors in need of major reform***
http://www.canadianfundwatch.com/2014/11/complaint-investigators-have-not.html

9. **Implement Alternative Funds Regime**

The Consultation wants to expand investment choices for Ontario investors by supporting and facilitating industry stakeholders to develop and launch innovative structured investment products (e.g. foreign structured notes, ADR-type products) and enable portfolio managers to manage fund assets with more flexibility and efficiency. We are surprised to see this as a priority given all the other open and emerging investor protection issues. We expect these funds will carry higher fees and risks for retail investors. Fund Facts was never designed for such complex funds so disclosure is not fulsome. According to industry buzz, Alt fund floggers are not happy with the FF risk rating methodology so we expect they will ask for and get an exemption. As the new rules for Alternative funds made their way through the regulatory process over the past few years, investor advocacy groups such as the Foundation for the Advancement of Investor Rights (FAIR Canada) opposed the regulatory changes, arguing against granting retail investors "easy access to alternative funds which are traditionally complex, illiquid and higher risk."

Are Alt funds even going to improve retail investor outcomes ?According to Morningstar research, most [U.S.} liquid alternative funds failed to improve a traditional stock and bond portfolio over the time periods assessed, although market neutral funds had a decent showing over both time periods and non-traditional bonds look particularly useful over the more recent time frame. In other words, Alt funds haven't lived up to their hype.
https://www.morningstar.com/blog/2018/08/02/liquid-alternatives.html

10. Support Transition to the CMRA

Last year's consultation paper stated that the proposed CMRA is an opportunity to enhance investor protection. This is not the view shared by the OSC's own Investor Advisory Panel and leading Investor advocates such as SIPA, Kenmar and Fair Canada. Several Research papers (e.g*. Not Ready for Prime Time* from the CD Howe Institute) have identified serious Investor protection flaws of the proposals that actually are a step backward from existing OSC protections. We urge the OSC to (a) reconsider its plan to merge into the CMRA and (b) eliminate this project from the priorities and redeploy scarce resources to other high priority investor protection initiatives.

As the OSC notes, the proposed transition to CMRA will require the OSC to re-prioritize, mobilize resources and adopt change management activities once workstreams are activated to prepare for the CMRA launch. The Commission's operating expenses are expected to increase by just $5.1 million (4.7%) in the year ahead (to $129.4 million), primarily due to an additional $2.9 million in salary and benefit expenses, and increased IT maintenance costs of $2 million. As a result, we expect the prospect of a CMRA is creating a diversion of precious OSC resources away from projects we would much prefer the OSC work on.

Part II Priorities not specifically identified by the OSC:

11. Deal with misleading "advisor "titles

The only priority we see in the document on titles is **Title protection for financial planners and financial advisors.** What about protecting investors from **inflated/ misleading titles?**

Investors assume there is some oversight of the use of "advisor "titles by either the firm or regulators. That flawed assumption has proven to be harmful and costly.

A Sept. 2015 OSC/MFDS/IIROC Mystery shop report concluded that "*From the perspective of an investor, the number and variety of business titles encountered when shopping for advice can make the process of choosing an advisor a complex one* ".In all, the shoppers encountered no fewer than 48 different business titles during the shops. Kenmar is dismayed by the lack of consistency of business titles and the question marks around whether those titles are actually tied to specific skills and qualifications. As we have pointed out many times before, imagine if regulators in the health care field allowed individuals with the training and experience of massage therapists to call themselves physiotherapists or heart surgeons. And yet this is what the average investor faces when seeking investment advice.
http://www.osc.gov.on.ca/documents/en/Securities-Category3/20150917-mystery-shopping-for-investment-advice.pdf

In Oct. 2016, SIPA issued a Report ***Title Trickery*** which dug deep into the use of titles to deceive clients.
http://www.sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20-%20Advisor%20Title%20Trickery%20October%202016.pdf . In March, 2017, CARP, which represents 300,000 members, urged regulators to deal with the issue. CARP's VP of Advocacy, Wanda Morris noted**: *"When people realize they are dealing with a salesperson, they naturally bring a degree of skepticism to their decision making; they instinctively protect themselves from poor advice that doesn't serve them well. Misleading titles result in misplaced confidence and trust, and in the worst of cases, substantial financial losses."***

