REPORT

October 2020

Qualitative Research among MFDA Advisors

A Report to the Investment Industry Regulators of Canada (IIROC) and the Federation of Mutual Fund Dealers (FMFD)

Contents

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About the Research

Objectives

The Investment Industry Regulatory Organization of Canada (IIROC), with cooperation from the Federation of Mutual Fund Dealers (FMFD), wanted to consult with members of the industry to more fully understand stakeholder needs and expectations in light of the Canadian Securities Administrator (CSA) review of the regulatory framework.

The primary purpose of this research was to obtain the perspectives of key stakeholders concerning the competitive, regulatory, technology and innovation challenges facing MFDA-licensed advisors.

The more detailed objectives were to explore:

- Needs and expectations of investors that are having an impact on the advisory process;
- Changes to the industry that have had the greatest positive impact on advisors/dealers within the past three to five years;
- Changes to the industry that have presented the greatest challenges within the same time frame;
- Perceived barriers to successfully competing in the advisory sector and barriers to selling in this marketplace;
- Major regulatory challenges faced by advisors and dealers;
- Awareness and perceptions of the Canadian Security Administrator (CSA) review of the regulatory framework governing the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA); and
- Recommendations for what the review should consider in order to protect the public interest and support healthy capital markets.

Qualitative Research Caution

The research conducted was qualitative in nature. As such, the results provide an indication of participants' views on the issues explored but cannot be generalized to the full population of MFDA-licensed advisors. Rather, the findings from this research provide themes and direction. The findings cannot be used to estimate the numeric proportion or number of individuals in the population who hold a particular opinion because they are not statistically projectable.

About the Research

Methodology

There were three elements of this research program:

14 In-depth interviews (IDIs)	5 Online focus groups	18 In-depth interviews (IDIs)
10 among English speaking MFDA-licensed advisors from across Canada (excluding Quebec), and 4 among French-speaking mutual fund advisors in Quebec	among a total of 36 MFDA-licensed advisors, with one session conducted with advisors living in each of these 5 regions: BC, Alberta, Manitoba/ Saskatchewan, Ontario and the Atlantic region	among c-suite representatives of 10 MFDA only regulated dealers and 8 dually platformed dealers
These IDIs were conducted from June 16 to September 25	The focus groups were held over three nights from July 14 to 16	These IDIs were conducted from June 18 to September 14

Recruitment of MFDA-licensed advisors was achieved with assistance from Advocis (The Financial Advisors Association of Canada) and the Federation of Mutual Fund Dealers.

This report focuses exclusively on the findings from the first two components: the research undertaken amongst MFDA-licensed advisors.

A separate report has been prepared for the research conducted amongst MFDA regulated and dually platformed dealers.

In terms of tenure, a wide range of advisors were interviewed: participating advisors had been practicing from 1 year to 40+ years.

Most of the participating advisors are incorporated. Those residing in Alberta were the exception, as this province does not permit incorporation of advisors.

Executive Summary

Executive Summary

- While awareness and perceptions of the CSA Review were explored in this research, the primary objective of this study was to understand the broad needs and expectations of MFDA-licensed advisors. Nonetheless, in light of the CSA Review, this executive summary starts with an overview of the key findings as they specifically relate to this topic.
- In June, at the start of this research study, most advisors had not even heard of the CSA Review. By September, most knew of it, but admitted to being unfamiliar with it. Few participants had read either of the proposals submitted by the MFDA or IIROC. For that reason, in sharing their opinion, most advisors spoke in generalities. They were unable to identify specific pros and cons of either submission.
- For many, the research consultations seemed to be the first time advisors had been asked to reflect and comment on the potential benefits and drawbacks of consolidating the two regulators.
- Even without knowing the specific details or content of the proposals, most advisors expressed support in principle for the move to a single self-regulatory organization (SRO).
- Generally, advisors lack visibility of the challenges experienced by dealers. For this reason, the findings from the one-on-one interviews with the dealers differ in some respects from these findings.
    - The perception that a siloed regulatory structure is creating inefficiencies, which lead to inconsistent or unsatisfactory client experiences, did not surface directly in the discussions with MFDA-licensed advisors. Advisors are only licensed by a single regulator, and therefore are not often directly exposed to pain points stemming from any lack of harmonization between the regulators. Still, some advisors seemed to at least partially attribute the issues they experienced with compliance to regulatory overburden and the need to meet the demands of two regulators.

