



Advocis
390 Queens Quay West, Suite 209
Toronto, ON M5V 3A2
T 416.444.5251
1.800.563.5822
F 416.444.8031
www.advocis.ca

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The Honourable Charles Sousa
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Sent via email to: submissions@ontario.ca

Dear Minister,

Re: 2016 Pre-Budget Consultations

Advocis, The Financial Advisors Association of Canada, is pleased to provide comments on Ontario's 2016 Pre-Budget Consultations.

I. About Advocis

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members (6,000 of them located in Ontario), organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to a professional Code of Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients' interests first. Across Canada, no organization's members spend more time working one-on-one on financial matters with individual Canadians than do ours. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.

II. Background

We congratulate the Government of Ontario for its leadership in reviewing the regulatory structure for the provision of financial advice and seeking effective and efficient solutions to the regulation of financial advisors, inclusive of financial planners.

Advocis has been monitoring financial advisor regulatory developments taking place in various international jurisdictions for several years now. As a result of our research, at the beginning of 2013, we launched our *Raising the Professional Bar* initiative¹, which establishes that consumers will be better protected if financial advisors are regulated and held to higher professional standards. Advocis has been a pioneer in the efforts toward recognizing financial advice as a profession in Canada.

In February 2014, Bill 157, *Financial Advisors Act, 2014*, a bill to professionalize financial advice, was introduced in the Ontario Legislature. This development was a milestone and a first step to formally legislating the financial advice profession in the province. Advocis worked closely with the Ontario government to ensure this legislation mirrored the framework presented in our *Raising the Professional Bar* proposal. Later in 2014, the *2014 Economic Outlook and Fiscal Review* was released indicating that government would be undertaking a review of the regulation of financial advisors and planners.

With the launch of the *Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives* (Expert Committee) back in April 2015², in conjunction with the earlier Consultation Paper on the *Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario*, we see an open door to working toward reforming the regulation of financial advisors, including financial planners. The establishment of the Expert Committee provides an opportunity to find a solution that addresses the regulation of financial advice at the client-advisor level rather than the current product regulation level, which creates a gap in the overall regulation of financial advice.

We believe that the status quo is no longer an option and that changes must take place in Ontario to reform the regulation of financial advice. Ontarians will be better protected financially, which in the end will support the Ontario economy.

III. Supporting Financial Advisory Services in Ontario

Financial advisors play a significant role in Ontarians' lives. The benefits to consumers and governments associated with financial advisors go beyond planning and advice giving. Small and medium-sized business (SMB) financial advisors support the Ontario economy as they provide direct contributions by employing staff, leasing office space, and paying taxes. Indirectly, SMB financial advisors support other Ontario companies through buying additional goods and services such as office equipment, supplies, etc.

¹ To obtain a copy of Advocis' *Raising the Professional Bar*, please go to <http://www.advocis.ca/raisethebar/raise-the-bar.aspx>

² To view Advocis' submission to the Expert Committee to Review Regulation of Financial Advisors and Financial Planners please visit <http://www.advocis.ca/regulatory-affairs/RA-submissions/2015/Advocis-Submission-Expert-Committee-Sep15-with-Appendix.pdf>

Of the approximately 80,000 SMB professional financial advisors³ in Canada, 37,000 practice in Ontario. These 37,000 professional financial advisors provide advice to 4.8 million Ontario households.⁴ The average investable assets of these households being serviced by SMB advisors is approximately \$42,000, while the average life insurance coverage is \$233,000.⁵ Across Canada, the SMB segment has a direct economic impact of approximately \$19 billion in GDP and creates 180,000 jobs; Ontario's regional direct economic impact is approximately \$8.4 billion in GDP and 85,000 jobs.⁶

The financial advice sector is a vital component of our economy, and is crucial to the long-term financial health of Ontario's families and small businesses. The financial security and independence of middle-class households is critically important since Ontarians will become less reliant on the government for their future financial needs such as retirement income, long-term care, and services related to critical illness and disability. Therefore, Ontario needs a competitive market for financial services that offers consumers a range of choices, including access to small business financial advisors.

IV. Consumer Access to Financial Advice Must Remain a Priority

Presently, securities regulators in Canada are considering banning third party commissions on mutual funds. This proposed direction resembles the changes that have already taken place in the UK – through the Retail Distribution Review (RDR) – and other jurisdictions. The result of these policies have had a negative impact on the mass market, as choice in how consumers can access financial advice has been eliminated. After RDR, only the wealthiest have been able to afford financial advice leaving millions of people without access to it in times when it is needed the most.

The consequences of the ban in the UK has led government to launch the Financial Advice Market Review (FAMR), which will look into how financial advice could work better for consumers, and increase the availability of advice to people, especially those with less income.⁷ Most recently, the Financial Conduct Authority's (FCA) Acting Chief Executive, Tracey McDermott, was quoted saying: "We do not want to go back to a world where we had the problems of the pre-RDR, *what we do want to look at is actually what is the best way of delivering advice and guidance across the market so I wouldn't rule out that there may be some element of commission...*"⁸ (emphasis added)

This reevaluation of RDR makes evident that we need to be very careful in how changes in regulation are implemented in Ontario. It is very important that Ontarians continue to have access to professional financial advice and that the choice of how consumers want to pay for their financial advisor remains.