A Dec. 2016 CSA Bulletin wrote "Firms may assign professional titles (e.g., vice president, senior representative, specialist) to representatives based on their ability to reach certain sales and revenue targets. This practice may encourage representatives to focus on the easiest route to reach a target (i.e., to focus on what's easiest to sell,

what generates most revenue, what they can sell most of), rather than on what is suitable for a client, particularly as representatives get close to the target. Also, when the benefit confers a title to the representative (e.g., President's Club member), it could be misconstrued by the client as a measure of skill level, experience or quality, rather than a measure of sales activity, which may inappropriately increase client trust in the representative." http://www.osc.gov.on.ca/documents/en/Securities-Category3/csa_20161215_33-318_incentives.pdf The use of misleading titles can cause investors to place undue trust in a Dealing representative who by registration is actually registered as a salesperson.

In May, 2017, the CSA listed titles/designations as one of the targets of targeted Reforms. And here we are in April 2019, with no indication of any definitive action We recommend in the strongest possible terms that title rationalization be made a top priority in 2019-2020.

12. Recall IIROC Guidance on OEO 11**-0076**
http://www.iiroc.ca/Documents/2018/54df3aa0-06d8-48fd-8e93-ce469be1c650_en.pdf

This item requires immediate attention by the OSC/CSA. We quote from the IIAC Comment letter on the IIROC proposed Guidance:
"Industry's ***Key Concerns***
The industry has many major concerns with the proposed Guidance. The key concern of our member firms is that clients may use online "educational" tools, products and information containing inaccurate data and information from unreliable sources in order to make investment decisions if the Guidance is implemented. Investors request tools and information from OEO firms in order to make educated investment decisions. Providing a wide range of documentation and products is to the benefit of the client and this Guidance, if implemented, will not protect the investor ***and is therefore not in the best interest of the client.***

We also believe that there are two other major concerns with the introduction of the Guidance:
1) An overly broad definition of "recommendation" and its ensuing applicability to both OEO and Advice dealers; and
2) The introduction of an "appropriateness" test. "
Another industry participant, RBC Direct Investing, asked IIROC to withdraw the Guidance Re http://www.iiroc.ca/Documents/2017/b8e3e93c-f7b6-4aaa-8576-74b0a10b9e3d_en.pdf So, basically industry participants did not support the proposed Guidance and expressed concerns.

Investor advocates including SIPA, FAIR, Kenmar, individual DIY investors and the OSC's own IAP vigorously opposed the guidance. Yet here we are today stuck with Guidance that will harm retail investors and is clearly not in the Public interest. See our letter at http://www.ocrcvm.ca/Documents/2016/9557bad7-f6f4-4d75-8a37-4dbed68fd788_fr.pdf and SIPA letter http://www.iiroc.ca/Documents/2017/b963d58b-9189-45ea-a3be-d7c68610ba43_en.pdf and the OSC Investor Advisory Panel letter https://www.osc.gov.on.ca/static/Investors/iap_20170202_iiroc-order-execution.pdf
Discount brokers provide a safe, low-cost method of investing and through various

tools, simulators and calculators assist in developing financial capability. Implementing the guidance will limit innovation, unduly constrain access and add to client costs.

It is very clear - there is no serious problem, DIY investors are not being harmed, all investor commenters said "Hands Off", and satisfaction with Discount brokers was very high. In order to justify their inappropriate action, IIROC had to redefine *recommendation* and *advice* to fit their approach to constrain discount brokers. We very much doubt if real Securities regulators ever conceived of these convoluted definitions. The consultation process itself was flawed – the submission timeline had to be extended twice, underlying research was not disclosed and claims of extensive consultation with advocates was rebutted. Despite IIROC's unsubstantiated assertions, discount brokers do not provide personalized investment advice.

What is galling is that despite the lack of support from stakeholders, industry and investors, IIROC issued the Guidance anyways.

IIROC should instead be redefining advice provided by so-called "full service" firms to reflect modern technology and the published marketing materials.

An SRO does not have the power to redefine *recommendation* and a*dvice* for the entire financial services industry especially via Guidance that bypasses formal regulatory approval. Such power should be left to statutory Commissions and then only after adequate research and consultation.

We are therefore asking the OSC/CSA to direct IIROC to recall the Guidance and spend more time resolving the many issues related to commission conflicted "advice" their Members use to sell product to retail investors, weak enforcement and abusive complaint handling based on deficient Rule 2500B.

