

Advocis News

ASSOCIATION UPDATES AND EVENTS

REGULATORY AFFAIRS UPDATE

The Banning of Commissions

What are the Consequences of Prohibiting Trailers on the Pricing and Supply of Financial Advice?

The Canadian Securities Administrators (CSA) remains fixated on embedded compensation for advisors. In recent years, CSA members have published, commissioned, or convened numerous discussion papers, research reports, and industry roundtables on the subject. Behind all this activity lurks the belief that the consumer interest requires a prohibition on embedded compensation. By banning third-party commissions, financial advice will be “unbundled” from the sale of financial products, so that it is no longer factored into the price of an investment product. Instead of a trailing commission or other form of payment being directed to the advisor by the product manufacturer, the consumer will receive advice only after making a payment directly to the advice provider. In this way, it is argued, advisors’ potential conflicts of interest created by third-party compensation will be eliminated.

The CSA Should Ask What the Impact of Unbundling is on the Transparency, Pricing, and Supply of Advice

Both economic theory and reality demonstrate that any interference with a widely used price mechanism — one popular enough to be a preferred choice of both buyers and sellers — almost always leads to a host of unfortunate, even if foreseeable, consequences. The U.K. — now several years into its own embedded-commissions ban — provides an illustration of what may lie in wait for Canadians, should the opponents of commissions carry the day.

The U.K.: Post-RDR, the Cost of Advice Rises and the Advice Gap Widens

By unbundling the provision of financial advice from the sale of financial products through a ban on third-party embedded compensation, the U.K.’s regulatory authorities planned to make it easier for investors to evaluate and choose between advice providers (advisors and the financial services firms employing them) and to make the process of comparing the costs and features of various investment options more transparent.

Reality has proved quite different from those expectations. Post-ban, firms began selling their products at a lower price — since advice was no longer built into their prices — and, by switching to a fee model, those same firms quickly started charging more for advice. Plus, with third-party embedded compensation no longer available, advisors were forced to jettison the lower-paying client segment, which has traditionally relied on the commission model. The result, according to the second *Heath Report* (www.theheathreport.com), is that roughly 16 million Brits now cannot or will not access financial advice, and that when grandfathered trailers come to an end later in 2016, another 1.5 to 2 million Brits will lose their advisors. The recently concluded Financial Advice Market Review (FAMR) reported that the cost of providing face-to-face advice means it is not financially viable for firms to advise people with simple requirements and/or smaller amounts to invest; a survey earlier this year reported that 69 per cent of U.K. advisors turned away potential clients during the previous 12 months.

A Glance at the U.S.: Relatively Opaque Fee-for-Advice Pricing Puts Consumers at a Disadvantage

Easy and accurate comparability of prices for similar goods is a necessary condition for efficiency in retail markets. Financial regulation should reduce investors’ search

costs so that they can quickly and confidently compare investment options and make informed decisions. In Canada, mutual fund investors can quickly compare the fees and charges associated with a fund, since they are included in the fund’s management expense ratio.

But disaggregating the cost of advice from the cost of the product can perversely make the true costs of advice opaque to individual retail investors. A prime example is the mutual fund market in the U.S., where fee-based distribution models are much more prevalent than in Canada. A 2012 report found that “the unbundling of fees has resulted in an increase in the total ... costs for many mutual fund investors.”¹ In the U.S., fee-for-advice costs are generally disclosed to mutual fund investors by the fund distributor on an individualized basis. Thus, from the consumer’s perspective, the cost transparency of financial advice *decreases* under a fee model. Without the ability to quickly and accurately make comparisons of the prices distributors charge for advice across a wide variety of mutual funds, the consumer finds herself *disadvantaged* under the fee-for-advice model. And on an industry-wide basis, opaque pricing largely eliminates downward pressures on the cost of advice; in contrast, MERs in Canada continue to trend downward, with ongoing industry and consumer scrutiny on fees playing a major role.

Let CRM2 Do What it Was Intended to Do: Ensure Disclosure of Relevant Cost Information

The final stages of CRM2, which take effect on July 15, 2016, will mean fund distributors must now provide a detailed annual report that explains the ongoing fees and charges associated with a fund investor’s purchases. With the *Fund Facts* disclosure at the point of sale, the new quarterly client statements, and the upcoming annual client reports, Canadian investors will this year become more informed than ever. It

EDUCATION UPDATE

New to the Advocis Learning Centre: Foundational Estate and Trust Course

Advocis members and non-members can now access the first course of the Certificate in Estate and Trust Administration (CETA) program through the Advocis Learning Centre. The CETA1 course, Foundations of Estate and Trust Administration, is offered online in self-study format and introduces students to the legal systems that govern trusts and estates. “Higher education continues to be a primary focus at Advocis. We are pleased that our new relationship with STEP Canada will give trust and estate professionals widespread access to this important base course,” says Brenda Molnar, director of education at Advocis. “It is a wonderful complement to the CLU designation program, which explores complex components of wealth, tax, and estate planning in greater detail.”