³ *Sound Advice* – Insights into Canada's Financial Advice Industry. PricewaterhouseCoopers. July 2014.
<http://www.advocis.ca/secure/PDF/sareport.pdf>

⁴ Investor Economics (2014).

⁵ Ibid.

⁶ *Sound Advice* – Insights into Canada's Financial Advice Industry. PricewaterhouseCoopers. July 2014.

⁷ Financial Advice Market Review – Call for Input. HM Treasury. October 2015.

<http://www.fca.org.uk/static/documents/famr-cfi.pdf>

⁸ Tracey McDermott: FCA considering return of commission. Professional Advisor. January 10, 2016.
<http://www.professionaladviser.com/professional-adviser/news/2441174/fca-considers-limited-return-of-commission>

V. The Value of Financial Advice – Consumer Satisfaction Survey

In November 2015, Advocis released the results of its national survey, *Investor Insights on the Financial Advice Industry*. Over 1700 consumers from across the country, with the exception of Quebec, responded to the survey. The survey findings confirm the value that financial advisors provide to Canadians, represented in the following results⁹:

- 96 per cent of respondents indicated that they consider the financial advice they receive “very valuable” or “somewhat valuable”;
- 75 per cent of respondents feel their advisor is completely worth the money they pay and 17 per cent somewhat agree with this statement;
- 93 per cent of respondents report that they either completely or somewhat trust their advisor; and
- 92 per cent believe they are better off financially for working with their advisor.

Regulators in Canada are considering banning third party commissions because they believe that this will address any conflicts of interest in the client-advisor relationship. However, according to the survey results, only 4 per cent of respondents indicated that they would prefer to pay their financial advisor an hourly fee. Moreover, 88 per cent of respondents would prefer that government leave the choice up to them on how they would like to pay for financial advice. As you can see, the overall results indicate that consumers are very satisfied with the relationship that they have with their financial advisor.

VI. Advisor Professionalism Equals Consumer Protection

As described in our *Raising the Professional Bar* initiative and in our submission to the Expert Committee, our proposed solution ensures that consumer choice remains and that consumers have access to the best financial advice possible. Specifically, in our submission to the Expert Committee we discuss how this can be achieved through the professionalization of financial advisors and the creation of a delegated administrative authority (DAA). The DAA would be responsible for overseeing the provision of financial advice and for establishing the requirements that financial advisors must follow, such as proficiency standards, continuing education, code of conduct and errors and omissions insurance. This approach would also address the regulatory gaps in both the insurance and securities sectors, as all financial advisors would be captured under this new structure and would provide consumers with clarity and protection.

We would like to note that raising professional standards of financial advisors is not a new concept and is currently being considered in Australia and New Zealand. Actually, their proposals are not much different from what has been proposed in *Raising the Professional Bar* and in our submission to the Expert Committee. For example, at the beginning of December 2015, the Australian government announced the release of draft legislation for comment “to give effect to reforms to raise education, training and ethical standards for financial advisers.”¹⁰ Likewise, the government of New Zealand has launched a review of its *Financial Advisers Act 2008* and *The Financial Service Providers Act 2008*; at the end of November 2015, an Options Paper was released seeking public

⁹ Download a copy of the full report at <http://www.advocis.ca/pdf/Consumer-Voice-2015.pdf>

¹⁰ Australian Government. Media Release. December 3, 2015. <http://kmo.ministers.treasury.gov.au/media-release/033-2015/>

feedback on potential options for changes to the regulatory regime.¹¹ The purpose of this review is to encourage and promote more informed and confident consumers and investors.

As previously stated, we believe that the current regulation of financial advisors is focused at the product level and not at the client-advisor level. For this reason, government should consider Advocis' proposals when developing regulatory policy options, so Ontarians can be better educated and protected financially.

VII. Conclusion

Financial times and needs have changed and so should the financial services regulatory structure. Ontario, and Canada, are facing economic and demographic changes that are adding pressure to government resources. Consumers, more than ever, need properly regulated financial advice. That is why we encourage government to take into consideration our proposed DAA approach to reforming regulatory policy. The time is favourable for these much needed reforms. Consumers deserve it.

We commend the Ontario government for its attention and leadership in reviewing the regulation of financial advisors, inclusive of financial planners. We believe that it is fundamental that government and industry work together toward creating policy options that will ensure that all Ontarians are receiving professional, proficient and accountable financial advice.

We look forward to working with the Government of Ontario. Should you have any questions, please do not hesitate to contact the undersigned, or Ed Skwarek, Vice President, Regulatory and Public Affairs at 416-342-9837 or eskwarek@advocis.ca.

Sincerely,



Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO



Caron Czorny, FLMI, ACS, CFP, CLU, CH.F.C., EPC, CHS, ICD.D
Chair, National Board of Directors

¹¹ To view news release please visit: <http://www.mbie.govt.nz/info-services/business/business-law/financial-advisers/review-of-financial-advisers-act-2008>