Executive Summary

- MFDA advisors are not familiar with IIROC and they don't feel they can make informed comparisons between the two regulators. Most assume that IIROC operates in the same way as the MFDA. In fact, many are under the impression that IIROC-licensed advisors are held to even greater scrutiny and higher regulatory standards. Advisors seemed to understand that heightened regulation is needed when it comes to the sale of individual securities. Still, a few expressed concern that a single SRO will result in increased regulation of those selling only mutual funds.

- Like the dealers, however, MFDA-licensed advisors believe there to be friction between the MFDA and IIROC. There is some expectation that this friction will have negative implications on the move to consolidate the two regulators:
  - The move to a single SRO could be a very lengthy process. In fact, some advisors suggested that this idea has been under discussion for many years, and the constant talk of it has left some feeling skeptical that it will ever happen.
  - IIROC is viewed as holding more power than the MFDA, and for that reason, advisors expect a deal that will favour IIROC. In turn, some advisors hypothesize that the banks might also unfairly benefit as a result of the regulatory consolidation. This is particularly troubling to some participants given the belief that the banks already hold too much power with the regulators.
- The MFDA's punitive approach to regulation identified through the interviews conducted among dealers is also felt by MFDA advisors. Advisors complained that the regulator places too much focus on insignificant details that do not matter.

Executive Summary

- Further, conversations about the regulatory challenges they face, the changing needs and expectations of their client base, and the impact of COVID-19, shed light on how MFDA-licensed advisors might react to various elements being considered as part of consolidation. The research exposed areas of frustration that MFDA-licensed advisors might want to have addressed as part of the CSA Review:
    - Advisors spoke to an ‘unlevel playing field’ (i.e., banks have unfair advantages).
    - The pending termination of deferred sales charges (DSCs) in most provinces has negatively impacted compensation, and in turn, this has (1) hurt the industry’s ability to attract new, young advisors and undertake succession planning and (2) resulted in a focus on investors with larger books.
    - Incorporation is extremely valued. Feedback suggests that advisors would actively oppose any move to remove their ability to incorporate.
    - Advisors complained about regulatory overburden. Like the dealers, they want a less prescriptive regulatory environment. They feel that many of the regulatory demands seem trivial, too frequent and administrative in nature. Further, it is felt that regulatory changes are negatively impacting clients.
    - Most advisors expressed satisfaction with the current breadth of products available to them. Lack of access to ETFs and individual securities (stocks and bonds) did not surface as a pain point among most MFDA-licensed advisors.
    - The practice of holding investments in ‘client name’ continues to be used on occasion when it benefits the client (i.e., results in lower fees). MFDA advisors appreciate being able to offer this option to clients.
- As we heard from the dealers, the MFDA advisors appreciated the fact that IIROC was reaching out to them.
    - *“I’m grateful for the process. It makes us feel like we have a voice and can make a contribution.”*

Observations about the MFDA Advisor’s Client Base

Observations about the MFDA Advisor’s Client Base

Observations about the type of investor serviced by MFDA advisors, in terms of things like their financial priorities and level of investment sophistication:

- **MFDA advisors service a broad range of clients with respect to investible assets and investment knowledge**. Feedback suggests, however, that as investment sophistication increases and net worth grows, Canadian investors will often seek greater product diversity (i.e., a portfolio that includes securities such as individual stocks and bonds). For that reason, one would surmise that, compared to IIROC-licensed advisors, MFDA advisors tend to service a client base that is less wealthy and less knowledgeable. Still, some advisors talked about having clients with upwards of $500k in investible assets. Further, feedback suggests that smaller investors are being turned away. Advisors suggest that fee compression has resulted in a compensation structure that makes it no longer feasible to profitably service smaller investors. A number of advisors seem to have set minimums:
  - *“I won’t take on a client with less than $250k to invest.”*
- **Advisors maintain solid, long-term relationships with their clients:** Of note, many participants have been advisors for years and often decades. These advisors reported that their clients are long-term and very loyal. Their clients tend to stick with them over the years and many eventually bring some of their family members into the fold, as new clients. Advisors noted that they have developed strong relationships with these long-term clients – they have established trust and feel they know and understand the needs of their clients.

