THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

IIAC ACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

September 21, 2015

Delivered By Email: Fin.Adv.Pln@ontario.ca

Expert Committee to Consider Financial
Advisory and Financial Planning Policy
Alternatives
c/o Frost Building North, Room 458
4th Floor, 95 Grosvenor Street
Toronto, Ontario
M7A 1Z1

Dear Sirs and Mesdames:

RE: Consultation on Financial Advisory and Financial Planning Policy Alternatives

We are writing to provide comments on behalf of the Members of The Investment Funds Institute of Canada and the Investment Industry Association of Canada ("IFIC", "the IIAC" or "we") with respect to the Consultation on Financial Advisory and Financial Planning Policy Alternatives being conducted by your Committee. IFIC and the IIAC appreciate the opportunity to participate in these consultations, and look forward to working with you as you develop policy recommendations in this area.

The industry supports the principled approach being taken by the Committee in undertaking its work. In our joint industry letter, we provide some general points, as well as a suggested regulatory model the Committee may wish to consider as it develops its recommendations, followed by specific comments on each of the Committee's questions. Relevant additional materials referred to in the text are provided as Annexes A - D.

Overview

When investors purchase financial planning and or financial advisory services they should be able to expect that the providers of those services are subject to regulatory oversight. Such is the case currently for those licensed to provide investment or insurance advisory services in Ontario, but is not the case for all those individuals providing Comprehensive Financial Plans[1] to clients and/or using the title of Financial Planner[2]

[1] A 'Comprehensive Financial Plan' or 'Financial Plan' is taken to mean a complex written plan prepared as part of an integrated financial planning process encompassing areas such as financial management, insurance, risk management, investment planning, retirement planning, tax planning, estate planning and legal aspects. Financial advisors (who are not Financial Planners) also provide planning as part of the services they offer to the public. As an example, at the branch level, MFDA-registered advisors may provide planning services related to savings for children or a major purchase, retirement, or cash flow. Similarly, IIROC-registered advisors may provide a modular plan related to retirement. Unlike these plans, a Comprehensive Financial Plan provided by a Financial Planner is a complex plan that typically includes a deep dive into areas including tax, estate and all types of insurance (and sometimes attendant legal considerations).

[2] For the purposes of this submission, the terms 'Financial Planner' or 'Planner' refer to anyone providing a Comprehensive Financial Plan to a client and or using the title of Financial Planner.

There are distinctions between financial planning and financial advice provided by a registrant in the context of providing financial services including product recommendations. Financial planning refers to the creation and delivery of a comprehensive and complex financial plan, while financial advice provided by a registrant typically involves specific product recommendations with some elements of a financial needs analysis. Another difference is that the provision of financial advice is highly regulated while a Comprehensive Financial Plan may be delivered outside of regulated channels entirely.

To clarify the differences, as well as to put all aspects of financial planning and financial advice on a similar footing for the investor we propose that the government establish common standards for those providing Comprehensive Financial Plans to clients and/or using the title of Financial Planner through the development of a General Legal Framework that provides clear definitions and sets standards of conduct and competency for Financial Planners. We further propose the creation of a new regulatory authority with limited scope applying to those outside any current regulatory framework as follows:

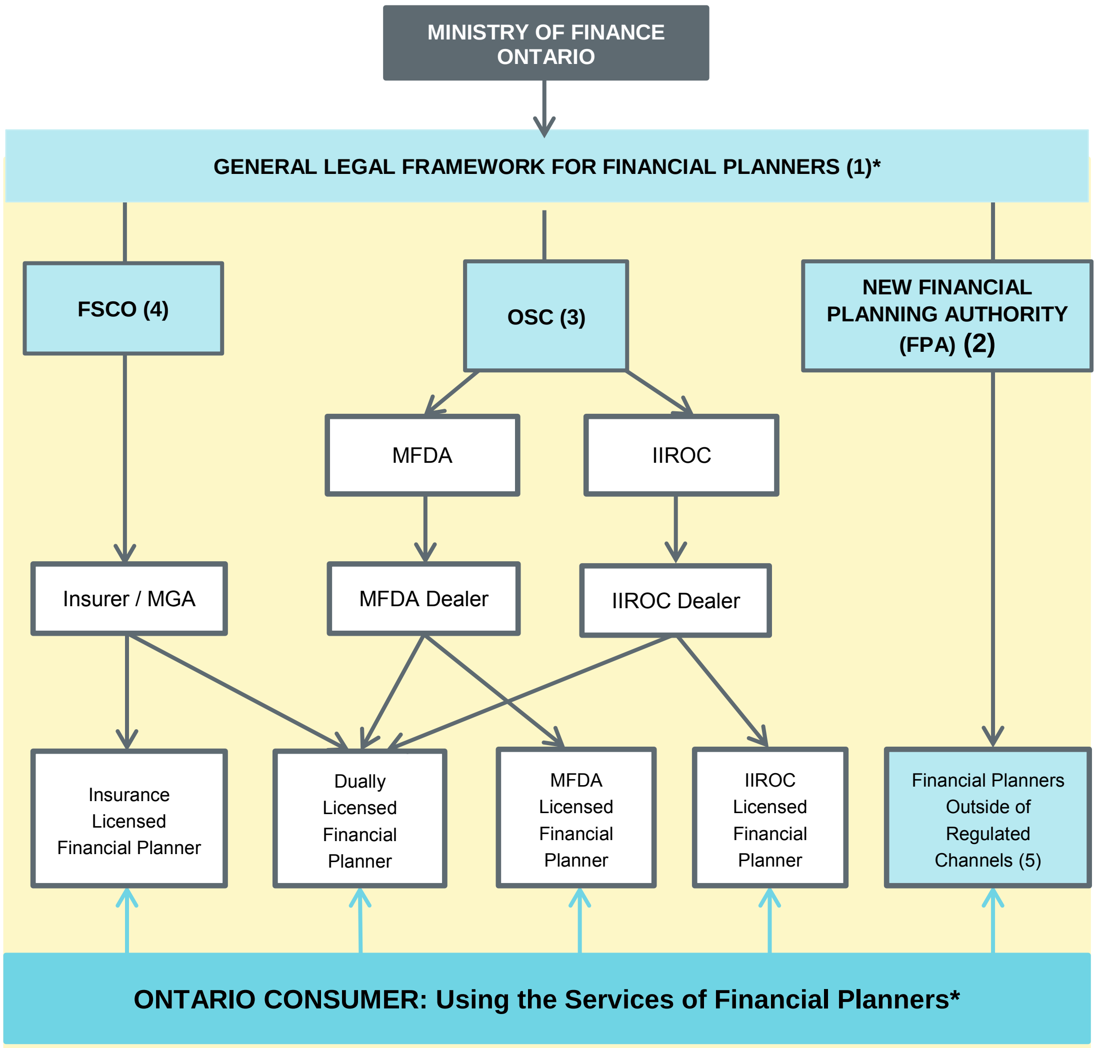
- The General Legal Framework will apply to all individuals delivering Comprehensive Financial Plans to clients and/or using the title of Financial Planner
- Individuals providing Comprehensive Financial Plans to clients and or using the title of Financial Planner, and whose services are *not* overseen by an existing regulator, should be subject to the oversight of a new government authority for financial planning (Financial Planning Authority, or FPA) who will apply the General Legal Framework.
- Where individuals are providing Comprehensive Financial Plans to clients and or using the title Financial Planner, and their services *are* overseen by an existing regulator, they should continue to be subject to the oversight of their current regulator who will apply the General Legal Framework.

Such an approach will allow the government to focus on providing clarity, guidance and harmonization of oversight across regulators, so that consumers can expect uniform levels of competence and service when they engage a Financial Planner. Furthering the public interest, including the protection of consumers, and avoiding unnecessary or duplicative regulation are complementary goals. A framework which makes firms and individuals accountable to multiple regulators, on the other hand, will create inefficiency, fragmentation and confusion for clients.

A further future goal for the government should be to work toward harmonized regulation of financial planning with the other Canadian jurisdictions before acting alone. Firms operating nationally will be challenged to implement an Ontario-only framework for Financial Planners.

The following graphic illustrates our proposed General Legal Framework for regulating Financial Planners in Ontario.

Chart 1. A proposed Model for Regulating Financial Planners in Ontario.



*'Financial Planners' are defined as individuals providing Comprehensive Financial Plans to clients and or using the title of Financial Planner.

Notes on key elements of the proposal as highlighted in Chart 1 are as follows:

1. **General Legal Framework for Financial Planners:** The General Legal Framework for Financial Planners ("Framework") will be developed by the Ministry of Finance in consultation with the Financial Services Commission of Ontario ("FSCO"), the Ontario Securities Commission ("OSC") and the new Financial Planning Authority ("FPA"). The Framework will consist of clear definitions and harmonized standards for Financial Planners and comprehensive financial plans, and will include criteria for approving accreditation bodies (i.e. the Financial Planning Standards Council ("FPSC") is an example of an accreditation body). The legislation can draw on expertise that current industry associations overseeing financial planning have, and incorporate input from accreditation bodies.

   The criteria for approving accreditation bodies will set the terms by which the Ministry of Finance will approve the accreditation of Financial Planners operating in Ontario. An individual holding an approved accreditation will be subject to the standards, education requirements and payment of dues of the accreditation body whether they operate under

FSCO, the OSC or the FPA. For greater clarity, the accreditation bodies will only have authority over individual Financial Planners with respect to the granting and withdrawal of financial planning designations. The responsibility to regulate dealers or managing general agents ("MGAs") and their respective businesses and agents operating within the insurance and securities channels, will continue to be the exclusive jurisdiction of their respective insurance or securities regulator.

2. **Financial Planning Authority (FPA)**: The Financial Planning Authority is a new body created by the Ontario government that will develop rules for the regulation of individuals providing Comprehensive Financial Plans to clients and / or using the title of Financial Planner and are currently operating outside of regulated channels. FPA rules will incorporate the General Legal Framework for Financial Planners and the FPA will be responsible for registration, compliance exams, enforcement, dealing with client complaints, and the collection of registrant fees.

3. **FSCO:** FSCO will be required to incorporate the General Legal Framework for Financial Planners into their existing rules and direct their registrants to apply those rules as appropriate.

4. **OSC:** The OSC will be required to incorporate the General Legal Framework for Financial Planners into their existing rules and direct the MFDA and IIROC to incorporate the Framework into their rules and apply those rules as appropriate and enforce compliance with those rules. The MFDA and IIROC will be responsible for creating appropriate rules applying to financial planning activities of their members and enforcing compliance with those rules.

5. **Financial Planners outside of Regulated Channels**: Individuals providing Comprehensive Financial Plans to clients and / or using the title of Financial Planner outside of the insurance and securities regulated channels are subject to regulation by the FPA. See note 2 above.

The following sections of this submission respond in turn to each of the six questions contained in the Initial Consultation Document.

1. What activities are within the scope of financial planning? Is the provision of financial advice different from financial planning? If so, please explain the distinction.

Financial planning and financial product advice are provided in the marketplace through a variety of business models; a Financial Plan or Needs Analysis may be provided to a client in the context of making a product recommendation. In this case, there may be considerable overlap in the activities of what is referred to as financial planning and what is referred to as financial advice. In each case, it is the dealer's Self-Regulatory Organization (SRO) or insurance regulator that is best placed to provide oversight of applicable standards.

As there are distinctions between financial planning and financial advice provided by a registrant in the context of providing financial services including product recommendations, it is recommended that the government establish common standards for those providing Comprehensive Financial Plans to clients and/or using the title of Financial Planner.

A Comprehensive Financial Plan may also be provided in a regulated channel by a Financial Planner that is employed by or an agent of a regulated firm and is not registered**.** These Planners should carry an approved financial planning designation and be overseen by the regulator of their firm, whose rules for financial planning would be amended according to the General Legal Framework.

In addition, there are cases where Financial Planners may be operating outside of the insurance and securities regulated channels.[3] These Planners should be registered by the new Financial Planning Authority, and be subject to rules for financial planning and business conduct that are common across regulators.

2. Is the current regulatory scheme governing those who engage in financial planning and/or the giving of financial advice adequate?

In Ontario, an extensive regulatory framework exists for the regulation of financial advisory services and planning that are ancillary to product recommendations or the furtherance of a trade. This has been achieved for advisors in the securities and insurance industries through the development of rules and regulations of the SROs, the Ontario Securities Commission (OSC) and the Financial Services Commission of Ontario (FSCO), and their respective activities with respect to guidance and the enforcement of these rules.

The extensive regulatory framework already in place for the oversight of advisors in the mutual fund industry is summarized in Annexes A and B to this submission.

In Annex A, the standards in place for financial advisors, their dealers, and mutual funds and their managers and service providers are summarized according to:

- Prescribed standards for providing investment advice and dealing with clients;
- Prescribed initial and ongoing disclosure to be provided to clients;
- On-going fitness for registration standards for dealers;
- On-going fitness for registration standards for representatives;
- Internal controls, risk management, conflicts management and compliance systems for dealers;
- On-going active regulatory oversight of dealers and representatives, and mutual funds and their managers;
- Regulation of mutual funds, their managers and other important service providers; and
- Investor access to educational information and tools to assess dealers and advisors and mutual funds and their managers.

Annex B identifies the MFDA Rules in play for MFDA Dealers and Approved Persons for the life cycle of a client / advisor relationship. It is noted that an extensive set of prescribed rules exist for the disclosure and management of advisor conflicts in dealing with clients and safeguarding client interests. In addition, both IIROC and the MFDA have extensive processes for auditing their member firms for compliance with their rules.

Financial Planners who are operating outside of regulated channels.

Of concern are those individuals providing Comprehensive Financial Plans to clients and/or using the title of Financial Planner and operating outside of a regulated channel. Those individuals operating outside of IIROC, the MFDA, or FSCO, should be subject to government standards for conduct and competencies. A new Financial Planning Authority, as described above, should be established with a mandate to oversee the conduct and competencies of Financial Planners who are not otherwise subject to regulatory oversight.

[3] The FPSC estimates that 7-10% of CFPs operating in Ontario, or between 620 and 900 planners, may be operating as unlicensed Financial Planners. Added to this are unlicensed planners of other designations, and those holding themselves out as Financial Planners without any corresponding designation at all.

Financial Planners who are operating within regulated channels.

As noted above, where a Financial Planner offers its services on the books of an IIROC or MFDA registered dealer or an insurance agency, or is employed by or an agent of an insurance or securities regulated entity and offers non product related financial planning, the firm's regulator should have oversight responsibility.

To ensure that consumers can expect uniform standards of service when they engage a Financial Planner, the government should ensure that standards for competency and business conduct are harmonized across all regulating entities, and that Financial Planners are required to hold an approved accreditation, according to terms set in the General Legal Framework for Financial Planners.

3. What legal standard(s) should govern conflicts of interest and potential conflicts of interest that may arise in financial planning and the giving of financial advice?

As noted under Question 2, dealers and their representatives must follow detailed, highly-prescribed standards when providing investment advice to clients, including the identification, disclosure and management of conflicts of interest. The SROs manage these standards through rules, which are developed through well-established consultative processes. This framework has been proven to be highly effective and appropriate in governing the conflicts and potential conflicts of interest that arise in the giving of financial advice. Financial Planners operating within a dealer should be subject to the oversight of the dealer`s SRO, where the SRO's rules are adjusted as required to accommodate the harmonized standards for Financial Planners as set out in the government's General Legal Framework for Financial Planners.

Financial Planners operating outside of a regulated channel, however, are not currently subject to government-imposed standards. This regulatory gap should be addressed through the establishment of a Financial Planning Authority with a mandate to register and oversee the supervision of Financial Planners who are not otherwise regulated by FSCO, IIROC or the MFDA.

In the setting of standards for Financial Planners, the government could take direction from the considerable work already completed by the Financial Planning Standards Council (FPSC) and the Institut québécois de planification financière (IQPF) on standards of ethics, practice and competence for financial planners[4] This work could provide guidance to the Ministry as it develops the General Legal Framework for Financial Planners**.**

We also believe that the government should pay particular attention to harmonization in the development and application of financial planning rules of the respective regulators, so that consumers can expect uniform levels of competence and service when they engage a Financial Planner.

4. To what extent, if at all, should the activities of those who engage in financial planning and/or giving financial advice be further regulated? Please consider the following in your response:

> **(a) Licensing and registration requirements;**
> **(b) Education, training and ethical responsibilities;**
> **(c) Titles and designations of individuals who engage in financial planning and/or the giving of financial advice;**
> **(d) Specific activities that should be included or excluded in a regulatory scheme.**

Investors should be able to expect that when they engage the services of a Financial Planner the providers of those services are subject to regulatory oversight. Currently, that is not the

[4] see *Canadian Financial Planning Definition, Standards and Competencies*, FPSC / IQPF, 2015

case for all Financial Planners in Ontario. Addressing this gap will be important to ensuring more standardized service levels and more adequate investor protections.

4. (a - d) Licensing, Education, Titles and Activities.

Those engaged in providing financial advisory services where the activity occurs on the books of a regulated entity are already subject to regulatory oversight in these areas. For Financial Planners operating in the regulated channels the oversight of licensing, registration, education and training, titles and designations and permitted and excluded activities should be within the mandate of the existing regulator and be broadened where necessary to meet the requirements of the General Legal Framework for Financial Planners.

The development and application of standards for Financial Planners will require further detailed study.

Some principles should govern the development of policy in these areas:

- Financial Planners who are not already licensed and registered by an existing regulatory body should be registered by the FPA to ensure that consumers have the ability to independently verify a Financial Planner's credentials and past history;
- Financial Planners who are not already licensed and registered by an existing regulatory body should be subject to standards for financial planning that are common across all regulated channels and contained in a General Legal Framework for Financial Planners;
- It would be unnecessary and inefficient to impose an additional regulatory body to oversee Financial Planners who are already registered with an existing regulator;
- Financial Planners who are already licensed and holding a financial planning designation with standards that meet the government's requirements should not require re-licensing or re-designation.

IFIC and the IIAC would be pleased to participate in this further study. In addition, we encourage the Ministry to actively involve the regulators, particularly the SROs, who have deep working knowledge of industry practices in these areas.

4. (e) Costs and other burdens of regulation.

The development of regulation with respect to financial planning needs to be done with the utmost regard to costs and efficiency. It will require the leveraging, where possible, of the existing SRO and regulatory frameworks. Above all, the government must avoid overlap and duplication of regulatory mandates which would only further confuse clients, raise costs for the system as a whole, and add no net new benefits for consumers.

4. (f) Regulation of compensation.

We strongly believe there is no role for the regulation of compensation or pricing levels in a competitive marketplace. This is a well-documented and well-understood principle.

For example, the efficiency of markets in the pricing of mutual funds in Canada and the United States, two very different, non-integrated markets, bears this out. In spite of very large institutional, scale and taxation differences between these two markets, the all-in cost of ownership of mutual funds is very similar. Investor Economics in their study *Investor Economics Cost of Ownership Study – 2015 Update*, attached as Annex C to this submission, reports that the average total cost of ownership of mutual funds for clients using advice-based distribution channels in Canada was 2.2% at the end of 2014 (2.02% when the impact of taxes is excluded). The average cost of ownership for clients in the U.S., which does not levy taxes, was 2.0%.