CETA1 offers an overview of the roles and responsibilities held by trustees, personal representatives, and substitute decision-makers. This course also examines the law of wills, the steps necessary for administering an estate, and the Canadian tax rules that apply on death and the taxation of trusts. “Upon completion, students have gained professional recognition and will have an enhanced ability to service clients in today’s dynamic market,” says Gillian Musk, TEP, national director of fiduciary trust management at BMO Private Banking, and chair of STEP Canada’s CETA program advisory committee.

To learn more or to register, please visit advocis.ca/ALC/STEP-Canada.aspx

strikes us as odd, therefore, that self-styled “consumer advocates” continue to insist that the pricing and payment of advice must be unbundled from the sale of the investment product. The fact of the matter is that the bundling of services reduces a consumer’s transaction costs — his time, money, and effort in searching out, comparing, and evaluating the cost of various forms of financial advice and financial products. Many consumers prefer the commission model, which lets them pay for their advice in a bundled fashion, with the costs spread out over time. As we have seen in the U.K., this is for many consumers the only way they are able to pay for advice.

It would be foolish to deny that combining the sales and advisory roles does not create the potential for the unscrupulous to engage in self-serving practices. But appropriately designed and targeted regulatory measures can effectively address that possibility. Let’s not make the same mistake the U.K. has. Let’s preserve choice for Canadians. If information is indeed power in the financial realm, the regulators owe it to the rest of us to make sure Canadians can access information in the manner they prefer. It’s either that, or make way for robo-advisors.

¹*Strategic Insight, A Perspective on the Evolution in Structure, Investor Demand, Distribution, Pricing, and Shareholders’ Total Costs in the U.S. Mutual Fund Industry* (Investment Funds Institute of Canada, November 2012), p. 5.

NOTICE OF ANNUAL GENERAL MEETING OF MEMBERS

The Annual General Meeting (AGM) of Members of The Financial Advisors Association of Canada, carrying on business as Advocis, will be held in such meeting space as may be determined, at the Toronto Airport Marriott Hotel, 901 Dixon Rd., Toronto, Ont., on **June 20, 2016 at 3 p.m.**

local time for the following purposes:

- To approve the minutes of the 2015 AGM
- To receive the audited financial statements for the financial year ended December 31, 2015, and the auditor’s report
- To appoint the auditor for the next fiscal period
- To elect directors
- Any other business

The AGM of Members of The Institute will be held in such meeting space as may be determined, at the Toronto Airport Marriott Hotel, 901 Dixon Rd., Toronto, Ont., on **June 20, 2016**, immediately following the conclusion of the Advocis AGM for the following purposes:

- To approve the minutes of the 2015 AGM

- To receive the audited financial statements for the financial year ended December 31, 2015, and the auditor’s report
- To appoint the auditor for the next fiscal year
- Any other business

NEWS FROM LAMP 2016

GAMA International recently hosted its annual LAMP conference from March 13–16 in Las Vegas. The event attracted more than 2,900 attendees from management teams around the world representing more than 20 countries. It was one of the largest LAMP conferences in GAMA history. More than 220 Canadians represented GAMA Canada International. The GAMA board would like to sincerely thank and acknowledge the sponsors from its GAMA Canada Reception. They are: The Co-operators, Sun Life Financial, Desjardins Financial Security, Ivari, Hoopis, Self Management Group, and Home Trust.

Save the date for future LAMP conferences:

- 2017: March 20–23 Washington, D.C.
- 2018: March 11–14 Nashville

For more information, visit www.gamacanada.com.

CHAPTER UPDATE

Advocis Kingston — Making Sense of Medical Marijuana and E-Cigarette Underwriting

Advocis Kingston's first professional development event of the year addressed the use of medical marijuana and e-cigarettes — two relevant and controversial issues that can affect clients. "We recognize that insurance agents are dealing with difficult questions in the field as use of medical marijuana and e-cigarettes becomes more prevalent, and both continue to receive extensive coverage in the media," says program chair Will Britton, CFP. Advisors should keep in mind that a lot remains unknown, which represents significant risk in the eyes of underwriters, Britton advises. "Both medicinal and lifestyle options are evolving rapidly, and the life insurance industry requires more time and experience to draw adequate conclusions, and bring best practices up to date."

At the March 9 event, Fatima Umar of Quality Underwriting Services spoke about the different types of marijuana use in Canada, and reviewed current statistics and laws on the drug's use. "With all the new laws coming into place for medicinal use and legalization of marijuana use, I think it's very important for advisors to be aware



of what is going on," Umar said in an interview with *FORUM*. "We will be hearing a lot more individuals feeling comfortable and more open about disclosing their use due to the legalization."

The chapter also brought in Caroline Keyes, chief underwriter with Empire Life, who was willing to share insights from the insurance company's perspective. "We approached her with the specific request to speak to us about e-cigarettes as a topic complementary to marijuana use. The different perspectives offered can be key to successfully navigating a challenging discussion with our clients," says Britton.

Overall, the event was well received, spurring active participation. "This was an

engaging, dynamic session with lots of questions and commentary from our attendees. It was as much a conversation as it was a presentation," says Britton. "Although there is still a great deal which remains unknown, as well as significant controversy over the practices themselves and industry's approach to handling them, attendees left the session better equipped to address the concerns of the ever-growing number of clients impacted by these risk factors."