13. Deal with the IIROC issue

IIROC operates under a Recognition Order from the CSA. In effect, it is the principal national regulator for retail investors. The OSC is the primary overseer of the Order granting IIROC the privilege and responsibility for retail investor protection in Ontario/Canada. Kenmar has identified a growing number of issues which give us concern as to whether IIROC can be counted upon to adequately protect retail investors starting with its governance. These are articulated in our 2018-19 Comment letter so need not be repeated here. On the subject of governance please See the SIPA report http://www.sipa.ca/library/SIPAsubmissions/500_SIPA_REPORT_InvestorProtection_IIROCGovernance_20161009.pdf.

An SRO is a completely different animal than the board of an operating company. Nevertheless, IIROC says " **The IIROC Board has never operated as a "stakeholder" Board in which Directors consider their sole role to be representing the specific interests of the stakeholder groups from which they are drawn. Instead, IIROC Directors act under the broader fiduciary duty that they owe to the organization and its stakeholders as a whole."**

http://www.iiroc.ca/about/Documents/2014GovernanceReviewReport_en.pdf
This cleverly articulated criterion effectively prevents an investor advocate voice from being on their Board. In fact, there has never been an investor advocate voice on their Board ... and it shows.

It is simply incredulous to believe that the Industry Directors are mere bystanders and are not stakeholders for the financial service industry. If the OSC does nothing else re IIROC but modify its Recognition Order and require an Investor Issues Advisory Committee and one retail investor voice on the Board, we would feel that the OSC is getting serious about making IIROC more accountable in satisfaction of their Public interest mandate. We include a suggested description of such a person in APPENDIX 1. This skill should be included in the Director skills matrix. **We regard improving IIROC as a top priority for the OSC. If this cannot be done, at some point it may be necessary to review the concept of self-regulation.**

14. Enhance and expand the Whistleblower program

It is clear that this program has tremendous investor protection potential. The OSC whistleblower program is not perfect. No government program ever will be. But there is a strong sense that this time the OSC got it right. Beyond the awards paid, the penalties that have been collected, the investors who have benefited ... one of the most remarkable components of the program is how an employee is changed when he/she can safely tell the truth. How that can change one workplace, then another, then a community and a citizenry. What the U.S. SEC whistleblower program has demonstrated is that empowering private individuals to stand up and speak out makes integrity an organization's most prized asset—and how much of a difference it makes when the public sector protects and supports the exercise of that integrity. That is unquestionably why enhancing and expanding the whistleblowing program should be a OSC priority.

The program is also supportive of the Govt. Objective of making Ontario an attractive place to invest. We definitely agree that action on impactful enforcement proceedings with effective regulatory messages should be prioritized.

15. On Disclosure Evaluation CRM and POS

On investor disclosure, the OSC says it intends to evaluate whether it's CRM2 and point-of-sale disclosure projects are achieving their goals of, "enhancing investors' understanding of the costs and fees associated with investment products". There is no question that CRM2 fee disclosure was the driving force in IIROC dealers coming clean on double dipping and other fee mischarging wrongdoing. It should be noted that these malpractices went on at every major investment dealer for over a decade without detection by compliance, audit or IIROC. Over $300 million had to be returned to investors via OSC no-contest settlements.

Several reports have already revealed issues. A 2017 study conducted by Credo Consulting Inc. found that 62 % of investors still think that they do not pay for the financial advice they receive, only a five-percentage-point drop from approximately six months earlier. Another 2017 report by J.D. Power found that only 24 % of investors say they fully understood the fees they are paying to their financial advisors. A study commissioned by the British Columbia Securities Commission (BCSC) showed that 52% of investors who expressed less confidence and investment knowledge at the outset of the study increased their general understanding of fees after receiving their CRM2 reports.

CRM2 reporting by firms is good, but it could be better. That's the finding from the MFDA, which published a Bulletin and Report in January, 2018 the results of its examinations and CRM2 sweep. The report reveals that some dealers' compensation disclosure could potentially increase clients' confusion about fees. Re http://mfda.ca/bulletin/bulletin0740-c/

Research has shown that disclosure, while necessary, is a limited form of investor protection. Clearly, disclosure is not the same as transparency.One major point- the cost of the fund management expense is not part of the CRM2 reporting. There is thus a crying need for CRM3 to include management fees which should be a 2019-20 OSC priority. In fact, on April 19, 2018 the MFDA, recognizing the limitations of CRM2, published a Discussion Paper on expanding cost reporting to provide a more fulsome disclosure of investing costs. The OSC should lend its support.

