



Independent Financial Brokers of Canada
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Subject: OSC 2018-2019 Draft Statement of Priorities

Independent Financial Brokers of Canada (IFB) is pleased to comment on the OSC's *draft Statement of Priorities (SOP)*.

IFB is a not-for-profit, professional association representing approximately 3,500 individually licensed financial advisors across Canada. The majority of IFB members are mutual fund representatives and/or life/health insurance agents. Many hold complementary licenses or other accreditations related to financial services so that they can provide clients with more holistic advice.

IFB's mandate is to advocate on behalf of, and support, those engaged in the independent sales distribution channel. Independent advisors bring value to their clients by their ability to provide clients with access to a wider range of products to meet their needs. IFB does not represent advisors who work under proprietary contract, or employees of financial institutions.

Most IFB members are small business owners with financial practices located in communities across Canada. To be an IFB member, an advisor must voluntarily subscribe to the IFB Code of Ethics which, as a first principle, requires them to place the interest of their clients before their own.

Many IFB members are licensed in more than one jurisdiction, and often in another regulated sector. Accordingly, harmonized regulatory standards are important for them both as registrants and for their clients who should be able to rely on similar treatment and protection regardless of where they reside.

IFB generally supports the OSC's five overarching goals, which include delivering strong investor protection, effective compliance, and responsive regulation. The public needs to have confidence that its financial market regulators are committed to consumer protection, while not stifling innovation or the ability of smaller market players to remain competitive.



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IFB supports a competitive financial marketplace, where consumers have choice in how they obtain financial products and advice. IFB members must compete with large, vertically integrated financial institutions – like banks and insurance companies – for clients. Today, however, the increasing regulatory burden and the dominance of large financial institutions is reducing the ability of independent firms to remain competitive as they face regulatory challenges and costs proportionately higher than their larger counterparts while not posing any higher risks to consumers.

Therefore, IFB suggests the OSC add to its SOP initiatives, recognition of proportionality in the development of policy and regulation. This would align it more closely with the Department of Finance’s consultation paper: Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada’s Financial Sector for the Future, (September 2017), FSCO’s draft Superintendent’s Guideline on treating consumers fairly (May 2018), and the joint CISRO/CCIR draft Guidance on Conduct of Insurance Business and Fair Treatment of Customers (May 2018). Each of these contain the principle of proportionality.

Below are our comments on the OSC’s specific priorities that address market conduct and investor protection.

Deliver strong investor protection.

The OSC has committed to publishing rules that would create a best interest standard, embed new client/advisor standards, and initiate reforms to titles and proficiencies. In addition, the OSC has committed to working with the CSA to finalize recommendations and publish policy recommendations related to embedded commissions. These issues are important to IFB members.

Best Interest duty and embedded commissions:

The introduction of a best interest standard and a potential ban on embedded commissions has divided industry/investor stakeholders and regulators, themselves. IFB has identified, in previous submissions to the CSA and OSC, the problem raised by the current lack of clarity on what constitutes a best interest duty and how it is different from a fiduciary duty. Our concern is that advisors will be held to a standard that may be difficult for them, or their dealers, to judge compliance. For instance, the OSC states that: “Access to affordable, high quality and unbiased investment advice will always be a core investor expectation”. Who decides what constitutes affordable advice? Who decides whether the investment advice is unbiased? How will advisors in proprietary sales channels comply with the unbiased advice component? Will they be held to a different, lower, standard? and how firms and advisors can meet the standard.



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Further, the OSC states that “Investor trust and confidence in the financial system is critical and can only be attained when achievement of investment objectives is a mutually shared outcome for advisors and investors”. We note that investments by their nature involve risk and, as such, investor loss is a possible outcome. Also, investment objectives are often long-term, so success or shortfalls in meeting these objectives will only be apparent in hindsight. We question how investor loss would align with the “achievement” of investment objectives?

We appreciate that the OSC intends to provide a further comment period when the rules and policy recommendations are published, which we trust will clarify the proposed best interest standard, its applicability across all capital market participants, and how firms and advisors can meet the standard.