"I believe it's a great training seminar for the advisors to attend, so they can be aware of all the so-called 'trends' that are out there while they are meeting with their clients or prospects," says Umar.

Advocis Windsor — Speaker Series

On Feb. 10, 2016, Advocis Windsor hosted another installment of its *Need to Know* speaker series, which aims to provide advisors with pertinent, timely information that they can implement in their practices immediately. "We really look to provide outstanding value to our chapter members with this series. Admission to this event is just \$5-\$10, despite providing CE credits and a full hot buffet breakfast," says program chair Michellyne Mancini, who helped develop the event. "The idea is to provide high-quality information on topics that advisors are dealing with right now."

This event featured Suzanna Winsborough, Hons. BA, LL.B., CFP, head of the Wills and Estates Division of Keyser Mason Ball, LLP. Winsborough spoke on two important top-

ics: new reporting requirements for estate administration tax, and changes to the taxation of testamentary trusts. These topics reflect new legislation passed in Ontario, which affect advisors and executors. "We want to give our advisors access to the very best and latest information, and bringing in an individual such as Ms. Winsborough does just that," says Mancini. Audience participation was particularly high, with Winsborough entertaining vigorous questions throughout the presentation. "When we see this type of intense audience interaction, we know the topic is relating significantly to our advisors' practices," says chapter president Elias Doskoris. According to past president Aaron Keogh, "Our chapter vice-president Rachelle Booth recently sent out a survey to our membership, and feedback about our events and about this speaker series has been very good."

BEST PRACTICES Q&A

ADVISOR INCORPORATION

QUESTION: I often work with clients who are either self-employed or small-business owners. One of the main issues we often discuss is incorporation, and in particular, the decision to incorporate. I have helped many of my clients with this decision, and now I'm faced with the same decision: Should I incorporate?

ANSWER: First and foremost, depending on your registration, advisor incorporation may or may not be an option for you. On the insurance side, incorporation for advisors licensed to sell insurance products is generally permitted by virtue of provincial insurance acts, which allow both corporations and individuals to be licensed.

On the investment side, the ability to incorporate depends on your registration platform: MFDA or IIROC. Advisors on both platforms are governed by the same regulatory bodies; namely, the provincial securities regulators. Yet, the rules are not uniform across both platforms when it comes to advisor incorporation. In short, MFDA advisors can incorporate, and IIROC advisors cannot.

So if you are in a position where you *could* incorporate,

the natural question becomes, "Should you incorporate?" Let's take a closer look at some key benefits of incorporation:

- Tax planning: Lower tax rate on the first \$500,000 of income per year, and the opportunity to split income with other shareholders.
- Succession planning: The ability to access the lifetime capital gains exemption on the sale of qualified small-business corporation shares.
- Business management: Recognized deductible business expenses that would otherwise be considered after-tax expenses in a typical employee structure.

Keep in mind, however, just because you can incorporate, doesn't necessarily mean you should. For example, the decision to professionally incorporate is not often suitable for a novice, and is generally more appropriate for a veteran advisor who has ownership interests in the revenue stream and control of his or her book of business. Other factors to consider include:

- Start-up costs, including the process of setting up the corporation and professional fees paid for legal and accounting services; and
- Increased formality and paperwork, including articles of incorporation, annual returns, specified corporate records, and corporate income tax returns.

For more information, please visit the Advisor Incorporation discussion in the Business Essentials section of the Best Practices Manual, available exclusively to Advocis members at www.advocis.ca.

TRIBUTE

Yvonne Ruth Harriott
1966–2016

The members of the staff at Advocis National are deeply saddened by the recent loss of their friend and work colleague Yvonne Harriott, who after a short but courageous battle with cancer passed away on March 29.

Yvonne was a well-respected and valued member of the education team and the association as a whole. She joined Advocis on September 11, 2006 as the education resources coordinator and was responsible for handling all of the administrative functions for the development of Advocis's Education programs. Yvonne also took part in the success of the annual Update by managing the facilitator coordination, as



well as gathering testimonials to help promote the value of the seminar each year. She worked effectively with the administrative staff at FPSC, CECAP, and provincial regulators responsible for accrediting CE programs and was instrumental in helping Advocis build bridges.

Collectively, the staff has many wonderful memories of Yvonne, be it her love of fashion, her passion for writing, or her fabulous sense of humour. Yvonne was definitely a style

setter at Advocis, not just in a fashion sense but also with her dynamic personality.

Everyone who interacted with Yvonne appreciated and respected her dedication and professionalism. Many will agree that her greatest contribution was the example she set with her positive attitude, beautiful smile, and easy laugh. Those who met Yvonne agree that they were privileged to have known her.

Yvonne will also be remembered fondly by her family, with whom she was very close, her many friends, and her literary fans who have come to respect her as a creative writer. Her Facebook friends will definitely miss her daily quotes, her hilarious stories about her shoes, and her adventures with her mom.

There is no doubt that Yvonne will be greatly missed by all. May she rest in peace and grace us now and then with the memory of her beautiful smile.