There may be a role for regulation, however, in ensuring that providers fully disclose their charges and that clients have full access to this information in an easy to understand format prior to engaging their services. Our industry has strongly supported and has been actively engaged in the implementation of Fund Facts and Client Relationship Model reforms over the last several years. Adoption of similar principles of clear and standardized disclosure by Financial Planners operating outside of existing regulated entities should be a consideration in policy development in this area.

4. (g) Complaints and discipline mechanisms.

The industry believes that consumer access to the services of an independent and reliable dispute resolution service is essential. The industry has been actively engaged with regulators over the last year to enhance the current Ombudsman for Banking Services and Investment (OBSI) model to clarify the relationship between the MFDA's regulatory requirements and the fairness test applied by the OBSI. We believe that individuals in Ontario who presently hold themselves out as Financial Planners outside of regulated channels should be required to participate as members of OBSI, as are their counterparts in the regulated channels.

5. What harm(s) and/or benefit(s) do consumers experience in the current environment? Please provide specific evidence to support your views where available.

Access to viable markets for the acquisition of financial advisory services is of considerable benefit to Ontarian consumers, a benefit that the Ministry has a strong interest in preserving. Financial advice is shown to have a positive and significant impact on the accumulation of financial assets. This positive effect is shown in independent research to be a direct result of the savings discipline acquired by clients working through an advisor, an impact that increases with the length of the advisor / client relationship. Advice is also shown to be positively related to retirement readiness and financial literacy, two public policy outcomes that Ontario is actively pursuing. These research findings, published by academics Claude Montmarquette and Nathalie Viennot-Briot of CIRANO and Université de Montréal[5], are summarized in Annex D of this submission.

It is strongly in the public interest, therefore, that the Ministry avoid measures that would cause a reduction in the availability of financial advisory services, or make less affordable the advice on savings and debt that Ontarians need, and are presently being offered affordably in deep well-regulated markets in Ontario.

It is also advised that Ontario actively consult with other Canadian jurisdictions before moving ahead with the regulation of Financial Planners. Firms operating nationally will be severely challenged to implement a framework for Financial Planners in Ontario that is not harmonized with the frameworks in place in other Canadian jurisdictions.

6. Should consumers have access to a central registry of information regarding individuals and entities that engage in financial planning and the giving of financial advice including their complaint or discipline history?

Such a registry exists in the National Registration Database (NRD) for all individuals or companies whose business is trading, underwriting or advising with respect to securities and required to register annually with one or more of the provincial securities regulators or IIROC. This includes all advisors registered to sell mutual funds in Canada. The industry would support extending this registry to all Financial Planners not already included in the above. This may require an agency relationship between NRD and FSCO and the FPA, a strategy that might be more desirable than setting up a separate registry as it would provide investors with a one-stop window.

[5] *The Value of Financial Advice,* Annals of Economics and Finance, 16-1 (2015) http://aeconf.com/Articles/May2015/aef160104.pdf

We would go further to suggest that Ontario take the lead with its counterparts in other provinces and territories to ensure that sanctions or the expulsion of a financial planner or advisor from the industry in any one jurisdiction or province would automatically result in the recognition and enforcement of a similar action in all other jurisdictions and provinces of Canada.

Conclusion

In conclusion, we recommend that the government consider the proposed Framework for the oversight of Financial Planners – those individuals providing Comprehensive Financial Plans to clients and/or using the title of Financial Planner. In the proposed Framework, Financial Planners would be required to have an approved designation and be subject to regulatory oversight by a regulator or government authority. Financial Planners who are already subject to regulatory oversight would continue to be overseen by their existing regulator. Financial Planners who are not presently subject to regulatory oversight would be overseen by the FPA. The FPA would be mandated to adopt harmonized government standards for financial planning and oversee the activities of Financial Planners who are not already regulated by the MFDA, IIROC, or FSCO. The rules of the licensing bodies (OSC, MFDA, IIROC, FSCO, and FPA) pertaining to Financial Planning would need to be harmonized for uniform application across regulators and jurisdictions. Before adopting such a framework in Ontario, the government is urged to work closely with the other provinces and territories to ensure that there will be a common approach to the regulation of Financial Planners across all Canadian jurisdictions.

IFIC and the IIAC would be pleased to participate in any panel or consultative committee set up for the purpose of developing and applying such a framework.

* * * * *

We would be pleased to provide further information or answer any questions you may have. Please feel free to contact either Jon Cockerline at jcockerline@ific.ca or 416-309-2327 or, Michelle Alexander at malexander@iiac.ca or 416-687-6471

Yours sincerely,

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THE INVESTMENT FUNDS INSTITUTE OF CANADA

A REVIEW OF THE REGULATORY FRAMEWORK FOR THE DISTRIBUTION OF MUTUAL FUNDS

September 17, 2015

INTRODUCTION TO THE REVIEW OF THE REGULATORY FRAMEWORK:

Canada's capital markets regulatory framework is robust, and the aspects of that framework that apply to the distribution of retail mutual funds are particularly so. The regulatory framework undergoes continual review to ensure its relevance to today's industry and today's investors and to suggest and implement, where appropriate, enhancements to that framework where there is sufficient reason to believe that those enhancements will result in better outcomes for our capital markets and its investors. Enhancements are generally proposed, and then mandated by the Canadian securities regulators either directly or through Canada's two primary self-regulatory organizations for dealers, the MFDA and IIROC[1]. Those organizations also act independently to issue enhancements, where necessary, through their own guidance, policies or revised rules. Industry members, including through trade associations such as IFIC, will also develop enhancements which are adopted on a voluntary basis in response to changing market demands and investor needs.

The overall objective of Canada's regulatory regime is to ensure healthy, sustainable capital markets with appropriate investor services and protection. This is increasingly important having regard to Canadian investors' preference to work with registered dealers and representatives in order to obtain the necessary advice and recommendations on investments to help them achieve their challenging financial goals. The Canadian regulatory system for registered dealers and representatives permeates through all aspects of the dealer's business and business models as well as how a representative chooses to develop his or her client base and practice or whether any given individual chooses to become or remain a representative as a viable career option.

All firms and representatives are subject to the jurisdiction of the securities regulators, including the applicable self-regulatory organization. The regulatory framework requires a strong financial foundation for registered dealers so that clients can have faith in the strength of the firm they choose to do business with, as well as a common level of financial knowledge, proficiency and integrity on the part of representatives, so that clients can be confident about the quality of the advice that they are receiving from their chosen representatives.

Fair, just and equitable dealings with clients are required, as is active supervision by dealers of the actions of their representatives when working with clients. A fundamental premise of the current regulatory system is that clients do not purchase investments which are too risky or otherwise inappropriate for them as a result of recommendations by dealers or their representatives. Dealers and representatives may only make recommendations to their clients about investments where the dealer and the representative have conducted appropriate due diligence of the investment, including its risks, and of the client, including his or her circumstances, objectives and risk tolerances. All investments recommended to a client must be suitable for that client based on his or her financial needs, personal circumstances, level of knowledge and understanding along with his or her risk tolerance.

Our regulatory system encourages a strong culture of compliance and ethical behavior, requires proper management and disclosure of conflicts of a dealer and individual representatives, and holds dealers and representatives accountable if they fail to meet those standards. Conflicts of interests are to be avoided or alternatively resolved and managed to minimize negative impact to the client. Conflicts must always be clearly disclosed.

[1] Although we recognize that the Chambre de la sécurité financière is the SRO responsible for oversight of registered representatives in Quebec, we have, for simplicity, focused our consideration of the SROs on the MFDA and IIROC.

The current debate in Canada about whether dealers and representatives should be subject to a "best interest standard" when dealing with clients, was launched by the Canadian Securities Administrators with the release of their Consultation Paper 33-403 in November 2012. The paper raised high level questions but was short on identifying specific problems in the dealer/representative and client relationship that pointed to specific gaps in the regulatory framework. It suggested that adopting a 'statutory best interest standard' would resolve the high level concerns raised, but it did not consider the significant disruptions this could cause to the way investments and financial advisory services are delivered.

The industry has recommended that rather than bringing in new rules that would essentially cast off the regulatory framework and the law that has been in place for decades and create major uncertainty for the industry and its clients with a new unfamiliar standard, a more prudent and effective place to start is with a thorough review of today's regulatory system as a whole and identify specific areas where a change or enhancements would allow the industry to better serve investors.

That review should be informed by a detailed understanding of the scope, implications and application of today's regulatory regime, as well as the various initiatives that are underway to enhance that regime. To assist with that step IFIC contracted Rebecca Cowdery and Laura Paglia, both partners with Borden Ladner Gervais LLP in Toronto to create a Review of the Regulatory Framework that summarizes the current regulatory system and identifies enhancements being made to close perceived gaps. IFIC intends this Review to be background information in discussions with regulators to identify whether or not further gaps may exist in the regulatory framework, and if so, what recommendations should be made to change that regulatory framework.

The key principles of today's regulation are detailed in the pages that follow, but are summarized below. Also indicated are the various initiatives ongoing to our knowledge where enhancements to today's regulation are in the process of being implemented or being proposed.

In considering this Review, it is important to keep in mind the following:

- This Review deals with the regulatory framework that applies to registered dealers and their representatives, who are authorized to implement trading decisions made by their clients and who may make recommendations as to those investments, but who cannot make investment decisions without the agreement of their clients. Although this Review focuses on the application of the regulatory system on those firms and individuals who trade in publicly-offered mutual funds, it should be noted that the regulatory principles apply equally to dealers and representatives when they are trading in *any* security, including publicly-traded securities, debt securities and exempt market securities.

- The distribution regulatory framework applicable to registered dealers and their registered representatives (often referred to as "advisors") must be distinguished from the regulatory framework that applies to registered "advisers" and their representatives, meaning portfolio managers and investment counsellors who exercise complete discretion over and make investment decisions on behalf of their clients pursuant to authority granted by those clients, where fiduciary duties have always and continue to be in place. This authority does not exist in the case of registered representative - "advisors" - where no discretion is granted and investment decisions are made jointly by the advisor and the client. The differences between the two categories of registrants are of long standing in Canada.

SUMMARY OF PRINCIPLES OF THE REGULATORY FRAMEWORK FOR THE DISTRIBUTION OF MUTUAL FUNDS:

STANDARDS FOR FINANCIAL ADVICE AND RELIANCE ON THAT ADVICE:

Principle 1
Prescribed standards for providing investment advice and dealing with clients

Principle 2
Prescribed initial and ongoing disclosure to be provided to clients

Principle 3
Dealers must meet on-going fitness for registration standards

Principle 4
Representatives must meet on-going fitness for registration standards

COMPLIANCE CULTURE:

Principle 5
Dealers must have internal controls, risk management, conflicts management and compliance systems

Principle 6
Ongoing active regulatory oversight of dealers and representatives, and mutual funds and their managers

REGULATION OF MUTUAL FUNDS AND THEIR MANAGERS AND OTHER SERVICE PROVIDERS:

Principle 7
Mutual funds, their managers and other important service providers are closely regulated and subject to regulatory oversight

INVESTOR EDUCATION:

Principle 8
Investors have access to educational information and tools to assess dealers and representatives and mutual funds and their managers

TERMINOLOGY USED IN THIS REVIEW:

- "**Dealer**" or "**Firm**" is used to refer to the entity (usually a corporation, but sometimes a limited partnership) that is registered either as a mutual fund dealer or an investment dealer and is a member of the MFDA (mutual fund dealer) or IIROC (investment dealer).
- "**IIROC**" means the Investment Industry Regulatory Organization of Canada, the SRO for registered investment dealers.
- "**Fund Manager**" or "**IFM**" is used to refer to the firm (usually a corporation, but sometimes a limited partnership) that is registered as an investment fund manager and that acts as the manager of one or more mutual funds.
- "**MFDA**" means the Mutual Fund Dealers Association of Canada – the SRO for mutual fund dealers.
- "**Mutual fund**" means a mutual fund that distributes its securities to the public (a reporting issuer) under applicable prospectus documents and is subject to National Instrument 81-102 Investment Funds and National Instrument 81-101 Mutual Fund Prospectus Disclosure.
- "**Representative**" is used to refer to a registered dealing representative of a dealer (either a mutual fund dealer or investment dealer). Individuals are registered as dealing representatives of dealers. These representatives meet with clients to provide them with financial advice and recommendations about investing in mutual funds. They are often referred to in the industry vernacular as investment advisors, financial advisors or advisors.
- "**SRO**" means a recognized self-regulatory organization, and depending on the context means either or both of MFDA or IIROC.
- "**Securities regulator(s)**" means one or more of the provincial/territorial securities regulatory authorities generally where the registered firm or the registered representative is registered to trade in mutual funds.

1.	**Prescribed Standards for Providing Investment Advice and Dealing with Clients** **Dealers and representatives must follow detailed, highly prescribed standards when dealing with and providing investment advice to clients, which includes identifying and managing conflicts of interest**
(a)	**Dealers and representatives must follow a prescribed standard of care**: Dealers and representatives are required to deal fairly, honestly and in good faith with clients. They must observe high standards of ethics and conduct in the transaction of business, they are prohibited from engaging in any business conduct or practice which is unbecoming or detrimental to the public interest.
	Policy Initiative - CSA **CSA Consultation Paper 33-403 *The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients*.** Status: On-going and a priority for the OSC for Fiscal Year ending March 31, 2016.
	Policy Initiative - OSC, IIROC and MFDA **OSC, IIROC and MFDA have conducted a "mystery shopping" exercise (during 2014/2015) and a paper summarizing the results and making recommendations, as appropriate, is expected to be released in fall 2015.**
(b)	**Restrictions on compensation and non-monetary benefits dealers and representatives can accept from managers of mutual funds (and others)**: Dealers and representatives can only solicit and accept prescribed compensation and sales incentives from managers of mutual funds. This is governed by National Instrument 81-105, as well as SRO rules.
(c)	**Restrictions on internal dealer practices**: Dealers cannot provide higher payouts to representatives for recommending one mutual fund over another. This is governed by NI 81-105.
	Policy Initiative - CSA **CSA reviewing compensation practices of fund managers and dealers to address those practices that are considered inappropriate. Follow-on work from the CSA Consultation Paper and Request for Comment 81-407 Mutual Fund Fees includes two research studies.** **Status: On-going and a priority for the OSC for Fiscal Year ending March 31, 2016.**

	Policy Initiative – IFIC **IFIC to create a minimum list of services that dealers and representatives will provide to investors in consideration for the trailing commissions that are paid to dealers by fund managers.** **Status: Ongoing and to be completed in 2015.**
(d)	**"Know your product"** Dealers and representatives must "know the products" they trade in or recommend to clients. The SROs and securities regulators have provided detailed guidance on this topic, what the concept means and how it should be implemented within the firm. This concept was developed by the MFDA in MFDA Staff Notice 0048 released in October 2005.
(e)	**"Know your client" (KYC):** Dealers and representatives must "know their clients", which means obtaining and retaining prescribed information. This information must be kept updated on a periodic basis. This includes compliance with applicable and detailed Canadian anti-money laundering and anti-terrorist financing requirements. The securities regulators, and in particular the SROs, have provided detailed guidance on this topic, what the concept means and how it should be implemented within the firm.
(f)	**Making recommendations that are "suitable" for the client:** Dealers and representatives must make recommendations to clients that are suitable for those clients having regard to their financial circumstances and objectives and that fit with the information on file about the client (collected as part of KYC requirements). The securities regulators, and in particular the SROs, have provided detailed guidance on this topic, what the concept means and how it should be implemented within the firm. There is a fundamental obligation to disclose known or discoverable risks to the investor before processing the trade. Investment objectives and risk tolerances are separate but related factors and must be reasonable in light of a client's financial and personal circumstances. Time horizons should be determined, unsuitable investments should be identified and investors cautioned against them. Periodic suitability reviews should be carried out and a suitability review should be carried out if a specified event occurs to the knowledge of the firm. The concept of suitability has received considerable attention over the past 10 years, with much additional guidance and expectations being released to dealers and representatives.
	Policy Initiative - OSC Investor Advisory Panel **The OSC's Investor Advisory Panel commissioned research to be conducted by PlanPlus Inc. to conduct independent and objective research regarding investor risk tolerance assessment practices. The goal is to identify current approaches in Canada and compare them with international best practices and approaches. Risk profiling comprises three elements (i) the need for taking risk (ii) the appetite for risk/risk tolerance and (iii) the capacity to absorb losses due to risk taking.** **Status: Research commenced in May 2015.**
	Policy Initiative – MFDA and IFIC **The MFDA published a discussion paper on the use of investor questionnaires to help its members with the KYC and suitability process. The Discussion Paper titled Improving the Know Your Client Process was published in July 2014 and is intended as guidance for members**

	of the MFDA. **IFIC supports the use of investor questionnaires and has approached the MFDA to discuss what further initiatives the industry could take**
(g)	**No discretionary trading:** Dealers and representatives cannot make trades for clients without express authority and cannot conduct "discretionary" trading, unless registered (as an adviser or pursuant to an IIROC managed account program) to do so.
(h)	**Identify and manage conflicts of interest:** In addition to compliance with requirements that seek to minimize conflicts of interest arising out of specific activity (for example, sales incentives), dealers and representatives must identify conflicts of interest and manage those conflicts of interest so as to minimize any impact to a client. Conflicts of interest can be managed through avoidance, control and monitoring and disclosing circumstances to clients and/or obtaining client consent or acknowledgement of a conflict of interest. The MFDA requires that dealers and their representatives address conflicts or potential conflicts exercising reasonable business judgement influenced only by the best interests of the client. See also Principle 4 for "outside business activities" of individuals – these requirements are important to manage any conflicts of interest raised by OBAs.
(i)	**Prohibitions against tied selling:** Dealers and representatives cannot impose a requirement on a client to buy, sell or hold a security or use a product as a condition of buying selling or holding a mutual fund. Relationship pricing is permitted. This is governed by NI 81-105.
(j)	**No personal financial dealings with clients:** Dealers and representatives cannot engage in prescribed personal financial dealings with clients, including receiving benefits or consideration from clients, entering into private settlements, lending or borrowing money or having control or authority over the financial affairs of clients.
(k)	**Follow prescribed rules when referring clients to others or when accepting clients from others (as part of a referral):** Any referral arrangement must be documented by a written agreement between the dealer, the representative(s) and the other entity. The referral and any referral fees must be disclosed to the client, and on an annual basis.
(l)	**Follow prescribed procedures regarding any complaints, including timing and referrals to OBSI (and reporting to the SROs):** Client complaints must be dealt with by a designated complaints officer and escalated according to prescribed requirements. Clients must receive information about the handling of their complaint within prescribed deadlines. Complainants who are not satisfied with the firm's response must be referred to OBSI (without charge).
(m)	**Orders for mutual fund purchases and redemptions must be delivered to mutual funds according to prescribed timing and standards:** The concept behind the rules in NI 81-102 governing purchases and sales of mutual funds is that individuals and firms must deliver orders (purchases or redemptions) in a timely fashion to the applicable mutual fund. These rules are outlined in Parts 9 and 10 of NI 81-102. Most mutual fund trades are transmitted and settled through the FundSERV network (FundSERV is a recognized clearing agency under the oversight of the Ontario Securities Commission). Most registered dealers and fund managers are customers of FundSERV.