Observations about the MFDA Advisor's Client Base

Common themes related to the age of clients serviced by MFDA advisors:

- **Many of the participating advisors suggested that their client base tends to be 40 years of age or older, with many clients being retired and/or semi-retired**. There seem to be several factors driving this reality:
  - It was mentioned that younger people have not amassed sufficient investible assets to meet the minimum book size preferred by the advisor.
  - Many of the participating advisors mentioned taking a holistic approach, providing financial and retirement plans, undertaking estate planning and advising on the client's entire financial situation. Advisors suggested that the market for this type of holistic planning tends to be older.
  - Several advisors noted that Canadians generally start investing too late in life.
- Several advisors cited having grown up and 'aged' with their base. In that way, **clients tend to be in the same general age cohort as the advisor** (i.e., older advisors tended to have an older client base).
  - *"I seem to attract clients at the same stage of life as me."*

Observations about the MFDA Advisor's Client Base

Lifestage trends impacting the clients of MFDA advisors:

- Advisors shared an observation that the **focus of investors is strongly linked to lifestage**. Younger clients tend to be in accumulation mode, and many are focused on saving for a first home. Preservation of capital generally becomes more important as investors get older. While these two trends remain constant, some advisors pointed to changes they have seen over the past 5 to 10 years:
  - The children of clients are leaving home later or returning home after having left: *"It's what is referred to as the boomerang generation, and this has an impact on the financial plans of their parents."*
  - Due to the ever increasing housing costs, it is taking longer for people to accumulate sufficient savings. Parents are helping out children, and young people are putting off investing in retirement (because they are focused on saving for a home). *"Younger people are getting pre-inheritances. It means younger people are having to make decisions about how to use sizeable pools of capital. Most are simply using it for real estate."*

Observations about the MFDA Advisor’s Client Base

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Lifestage trends impacting the clients of MFDA advisors:

- **Generational transfer of wealth**. Several advisors suggested that more and more they are having to assist clients with both the giving and receiving of wealth/inheritance between family members. Some investors are looking for estate planning advice, while others are on the receiving end of an inheritance and seeking advice about what to do with the excess funds.
- More frequently than in the past (i.e., compared to 5 to 10 years ago), feedback suggests that clients with children are having to care for children with chronic mental health issues. This trend has long-term implications on the financial plans and circumstances of parents. Further, these issues add complexity to the conversations advisors are having with these clients.
- **Younger people are becoming more challenging to service.** Younger clients have lifestyles that are less predictable than in the past. Further, they have grown up with technology and embrace the use of robo-advisors. When ready to invest, rather than looking to their parents for direction, investment advice or a referral to an advisor, they are more prone to take matters into their own hands and seek out a robo-advisor or discount brokerage firm.

Observations about the MFDA Advisor's Client Base

How the needs and expectations of clients were changing, pre-pandemic:

- **Pre-pandemic, some investors were starting to expect higher returns.** Some clients had taken notice of the strong performance of the markets in recent years leading up to the pandemic, and some had observed that the market recovered from 2008. Investors have also seen that money can be made in the markets, despite volatility, and this had increased confidence among investors.
- The challenge of low interest rates. A couple of advisors suggested that low interest rates have made it difficult to meet the needs and expectations of those living on a fixed income – especially seniors with a low tolerance for risk.
- People are retiring later or not retiring at all. This has contributed to a higher tolerance for risk among seniors. Comments from several advisors suggest there is a growing segment of older investors who desire growth and have a high risk tolerance. A few advisors pointed out that it can be challenging and often impossible to meet the growth needs of these older clients while also adhering to Know Your Client (KYC) and compliance requirements. The implication of this higher risk tolerance among seniors is that the KYC is viewed by some advisors and their clients as overly conservative.
    - *"The regulator assumes and there is a policy that says if you are 70+ years of age, you should have a less than 10-year time horizon. Beyond the age of 70, [advisors] need paperwork in place to justify a longer time horizon."*

Perceptions of Various Changes to the Advisory Industry and Environment

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The move away from selling products with Deferred Sales Charges (DSC):