Our concern over the CRM is that it does not address investor expectations over standards of advice and the accountability for that advice while at the same time providing more rigorous disclosure that would appear to be aimed at reducing the scope for complaint. Regulators do not appear to want to upset the economics of the prevailing system which remains one focused on distribution as opposed to advice. The hope apparently seems to be that by tightening up standards around distribution while providing the additional disclosure that would reduce investor leeway for complaint. We feel that vision of regulatory focus is not the UK/Australian model, but that of making the distribution model more efficient, less prone to abuse with sufficient disclosure to limit investor opportunity for complaint. The OSC priorities, while important, are not going to lead to a professional advice industry. The CSA quite frankly does not have that as a vision, thereby constraining OSC initiatives. We recommend that CRM3 be a fiscal 2019 priority.

Fix the NAAF/ KYC system

One chronic underlying problem for investors and OBSI (and industry participants) – non-standard, misleading and inadequate NAAF forms and KYC processes within the industry. If the NAAF/KYC process were re-engineered and standardized, a significant number of complaints could be avoided. We recommend this be a specific 2019-/2020 priority as it will have a big payoff for all stakeholders. This was recommended to the OSC by the ***Regulatory Burden Task Force*** in December 2003.
http://www.investorvoice.ca/Research/OSC_RegulatoryBurden_Dec03.pdf See

also SIPA **KYC Needs an Overhaul** http://sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20-%20KYC%20Process%20Needs%20Overhaul%20-%20201607.pdf There also issues with document adulteration, compliance oversight and risk profiling methodology (***Current Practices for Risk Profiling in Canada And Review of Global Best Practices*** *https://www.osc.gov.on.ca/documents/en/Investors/iap_20151112_risk-profiling-report.pdf*)We strongly recommend putting KYC process improvement on the OSC top priority list.

Increase "Advisor" proficiency standards

While the bar needs raising, so does the floor. The proficiency level of advice givers needs to be raised to address complex issues like investor longevity, market turbulence, risk management and increasing product complexity. There is a crying need to truly "professionalize" the financial advice industry.

Ontarians will not only need increased investor protection but the industry has to mobilize how to advise on pension planning and capital preservation strategies – a shift away from traditional asset accumulation to distribution ("de-accumulation '). This will require a completely different skill set, different products and **professional, unbiased** advisers competent in the art and science of pension management.

In the 2018-19 priorities we were told that the OSC will "**Initiate** work on remaining reforms such as titles and proficiency…" This year the word proficiency doesn't even appear in the document. Things will only get worse for investors under the CMRA. All we can say is. Get on with it.

SUMMARY and CONCLUSION

Minimum investor expectations for 2019 -2020 fiscal year

The items below are all minimum actions necessary/essential to operationalizing "investor protection", "fairness" and all the other aspirational words found in OSC literature:

- Prohibit Discount brokers from collecting trailer commissions
- Enable OBSI to make binding recommendations as recommended by its Board, the Battell Report and investors
- Require OBSI to include one retail investor voice on its Board
- Require IIROC and MFDA to include one retail investor voice on Board of Directors under the Recognition Order
- Require IIROC and MFDA to establish Investor Issues committees under the Recognition Order
- Adopt a Best interest standard (personalized financial advice) for Ontario registrants
- Initiate a multi stakeholder project on KYC process improvement including risk profiling
- Implement CRM3 fee disclosure
- Require IIROC to withdraw its OEO guidance document via Recognition Order or other means
- Adopt an Ontario-tailored version of NASAA Model Act to protect Seniors and vulnerable investors
- Take concrete steps to reduce regulatory arbitrage
- Mandate that the title used by Representatives either be the registration Category or Salesperson so as to distinguish salespersons from those qualified and to be held accountable for providing BI advice.
- Require IIROC to update Rule 2500 B to contemporary complaint handling standards
- Pro-actively provide a welcoming environment for digital advice
- Prioritize investor compensation over fines
- Require MFDA and IIROC to formally adopt Root Cause Analysis for investigations
- Intensify monitoring of DSC sold fund sales practices

None of this is rocket science. It only requires the will to obtain results. If the OSC can accomplish these most basic results, then investor advocate confidence in regulators can be restored.