2.	**Dealers and Representatives Must Give Initial and On-going Disclosure to Clients** **Dealers and representatives must give disclosure to clients at account opening, before completing a trade in a mutual fund and thereafter on a continuous basis.**
(a)	**Relationship disclosure to clients at account opening:** A dealer must explain to a client all facts that the client might consider important to the relationship between the firm and the client before opening the account. A prescribed list of specific items must be disclosed, including the costs of operating the account, any conflicts of interest, and risks. Dealers may do this via a written brochure entitled "Relationship Disclosure". This is generally referred to as "relationship disclosure information" or "RDI".
(b)	**Account opening forms mandated:** Applicable SROs mandate the contents of the New Account Application Form (NAAF) and information collected on NAAF is dictated by KYC/suitability requirements and anti-money laundering requirements.
(c)	**Pre-Trade Disclosure, including delivery of Fund Facts document:** Dealers must ensure that representatives provide clients with oral or written disclosure (before the trade) of the charges the client will be required to pay in connection with the purchase, any DSC that may apply, and whether the firm will receive trailing commissions in respect of the securities being recommended. Commencing May 30, 2016, dealers will be required to ensure that investors receive the applicable Fund Facts document for the series or class of securities being invested in before the trade is finalized and processed. Before May 30, 2016, firms must ensure that investors are sent the applicable Fund Facts document within 2 days after the trade.
(d)	**Confirmations of trades within 2 days of a trade:** Dealers must send clients a confirmation of a trade within 2 days of the trade. The trade confirmation must contain prescribed information, including for trades after July 15, 2016, prescribed information about any DSC charges and other charges incurred in connection with the trade.
	Policy Initiative - CSA **Proposed Amendments to National Instrument 41-101 General Prospectus Requirements published for comment on June 18, 2015, will require ETFs to prepare ETF Facts documents in accordance with Form 41-101F4 and dealers to send a copy of the applicable ETF Facts within 2 days of the trade in an ETF. Comment period ends September 16, 2015 and CSA expect to finalize these rule amendments during 2016.**
(e)	**Disclosure of referral fees at referral and before account opening:** Dealers must ensure clients receive information about any referral fees to be paid or payable to the firm in connection with any referral of that client. The information must be given to the client before the entity receiving the referral opens an account for that client. Information about referral fees paid to a dealer in respect of a referral of a client must be provided to the client on an annual basis thereafter (via the CRM-2 cost and compensation report).
(f)	**Disclosure of "equity interest" with a fund manager:** Clients must receive prescribed information if a dealer or a representative has an "equity interest" in a fund manager (whose funds are being recommended) and vice versa. Clients must give their consent to the transaction before it is processed.

(g)	**Disclosure of relationship with funds and fund managers ("related and connected"):** Clients must receive prescribed information about "related and connected" issuers. This is generally provided in the relationship disclosure document provided at account opening.
(h)	**Disclosure of the risks of leverage in connection with investing in securities:** Clients must receive prescribed information about the risks of borrowing to invest. This is normally provided in the relationship disclosure document, but must also be given in advance of a leveraged trade.
(i)	**Prescribed disclosure if dealer agrees to pay the DSC that is payable by a client when transferring from one mutual fund to another:** NI 81-105 provides that clients must receive prescribed disclosure if the representative recommends the client move from a DSC fund to another fund, where the firm or the representative will rebate the cost to the client.
(j)	**Quarterly account statements, including prescribed "position cost":** Prescribed information about a client's account must be provided quarterly. Commencing with the quarter ending December 31, 2015, prescribed "position cost" information must also be provided.
(k)	**Annual cost and compensation reports:** Commencing on and after July 15, 2016, dealers must provide clients with an annual report that details (in dollar amounts) the costs (itemized and aggregated) incurred in connection with their account, as well as the amounts received by the firm in respect of that account (from fund managers and others).
(l)	**Annual performance report:** Commencing on and after July 15, 2016, dealers must provide clients with an annual statement providing information about the performance of their account, with performance being provided for prescribed time periods and according to a prescribed methodology. **The IIAC has developed a number of tools to assist members implementing CRM2, including a sample market value policy, compliance checklist for conflicts of interests and templates for client name exemptions. Further, the IIAC has several active working groups to address operational challenges and ensure a successful transition for members.**
	Policy Initiative - IFIC **IFIC has developed two sample reports written in plain language and containing the prescribed elements for both reports required under CRM-2 (items k and l) and has made these reports widely available for use by its members. IFIC is working on (and has produced) other tools for its members, particularly representatives, to use in implementing the requirements and enhancing adherence to the policy objectives underpinning CRM-2.**

3.	**Dealers Must Meet On-Going Fitness for Registration Standards** **Firms wishing to trade in mutual funds must apply to the applicable provincial securities regulators for registration as a mutual fund dealer or an investment dealer. Firms must also apply for membership with the MFDA or IIROC (depending on their registration status). In order to become registered, firms must meet the established minimum entry standards, which include proficiency, solvency and integrity requirements. They must also agree to adhere to the rules of the applicable SRO and accept the jurisdiction of the SRO to enforce those rules.** **The principal minimum fitness for registration standards are outlined below. These minimum standards must continue to be met throughout the period the dealer is registered.**
(a)	**Minimum capital**: Dealers must demonstrate they meet minimum capital requirements. The minimum capital requirements are established by the CSA (under NI 31-103), but modified and expanded upon by the applicable SRO and are designed to fit the nature of the business carried on by the firm. The capital requirements are intended to ensure that the firm has sufficient financial resources to carry on its day-to-day business.
(b)	**Adequate insurance**: Dealers must demonstrate they have adequate insurance. The insurance requirements are established by the CSA (under NI 31-103), but modified and expanded upon by the applicable SRO and are designed to fit the nature of the business carried on by the firm. The insurance requirements are intended to protect clients from a wide range of events, including negligence and fraud.
(c)	**Compliance systems and risk management**: Dealers must demonstrate they have policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation and manages the risks associated with its business in accordance with prudent business practice. A compliance manual must be prepared which includes policies and procedures on a number of prescribed topics. Dealers must establish and maintain internal controls and procedures that allow them to service their clients adequately and to supervise the conduct of their business. Internal control and compliance procedures are elaborated upon below in Principle 5.
(d)	**Senior Executive Integrity, Proficiency and Solvency**: Dealers must designate a UDP (Ultimate Designated Person) and a Chief Compliance Officer (CCO), both of whom must meet integrity standards and pass background checks and, in the case of the CCO, proficiency standards. These individuals must apply for review by the regulators, including providing the regulators with their relevant securities industry history. The UDP must be the chief executive officer of the firm. Dealers must also cause their “permitted” individuals to apply for review by the regulators; all permitted individuals must meet integrity standards, pass background checks and provide the regulators with prescribed information, including the individuals’ relevant securities industry experience. IIROC has additional proficiency requirements for directors, CFOs, and other executive (all of whom are also “permitted” individuals under securities regulation).
(e)	**Application for Registration and SRO Membership**: Dealers must apply for registration using a prescribed form, which provides the securities regulators with information which they use to assess fitness for registration. Dealers must also apply for membership in the applicable SRO and provide that SRO with prescribed information, some of which is the same as for registration, but more detailed. Note that IIROC handles registration applications for investment dealers and the securities regulators handle registration applications for mutual fund dealers.

(f)	**Multi-Year Business Plan**: Dealers must prepare a multi-year business plan and provide it upon request to the regulators as part of their application for registration. The SROs require the business plan to be submitted as part of the membership application.
(g)	**Membership in OBSI and Complaint Handling**: Dealers must become members of the OBSI and must confirm they have applied as part of their application for registration and membership in the applicable SRO. Firms must have a designated complaints officer.
(h)	**Branch and Sub-Branches**: Dealers must provide the applicable SRO with a list of all branch and sub-branch locations (where any dealer business is conducted). Branch managers (who meet prescribed proficiency requirements) must be appointed for each branch, who must supervise representatives located at the branch.
(i)	**Books and Records**: Dealers must have and provide the applicable SRO with prescribed sample books and records, including a daily blotter, an auditor's report confirming it maintains a proper system of books and records, client account statements, NAAF and other account opening forms and disclosures.
(j)	**Investor Protection Fund**: Dealers must participate in the applicable investor protection fund, which provides protection to eligible customers of firms on a discretionary basis to prescribed limits if securities, cash, and other property held by the firm are unavailable as a result of the firm's insolvency. Similar provisions exist for firms operating in Québec.
(k)	**All trades in securities must go through the books of the dealer (there should be no off-book transactions)**: Trades in mutual funds must be recorded in the books and records of the dealer and representatives cannot submit purchase and redemption orders directly to the fund managers (no direct trades).

4.	**Representatives Must Meet On-Going Fitness for Registration Standards** **Individuals who wish to trade in mutual funds must be an employee or an agent (independent contractor) of a registered dealer. They must first apply to the applicable provincial securities regulators for registration as a dealing representative of the dealer and then also apply for membership with the applicable SRO as an Approved Person. In order to become a registered dealing representative, the individual must meet the established minimum entry standards, which include proficiency, solvency and integrity requirements. The individual must also agree to adhere to the rules of the applicable SRO and accept the jurisdiction of the SRO to enforce those rules.** **The principal minimum fitness for registration standards are outlined below. These minimum standards must continue to be met throughout the period the representative is registered.**
(a)	**Representatives' Integrity, Proficiency and Solvency**: Representatives must meet integrity standards and pass background checks and meet proficiency (educational) standards. These individuals must apply for registration by the regulators, including providing the regulators with their relevant securities industry history and educational courses.
	Policy Initiative – MFDA **The MFDA has proposed a new proficiency standard for MFDA dealers and representatives if they propose to trade in exchange-traded funds and has reinforced the need for continual review of the proficiency requirements applicable to representatives.**
(b)	**Application for Registration and SRO Membership**: Representatives must apply for registration using a prescribed form, which provides the regulators with information which they assess to determine fitness for registration. Representatives must also apply for membership in the applicable SRO and provide that SRO with prescribed information, some of which is the same as for the registration application, but is more detailed. Note that IIROC handles registration applications for representatives of investment dealers and the securities regulators handle registration applications for representatives of mutual fund dealers.
(c)	**Representatives must be employees or agents of one registered firm**: Representatives who are employees of a dealer are subject to employment laws and principles, which means they must act in accordance with the scope of their employment with the firm. Representatives may also enter into an agency relationship with a dealer, in which case, they must enter into a principal and agency agreement with the firm, the terms of which are prescribed by the SROs.
(d)	**Representatives must be engaged "full-time" for the dealer and not have any "outside business" activity that conflicts with their duties to the dealer and their clients**: Representatives cannot be registered or licenced with any other firm, except in the case of insurance agents who may be "dually" licenced to sell mutual funds and insurance. The insurance is generally not distributed through the dealer. Representatives must obtain the consent of the dealer to any "outside business" activity carried on by that individual and, once approved, the individual must disclose that OBA to the regulators.

(e)	**Representatives must comply with ongoing continuing education requirements**: Continuing education requirements are prescribed by IIROC and are being proposed by the MFDA.
	Policy Initiative - MFDA and IFIC **The MFDA has issued a discussion paper on continuing education requirements for representatives, which discusses the implementation of a continuing education standard which will address areas such as product knowledge, practice management, compliance and ethics.** **IFIC has provided the MFDA with a draft CE program proposal. IFIC's education subsidiary IFSE, has developed a CE program and will begin offering it as soon as the MFDA program is finalized.** **Status: On-going – This is a priority project for the MFDA's fiscal year ending March 31, 2016.**
(f)	**Representatives must be supervised by qualified supervisors**: Dealers must appoint supervisors who meet prescribed proficiency standards to supervise the activities of representatives according to prescribed procedures.
(g)	**All trades in securities must go through the books of the dealer (there should be no off-book transactions)**: Trades in mutual funds must be recorded in the books and records of the dealer and representatives cannot submit purchase and redemption orders directly to the fund managers (no direct trades).
(h)	**Representatives must not hold themselves out to the public using inappropriate or misleading business designations or titles.** Representatives must use titles describing themselves in ways that are not misleading and that do not suggest an elevated expertise. **The IIAC has been actively studying the issue of business titles and has joint discussions with IIROC on how to address the issue.**
	Policy Initiative – IIROC, MFDA and IFIC **The SROs are considering further regulation of business titles and financial designations, particularly with respect to financial planning related titles.** **IFIC will lend strong support to the SROs on regulating business titles to ensure titles are not misleading.**

5.	**Dealers Must Have Internal Controls, Risk Management, Conflicts Management and Compliance Systems** **Dealers must institute appropriate internal controls, risk management and conflicts management systems, including having independent auditors review dealers' systems including accounting, internal accounting controls, and procedures for safeguarding client assets. They must have a robust compliance system.**
(a)	**Supervision of activity in client accounts**: Dealers must set up supervisory personnel and procedures for each business activity or business line the firm engages in. Activity in client accounts must be reviewed and supervised by qualified supervisory personnel. Prescribed procedures are necessary for supervision of client activity (daily and monthly trade reviews), where those procedures must be reasonably designed to detect inappropriate (and prescribed) activities, including unsuitable trades and churning.
(b)	**Internal controls and records**: Internal controls and procedures must allow dealers to service their customers adequately and to supervise the conduct of their business, including controls and procedures relating to capital adequacy, insurance, segregation of client securities, safeguarding of securities and cash and pricing of securities. Both SROs have detailed requirements in this regard.
(c)	**Segregation of client assets**: Client assets must be segregated from dealer (firm) assets.
(d)	**Compliance systems, conflicts management and risk management, inclusive of updated compliance manual**: Compliance systems designed to ensure compliance and identification and management of risks and conflicts of interest are necessary. A comprehensive compliance manual is required.
(e)	**All trades in securities must go through the books of the dealer (there should be no off-book transactions)**: Trades in mutual funds must be recorded in the books and records of the dealer and representatives cannot submit purchase and redemption orders directly to the fund managers (no direct trades).
(f)	**Most trades in mutual funds are transmitted (and cleared) through the FundSERV network**: Most mutual fund trades are transmitted and settled through the FundSERV network; most dealers and fund managers are customers of FundSERV.

6.	**On-going Active Regulatory Oversight of Dealers and Representatives as well as mutual funds and their managers** **Dealers and representatives are subject to on-going oversight by the applicable SRO and also by securities regulators. Mutual funds and their managers are also subject to on-going regulatory oversight (see principle 7)**
(a)	**Updated Prescribed Information on File**: Dealers and representatives must keep their information on file (information is prescribed) with the regulators and SROs up to date, with changes reported within specified time periods. This information is reviewed and cleared by the regulators and SROs.
(b)	**Compliance and Inspections**: Dealers are subject to regular compliance inspections by the applicable SRO and must respond within stated deadlines to correct compliance deficiencies, which may otherwise be subject to enforcement action. Both SROs have regular on-site compliance inspection schedules and review the compliance of members according to an established timetable.
(c)	**Financial reporting and Early Warning**: Dealers must submit regular financial reports to the applicable SRO and securities regulators to confirm solvency, capital adequacy and ongoing viability of operations on an on-going basis. This serves as a form of early warning of any concerns about ongoing solvency, capital adequacy and on-going viability being treated with utmost importance (and hence any issues must be addressed immediately).
(d)	**Seeking approval of SROs and Regulators of Changes to Business Models and Transactions**: Dealers must obtain regulatory approval for certain transactions (acquiring other registrants or acquiring securities in another registrant and vice versa) and must give notice to the SROs before they take on or change business models.
(e)	**Reporting of Complaints to the Regulator**: Dealers must report client complaints of a compliance nature to the applicable SRO and to the regulator in Québec. Complaints must be fully investigated, reported to, and responded to on a substantive basis, within a prescribed time period. Clients who are dissatisfied with the response may proceed to have the complaint reviewed by OBSI without charge. Different complaint mechanisms apply in Québec.
(f)	**SROs and Securities Regulators Enforce Compliance**: Dealers and representatives may be subject to enforcement action – arising out of client complaints or observations by regulatory staff at compliance inspections or otherwise. All enforcement actions are made public.
	Policy Initiative - OSC **OSC Staff Consultation Paper 15-401 *Proposed Framework for an OSC Whistleblower Program* released for comment in February. Comments were due by May 4, 2015.** **Status: On-going – development of this proposal is a priority for the OSC for its fiscal year ending March 31, 2016.**
(g)	**Supervision of SROs by Securities Regulators:** Both SROs are under the supervision of the securities regulators that recognize them as “recognized self-regulatory organizations”. All rules of the SROs are subject to review and approval by the applicable CSA members**.**