- The industry discourages the use of DSC. Some fund companies have stopped offering them, and some dealers have banned the use of DSC. There is some expectation that the regulators may be looking to completely discontinue this fee structure. In fact, the pressure to stop DSCs has some advisors believing the MFDA has already banned DSCs.
- Comments suggest that experienced advisors anticipated the movement away from DSC and took pro-active measures to be ‘ahead of the curve’ on this issue.
- Most advisors agreed that DSC are beneficial in terms of compensation – especially those advisors who are just starting up – but their decline in use of DSC was inevitable and overall beneficial.
- Many advisors feel there are better investment options available for the client and that DSCs lack flexibility. Interviewed advisors appeared to be well aware of the reasons for the regulatory concerns about DSCs, citing potential abuse and churning of portfolios.
    - *“Most advisors handled DSC correctly, but as usual, a handful misused it so now it is not seen as a good thing so it is hard to justify using it.”*
    - *“I think the time for DSC has passed. They aren’t competitive anymore, and can lead to problems.”*
    - *“DSC has a place – but too much abuse.”*
- There is also recognition that clients often don’t understand DSCs:
    - *“I don’t think there should be DSCs. I don’t think clients understand what they’re signing up for.”*

Perceptions of Various Changes to the Advisory Industry and Environment

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The move away from selling products with Deferred Sales Charges (DSC):

- Some MFDA advisors explained that the move away from DSC products has hurt them financially and has the potential to hurt the entire industry. Often, mention of DSC surfaced in the interviews and focus groups on an unaided basis.
- Some participants defended the DSC fee structure and explained that while there has been abuse, **if applied appropriately, DSCs can work to the benefit of both investors and advisors.**
  - *"DSC can provide better renumeration to the advisor. If the client can invest for a longer time horizon, why not?"*
  - *"At year 7, all my DSCs are no-load."*
  - *"I know advisors that are age 65 + that need DSC because of their book of clients who are using RRIFs and the assets are shrinking."*
- Advisors also feel that the disappearance of DSC is **contributing to a lack of younger advisors** (they can't make enough income to profitably establish their practice and stay in business).
  - *"Until you are 20 million or more under management, it will be a struggle as you build your book…think you will lose a lot of younger advisors."*
  - "I can see how new advisors trying to build a block of business would have to think twice about it without DSC. It's tough to justify the time spent with clients when you are only looking at the trailer on front-end load funds."
  - *"Once you've established a practice, they really serve no point."*

Perceptions of Various Changes to the Advisory Industry and Environment

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The move away from selling products with Deferred Sales Charges (DSC):

- One advisor recommended a potential solution that might allow for the continued use of DSC while protecting investors from abuse: charge the DSC to the advisor rather than the client if redeemed prior to maturity.
    - *"You sell a car, you get the commission right away, on your next pay cheque. As you should. You sell a mutual fund, you get a fraction of the commission over the next 12 pay cheques."*
- A few advisors explained that the movement away from DSC has **hurt those with low investible assets.**
    - *"Now there is a big shortage of advisors who will serve the middle income because [advisors] can't be paid for looking after them so why would they."*
    - *"The unfortunate reality is that servicing a client with a $20k portfolio is simply not worth the time, effort and risk unless you get compensated properly."*
    - *"DSC makes it worthwhile to service small clients."*
    - *"For smaller accounts, I on rare occasions still use it to offset planning fees rather than have the client pay out of pocket."*

Perceptions of Various Changes to the Advisory Industry and Environment

Perceived decline in number of advisors entering the industry:

- Some participants have noticed that advisors are getting older and there is a lack of new advisors entering the industry. There is some perception that the industry is not attracting new advisors because it has lost its appeal. Over the years it has become more difficult to earn a decent income due in large part to fee compression (see below). Regulatory over-burden is also cited as a reason for this trend.
- A couple of advisors suggested that this trend is making succession planning difficult for those advisors approaching retirement.

Fee compression:

- Fee compression was mentioned as a challenge by a few advisors. There is pressure on active management fees to drop so they are more inline with passive products (i.e., index funds). Clients are not willing to pay high fees, and advisors too are looking for low fee solutions. More and more there is downward pressure on fees and demand for greater value for fees paid.
    - *"Everything is getting less expensive relative to ETFs. If you can buy S&P 500 for 5 basis points (bps), and active management product is charging 100 bps – they really have to deliver. That was always the case, but investors understand that now. So I'm looking for active managers to reduce their fees."*

Perceptions of Various Changes to the Advisory Industry and Environment

Demand for increased fee transparency:

- The industry now demands greater fee transparency than it did in the past. Advisors generally show support for increased transparency. They acknowledge that fee transparency is in the best interest of their clients and strive to be as forth-coming as possible about fees.
  - *"It has put more power in the hands of consumers."*
- Feedback suggests that fee transparency has forced advisors to provide greater value to investors. Advisors have had to do more for the fees they are charging. More and more advisors are now offering holistic services and comprehensive planning, in order to provide additional value and remain competitive.
- Further, fee transparency has driven some clients to robo-advisors and do-it-yourself solutions.
- There is a perception that - despite greater transparency - clients still do not understand fees. A lot of focus is placed on ensuring disclosure of fees in documentation, yet some advisors expressed doubt about whether this information is read and understood by clients. The documentation is transparent in its fee disclosure but does not provide the relativity and context needed to assist with interpretation:
  - *"Even if clients saw the fees, buried on page 10 of a16-page statement, they don't know how to interpret it. What is the advisory fee compared to? How does it compare to working with a bank or another advisor?"*
  - *"We still have a long ways to go in providing true transparency."*
- There is a view that fee transparency is driven by regulators as opposed to a desire expressed by investors.
  - *"We have always been upfront with clients about our fees. The call for greater transparency comes from the regulators."*

Aspects of the Practice/Business Model that are Valued by MFDA-Licensed Advisors

Views Regarding Certain Aspects of the Practice/Business Model that are Valued by MFDA-Licensed Advisors

1 **Incorporation and 'directing commissions'**

Many MFDA-licensed advisors are incorporated. The exception is Alberta (MFDA-licensed advisors cannot incorporate in this province).

- The practice of "directing commissions" is very important to advisors. Incorporation is perceived to offer many benefits, beyond tax advantages:
  - *"I run a business. This is not just some kind of tax planning strategy. I own the company. It's a multi-generational business. The brand itself has value nationally."*
- The ability to incorporate is also believed to attract younger advisors, and this is critically important to the continuation of the industry.
- The value placed on incorporation by MFDA-licensed advisors suggests it would be very problematic if the newly formed SRO were to prohibit incorporation and/or the practice of directing commissions.
  - *"It would be like expropriation by the government if that were taken away. I'd be looking for huge compensation."*

Views Regarding Certain Aspects of the Practice/Business Model that are Valued by MFDA-Licensed Advisors

2 Use of client name

With an account established in 'client name', the account is registered in the name of the client. Under this method of operating, the dealer does not 'hold' mutual fund securities on behalf of the client but is entitled to convey instructions to the fund company on the client's behalf, pursuant to written instructions or in a non-written form pursuant to a Limited Trading Authorization (LTA) for each subsequent transaction.

- Advisors explained that use of client name tends to makes sense when investing a small amount and purchasing a single mutual fund.
- While some advisors admitted that they have been moving away from putting accounts in client name, it can result in lower fees for the client.
  - *"When it is better for the client to put it in client name, we put it in client name."*

3 Title protection

Title protection is regulation of the use of titles by advisors, so that advisors must hold recognized credentials in order to use certain titles (e.g., call themselves 'financial planners').

- Title protection is viewed very positively. Advisors feel it provides greater transparency and safeguards against fraud (i.e., advisors claiming to be something they are not).
- The CFP credential is respected. It is felt to hold advisors to a higher standard of service. Feedback from this research suggests that MFDA-licensed advisors broadly believe that a CFP should be required in order for someone to hold the title of "Financial Planner".

Regulatory Challenges

Regulatory Challenges and Compliance Over-burden

Regulatory issues that have made meeting client needs and expectations challenging:

- Participating advisors stressed that compliance requirements have increased over the years, and advisors blame the regulators.
- Increased paperwork stemming from frequent, minor changes to regulatory requirements has made account administration onerous: Advisors have observed that more and more often, the regulators are making small, minor changes to documents. Advisors are challenged by the pace of change.
  - *"When I opened up an investment account 20 years ago, the account opening process took all of 30 minutes. It now takes 1.5 hours or more if done properly. That is simply because of all the regulatory disclosures."*
  - *"There are minor, trivial changes made to KYC all the time – 3 times in one year."*
  - *"I have staff to make sure we comply with the regulations but still we can't keep pace with the constant changes."*
- Advisors underscored that the regulatory issues they face are negatively impacting clients: advisors are spending too much time on administrative duties (and therefore less time with clients). Furthermore, clients are being inconvenienced and asked to sign and re-sign documents:
  - *"It's also a burden on clients. They dislike all the paperwork and administration and find it annoying and overwhelming."*
  - *"When compliance changes the risk profile of a mutual fund, it has several negative implications. If the risk tolerance increases, it can sometimes mean the client needs to liquidate their holding of the fund or increase their own risk tolerance. We have to say to our client – you need to now say your risk tolerance is higher, or we need to sell and trigger a capital gain."*