IFB has responded in previous consultations and roundtables on the potential impacts of a ban on embedded commissions. We remain very concerned that advisors will be forced to terminate clients with smaller accounts, leaving these clients with no option but to go to a bank or credit union. Very serious concerns around incented sales in all the major banks were detailed in the FCAC report on sales practices. How can consumers be confident in the financial industry if regulation limits the choices available to them to obtain personalized advice?

IFB conducted a member survey in preparation for [its submission](#) to *Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions*. We invite the OSC to review it again, as it provides valuable input from advisors on the impact on their clients, as well as demonstrating their deep regard for their clients’ financial futures. Independent advisors must demonstrate value to retain their clients and often establish long-term personal connections. Unfortunately, a ban is more likely to disproportionately disadvantage these smaller, advisor-owned financial practices and, ultimately, the clients they serve.

As a general observation, IFB continues to be very concerned about industry-related regulatory policy that varies among jurisdictions, especially when it affects the distribution and regulation of financial advice. This fragmentation is evident in relation to the best interest standard where some jurisdictions have already indicated that they will not move forward with it. The OSC and all CSA members need to address this disparity, and the business conduct expectations for those licensed in multiple jurisdictions.



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Seniors Strategy:

IFB supports the OSC's Seniors Strategy and the development of a regulatory framework that includes a safe harbour for advisors and firms to report instances of financial exploitation. IFB members welcome more guidance in this area as their direct relationship with clients gives them acute insight into clients' changing personal circumstances, which can include instances of declining cognitive impairment.

OBSI:

Investors should have access to an effective and fair dispute resolution system. The OSC states that it will pursue making OBSI's decisions binding on its members. It is our understanding that regulators, including the OSC, were considering the role of professional liability insurance, in the resolution of disputes. E&O insurers require firms and advisors to allow the investigation process to proceed, so the insurer can determine coverage for restitution, and most do not provide coverage for voluntary settlements. Professional liability insurance is an important consumer protection tool. We have always questioned why E&O is not compulsory for MFDA registrants, as it is for IIROC advisors and life insurance agents.

Deliver effective compliance, supervision and enforcement.

IFB supports a risk-based approach to compliance. Innovations, like block chain technology, will be helpful tools to identify higher risk registrants in a timely manner. The OSC needs to be seen as a visible and nimble regulator who acts swiftly to protect consumers from fraud.

To improve outcomes for wronged investors, we suggest that fines collected should be permitted to be used for investor recompense, not limited to investor education.

Deliver responsive regulation.

IFB supports the OSC's initiatives in fintech through the OSC LaunchPad and engagement with the fintech community. We are pleased that the OSC will work with FSRA to develop the Ministry of Finance's SuperSandbox. These examples of coordinated approaches across financial sectors are important to encourage innovation and address gaps in a consistent manner.

We agree that it is important to evaluate whether CRM2 and point of sale projects have enhanced investor understanding of the costs and fees associated with their investments. As these enhanced statements are received by investors on a more regular, ongoing basis, investors should become more comfortable in evaluating whether they are receiving the appropriate advice for the fees they pay. IFB believes that this type of disclosure will enhance consumer protection in a way that a ban on embedded commissions may not.



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Promote financial stability through effective oversight.

The globalization of capital markets can be a risk factor to the stability of financial markets. IFB agrees it is important for domestic and international regulators to share information and communicate on areas of emerging risk, and that the OSC should participate in international committees and engage with domestic regulators to address these risks.

Be an innovative, accountable and efficient organization.

IFB supports the OSC's goal to improve upon its technological capabilities to support compliance and interaction with registrants. We further support the OSC's continued involvement with the proposed CMRA and other CSA regulators.

In closing, IFB is encouraged by the OSC's commitment to consider evidence-based research to inform its policy development. We believe this will lead to policy that is balanced and informed.

IFB appreciates the opportunity to comment on the OSC's draft SOP, and looks forward to reviewing the final version in due course. Please contact the undersigned, or Susan Allemang, Director Policy & Regulatory Affairs (email:sallemang@ifbc.ca) should you wish to discuss our comments.

Yours truly,

A handwritten signature in black ink that reads 'Nancy Allan'. The signature is written in a cursive, flowing style.

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