7.	**Mutual funds and their managers are highly regulated** **Mutual funds and their managers are regulated by securities regulators and must comply with applicable detailed rules and are subject to oversight of the securities regulators. Mutual fund managers must be registered as investment fund managers.**
(a)	**Mutual funds must have a fundamental investment objective and investment strategies that are disclosed and that comply with applicable rules**: Mutual funds must have a fundamental investment objective which cannot be changed other than with securityholder approval, and must adhere to detailed investment restrictions and practices, including prohibitions on certain investments.
(b)	**Mutual funds must calculate and disclose their risk in prospectus documents.** Mutual funds must currently calculate their risk using standard deviation and disclose in prospectus and Fund Facts documents where their risk falls using a 5-point risk measurement scale.
	Policy Initiative - CSA **CSA reviewing risk calculations and disclosure by mutual funds. Follow-on work from the CSA Notice 81-324 and Request for Comment on CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts** **Status: On-going and a priority for the OSC for fiscal year ending March 31, 2016.**
(c)	**Managers of mutual funds are registered and regulated as IFMs**: Managers of mutual funds must seek to become registered as IFMs and must therefore comply with minimum entry standards (similar to the ones identified in Principle 3 for dealers) in each province or territory where they carry on this activity. The minimum entry standards must be met throughout the time they are registered. Managers of mutual funds must have a robust compliance system in place. Quarterly financial reports must be filed with the regulators. IFMs are subject to compliance and enforcement oversight by the securities commissions. Detailed regulatory guidance is provided at least annually to IFMs on compliance topics, with detailed guidance provided on topics relating to mutual funds.
(d)	**Mutual fund assets are held with a qualified custodian**: Mutual funds must arrange for all of their assets to be held by a separate qualified custodian (there are prescribed standards for such).
(e)	**Purchases and redemptions must be processed according to prescribed timing and standards, including "forward pricing"**: IFMs must process sales and redemption orders received (generally through dealers) according to prescribed timing and standards. All orders are processed at the NAV of the fund "next determined" after the order (this is "forward pricing").
(f)	**Fundamental changes to mutual funds can only be conducted in accordance with prescribed standards**: Any fundamental changes to mutual funds must be approved by securityholders (with IRC prior consideration) and may also require regulatory approval.
(g)	**Mutual funds must have an independent review committee (IRC) and IFMs must refer conflicts of interest to the IRC for their consideration**: Independent review committees must have at least 3 independent members and the IFM must refer COI to the IRC for their consideration. The IRC may recommend that the IFM go forward with a proposed action, but only where the IRC considers the proposed action achieves a "fair and reasonable" result

	for the mutual fund. IRCs and IFM COI are governed by NI 81-107.
(h)	**Sales communications for mutual funds must comply with detailed requirements**: Sales communications, particularly sales communications containing performance information, must comply with detailed requirements.
(i)	**Sales incentives paid or provided to dealers must comply with restrictions**: Fund managers can only provide money or non-monetary benefits to dealers and representatives that meet certain prescribed conditions. These conditions are set out in NI 81-105, which is designed to minimize conflicts of interest in connection with the distribution of mutual funds.
	Policy Initiative - CSA **CSA reviewing compensation practices of fund managers and dealers to address those practices that are considered inappropriate. Follow-on work from the CSA Consultation Paper and Request for Comment 81-407 Mutual Fund Fees.** **Status: On-going and a priority for the OSC for fiscal year ending March 31, 2016.**
(j)	**Mutual fund point of sale disclosure is prescribed (Fund Facts for each series, simplified prospectus and annual information form)**: Very detailed disclosure requirements are set out in NI 81-101 – disclosure of costs of investing is emphasized. The prospectus documents must be renewed annually and amendments made to the documents in the event of a material change to the fund. Securities regulators review these disclosure documents on each filing (to varying degrees) and in this way monitor mutual fund structures and compliance.
(k)	**Mutual fund continuous disclosure is prescribed (annual and semi-annual financial statements and MRFPs, proxy voting, portfolio holdings)**: Very detailed disclosure requirements are set out in NI 81-106 for financial statements, management reports of fund performance, proxy voting records (annual) and portfolio holdings (quarterly). Investors must be asked if they wish to receive these documents at least annually, or be mailed these documents once they become available within prescribed timelines. These documents are all publicly available. Securities regulators carry out periodic continuous disclosure reviews of these documents to ensure appropriate compliance and disclosure.
(l)	**Securities regulators monitor compliance by IFMs and mutual funds and take enforcement action where warranted**: Securities regulators monitor IFMs through compliance reviews, as well as desk reviews of financial information required to be filed by the IFMs on a quarterly basis. Enforcement action is taken when warranted.
(m)	**IFIC sets guidelines for the operation and management of mutual funds in areas where members consider common standards are important.** These standards are widely adopted by IFIC members and non-IFIC members alike and securities regulators refer favourably to some of them in policy documents. Guidelines include the Voluntary Guidelines for Fund Managers Regarding Fund Volatility Risk Classification, Error Correction Guidelines and Sales Practices Guidelines. These are updated from time to time.

8.	**Investors Have Access to Educational Information and Tools to Assess Dealers and Representatives and their Investment Options** **Regulators provide educational information and tools to investors to allow them to obtain information about their dealers and representatives and their investment options, through “know your advisor” initiatives, investor education information and “national registration search” mechanics.**
(a)	**Information on Representatives**: Both SROs makes publicly available background information and qualifications of representatives, as well as any disciplinary actions against representatives.
(b)	**National Registration Searches**: The securities regulators provide a public search tool whereby investors can review any terms and conditions, as well as enforcement or other actions against the registration of dealers and representatives.
(c)	**OBSI Reports**: OBSI makes publicly available the circumstances leading up to any decision against a dealer or representative resulting from a client complaint. This is the “name and shame” mechanics of OBSI, which is supplemented by its annual report on complaint handling and issues identified.
(d)	**Annual Compliance Reports from SROs and Securities Regulators**: The securities regulators and SROs publish annual reports of compliance deficiencies noted and publicly name firms who have been the subject of enforcement action.
(e)	**Enforcement Actions – SRO and Securities Regulators**: All proceedings are made public and remain publicly available after any decision or settlement. The SROs and the securities regulators publish annual enforcement reports which summarize actions taken as well as their outcomes.
(f)	**Investor Outreach and Investor Focus at Securities Regulators**: Many securities regulators maintain investor education websites and provide ongoing information about investor issues. The OSC has an Office of Investor Policy, Education and Outreach, as well as an Investor Advisory Panel.
(g)	**Financial Consumer Agency of Canada**: This federal government agency has a mandate to enhance financial literacy, particularly for investors and participants in the financial industry of Canada. It is particularly concerned with the financial literacy of senior investors. **The IIAC issued Guidance in 2014 entitled, Protecting Senior Investors for use by the industry and has also hosted a number of educational events on the issue.**
	Policy Initiative - CSA/Federal Government and IFIC **Securities regulators, including the SROs, and the Financial Consumer Agency of Canada are concerned with enhancing the outreaches to and improving the outcomes for “senior” investors (aging investors).** **IFIC has a project to work with various agencies and industry to focus on issues relating to senior (aging) investors, as well as other vulnerable investors.**

(h)	**SEDAR Website provides access to public documents relating to mutual funds**: All required prospectus and continuous disclosure information about mutual funds is publicly accessible through the SEDAR website (and on most mutual fund managers' websites).
(i)	**Industry participants, including IFIC, dealers and fund managers provide educational (non-promotional) information about professional advice and services as well as investment choices**. IFIC's website has a dedicated investor centre available for interested investors in mutual funds.

As noted at the beginning of this Review:

IFIC intends this Review to be background information for the Canadian regulators, for the Canadian investing public, as well as for the managers and distributors of mutual funds. It is current as of September 17, 2015; IFIC plans to update this document on a periodic basis.

This Review was prepared at the request of The Investment Funds Institute of Canada by Laura Paglia and Rebecca Cowdery, both partners with Borden Ladner Gervais LLP in Toronto. No person should act or refrain from acting in reliance on any information found herein without first obtaining professional advice. This document does not other professional advice and does not create a solicitor-client relationship between the reader and Borden Ladner Gervais LLP.

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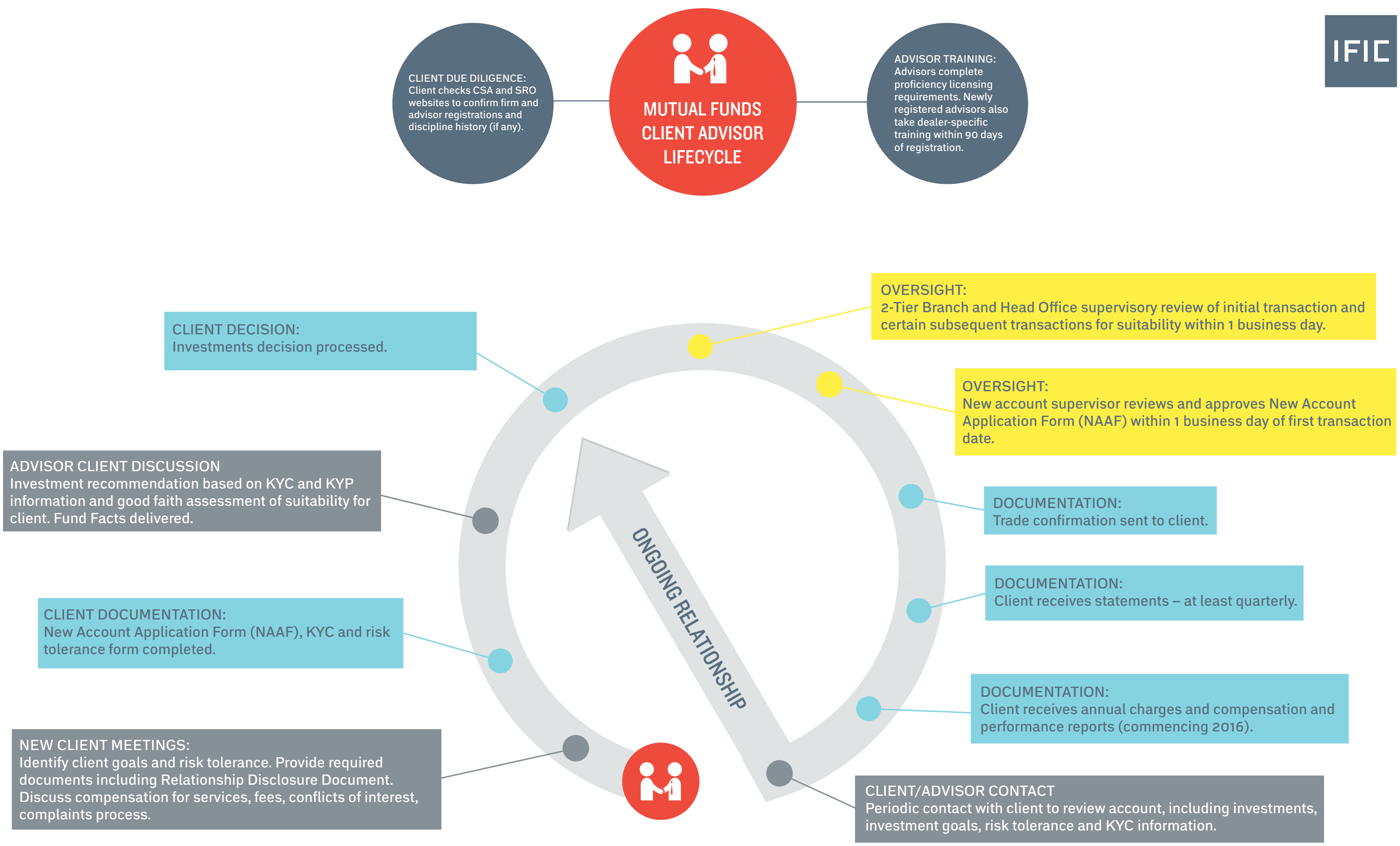
Life Cycle of a Typical Client of a Mutual Fund Dealer

Client has $10,000 to invest. Client wants to invest that money in mutual funds and also wishes to obtain an investment needs analysis which will set out a multi-year plan whereby he/she can save for retirement. Note that the Client is not borrowing to invest (if Client were borrowing to invest, mutual fund dealer and representative would provide Client with the MFDA required disclosure and would discuss the risks of leverage with Client).

This Life Cycle assumes that the mutual fund dealer has complied with the entire regulatory regime applicable to dealers and in particular that it has "preapproved" all applicable funds on its shelf according to MFDA Know-Your-Product MSN-0048 which includes the following:

> *Members must perform a reasonable level of due diligence on products prior to their approval for sale by Approved Persons. Members must have written policies and procedures in place that describe in detail the steps to be followed in the due diligence process.*
>
> *A basic level of due diligence must be completed on all products being considered for sale by the Member before the products are approved. Member procedures should provide for different levels of analysis for different types of products. For example, an extensive formal review may not be required for many conventional mutual funds. However, a more comprehensive review should be performed on products that are novel or more complex in structure. In the event that products are presently being sold that have not been subjected to a reasonable due diligence review, such a review must be performed before continuing to sell the products.*
>
> *In determining whether to approve a product for sale, Members should not merely rely on the representations of the issuer, or on the fact that the product appears to be similar to others, or that other firms are already offering the product. In all cases, the approval process must be independent and objective. Members are advised that simply making inquiries will not be sufficient to discharge their responsibility to conduct due diligence. Members must properly follow up on any questions they have raised until they have been satisfied that they have a complete understanding of the products they propose to sell.*
>
> *It is critical that the Member develops an understanding of all features of the product. Issues such as liquidity of the product and the nature of any underlying investments and their inherent risks must be examined before assigning a risk ranking to the product. The Member should develop guidelines or an investor profile for which the product would be generally suitable, including risk levels, time horizon, income and net worth. The Member should also clearly identify investors for whom the product is not suitable. Concentration limits should be assigned to products and/or general classes of products where appropriate.*

MUTUAL FUNDS CLIENT/ADVISOR LIFE CYCLE



As the graphic (above) illustrates, the relationship between the investor and his/her advisor is highly structured and regulated. It tends not to be a one-time transactional event, but rather an ongoing series of interactions that take place over a continuum and that may last for years with the cycle regularly renewing itself. Details of each stage of the Life Cycle are described below.

1. Representative meets with Client, perhaps several times, before an account is opened. Purpose of meeting(s) is to learn of client's personal and financial circumstances, investment objectives and risk tolerances and to discuss the services the representative and the dealer will provide Client. Representative completes New Account Application Form ("NAAF") with and in discussion with Client. Representative explains to Client the need for Client to promptly notify him/her with any material changes in the client information and explains what kind of information/changes will be important. At the first meeting, Representative provides Client with a copy of the MFDA's information sheet "Opening your Investment Account", as well as the dealer's "relationship disclosure information" brochure. These documents are part of dealer's account opening package.

NAAF at a minimum, includes the following information:

- *Date of birth (age)*
- *Employment information*
- *Number of dependants*
- *Investment knowledge*
- *Risk tolerance*
- *Investment Objectives*
- *Time Horizon*
- *Income*
- *Net worth (specifying liquid assets and liabilities*)

MFDA Policy 2, Part II

At account opening, Representative should advise client to promptly notify the dealer of any material changes in the client information and provide examples of the types of information that should be regularly updated.

MFDA Policy 2, Part II

2. Representative may also work with Client to complete an investor questionnaire.

MFDA Bulletin 0611-6 Investor Questionnaires *provide guidance for designing questions aimed at measuring a client's willingness and capacity to incur risk*

3. Representative may also complete an investment needs analysis based on information from the Client and for the Client's review.

4. Representative sends/gives Client completed account opening package which may include 1, 2 and 3 for further review and signature by Client. Client has time to review the documents and ask questions.

5. Once completed NAAF returned to Representative, Representative provides it to his/her supervisor for review and approval. NAAF approved once supervisor satisfied, which may entail some back and forth discussions with Representative to clarify any answers of Client on the NAAF.

   The NAAF must be approved by the individual designated as responsible for opening new accounts under MFDA Rule 2.2.3

   MFDA Policy 2, Parts II, IV

6. Representative considers which mutual funds and which series he/she will recommend to the Client based on facts provided at in NAAF and based on discussions with Client and prints out the applicable Fund Facts and other background information (Morningstar reports etc.) for the Client.

7. Representative discusses with Client the potential investments he/she is recommending (for the initial $10,000) and takes Client through the applicable Fund Facts document(s), which the Client will take home with him/her. Representative ensures Client is provided with the CRM-2 "pre-trade disclosure". Representative documents the advice and the fact the pre-trade disclosure is provided, as well as the Fund Facts document.

   In providing the advice above

   (a) ***MFDA Rule 2.1.4*** *requires that*

   (i) its members be aware of the possibility of conflicts

   (ii) conflicts or potential conflict of interests must be addressed by the exercise of reasonable business judgement influenced only by the best interest of the client

   (iii) any conflict or potential conflict of interest be immediately disclosed in writing to the client prior to proceeding with the transaction

   (b) ***MFDA Rule 2.1.1*** *requires that each member and Approved Person*

   (i) deal fairly, honestly and in good faith with its clients

   (ii) observe high standards of ethics and conduct in the transaction of business

   (iii) not engage in any conduct or practice which is unbecoming or detrimental to the public interest and

   (iv) be of such character and business repute and have such experience and training as is consistent with the MFDA standards.

(c) ***MFDA Rule 2.1.1*** *also requires that each member and Approved Person:*

(i) *know the essential facts relative to each client and order*

(ii) *ensure acceptance of any order within the bounds of good business practice*

(iii) *ensure acceptance of recommendation made including recommendation to borrow to invest for any account is suitable to the client based on the essential facts relative to the clients and any investments in the account*

(iv) *where a transaction is not suitable, the client to be so advised before execution and member to maintain evidence of advice.*

(d) ***MFDA Suitability Guideline: MR-0069:*** *The MFDA sets outs detailed guidelines as to how the Know Your Client obligation may be met. Its Suitability Guidelines provides detailed guidance regarding various aspects of the suitability process including details surrounding approval of KYC information, material changes to KYC information, the calculation of net worth and other aspects of KYC information, a review of methods of recording or depicting risk tolerances, such as the use of percentages and model portfolios*

(e) ***MFDA Staff Notice MSN-0048: Know Your Product:*** *The MFDA requires a reasonable level of due diligence on all products being considered for sale by its Members before they are approved. Different levels of analysis are expected for different products with more comprehensive review on products that are novel or complex in structure*

8. Client agrees which fund and series to invest in and agrees on a purchase option (ISC or DSC). Client provides Representative with a cheque (made payable to the dealer) to cover the cost of the investment (and Dealer's commission if ISC).

9. Representative delivers the order and the cheque to his/her dealer back-office systems according to internal requirements.

10. Dealer's two –tier supervisory system reviews the trade and authorizes it to proceed as appropriate.

Branch manager or alternate must review the previous day's trades for unsuitable trades, leveraging and any other unusual trading activity. This review at a minimum must include:

- *Initial trades*
- *Trades in exempt securities*
- *Leveraging*
- *Redemptions over $10,000*
- *Trades over $2,500 in moderate-high or high risk investments*

- *Trades over $5,000 in moderate or medium risk investments*
- *Trades over $10,000 in all other investments.*

MFDA Policy 2, Part IV

11. Dealer processing systems enters the order via the Dealer connection to FundSERV by EOD on the same business day as or first thing in the morning immediately after client's agreement to acquire securities. This order date will be the "trade date". FundSERV systems process the trade and deliver the order to fundco before 4 p.m. on the trade date. Money is delivered also via the FundSERV system with the trade.

12. Fundco receives the order and processes it at NAV determined after receipt of order (on the trade date). Fundco's processing is reported back to Dealer and the order settled via FundSERV system on the next business day after the trade date.

13. Dealer receives commission (if ISC) and pays it out to Representative according to the internal grid. Dealer receives commission from fundco (if DSC) and pays it out to Representative according to the internal grid.

14. Dealer (or fundco on behalf of the dealer) delivers a trade confirmation to Client within 2 days of the trade date.

    Commencing with the trade confirmations issued for trades on and after July 15, 2016, trade confirmations will also provide details of the amount of each transaction charge, deferred sales charge or other charge in respect of the transaction and the total amount of all charges in respect of the transaction.

    MFDA Rule 5.4 Trade confirmations

15. Dealer receives trailing commissions from fundco and ensures appropriate amount is paid to Representative (according to Dealer grid).

16. Client calls Representative (months later) with another $10,000 to invest. Representative goes over KYC information of Client and suitability assessment to ensure nothing has changed. Representative considers what Client wants to do – or makes a recommendation as to an investment. Representative emails Client the Fund Facts document (Dealer asks for email addresses up front) and waits until Client receives it. Representative walks Client through the Fund Facts document and ensures that the CRM-2 pre-trade disclosure is provided to Client.

17. Trade is processed as above for the initial trade.

18. At least one year after the account opened, Representative calls Client to set up a new meeting or call to discuss account.