Regulatory Challenges and Compliance Over-burden

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Regulatory issues that have made meeting client needs and expectations challenging:

- A few advisors complained that they are penalized if they do not stay abreast of the constant changes. One advisor explained that the dealer turns off their commissions if the client refuses to revisit the Know Your Client (KYC).
- Feedback suggests that regulators need to revisit rules around risk tolerance as it relates to age. Clients are retiring later, and as such, they are becoming less reliant on their investments for income. Several advisors shared stories about older clients (70+) who desire growth but are not permitted to be classified as growth-oriented investors.
    - *"[The MFDA] are too age-oriented in determining the level of risk that is appropriate."*
- Some advisors pointed to the overbearing requirements regarding fee disclosure and transparency regarding how the advisor is being paid.
- Several advisors describe the regulations as overly prescriptive.
- Advisors are only licensed by either MFDA or IIROC, not both. For that reason, they do not have visibility of any overlap or first-hand experience with regulatory duplication. A couple of advisors did mention, however, that they know their compliance department is over-worked.
- Some advisors feel the MFDA is taking a punitive approach to regulation. Several advisors complained about over-bearing MFDA audits:
    - *"I don't know if its their mandate to come in and try to find something. Feels like the MFDA assumes we are all crooks. There is no trust."*
    - *"I just know that MFDA seems to be more focused on slapping fines than on making our work more efficient."*

Perceptions of Self-Regulation

Perceptions of self-regulation:

- The topics of self-regulation was probed during the online focus group sessions only. It was not raised or discussed during the IDIs.
- Most advisors indicated that they wish to see self-regulation continued.
  - *"We are licensed and should be held accountable."*
- Feedback suggests the term 'self-regulation' is not universally understood by the advisor community. Some advisors took it to mean that individual advisors or firms would 'self-regulate' themselves.
- Commentary suggests that a few believe self-regulation tends to favour the banks. The size of these financial institutions means they have greater influence on the self-regulatory bodies.

Competition-Related Issues

Competition-Related Issues

Banks:

- Many of the MFDA-licensed advisors view banks as their primary competitors. Banks are viewed by many advisors as a threat and are perceived to have unfair advantages. Participating advisors cited these examples:
  - Banks have administrative staff that smaller dealers do not, making it easier for them to stay on top of regulatory changes/demands.
  - From a pricing perspective, bank offers of no-fee and no-load mutual funds are viewed as a threat.
  - Banks are allowed to set product quotas and instruct their staff to sell certain funds – products and brands that may not be in the best interest of clients.
  - There is some perception that banks are not held to the same educational standards and demands as independent dealers. *"Someone can walk out of high school, get a job at a bank branch and suddenly they are giving you advice about what investments to buy."*
  - A couple of advisors complained that banks have an unfair advantage with regards to insurance. They believe that the frontline staff and credit card representatives of banks can introduce the topic of insurance with clients without being licensed.
  - Further, everyone has a relationship of some kind with a bank, so when it comes to acquiring investors to their full service and discount brokerage firms, they already have a 'foot in the door'. Related to this issue is "tied selling": *"Oh, you want a secured mortgage. Well just bring your investments over."*
- There is also a perception that regulators cater to the needs of banks and don't hold them to the same standards as others:
  - *"They are not held to the same standards because the bank has the license, not the individual."*
  - *"The standards for us are completely different from the standards set for bank branches. It should not be different. Everyone should have to play by the same rules."*
- Concern is expressed that a move to a single SRO will favour IIROC, which will further benefit the banks.