We commend the OSC for its progressive attitude and commitment to being an effective and responsive securities regulator despite the many constraints it faces. The OSC has led the way in establishing an Investor Office, setting up an IAP and introducing a creative whistleblowing program. It is a clear leader in senior investor protection driven by its Seniors Expert Advisory Committee, conducting empirical investor research and developing evidence-based regulation.

There are growing investor concerns about cybersecurity, abuse of fee-based accounts (reverse churning), regulatory arbitrage, regulation of financial planning / planners, elder abuse and crypto currency investments. We support and encourage the OSC's continued vigilance and expect SRO support.

The OSC certainly has a lot on its plate. There are a lot of #1 priorities, perhaps too many. Perhaps some of the load can be distributed among the other CSA jurisdictions?

We are disturbed that after all this time, a number of fundamental investor protections still remain lost in the wilderness. We strongly encourage the OSC to go it alone if needed investor protections cannot be harmonized with other jurisdictions in a timely manner. Ontarians deserve that.

The investment industry (now rebranded as the Wealth Management industry) needs regulatory guidance, decisiveness and finality.

With high personal debt, low investor financial literacy/numeracy, a growing number of seniors /retirees, increased investor longevity and a misunderstanding about an advisor's fiduciary obligations, Canadian retail investors are extremely vulnerable -their life savings in jeopardy. Providing appropriate investor protection must be a top priority for the OSC.

The retirement savings and nest eggs of the people of Ontario are at risk. More and more seniors and pensioners become vulnerable each day, quarter and year that the status quo remains entrenched. Definitive regulatory action is needed in 2019 after nearly two decades of waffling by regulators- there is more than enough information and hard facts to make the necessary regulatory reforms. The time for OSC regulatory reform is NOW.

We look forward to working collaboratively and assisting, where possible, with some of the goals identified in the draft Statement of Priorities.

Kenmar Associates agree to public posting of this Comment Letter.

We would be pleased to discuss our comments and recommendations with you in more detail at your convenience.

Respectfully,
Ken Kivenko P.Eng.
President, Kenmar Associates

APPENDIX I: Specification for a Retail investor Board Director

We present here a proposed specification for the Retail investor/consumer Director.

In addition to the general qualifications befitting a Director we would add the following unique characteristics:

1. **Credibility amongst investors/ advocate stakeholders** - including:
☐A track record of advocating for increased investor protection for Canadians
☐ Actively and visibly engaged with prevailing investor protection issues
☐ Demonstrated ability to co-operatively work with the OSC Investor Advisory Panel, investor/consumer protection groups, seniors associations etc.
☐ A good knowledge of technology/software/mathematics
☐ Constructively assertive and forthright
☐ Respected and trusted by retail investors

2. **Knowledge of retail investor issues** – including:
☐An understanding of regulatory system failures and weak spots
☐Familiarity with key standards and principles for fair complaint resolution and restitution
☐ Published articles and/or blog related to retail investor protection
☐ A grass roots connection to the retail investor
☐ Empathy for the retail investor

3. **Credibility with industry stakeholders -**including
☐ Working knowledge of the Canadian financial sector and retail services/products
☐ Basic knowledge and understanding of applicable Canadian rules and regulations applicable to personalized advice giving
☐ an understanding of the underlying issues related to KYC, risk profiling practices, disclosure and suitability.
☐ Seen as objective and fact-based

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https://www.getsmarteraboutmoney.ca/resources/publications/research/retirement-readiness-canadians-50/

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Statistics Canada says household credit market debt as a proportion of disposable income was 177.5 per cent in the third quarter on a seasonally-adjusted basis. That compared with 177.4 per cent in the second quarter.
https://www.cbc.ca/news/business/statscan-household-debt-net-worth-1.4946036

BCSC study finds millennials understand investment fees better under CRM2, but are the least loyal of investors when it comes to advisor relationships

Since the first part of the study, millennials have shown they are more likely than other generations to make changes to how they invest. Although they were no more likely than other age groups to take any *new* actions after receiving the fee reports, those millennials who did act were more likely than older generations to change their advisor or firm. Twenty-eight per cent of millennials changed their advisor or firm during the study period, compared to 20 per cent of those 35-54 and only 7 per cent of those 55+
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