    On an annual basis, dealer must request in writing that the client notifies them if there is a material change in the client information or if the client's circumstances have materially changed. Access to amend the NAAF must be controlled and instructions to make any such amendments must be properly documented.

MFDA Policy 2, Part II; MFDA Rule 2.2.4(e)

All material changes to the NAAF must be approved by the individual designated as responsible for the opening of new accounts no later than one business day after the dates on which the notice of change of information is received by the client.

When approving material changes, branch managers should be reviewing the previous NAAF to assess whether the change appears reasonable.

Branch managers should be aware of situations where material changes may have been made to justify unsuitable trades or leveraging.

MFDA Policy 2, Part II, MFDA Rule 2.2(4) (a)

Where there is a material change in the NAAF that results in a significant decrease in the client's risk tolerance, time horizon, income or net worth or more conservative investment objectives, the branch manager must review the suitability of investments in each of the client's accounts and the suitability of the client's use of leverage, if any. This assessment must be performed no later than one business day after the date on which the notice of change of information is received from the client.

MFDA Policy 2, Part IV

19. As the account progresses, Client may wish to redeem securities to either fund withdrawals or make other investments.

When reviewing redemptions, branch managers should seek to identify and address factors which include:

- *suitability of redemption with regard to the composition of the remaining portfolio,*
- *impact and appropriateness of any redemption charges;*

MFDA Policy 2, Part IV

Head office also conducts daily reviews of redemptions over $50,000.

MFDA Policy 2, Part V

20. As the account progresses, it is subject to other reviews by the dealer as follows:

(ii) On a sample basis, dealer reviews the suitability of investments whenever assets are transferred into the account;

MFDA Rule 2.2.1(e)(i);

MFDA Policy 2, Part V.

(iii) If client borrows to invest, suitability of leverage is reviewed in all cases

MFDA Policy 2, Parts III, V

(iv) Members have policies and procedures to identify trends or patterns of concern such as excessive trading or switches;

MFDA Policy 2, Parts VI

(v) Members are also required to conduct an ongoing review of sales compliance procedures and practices at both head office and the branch to confirm that procedures are adequately fulfilling the purposes for which they were designed.

MFDA Policy 5;

(vi) Suitability of investments within the client account are to be assessed:

- whenever client transfers assets into the account;
- when member approved person becomes aware of material change in client information;
- where there has been a change in the approved person responsible for the client accounts

MFDA Rule 2.1.1

21. Members must send client regular reporting on the client account, which contain prescribed information:

(a) Quarterly account statements, with position cost information (the latter being first provided for the last quarter 2015)

(b) Annual cost and compensation reports, which includes the dollar value of trailing commissions and other compensation received by the dealer in respect of client's account.

(c) Annual performance reports.

The latter two annual reports will be required to be delivered annually after July 15, 2016. These reports and the enhancements to the relationship disclosure documents, the pre-trade disclosure, the trade confirmations, the quarterly account statements and the new annual reports are commonly referred to as the "client relationship model" or CRM-2 developed by the Canadian securities regulators and the SROs.

Annex C

Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios

A Canada—U.S. Perspective 2015 Update

May 2015 Update to the 2012 study by

Investor Economics and Strategic Insight

For

The Investment Funds Institute of Canada

INVESTOR ECONOMICS

Table of Contents

Introduction

This report has been requested by The Investment Funds Institute of Canada (IFIC) as an update to the data, analysis and information originally developed in 2012 as part of a study into the cost of ownership of mutual funds in Canada and the United States.

This report focuses on updating the cost of mutual fund ownership metrics presented in the 2012 summary document, entitled *Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Canada — U.S. Perspective*. That summary, and the larger report on which it was based, *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives*,[1] proposed an analytical framework for comparisons of the total cost of ownership by mutual fund investors in the United States and Canada, and presented a high-level comparison of cost of ownership measures in both countries. The framework identified and highlighted the impact of structural differences between the U.S. and Canadian mutual fund industries, including scale, distribution channels, taxation and distributor compensation models.

The current updated report should be read alongside the original larger study, which provides a thorough account of the methodology and industry context required to consider the development of the mutual funds cost of ownership in Canada and the United States.

The updated information contained in this report has been developed by Investor Economics and Strategic Insight using data from both proprietary and public sources. Every effort has been made by both firms to ensure both accuracy and consistency to enable users of the report to develop a clear understanding of developments that have taken place in the past two years.

[1] Also see, A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Costs in the U.S. Mutual Fund Industry. Strategic Insight, November, 2012.

Key Takeaways

- In both Canada and the United States, mutual fund assets under management (AUM) increased by nearly 30% over the two-year period ended December 2014.

- The average total cost of ownership of mutual funds for clients using advice-based distribution channels in Canada was 2.2% at the end of 2014 (2.02% when the impact of taxes is excluded). The average cost of ownership for clients in the U.S., which does not levy taxes, was 2.0%.

- The cost of ownership in both countries has remained largely unchanged from 2012.

- There are differences between the two markets in the manner in which investors typically pay for the services they receive from fund manufacturers and advisors.

    - In Canada, the management expense ratio (MER) generally includes trailing commissions (ongoing fees paid to distributors) and applicable taxes. The embedded fee structure is used by mutual funds that currently account for approximately 85% of all fund assets in Canada.

    - In the United States, the total expense ratio (TER) does not include taxes, as the U.S. does not have an equivalent HST tax structure and due to the prevalence of the unbundled fee-based model, a majority of the fund series do not include trailing commissions. Approximately 80% of mutual fund gross sales across all advice channels outside of the employer group pension schemes are accounted for by fee-based accounts. In those accounts, ongoing fees are generally charged at the account level.

- In Canada, the relative importance of point-of-sale commissions (embedded or not) in the distributor compensation formula has been on the decline. In 2014, 91% of net flows are estimated to have been generated by no load funds or front-end load options with waived fees. If all mutual fund industry assets are taken into consideration, no load funds and front-end load options with waived point-of-sales commissions accounted for 77% of industry assets at the end of 2014, a share that has been growing over time (it was at 72% in 2010).
- The asset-weighted MER of long-terms funds in Canada declined from 2.08% at the end of 2011 to 2.03 % at the end of 2014.

Canadian and the U.S. Mutual Fund Industry Backdrop: 2012—2014

This update to the 2012 report has been undertaken against a backdrop of two years of mutual fund industry expansion in Canada. At the end of 2014, assets held in long-term mutual funds totalled $983 billion—approximately 31% of total household financial wealth—a total which was approximately $110 billion greater than that recorded at the end of 2012. The growth reflects a combination of the effect of positive capital markets and accelerating net flow activity, which attracted $66 billion into the universe of mutual funds in consideration over the two-year period.

Mutual fund assets in the United States also expanded over the two-year period, increasing from $13.1 trillion to $15.8 trillion. This growth can also be attributed to strong equity markets and record inflows of new money.

Over the two-year period, in Canada, we have observed a continued rise in the popularity of funds of funds and asset allocation solutions and, to a lesser extent, the greater use of multi-series share classes, continued in Canada.

The shift away from load options with point-of-sales (back-end load) commissions also continued over the period. If all mutual fund industry assets are taken into consideration, no load funds and front-end load options with waived point-of-sales commissions accounted for 77% of industry assets at the end of 2014, a share that has been growing over time (it was at 72% in 2010). From a net flow perspective, 91% of net flows in 2014 are estimated to have been generated by no load funds or front-end load options with waived point-of-sales commissions. With respect to funds being sold with deferred sales commissions (DSC), at the end of 2014, assets in such funds represented 17% of all fund assets, down from 30% in 2007.

In the United States, flow data for retail mutual funds indicated that in 2007, 71% of long-term flows were on a no load basis (no upfront commission or DSC).

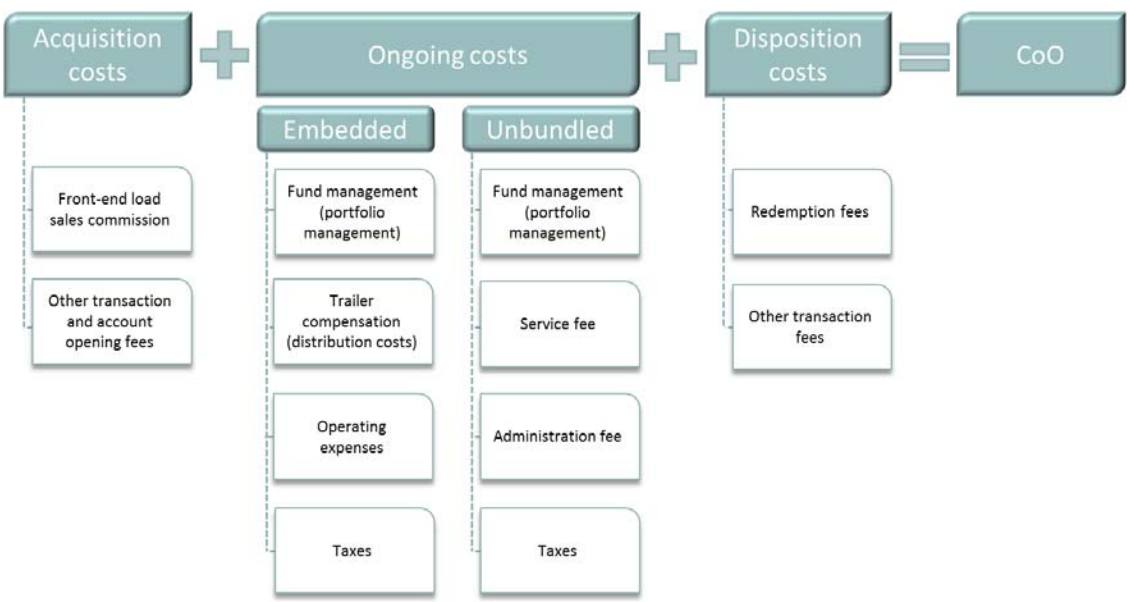
Also, in Canada a number of factors including the overall shift to lower-priced no load options, changes in asset mix and firms lowering management fees, exerted downward pressure on the cost of ownership of mutual funds. The asset-weighted MER of long-terms funds declined further from 2.08% at the end of 2011 to 2.03 % at the end of 2014.

Cost of Ownership as the Analytical Framework for Canada-U.S. Comparisons

In analyzing the cost of ownership in Canada and the United States, the original studies published by Investor Economics and Strategic Insight in 2012 adopted a comprehensive view of costs associated with owning mutual funds: the cost of ownership framework (see **Figure 1**). This view reflected investor costs included in the reported fund expense ratios—the total expense ratio (TER) in the U.S. and the management expense ratio (MER) in Canada—as well as, importantly, costs residing outside of the fund expense formulas.

The holistic nature of the cost of ownership concept stems from the inclusion of cost elements at each stage of the fund ownership cycle: at the time of purchase (acquisition costs); during the investment period (ongoing costs, both charged to the mutual fund and directly to the investor); and, at the time of redemption of fund units (disposition costs).

Figure 1: Cost of Ownership Framework (CoO)



The relative importance of the three variables depends on the distribution channel used to purchase the fund; the load option selected; the series of mutual fund units purchased by the investor; the amount invested, and the type of account (e.g. fee-based brokerage) in which the fund is being held.

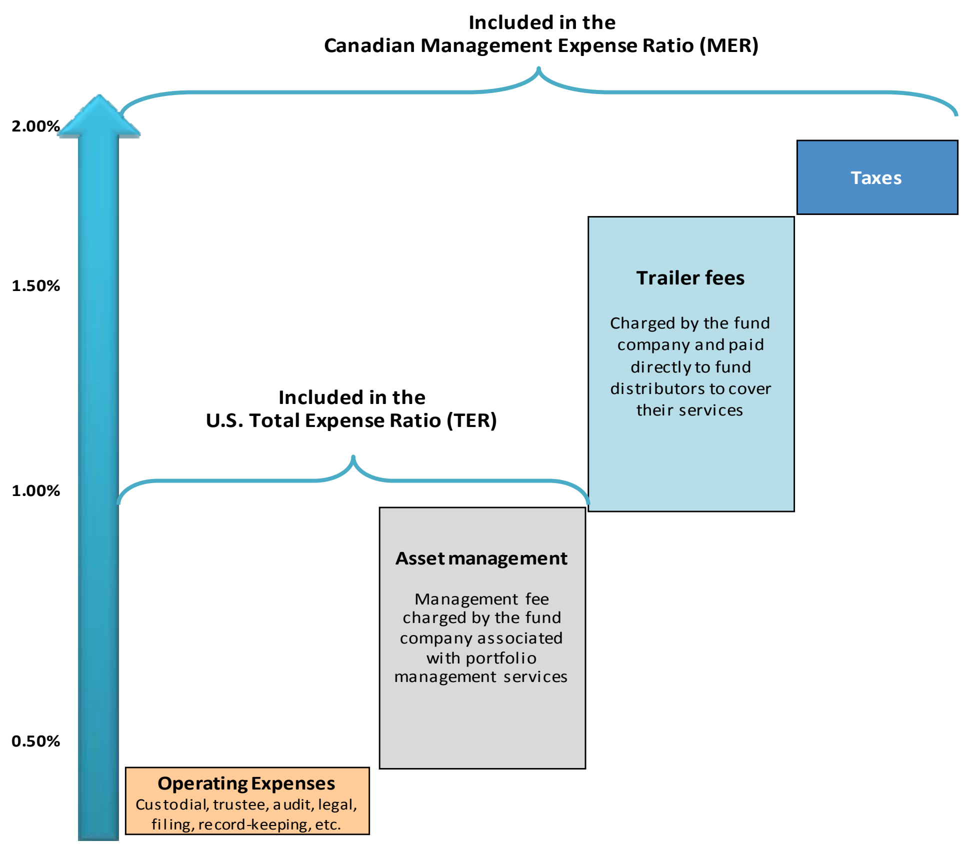
While the primary difference between mutual sales in Canada and the U.S. is that most sales in Canada are made with embedded distribution fees and in the U.S. most funds are sold within the unbundled fee structure, the various elements of the cost of ownership framework equally apply to both jurisdictions.

The original 2012 Investor Economics study suggested that the cost of ownership framework, which had been developed for the purpose of producing a U.S. versus Canada comparison, can also serve as an analytical platform for investor cost comparisons across other countries. As a validation of this point, we note that a similar framework has been recently adopted in the U.K. by The Financial Services Consumer Panel to illustrate the cost of ownership in the study *Investment Costs—More Than Meets the Eye*.

Key Elements of Canadian Management Expense Ratio (MER) and U.S. Total Expense Ratio (TER)

The use of the cost of ownership framework enables industry participants and other observers to neutralize the impact of differences in the composition of the U.S. fund TERs and the Canadian fund MERs. **Figure 2** explores these differences by providing a side-by-side view of the main cost elements included in the Canadian mutual fund MERs for the most prevalent fund series ("original series") and the U.S. fund TERs for those funds used by advisors operating fee-for-advice business models.

Figure 2: Key Elements of Canadian MERs (for Original Series of Fund Units) and U.S. TERs (for Series Used by Advisors Using Fee-based Platforms)



The chief difference resides in the inclusion—or exclusion—of the ongoing distributor (and advisor) fees from the reported fund expense ratio.

The practice of embedding such ongoing fees (referred to as trailing commissions or trailers) within the mutual fund management fees is the prevalent approach in Canada for the most popular series of fund units. This embedded fee structure is used by mutual funds that currently account for approximately 85% of all fund assets in Canada. The unbundled fee-based model has been growing rapidly but it is still relatively small when compared to the U.S.

In the United States, the majority of mutual fund sales are associated with unbundled fee-based accounts. Fees for service are generally charged at the account level on an asset-weighted basis. As such, these account management fees are not included in the TER metrics reported by mutual funds in the United States.

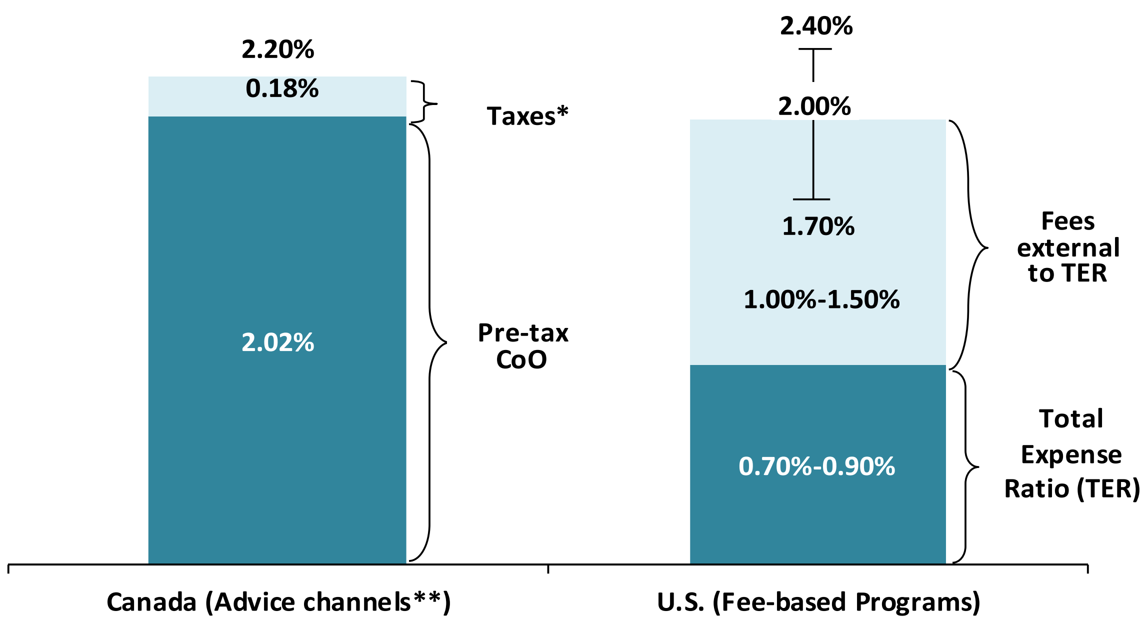
Another key difference between the two jurisdictions is that almost all elements in the Canadian MER attract value-added or sales taxes. By contrast, in the United States, no value-added taxes are levied on the key components of the TER.

Cross-country Comparison of Mutual Fund Investor Costs

Advice channels account for 80% of Canadian mutual fund asset holdings. Similarly, in the United States (excluding funds held through employer-sponsored retirement plans, which represent an estimated 26% of mutual fund assets) approximately 80% of investors rely on a financial advisor exclusively, or for a significant portion, of their investments (source: Strategic Insight).

Figure 3 updates the comparable cost of ownership for clients in advice channels in the U.S. and Canada**.** As was concluded in 2012, the cost of ownership of funds in advised relationships in Canada—both commission- and fee-based—is at a comparable level to the average cost of ownership incurred by a typical fee-based investor in the United States who has chosen to be guided by a financial advisor.

Figure 3: Cost of Mutual Fund Ownership for Clients Using Advice Channels—Canada (all compensation models) and the United States (unbundled, fee-based compensation)—2014



**Note: This reflects an industry aggregate and is not specific to advice channels*
***For all account types*
Source: Investor Economics and Strategic Insight.