Competition-Related Issues

Access to Exchange-Traded Funds (ETFs):

- Most advisors suggested that lack of access to ETFs is not an issue. Advisors seem to have found solutions or ways around the lack of access, so they don't feel they are at a disadvantage. Some advise their clients against the purchase of 'passive' products, suggesting to them that ETFs are for investors who do not use an advisor. Some argue that ETF-based mutual funds provide sufficient access to these products. There was also mention of promoting Class F funds as a cost-effective alternative to ETFs*:*
    - *"I find that Class F in almost all cases, even with a 1% trailer, is 20-30 bps lower than the same Class A fund."*
- Some advisors admitted that occasionally a client will inquire about ETFs out of curiously. Often they have heard the term 'ETF' from friends, family and/or media, and this prompts them to ask their advisor about them. The advisors explained that inquiries about ETFs are easy to address and lack of access to these products does not put the client-advisor relationship at risk.
- A few of the advisors interviewed expressed a desire to be able to sell ETFs. These products are viewed as a cost-effective solution that would allow them to keep fees low.
    - *"We keep our total client cost under 2%. We could shave off another 50 bps using ETFs."*
- Advisors in dually-regulated firms shared that they are able to access and sell ETFs through specialists (i.e., IIROC-licensed advisors) employed by the dually-regulated dealer.

Competition-Related Issues

Access to securities (individual stocks and bonds):

- As with ETFs, lack of access to individual stocks and bonds is not perceived to be a barrier to meeting the needs and expectations of existing clients. Advisors explain that it does not hinder their ability to retain clients.
- Few MFDA advisors expressed a desire to sell individual stocks and bonds. When probed on this topic, most explained that they don't wish to develop an expertise in picking stocks. For the most part, they are happy with the products they have access to. When clients express a desire to include individual stocks and bonds in their portfolios, many advisors provide an explanation as to why that is not a good idea. Reasons include: (1) diversification through mutual funds is more appropriate/less risky and (2) leave it up to the fund managers who have the time and expertise to research and purchase individual stocks/bonds.
    - *"How does access to individual stocks benefit the mainstream population? It only benefits the top 5%. The middle income couple making $80k between them are not candidates for individual stocks and all the risks that go with that."*
    - *"Mom and pop should not be investing in stocks."*

Competition-Related Issues

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Access to securities (individual stocks and bonds):

- Still, a couple of advisors mentioned a desire to be able to sell bonds, as they feel bonds would be a good alternative to Guaranteed Investment Certificates (GICs).
- Further, feedback suggests that some clients view stocks and bonds as more sophisticated investment vehicles, and for that reason, wish to have some in their portfolios.
- Some believe that lack of access to securities might be problematic when acquiring a new client who holds individual securities in their portfolio. When switching to an MFDA-licensed advisor, investors would be required to sell their existing stocks and bonds:
  - "Those with stock options would like to move them over to us without tax implications."
- Those employed by a dually regulated firm seem to have established a referral arrangement to IIROC registered advisors in order to access individual securities:
  - *"I don't sell stocks and bonds. I am not licensed for it but I do have a referral arrangement if that is what the client sincerely wants."*
- One advisor commented that the nominee platform already gives MFDA advisors access to most of the products that an IIROC advisor has access to.

Impressions of Technology

Impressions of Technology

General trends in technology and its impact on the industry:

- Most participants have a positive impression of technology. Advancements in technology are generally viewed as advantageous.
  - *"Technology has made things easier for us."*
- Technology, including online capabilities and all the software that has been developed over the years, has allowed advisors to serve more clients. Technology has geographically expanded the potential client base, allowing advisors to service investors across Canada.
  - *"I can now serve clients in every province where I am licensed".*
- Feedback suggests that technology may be equalizing the power balance between the investor and advisor. The investment community is no longer the gatekeeper of information, and investors can now do their own research. As a result, technology is making the industry more competitive and pushing advisors to provide added value.
  - *"Young people are going straight to discount brokers or robo-advisors and they are bypassing the traditional advisor-based relationship. To stay relevant and needed, the advisor needs to do more."*
- Many advisors pointed out that COVID-19 has forced the industry to become more progressive in terms of technology. Advisors feel there is still room to innovate.
  - *"In financial services space, we are still behind."*

Impressions of Technology

Robo-advice:

Robo-advisors are digital platforms that provide automated, algorithm-driven investment services with little to no human supervision.

- Most advisors reported that robo-advice is not a competitive threat to their business model.
    - *"We don't usually deal with people who would look for that type of service."*
- Some advisors noted that some of their clients have seen advertisements about robo-advice. Advisors admitted that they are occasionally asked about these investment solutions. Those asking about robo-advice, such as Wealthsimple Trade, tend to be younger investors.
- Advisors seem to have developed a response to client queries about robo-advice:
    - *"We usually tell them that robo-advice is worth what they pay for it. You get what you pay for."*
    - *"Would you get legal advice from a robo-lawyer?"*
- As the artificial intelligence behind robo-advice becomes more sophisticated, a number of advisors could see themselves incorporating the use of such tools into their overall practice.

