

Industry News

Letters to the Editor: Targeted rules and firm culture needed, not best interest standard

Client's best interest not effectively achieved by a specific rule or regulation

By Ian Russell | August 04, 2016

Re: [Best interest standard needed](#), Comment, by Mary Condon, Investment Executive, July 2016

Professor Mary Condon, former commissioner of the Ontario Securities Commission, argued eloquently that a client best interest standard should be imposed on financial advisors and investment dealers. In her words, investors deserve no less. Condon puts it succinctly: a best interest standard "puts the client's interests first" in all dealings.

The investment industry and its professionals have always supported that proposition and continually strive to achieve it.

Condon notes that dealing "fairly, honestly and in good faith" with the client — the standard to which advisors and dealers are held under existing requirements — together with targeted client relationship model (CRM) reforms, are not sufficient to establish a client best interest standard. Her essay tries to persuade readers of the need for an overarching rule that imposes this standard as a regulatory obligation.

But acting in the client's best interests, or putting the client first in all dealings — a laudable objective — cannot effectively be required from a specific rule or regulation. Rather, it should be demanded as a regulatory outcome, much the same way as building investor confidence. Both are achieved by advisors registered by the Investment Industry Regulatory Organization of Canada carrying out their duties and obligations to the highest standard possible. Moreover, a strong firm culture and ethos to do the best for clients beyond the rules, but within the resources of the firm, is essential to achieve that desired result.

The Canadian Securities Administrators has gone beyond the investment advisor code of conduct and, quite rightly, articulated specific requirements through the CRM rule framework, and more recently proposed targeted reforms — rules and regulations that embrace better disclosure and more detailed obligations on investment advisors, notably suitability requirements and managing conflicts of interest. What is needed to meet the client's best interest is a sound set of rational and integrated rules and regulations, such as the CRM rule framework, buttressed with the proposed targeted reforms; good guideposts to assist advisors and firms comply with the rules; and strong firm culture to encourage practices that go beyond the rules.

Get the rules, guideposts and right culture in place, and that will ensure that the client's best interests come first. A new rule to require this desired regulatory outcome is not needed.

Yours sincerely,

*Ian Russell
President and CEO,
Investment Industry Association of Canada*

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