As stated above, over the past two decades, advisor compensation in Canada and the United States has shifted away from a reliance on sales commissions paid at the time of purchase towards a greater importance of ongoing asset-based fees collected throughout the duration of the investment. Despite this similarity, there are structural differences in the approach taken in Canada and the U.S.

In Canada, ongoing fees for distribution and financial advice are generally "bundled" within a fund's management expense ratio alongside fees for investment management, administration and operations, all with the addition of the cost of applicable taxes. In the United States, the most common approach is the unbundled fee-for-advice model in which investors pay a negotiated ongoing fee directly to the distributor/advisor. These fees are charged in addition to the fees embedded in a fund's total expense ratio.

The depicted U.S. cost in **Figure 3** reflects the dominant fee-for-advice model, and includes a range for external (unbundled) fees. These fees can range from up to 1.5% of managed assets charged annually for smaller investments (i.e. below $100,000) down to approximately 1.0% for larger investments (i.e. over $1 million). For more detail and examples of fee schedules in fee-for-advice models in the U.S., please see page 33 of *A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Costs in the U.S. Mutual Fund Industry*. External fees are charged to investors along with the underlying average fund TERs estimated at 0.85% (which does not include any distributor fees).

By adding these two cost components, *Strategic Insight* estimates the average cost of ownership for U.S. mutual fund relationships guided by a financial intermediary to be approximately 2%. This cost may range depending on the size of the relationship, family of funds, and the portfolio asset mix. For U.S. investors with accounts under $250,000, the cost of ownership may reach 2.25% or higher due to increased external fee levels.

The Canadian measure has been assembled as an asset-weighted average representing all types of accounts sold through advice-giving distribution channels. This average cost of ownership accounts for the impact of transactional charges and fund-embedded fees (MER) and unbundled fees levied at the account level.

Beyond these differences, the analysis suggests that the cost of ownership of funds in advised relationships in Canada—both commission- and fee-based—is at a comparable level to the average cost of ownership incurred by a typical fee-based investor in the United States who has chosen to be guided by a financial advisor.

This analysis, combined with the findings of the *Strategic Insight* research in 2012, also suggests that a move to unbundled fee-for-advice models has not resulted in a reduction of investor costs of mutual fund ownership.[2]

The overall cost of ownership of mutual funds in Canada and the United States remained unchanged from 2012. **Figure 3** indicates that the average cost of ownership is higher in Canada, with the majority of the difference reflecting taxes levied on

[2] For more on this topic, please refer to the original study by Strategic Insight, *A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders' Total Costs in the U.S. Mutual Fund Industry, November 2012.*

embedded costs and other fees. If taxes are excluded, the Canadian cost of ownership is 2.02%, compared to a cost of 2.0% in the U.S. (For information on the methodology used to determine the tax component, please refer to page 59 of the *Investor Economics* 2012 study *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives*).

The cost of ownership of funds in Canada presented in **Figure 3** includes only advice channels. However, the overall cost of ownership declines when funds that are purchased without advice, such as through discount brokerages or directly from fund manufacturers, are included. Once all distribution channels and available share classes are taken into account, the cost of ownership of funds in Canada declines by approximately 15 basis points, to 2.04%. No comparable data is available for the U.S. at this time. This benchmark represents a modest decline from 2.1% reported in our 2012 study.

Additional Considerations for U.S.-Canada Comparisons of Cost of Mutual Fund Ownership

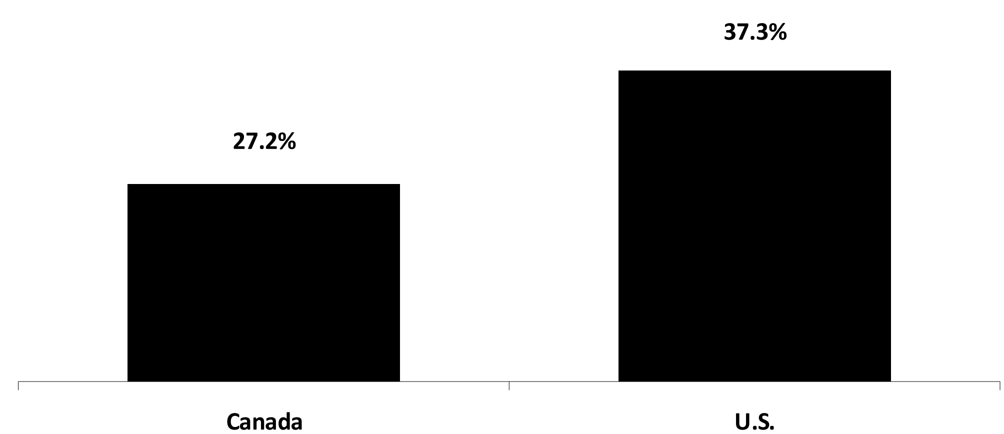
Beyond the difference in the prevalence of the unbundled fee-based advice-giving models between the U.S. and Canada, the original study highlighted a number of structural differences that should be taken into account when developing cross-border comparisons of the cost of mutual fund ownership. This section provides updates on selected issues. This section also features a newly-constructed analysis of the impact of the invested asset level on the cost of mutual fund ownership.

The Importance of Mutual Funds to Individual Savings: 2014 Update

In both countries, mutual funds represent a significant portion of household financial wealth (investible assets) and serve as the main gateway to capital markets for the household sector. This is particularly the case for households in the mass- and mid-market wealth segments.

As indicated in **Figure 4**, mutual funds in the United States account for a larger share of total personal investible assets than in Canada. This largely reflects the role that funds play in the United States as a key ingredient of defined contribution retirement platforms, such as and 401ks. Another notable difference is that mutual funds are more widely used in the United States in accounts maintained by affluent investors.

Figure 4: Mutual Funds as a Percentage of Household Financial Wealth[3]
As of December 2014



Source: Investment Company Institute, Investor Economics' Insight and Household Balance Sheet Report. Mutual funds exclude ETFs and closed-end mutual funds.

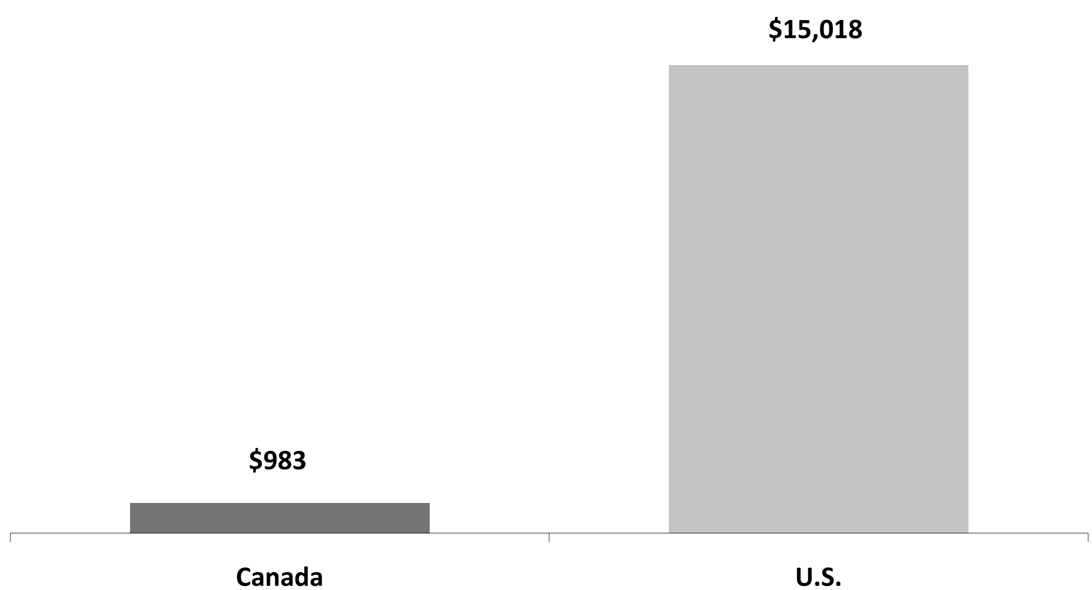
[3] Household financial wealth represents discretionary financial assets owned by retail investors, including deposits, investment funds and securities in brokerage and other accounts

Range of Investor Choices Reflects Market Forces and Scale: 2014 Update

The more mature and larger U.S. fund marketplace generally offers a broader array of options to investors, particularly in terms of delivery conduits; alternative pricing models that have evolved to reflect client and advisor demand; and, via investment mandates. For example, regulators in the United States have permitted a wider range of investment strategies (including liquid alternatives) to be offered by mutual fund manufacturers to retail investors.

The difference in the scale of the two industries is illustrated in **Figures 5** and **6** below. The mutual fund industry in the United States is more than 15 times larger than its Canadian counterpart. The gap between the total assets of the two industries underlines the ability of U.S. mutual fund manufacturers and distributors to take advantage of economies of scale in assets, client numbers, revenue and access to capital in order to pursue innovation and pricing initiatives at a pace and scale not easily achieved by smaller fund jurisdictions such as Canada.

Figure 5: Long-term Mutual Fund Assets under Management
In billions of dollars, December 2014



Source: Investment Company Institute, Investor Economics' SIMFUND Canada
Mutual funds exclude ETFs and closed-end mutual funds.

Although not measured directly in this study, scale is likely a factor that impacts pricing in both countries. The sheer scale of the U.S. mutual fund industry has enabled pioneering innovations in fund delivery, such as "fund supermarkets"[4], several of which administer over $100 billion. The cost of ownership of mutual funds in this channel is generally significantly lower than the average of 2% for advice distribution. This channel format is absent from the Canadian retail investment landscape.

Figure 6 provides another perspective on the differences in scale between mutual fund companies and individual funds in both markets.

At the end of 2014, there were three U.S. fund managers whose individual assets under management eclipsed the entire Canadian mutual fund industry. The second table explores the potential for economies of scale at the U.S. fund level, where spreading of certain costs across a larger asset base could have a meaningful impact on the cost-to-customer.

Figure 6: Assets of 20 Largest Mutual Fund Complexes and Mutual Funds in the U.S. and Canada*

December 2014 assets in millions of Canadian dollars

Top 20 Largest U.S. Managers		Top 20 Largest Canadian Managers	
Manager	**Assets**	**Manager**	**Assets**
Vanguard	$2,808,707	RBC Global Asset Management	$165,752
Fidelity	1,841,374	TD Asset Management	106,412
American Funds	1,375,304	Scotia Global Asset Management	81,600
JPMorgan Funds	602,246	CIBC Asset Management	78,082
T Rowe Price	549,057	Fidelity	77,676
Franklin Templeton	545,031	Investors Group	73,454
BlackRock	495,486	BMO Investments	53,784
PIMCO LLC	456,886	Mackenzie	48,273
Federated	323,915	Manulife Mutual Funds	32,875
Goldman Sachs	305,944	MD Financial	25,930
Dreyfus	294,222	Franklin Templeton	21,111
DimensionalFundAdv	289,511	Desjardins Investments	19,996
Wells Fargo	281,059	AGF Investments	18,659
Schwab	263,413	Sentry Investments	16,762
Invesco	259,460	National Bank	16,356
OppenheimerFunds	239,806	IA Clarington	15,239
Dodge & Cox	214,448	Beutel Goodman	13,683
MFS	202,888	Mawer	11,709
Columbia MgmtInvst	190,485	SEI Investments Canada	11,386
Legg Mason/Western	171,090	HSBC Global Asset Management	11,150

** CI Investments and Invesco Canada not included due to confidentiality restrictions*

[4] An investment firm or brokerage that offers investors a wide array of mutual funds from different fund families. Investors benefit by obtaining access to an extensive range of top performing funds, as well as by receiving a consolidated statement of all their mutual fund holdings.

Figure 6 *(continued)*: Assets of 20 Largest Mutual Fund Complexes and Mutual Funds in the U.S. and Canada*

December 2014 assets in millions of Canadian dollars

Top 20 Largest U.S. Funds

Fund	Manager	Assets
Vanguard Total Stock Mkt Index	Vanguard	$385,289
Vanguard IL Index	Vanguard	217,779
Vanguard 500 Index	Vanguard	198,473
PIMCO Total Return	PIMCO LLC	166,310
Growth Fund of America	American Funds	165,466
Vanguard Prime MM	Vanguard	153,935
Vanguard Total Intl Stk Idx	Vanguard	152,012
Europacific Growth	American Funds	140,219
JP Morgan Prime MM	JPMorgan Funds	137,147
Fidelity Cash Reserves	Fidelity	132,189
Vanguard Total Bond Mkt Index	Vanguard	128,343
Fidelity Contrafund	Fidelity	127,431
Income Fund of America	American Funds	112,331
Capital Income Builder	American Funds	112,131
Franklin Income Series	Franklin Templeton	107,350
Vanguard Total Bd Mkt II Idx	Vanguard	105,282
Vanguard Wellington	Vanguard	102,962
Capital World Growth & Income	American Funds	100,155
Fid Spartan 500 Index	Fidelity	98,700
American Balanced	American Funds	92,418

Top 20 Largest Canadian Funds

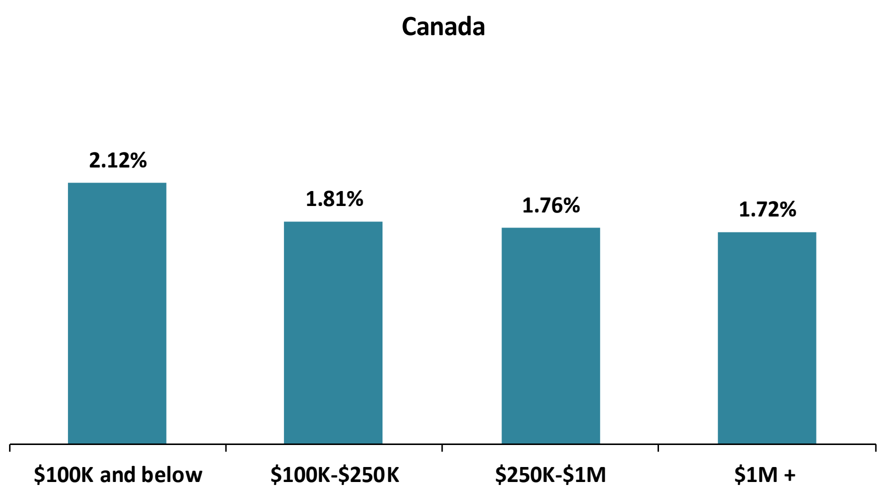
Fund	Manager	Assets
RBC Canadian Dividend Fund	RBC Global Asset Management	$18,022
Investors Dividend Fund	Investors Group	17,392
RBC Bond Fund	RBC Global Asset Management	12,837
Fidelity Monthly Income Fund	Fidelity	12,760
TD Canadian Bond Fund	TD Asset Management	10,756
Imperial Canadian Bond Pool	CIBC Asset Management	10,107
Manulife Monthly High Income Fund	Manulife Mutual Funds	9,538
RBC Monthly Income Fund	RBC Global Asset Management	9,459
TD Canadian Core Plus Bond Fund	TD Asset Management	9,116
TD Monthly Income Fund	TD Asset Management	8,693
Phillips, Hager & North Bond Fund	RBC Global Asset Management	8,618
Imperial Canadian Dividend Income Pool	CIBC Asset Management	8,169
Imperial Short-Term Bond Pool	CIBC Asset Management	8,160
Fidelity Canadian Asset Allocation Fund	Fidelity	7,216
Scotia Canadian Dividend Fund	Scotia Global Asset Management	7,211
RBC Balanced Fund	RBC Global Asset Management	6,881
TD Dividend Growth Fund	TD Asset Management	6,715
PIMCO Monthly Income Fund (Canada)	PIMCO Canada	6,546
Fidelity Canadian Balanced Fund	Fidelity	6,076
CIBC Monthly Income Fund	CIBC Asset Management	5,909

The Effect of Asset Levels on the Cost of Ownership

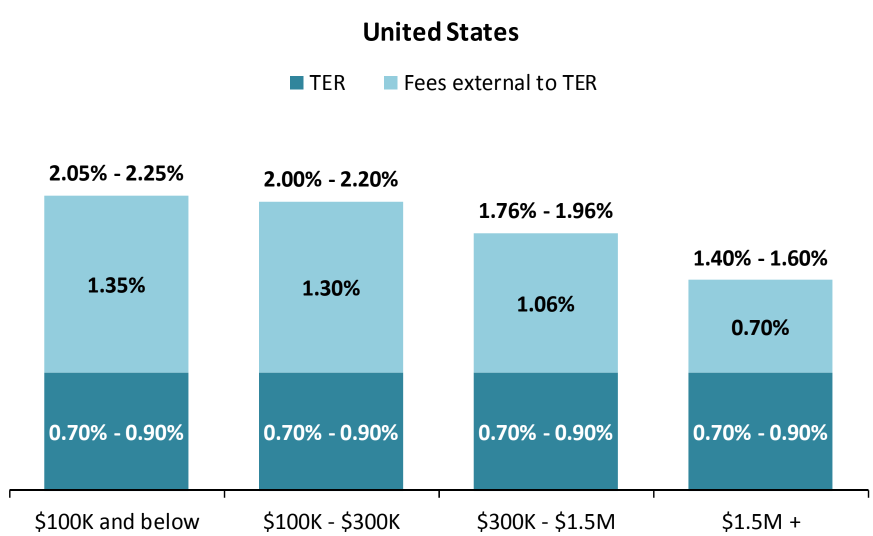
For more modest account sizes, the average Canadian mutual fund cost of ownership in advice channels can be lower than the U.S. This is the result of the potentially higher fee-based account fee ranges for U.S. investors. However, emerging competitive pressures in the U.S. are pushing the fee-for-advice fee levels towards the lower end of the fee range.

In Canada, similar pressures have resulted in an overall decline in fee levels charged to clients using fee-based brokerage and advisor managed accounts, as well as declining fund management fee levels. This is particularly the case in the unbundled F-series and the HNW-series, both of which target the high end of the fund investor spectrum.

Figure 8: Cost of ownership by Account Size—2013
Segments expressed in local currency



**Cost of ownership by account size estimated based on fee-based account and mutual fund series assets.*
Source: Investor Economics.



Source: Strategic Insight.

In both Canada and the U.S., most distributors and mutual fund firms offer a lower price point for clients with mutual fund holdings in a specific fund above certain thresholds. These discounts are applied either via discounted share classes and/or by lowering the level of fees in fee-based accounts. **Figure 8** shows the typical price points by account size in both countries. The segments overlap to the extent that is possible, given the available data for each country and reflect the average fee of mutual fund series relevant to each segment plus account and servicing fees (if applicable). Pricing in this figure does not reflect a wide range of discretionary managed solutions typically available to high end investors.

Based on this sample, compared to the U.S., Canadian mutual fund manufacturers and distributors offer a considerable discount in mutual fund and advisory fees to clients with between $100,000 and $1 million. In Canada, this segment is typically referred to as the mass-affluent.

According to Strategic Insight, in the U.S., by contrast, the discount in fees becomes more significant when client assets reach $1 million and this discount deepens for multi-million dollar accounts. This is not the case in Canada, where the fee level for accounts with more than $1 million dollars is only marginally lower than that of mass-affluent clients.

A number of factors associated with the composition of each market in terms of household wealth accumulation and the products and services available to HNW clients explain why the level of fee discounts in both countries differs for each client segment. These factors include the difference in size and composition of the HNW communities in Canada and the United States; the nature of investment options available to HNW households; and the role of mutual funds in discretionary managed solutions. Unlike the case in the United States, funds in Canada are not as widely used in the construction of discretionary portfolios.

Disclaimer

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NEW EVIDENCE ON THE VALUE OF FINANCIAL ADVICE

By Dr. Jon Cockerline, Ph.D.

A Guide to the Research Paper: *Econometric Models on the Value of Advice of a Financial Advisor* by the Center for Interuniversity Research and Analysis on Organizations

CIRANO
Knowledge into action
Center for Interuniversity Research and Analysis on Organizations

New Evidence on the Value of Financial Advice
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Is having a financial advisor really worth the cost?

Unfortunately, scientific literature on the topic has been scarce. The absence of confirming scientific evidence from a recognized academic source has allowed doubts to persist.

This has all changed with the recent release by the Center for Interuniversity Research and Analysis on Organizations (CIRANO) of the research paper *Econometric Models on the Value of Advice of a Financial Advisor* by researchers Professor Claude Montmarquette and Nathalie Viennot-Briot. The research paper uses econometric modelling and a robust sample of Canadian households to demonstrate convincingly that having a financial advisor contributes positively and significantly to the accumulation of financial wealth. It provides important insights on how the process of advised wealth accumulation actually works.

In particular, the research paper provides new evidence that:

1. Advice has a positive and significant impact on financial assets after factoring out the influence of close to 50 socio-economic, demographic and attitudinal variables that also affect individual financial assets;
2. The positive effect of advice on wealth accumulation cannot be explained by asset performance alone: the greater savings discipline acquired through advice plays an important role;
3. Advice positively impacts retirement readiness, even after factoring out the impact of a myriad of other variables; and
4. Having advice is an important contributor to levels of trust, satisfaction and confidence in financial advisors—a strong indicator of value.

The CIRANO research paper is written for experts with a deep understanding of econometric models, and it is complex. New Evidence on the Value of Financial Advice is a guide to understanding the research paper, including its methodology and findings, and highlights the important contributions of the research paper to our understanding of advice and how it benefits investors.

TABLE OF CONTENTS

INTRODUCTION

Is having a financial advisor really worth the cost? Not an easy question: the impact on an individual's assets from having a financial advisor relative to not having one is not directly observable, and the role of advice in wealth accumulation is not well understood.

One place to look for an answer is in the substantial body of evidence that has been collected over the last two years by independent market research firms.[1] These studies demonstrate that financial advisors add value in a number of ways: by recommending asset mixes that are right for the needs of their clients; by advising on vehicles for optimization and tax efficiency; and by encouraging savings through programs and planning targets.

The first Canadian quantitative studies that demonstrate significant advantages for advised relative to non-advised households were released by the Investment Funds Institute of Canada (IFIC) in 2010 and 2011 using data from Ipsos Reid's Canadian Financial Monitor.[2]

The studies show dramatically higher investible assets and net worth of advised relative to non-advised individuals after accounting for age and income level. Average net worth for advised investors is nearly three to four times greater than that of non-advised investors, and wide differentials are observed across all age and income levels. These results are reinforced in separate research conducted by The Strategic Counsel for the Financial Standards Planning Counsel in 2010 and by Pollara Research for IFIC in 2011.[3]

These studies give rise to a number of questions: Are the conclusions reliable? Are there other variables besides age, income, and advice which might explain the wide differentials? Do the findings accurately reflect the impact of advice on wealth accumulation or are they impacted by other variables, such as potential bias arising from the prevalence of wealthy clients seeking advice?

[1] Ipsos Reid, Value of Financial Advice, prepared for The Investment Funds Institute of Canada (IFIC), October 4, 2011; Pollara Research, Canadian Investors' Perceptions of Mutual Funds and the Mutual Funds Industry, 2011; Strategic Counsel for the Financial Planning Standards Council (FPSC), The Value of Financial Planning, May 2010.
[2] IFIC, *The Value of Advice: Report 2010 and The Value of Advice: Report 2011.*
[3] See footnote 1.

Unfortunately, scientific literature on the topic has been scarce. The absence of confirming scientific evidence from a recognized academic source has allowed doubts to persist.

This has all changed with the recent release by the Center for Interuniversity Research and Analysis on Organizations[4] (CIRANO) of the research paper *Econometric Models on the Value of Advice of a Financial Advisor* by researchers Professor Claude Montmarquette and Nathalie Viennot-Briot.

The research paper is the first academic study on this topic to apply scientific methods that address these questions directly.[5]

The CIRANO research paper uses econometric modelling[6] and a robust sample of Canadian households to demonstrate convincingly that having a financial advisor contributes positively and significantly to the accumulation of financial wealth. It provides important insights on how the process of advised wealth accumulation actually works.

"The CIRANO research paper is the first academic study on this topic to apply scientific methods that address these questions directly."

[4] CIRANO (www.cirano.qc.ca) brings together over 180 professor-researchers active in a variety of disciplines, including economics, finance, management, information systems, computer science and operational research, psychology, sociology, political science, law, history and medicine. These researchers belong to eight Québec academic institutions and more than 10 institutions from other parts of Canada, the United States and Europe. More than 20 of them hold research chairs. Recognized internationally, these experts produce high-calibre scientific work and publish in leading international journals.

[5] The study contributes to our understanding of the value of advice and the role it plays in building wealth by applying scientific methods to a unique, exhaustive and very rich set of data. However, the data are obtained at a particular point in time, and are subject to limitations. For example, they cannot convey any information about individuals who have recently moved from being advised to being non-advised, or vice versa—a factor which may introduce some bias into the estimated impacts of having or not having advice over an extended period. A more fulsome study could be provided through the use of panel or longitudinal data whereby the same individuals are observed over a long period of time. Such a study has not been done to date.

[6] Econometric modelling studies the statistical relationship between different variables, including causal relationships. It aims to isolate the impact of a specific variable when all others have been taken into account.

SURVEY AND METHODOLOGY

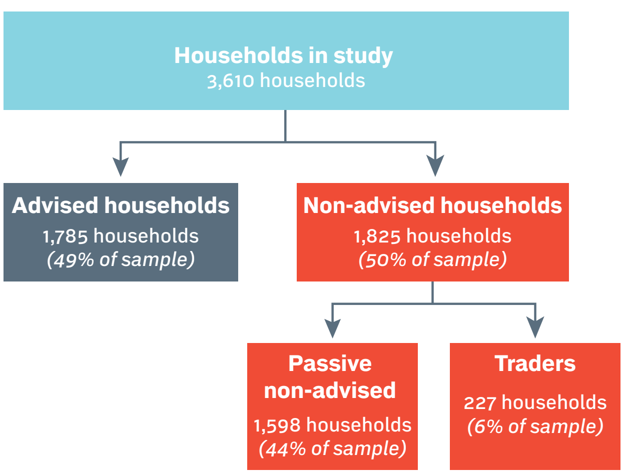
A significant feature of the research paper is the depth and quality of its underlying data—the largest and most extensive database yet developed in Canada for this purpose.

The initial research, conducted by Ipsos Reid in December 2010, consists of a 45-question internet survey, to which 18,333 Canadian households responded.[7] The initial sample has been reduced to 10,505 households through filters removing retired households, households with annual incomes greater than $250,000 or less than $10,000, households reporting above-average incomes and no financial assets, households with pension contribution rates above 30%, and those with savings rates greater than 90%.

3,610

households in research study

In a follow-up survey of the same 10,505 households between June 24, 2011 and August 2, 2011, Ipsos Reid received 4,978 responses to a survey containing similar questions to the original survey plus new questions about the respondents' financial situation, investment behaviour and attitudes towards savings and advice. Filters were applied to remove households that responded inconsistently to the two surveys, misinterpreted investment questions, completed the survey in less than 10 minutes, had investments of less than $1,000, expected to retire at an age less than 45 years, or had investment-to-income ratios greater than 50%. This produced a high-quality final sample of 3,610 households.



CIRANO researchers, Professor Montmarquette and Ms. Viennot-Briot have now taken this research to a new level by applying scientific methods to analyze the data. Their first step was to segment the households into two groups: those who indicate that they have received financial advice (termed "**Advised**" in the research paper) and those who indicate that they have not received financial advice (termed "**Non-Advised**").[8] The researchers then distinguish between two types of Non-Advised participants—those who do not receive advice because they consider themselves capable of managing their own investments (termed "**Traders**")[9], and the remainder (termed "**Passive Non-Advised**"). The study sample contains 1,785 Advised households (49% of the sample), 1,598 Passive Non-Advised households (44% of the sample) and 227 Traders (6% of the sample).

[7] Ipsos Reid was commissioned by Power Financial to conduct a broad survey about the use of financial services in December 2010. Professor Claude Montmarquette and Ms. Viennot-Briot designed a follow-up survey specifically targeted to studying the value of advice. The combined dataset has been provided to CIRANO to work with and publish.
[8] Households were classified as Advised or Non-Advised according to their response to the question: "Does anyone in your household currently deal with a financial advisor?"
[9] The Traders were Non-Advised respondents who agreed with the statements: "I do my own financial planning" and "I am capable of doing my own finances".

In general, those in the Traders group are older with higher incomes, more education and a higher level of financial literacy than Passive Non-Advised households. Since they are a small group in numbers, large in assets, and motivated differently with regard to savings and attitudes toward advice than the other two groups, the researchers have studied them separately.

A second distinguishing feature of the research paper is to the richness of the data. A host of socio-economic, demographic and attitudinal information was collected on each of the respondents (as presented in the following chart) so that asset levels could be compared for households that were effectively identical in all respects except for their use of advice.

Table 1: A selection of the variables studied in the CIRANO research paper

Demographic characteristics	Economic situation	Advice categories
• Sex • Age • Post-secondary diploma • Financial literacy • Risk aversion • Preference for investing or receiving cash today • Number of income earners • Marital status • Region	• Household's annual income • Annual savings • Source of income • Employment sector • Minimum living needs at retirement • Willingness to save for retirement	• Level of financial assets required to seek advice • Tenure of advice

With this rich database, the researchers were able to single out the effects of advice on asset accumulation after accounting for more than 50 other variables that also influence wealth accumulation.

This section reviews the findings in the research paper, beginning with the raw data and then outlining the analysis and conclusions drawn from the econometric analysis.

1. ADVICE HAS A POSITIVE AND SIGNIFICANT IMPACT ON WEALTH ACCUMULATION

Median and mean asset levels for Non-Advised households (including Passive Non-Advised and Traders) and Advised households are provided in Table 2. Consistent with previous research, analysis of the raw data shows us that those in the Advised group have significantly larger asset balances than the Non-Advised.

Table 2: Financial assets held by Advised and Non-Advised Households

	Non-Advised[10]	Advised
Number of respondents	1,825	1,785
Median financial assets	$24,000	$101,000
Mean financial assets	$93,384	$193,772

Chart 1 displays median asset levels for the Advised and Non-Advised groups. As the chart illustrates, Advised households have 4.2 times the median assets of Non-Advised households.

Chart 1: Financial assets held by Advised and Non-Advised households

[10] Includes all Non-Advised households, including Passive Non-Advised and Traders.

The large difference in assets that is observed may be the result of other variables besides advice. For example, it is easy to argue that a household's rate of asset accumulation could also depend on demographic, economic and other variables such as age, education, marital status, annual income, gender of the head of the household, the number of income earners in the household, savings rates, sources of income (whether salaried, pensioned, self-employed, full- or part-time), perceived living needs in retirement, preferences for consumption and investment, financial literacy and the region of Canada in which the household is located.

> "The influence of advice on assets is interpreted as the impact of advice after correcting for all of the other variables."

One way to separate out the effects of advice from these other potentially important variables is to incorporate all variables, including whether or not the household has advice, in a single regression model. The importance of each variable on the level of assets can then be determined statistically from the estimated coefficients.[11] In such an analysis, the influence of advice on assets is interpreted as the impact of advice *after correcting for all of the other variables*.

Unfortunately, when the variables in regression models are not truly independent, inferences drawn about the connections between variables can be incorrect. For example, imagine a two-way relationship between the variables of wealth and advice, which could look something like this: having a financial advisor contributes to the wealth of a household, while at the same time, a household's wealth may trigger the need for advice, or make the household more attractive as a prospective client. In such cases, advice is not truly an independent determinant of the level of wealth. This problem is addressed in the research paper by creating a new variable—*the probability of having a financial advisor*—for each of the respondents, and then using this as an "instrumental variable" [12] in an equation explaining the level of assets.

The probability of having a financial advisor

The researchers find that the probability of having a financial advisor is affected primarily by income levels, the capacity of the household to save, and the age of the respondent. Respondents who declare that they will never save for retirement are less likely to have a financial advisor, and couples with no children are more likely to have a financial advisor.

[11] An "estimated coefficient" measures the variability in a data set. It provides a measure of how well future outcomes are likely to be predicted by the model.
[12] The "Instrumental Variable" technique is standard econometric practice for correcting for inconsistency of estimates caused by explanatory variables that are not independent.

An additional variable called the “Advice Threshold” [13] is also found to have a significant impact. Advised households report that they began working with a financial advisor when they had very modest levels of assets. (The median initial investment is $11K.) Passive Non-Advised households report that they believe they would need higher balances: 44% of Passive Non-Advised believe they need assets of $50K or more to engage an advisor, and 65% of Traders believe that they need $100K or more.

Table 3: Lists variables that are key in explaining whether those studied have a financial advisor

Category	Respondents with the following characteristics were significantly more likely[14] to have a financial advisor
Advice threshold	Those who do not believe that a relatively high asset level is required to seek advice.
Income	Those with household income of $90,000 or more.
Savings rate	Positive savings rate: those with higher savings are more likely to have an advisor.
Willingness to save for retirement	Those saving for retirement.
Household composition	Couple with no children.
Age	45-65

The probability that a given household has a financial advisor is used as an “Instrumental Variable” in explaining the level of financial assets.[15]

The level of financial assets

The most important variables explaining the level of assets of Advised and Non-Advised households are shown in Table 4 on page 12. The presence of a financial advisor, when engaged for periods of four to six years, seven to 14 years, and 15 or more years, contributes positively and significantly to the level of assets when the impact of all other variables have been factored out. Moreover, the impact on the level of assets is more pronounced the longer the tenure of the advice relationship.

[13] The “Advice Threshold” is the actual level of assets that Advised Households had when they first started working with a financial advisor, and the level of assets that Passive Non-Advised Households and Traders perceive they would need to engage an advisor.

[14] These variables had estimated coefficients that are significant at the 99% level ($p<0.01$). For a detailed list of coefficients, see Appendix A.

[15] A similar analysis was applied to the sample of 1,825 Non-Advised and Trader respondents to predict the “Probability of Being a Trader”. Again, “Advice Threshold” is found to be a significant determinant of the “Probability of Being a Trader” – this time significantly positive. The higher the perceived level of assets needed to engage an advisor, the more likely the respondent is to be a Trader. These results, reported fully in the research paper, illustrate the different characteristics of the Trader group among the sample of Non-Advised respondents.

Many of the variables in the regression model have significant impacts on wealth accumulation. For example, significantly higher asset levels are found in households with income levels above $35,000, ages over 45, those who are financially literate, males, and those residing in Alberta, Ontario, and British Columbia. Significantly lower asset levels are found in households with the intention of never saving for retirement, those that are risk averse, and those with two or more income earners.

Table 4: Sample variables explaining the level of assets

Category	The following characteristics were significant factors[16] in predicting the level of assets held by respondents
Tenure of financial advice	At least 4 years. (Longer tenure is predictive of higher level of assets.)
Income	Over $35,000. (Higher income is predictive of higher level of assets.)
Financial literacy	Demonstrated financial literacy is predictive of higher assets.
Gender	Being male is predictive of higher assets.
Age	Being between ages 45-65 is predictive of higher assets. Higher age is predictive of higher assets.
Household composition	Households with two or more income earners are predictive of lower assets.
Province	Residing in Ontario, Alberta or British Colombia is predictive of higher assets.

Based on these results, the researchers conclude that:

- Having a financial advisor has a significantly positive relationship on the level of household financial assets, and
- The longer the advice relationship, the greater the impact. These impacts exist after accounting for the broad range of variables described in Table 1.

What can be said about the magnitude of the impact of advice? The researchers estimate these impacts using the estimated coefficients on the tenure of advice.[17]

[16] These variables had estimated coefficients that are significant at the 99% level (p<0.01). For a detailed list of coefficients, see Appendix B.
[17] The detailed methodology is provided in the research paper, footnote 24, p.17. The variables can be found in Table II1.2. of the research paper.

Chart 2[18] shows financial assets for households that received advice over various time periods, as a multiple of the financial assets of households that did not receive advice. This data removes the influence of all other variables, so that the difference is attributable only to receiving financial advice.

The data show that an Advised household that has worked with a financial advisor for four to six years accumulates 58% (1.58 times) more assets than a Passive Non-Advised household that is identical in all other respects. Similarly, a household with a financial advisor for seven to 14 years accumulates 99% (1.99 times) more assets than an otherwise identical Passive Non-Advised household. After 15 years or more with a financial advisor, the Advised household accumulates 173% (2.73 times) more assets than an otherwise identical Passive Non-Advised household.

"...an advised household that has worked with a financial advisor for 15 or more years has 2.73 times more assets."

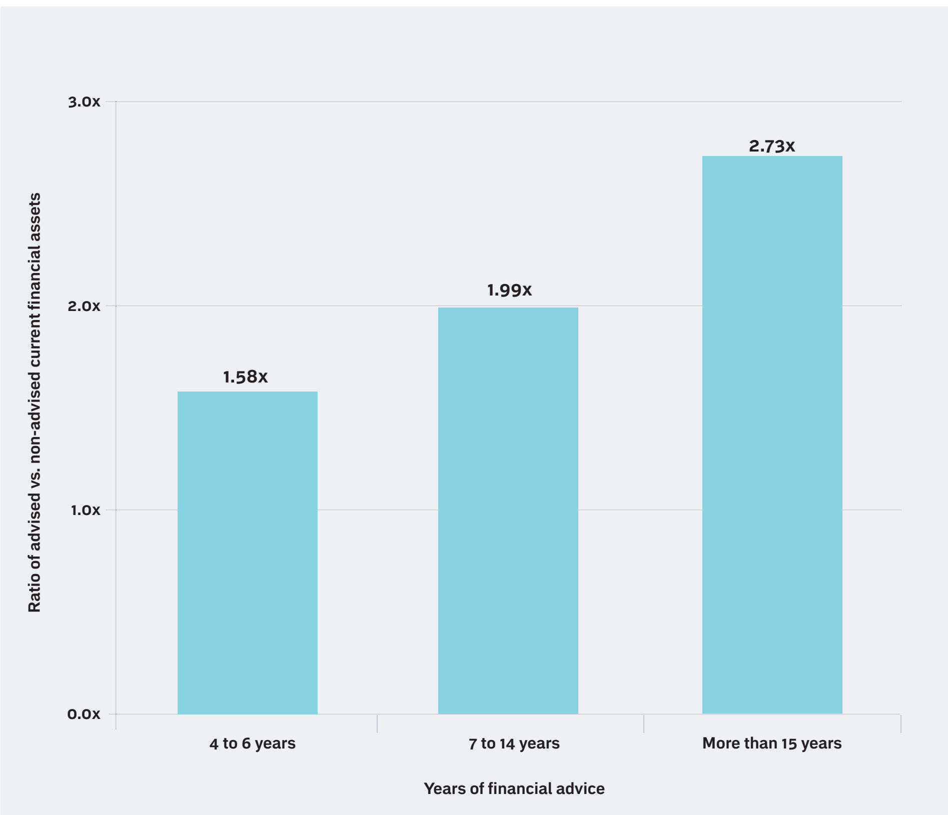


Chart 2: Comparison of financial assets between households that received advice and those that did not receive advice depending on the length of the advice relationship

[18] This chart has been adapted from the original chart in the CIRANO research paper. The CIRANO chart included raw data (before removing the influence of other factors). This chart shows only the econometric data, in which the influence of other factors has been removed.

2. ADVICE IMPROVES SAVINGS BEHAVIOUR

What could explain why Advised households have more assets than Passive Non-Advised households over the same time period, after all other observable differences are controlled? For example, as Chart 2 illustrates, households that receive financial advice over 15+ years have 2.73 times more assets than Passive non-Advised households over the same period. One suggestion might be that financial advisors are able to improve the investment returns of their clients through asset selection and portfolio optimization. In other words, better assets and better asset mixes translate into improved returns and higher asset levels over time. Is this a plausible explanation of the significant differences in asset levels shown in Chart 2?

Efficient market theorists would argue that return advantages derived from advice are not much greater than zero, if at all. On the other hand, empirical research documents investment returns, net of fees, on advised accounts that are as much as 3% higher than on non-advised accounts.[19] While this debate continues, it might be reasonable to conclude that a financial advisor could produce a yield advantage for clients of between 0 and 3% annually relative to what clients could earn on their own.

In order to determine if this yield advantage can explain the difference in asset levels between advised and non-advised households reflected in Chart 2, the researchers take the upper end of this range—3% net of fees—and examine the impact of this additional yield on financial assets over time. Their analysis (illustrated in Chart 3) shows that the impact of a compound 3% annual rate of return advantage on assets falls substantially short of asset levels observed for the households that received advice, for all three tenures of financial advice. For example, it would take over 15 years for a 3% yield advantage to increase assets by 58%; the advised households achieve this differential in 4 to 6 years. Clearly, the increase in assets of Advised households relative to Non-Advised households cannot be explained by asset selection alone.

"...the increase in assets of Advised households relative to Non-Advised households cannot be explained by asset selection alone."

[19] Aon Hewitt and Financial Engines *Help in Defined Contribution Plans:* 2006 Through 2010, September 2011 compared the accounts of workers who received some form of financial help with those who received no financial help in the period from 2006 to 2010. For median returns, the advised participants received on average returns net of fees about 3% higher than non-advised participants.

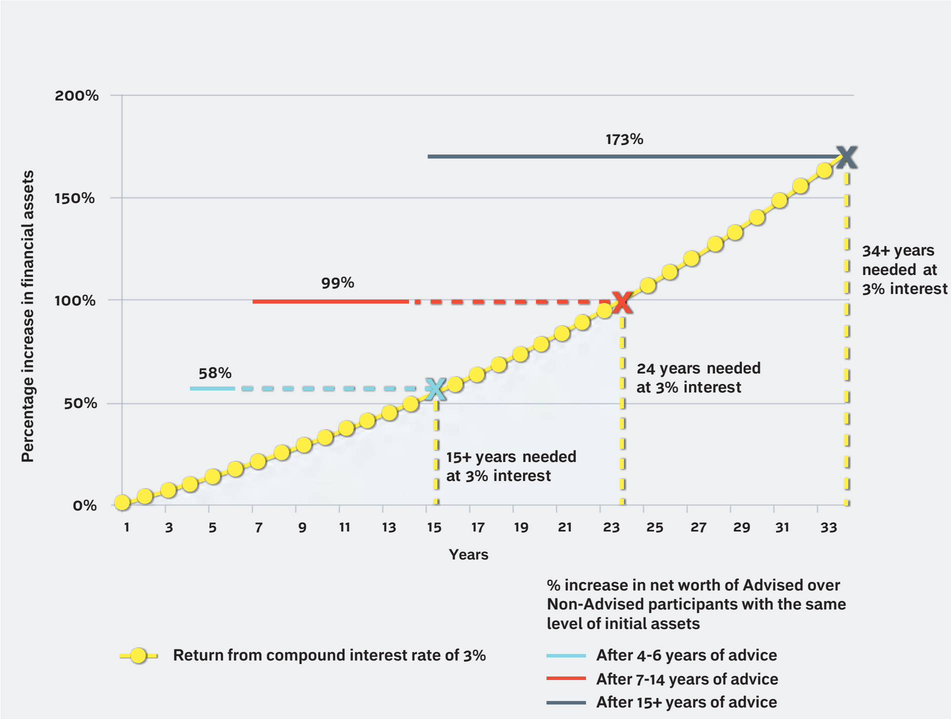


Chart 3: Impact of advice compared to growth from a compound interest rate of 3%

"Advised households save at twice the rate of Passive Non-Advised households."

To investigate this further, the researchers look at other variables that might help to explain the higher levels of assets acquired by Advised households. They note important differences in the savings rates of Advised and Passive Non-Advised participants. Table 5 shows that Advised households save at twice the rate of Passive Non-Advised households excluding Traders (8.6% compared to 4.3%). Traders save at the highest rate of 10.4%.

The researchers note that other studies report that advised investors hold higher proportions of non-cash investments, and participate more in tax sheltered plans, in comparison to non-advised investors.[20] Could any of these variables—the savings rate, the ratio of non-cash over total investments, and the ratio of RRSP investments over total investments—play a role in the higher asset levels achieved by Advised, as compared to Non-Advised households?

[20] IFIC, *The Value of Advice: Report 2010 and The Value of Advice: Report 2011.*

Advised	8.6%
Passive Non-Advised (excluding Traders)	4.3%
Traders	10.4%

Table 5: Savings rates for Advised, Passive Non-Advised, and Traders

To answer this question, the researchers develop predictive models[21] for each of these ratios. Since the ratios display classic features of "censored data",[22] the analysis requires conditional estimation techniques. For example, in the case of the savings rate, the researchers develop a predictive model to explain the savings rate among those who save. The savings rate model consists of two equations: one explaining the probability that the respondent will save, and the second explaining the rate, given that they are savers.

"... financial advice increases the probability that a respondent saves, and among those who do save, it increases the rate of saving."

The results from the savings rate model demonstrate that financial advice increases the probability that a respondent saves, and among those who do save, it increases the rate of saving.

Similar models are designed for the "ratio of non-cash to total investments" and the "ratio of RRSP to total investments". The predictive values of the three ratios are then added as explanatory variables in a model explaining the level of assets. This analysis found statistically significant positive effects for the "savings rate" and the "non-cash to total investments ratio". According to these findings, a 1% increase in the "savings rate" increases the level of assets by 8.7% and a 1% increase in the "ratio of non-cash assets to total investments" increases the asset level by 8.5%.

The effect of having a financial advisor on the level of financial assets can be isolated through the predictive values of the ratios described above. The researchers conclude that if you compare two otherwise identical individuals, the one with a financial advisor will have 106% more financial assets or 2.06x the level of financial assets of the passive non-advised respondent. This value is comparable to the previous analysis.

[21] "Predictive models" use the estimated coefficients and observed data for the determining variables to predict the value of the variable being explained – in this case the Savings Rate.

[22] With censored data, where the relationship being examined is only valid for non-zero or non-negative points, ordinary estimation techniques produce biased coefficients. For the savings rate, allocation to non-cash assets, and ratio of RRSP investments, the researchers adjusted for this by applying a Tobin Type 2 methodology to estimate the determinants of the dependent variable conditional on it being non-negative. For each ratio, the technique consisted of estimating two equations—a Probit Model to explain the probability of a non-negative ratio, and a regression model to explain the ratio, conditional on it being positive.

To sum up, the researchers show that:

- The higher level of assets acquired by Advised households in comparison to Passive Non-Advised households cannot be explained by asset selection alone;
- Having advice is an important contributor to the rate at which households save; and
- Higher savings rates contribute to higher levels of assets.

All evidence points to **improved savings behaviour** as the key to the relative success that Advised households have in accumulating assets, and the important role of the financial advisor in encouraging this behaviour.

3. ADVICE POSITIVELY IMPACTS RETIREMENT READINESS

Survey respondents exhibit strong differences with regard to retirement readiness. On a scale of one to 10, a total of 56.4% of Advised households indicate with a score of six or higher that they feel confident they will have enough money to retire comfortably. Only 40.8% of Passive Non-Advised households feel the same way. Traders again differentiate themselves with 71.4% declaring this level of confidence.[23]

To test whether or not these differences can be attributed to the presence of advice or better explained by other variables, the researchers develop a model for retirement readiness as explained by financial advice plus all external variables (such as those described in Table 1).[24]

Having a financial advisor is found to have a strong and significantly positive effect on the level of retirement readiness. Controlling for all other explanatory variables, the researchers show that having a financial advisor increases the probability of a respondent declaring confidence in achieving a comfortable retirement by more than 13% relative to a Passive Non-Advised respondent.[25]

Other important characteristics promoting high levels of confidence include: high incomes, availability of workplace pensions, and employment in the public sector. Respondents who are older, and thereby closer to retirement, are less likely to feel confident that they will have enough money to retire comfortably.

"Survey respondents exhibit strong differences with regard to retirement readiness."

[23] Respondents were asked: "To what extent do you either agree or disagree with the following statement: 'I am confident that I will have enough money to retire comfortably'?"

[24] The researchers use a Simultaneous Probit Model with the first equation explaining the probability of being ready for retirement and the second equation the probability of having a financial advisor, as defined on page 10.

[25] To compute this, the researchers calculate the marginal effect for each individual. The mean of these marginal effects is the value reported in the text.

4. ADVICE POSITIVELY IMPACTS LEVELS OF TRUST, SATISFACTION AND CONFIDENCE IN FINANCIAL ADVISORS

Trust in financial advisors

A person's declared trust in financial advisors is an important indicator of the value that the person attaches to financial advice in general. The research study examined this by asking all respondents the following questions:

- From the initial survey: "Do you trust financial advisors?"
- From the follow-up survey: "Do you associate 'trustworthy' or 'trusted' with the term 'Financial Advisor'?"

For both sets of responses, the researchers estimate equations similar to the above analysis of retirement readiness.[26] While there are some differences between the two sets of results, both provide strong confirmation that having a financial advisor increases the probability of declaring trust in financial advisors. Controlling for all other explanatory variables, the research study identifies that an Advised respondent has a 28% higher probability of declaring trust in financial advisors than to a similar Passive Non-Advised respondent for the initial survey question, and a 32 percentage point higher probability for the follow-up question.[27]

Satisfaction with financial advice

When a client is satisfied with a service, s/he is likely to continue with that service in the future.

The researchers measured satisfaction with financial advice by asking people with advisors: "Thinking about your primary financial advisor, how would you rate your household level of satisfaction with the following items?" The items explored in this question were:

- Value for money/cost,
- Product offering,
- Service offering (e.g., financial planning, tax advice, insurance advice, asset allocation),
- Knowledge level,
- Financial outcome/performance,
- Personal attention and understanding of my situation,
- Accessibility, and
- Independence.

The researchers found the levels of satisfaction for these measures to be stable and very high, ranging from 74.7% (value for money/cost) up to 86.3% (knowledge level).

[26] For both, the researchers use a Simultaneous Probit Model with the first equation explaining the probability of trusting a financial advisor and the second equation the probability of having a financial advisor, as defined on page 10.
[27] The estimated impacts are derived according to the methodology supplied in the research paper, footnote 31, p. 26.

Confidence in financial advice

To examine respondents' level of confidence in financial advice, the follow-up survey asked: "Which of the following words do you associate with the term 'financial advisor'?" Respondents were asked to select all words that apply.

Some of the words are clearly negative (e.g., confusing, detached, dull) and others are clearly positive (e.g., competent, friendly, trustworthy). The researchers compute a general scale from the responses from 0 (the lowest) to 1 (the highest). Respondents with scores of from 0.8 to 1.0 are counted as having "high confidence" in financial advisors. Respondents with scores of from 0 to 0.2 are counted as having "low confidence" in financial advisors.

Applying a similar methodology for satisfaction levels, the researchers test the probability of having a high level of confidence in financial advisors. The same treatment is then applied for the probability of having a low level of confidence in financial advisors.

The results indicate strongly that respondents who have a financial advisor are more likely to have a high level of confidence in financial advisors, and less likely to have a low level of confidence in financial advisors.

"The results indicate strongly that respondents who have a financial advisor are more likely to have a high level of confidence in financial advisors."

New evidence is brought to bear on the value of financial advice with the release by CIRANO of the research paper *Econometric Models on the Value of Advice of a Financial Advisor* by Professor Claude Montmarquette and Nathalie Viennot-Briot.

Through scientific data analysis of a robust sample of Canadian households, the researchers convincingly demonstrate that having a financial advisor contributes positively and significantly to the accumulation of wealth, and provides important insights on how advice contributes to asset growth.

The research paper provides new evidence that:

1. **Advice has a positive and significant impact on financial assets after factoring out the impact of close to 50 socio-economic, demographic and attitudinal variables that also affect individual financial assets;**
2. **The positive effect of advice on wealth accumulation cannot be explained by asset performance alone: the greater savings discipline acquired through advice plays an important role;**
3. **Advice positively impacts retirement readiness, even after factoring out the impact of a myriad of other variables; and**
4. **Having advice is an important contributor to levels of trust, satisfaction and confidence in financial advisors—a strong indicator of value.**

Financial advisors instill in their clients the importance of saving regularly and maintaining a savings discipline through the execution of a plan. The research paper confirms that this fundamental behavioural change is likely to be at the root of the higher asset growth of Advised relative to Passive Non-Advised investors. Advice is found to contribute significantly to the rate at which households save. The longer the advice relationship, the greater the impact on wealth. Individuals receiving advice are more confident that they will have enough to retire comfortably, and they exhibit higher levels of trust, satisfaction and confidence in financial advice. These are all important indicators that advice creates lasting and measurable value for those who receive it.

ESTIMATED COEFFICIENTS FOR SIGNIFICANT VARIABLES EXPLAINING THE PROBABILITY OF HAVING A FINANCIAL ADVISOR

This table provides the estimated coefficients for variables listed in Table 3 (page 11). All coefficients shown are significant at the 99% level (p<0.01).

Significant Variables Explaining the Probability of Having a Financial Advisor	Estimated Coefficient[28]
Advice Threshold	-1.62e-06
Income before taxes >=90,000	0.416
Savings > 0 and <= 3,000	0.255
Savings >3,000 and <= 10,000	0.444
Savings > 10,000	0.673
Never save for retirement	-0.578
Couple with no children	0.260
45<= age<54	0.294
54<=age<65	0.535

[28] Coefficients extracted from the research paper, Table I.1, p.11. Only coefficients with the highest level of significance (p<0.01) are listed in this appendix.

ESTIMATED COEFFICIENTS FOR SIGNIFICANT VARIABLES EXPLAINING THE LEVEL OF ASSETS

This table provides the estimated coefficients for variables listed in Table 4 (page 12). All coefficients shown are significant at the 99% level ($p<0.01$).

Significant Variables Explaining the Level of Assets	Estimated Coefficient[29]
Tenure of Financial Advice: 4 to 6 years	0.456
Tenure of Financial Advice: 7 to 14 years	0.687
Tenure of Financial Advice: 15 or more years	1.006
35000<= income before taxes <60000	0.482
60000<= income before taxes <90000	1.081
Income before taxes >=90000	1.682
Fully retired	0.387
Minimum living needs at retirement: More than 80%	-0.388
Never save for retirement	-0.926
Financial literacy	0.288
Male	0.196
45<= age<54	0.586
54<=age<65	0.950
Two income earners	-0.216
Three or more income earners	-0.379
Ontario	0.295
Alberta	0.424
British Columbia	0.395
Constant	8.947

[29] Coefficients extracted from the research paper, Table II 1.2, p.15. Only the coefficients of variables with the highest level of significance are listed in this appendix.

About this Publication

New Evidence on the Value of Financial Advice is a guide to understanding the research paper *Econometric Models on the Value of Advice of a Financial Advisor.* For more information about the research paper, refer to the box on the right.

The research paper was written for experts with a deep understanding of econometric models. New Evidence on the Value of Financial Advice provides a plain language overview of CIRANO's methodology and findings, and highlights the important contributions of the research paper to our understanding of advice and how it benefits investors.

About the Author

New Evidence on the Value of Financial Advice was written by Dr. Jon Cockerline, Ph.D., Director, Policy and Research, The Investment Funds Institute of Canada. Prior to his present position Dr. Cockerline was Director, Capital Markets at the Investment Dealers Association of Canada, and before that, he was Director of Research at the Toronto Stock Exchange. Dr. Cockerline began his career as an economist at the Bank of Canada. He subsequently held various positions with the federal Department of Finance including Chief, Debt Policy and Markets, where he was responsible for management and policy development for Canada's debt and foreign exchange reserves. Dr. Cockerline has a Ph.D. in Economics from McGill University and was awarded the CFA Charter in September 2003.

About The Investment Funds Institute of Canada

The Investment Funds Institute of Canada (www.ific.ca) is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers and distributors, to foster a strong, stable investment sector where investors can realize their financial goals. The organization is proud to have served Canada's mutual fund industry and its investors for 50 years.

For more information about New Evidence on the Value of Financial Advice, contact: Dr. Jon Cockerline, jcockerline@ific.ca, 416-309-2327

About the Research Paper

The research paper *Econometric Models on the Value of Advice of a Financial Advisor* was released in July 2012 by the prestigious Center for Interuniversity Research and Analysis on Organizations (CIRANO). It can be viewed online at: http://www.cirano.qc.ca/pdf/publication/2012RP-17.pdf

The lead researcher was Dr. Claude Montmarquette, Ph.D., President and Chief Executive Officer and Vice-President Public Policies at CIRANO. Dr. Montmarquette has a Ph.D. in economics from the University of Chicago, and is full professor in the Department of Economics at the University of Montreal. He is well known as a specialist in the economics and econometrics of education and labour, and in the economics of public choice.

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Annex D

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