Impressions of Technology

Dashboards:

A dashboard is a report that provides an at-a-glance consolidated view or summary of your client's financial data.

- The term ‘dashboard’ is not universally understood amongst advisors. Some of the participating advisors were not familiar with the term, ‘dashboard’. Once explained, some advisors cited already using these tools. Some do not.
- Several advisors pointed out that it is often difficult to get a full picture of the client’s assets and liabilities, and for this reason, a dashboard can be incomplete. An incomplete dashboard has little to no value. Often, the investors will have holdings at other firms, and clients are not always willing to share information about the holdings they have elsewhere.
    - *“Using dashboards everyday but not seeing clients asking for them. Certainly they have made information gathering way more efficient, which means all of my assistants can see the same thing I see in real time.”*

Impressions of Technology

Onboarding and other technology-related enhancements:

- **Onboarding**: Most advisors noted that for the most part, advancements in technology have resulted in improvements to the onboarding process.
  - *"With technology and CART, I can open an account and get a docu-signed and have everything done in half an hour."*
- While technology has enabled online onboarding, some advisors suggest that onboarding of a new client without in-person interaction is still challenging.
- **The electronic auto-signature program:** The program is felt to be tremendously efficient, although some clients do not understand how to use it. Some continue to print, sign and scan. Specific to One-Spam, one advisor mentioned an issue with Gmail accounts (emails get sent to their junk mail folder).

The Impact of COVID-19

Perceptions of How COVID-19 Will Affect Business

COVID-19 has changed the way advisors interact with their clients. Most advisors indicate that the pandemic has not negatively affected their ability to meet the needs and expectations of their client base. In fact, advisors feel the pandemic has created many positive outcomes.

+ POSITIVE IMPACTS OF COVID-19

In many ways, the pandemic has positively impacted advisors.

- Prior to COVID-19, the industry was felt to be behind the times and slow in its adaptation of technology (e.g., refusing to accept electronic signatures and continued reliance on fax machines). Some advisors feel that despite the initial turmoil created by the pandemic, it may have been a necessary 'kick' that was needed.
    - *"COVID has been a blessing in disguise – to get those [technology-related] projects pushed to the forefront to hopefully make our business easier."*
- Advisors themselves have become more comfortable with technology. Where some may have resisted the use of technology in the past, they have had no choice but to adapt during COVID-19.
- There is an expectation that COVID-19 has changed some things forever. Many advisors believe that the move to a paperless environment and electronic signatures is permanent and there will never be a return to the way transactions used to be completed. Most feel positively about this new reality.
- Advisors shared that there has been less travel to see clients in-person, allowing them to work more efficiently. Advisors who service rural investors have appreciated the time savings (from less travel).
- The bank branches have reduced their hours during COVID-19, and it was noted that this has been an opportunity for independent advisors.

Perceptions of How COVID-19 Will Affect Business

Continued from previous slide…

COVID-19 has changed the way advisors interact with their clients. Most advisors indicate that the pandemic has not negatively affected their ability to meet the needs and expectations of their client base. In fact, advisors feel the pandemic has created many positive outcomes.

+ POSITIVE IMPACTS OF COVID-19

- The pandemic has not hurt the retention of existing clients. Advisors noted that many clients have felt nervous and uncertain during the pandemic, and this has made them especially appreciative of their advisors. Clients are anxious to receive advice. Further, those who may have been considering a move to a self-directed investors are now reconsidering.
- Some clients have experienced an increase to their disposable income and have extra money to invest: their expenses have decreased because they are working from home (e.g., no travel-related expenses).
- Despite early fears that markets would decline in response to the pandemic, this has not been the case. Advisors noted that there has been a lot of money made in the markets this year.
- Clients have had to adapt to virtual meetings (via Zoom, etc.) and the requirement for electronic signatures. For the most part, this transition has gone smoothly.
    - Advisors mentioned that some older clients have been resistant to learning Zoom. In these situations, advisors are using the telephone. Generally, however, the transition away from in-person meetings has not been a difficult transition for clients or advisors.
- A few advisors noted that some of their clients took time during the lockdown to educate themselves and improve their financial literacy.

Perceptions of How COVID-19 Will Affect Business

Advisors shared what they felt to be the challenges of servicing clients during the pandemic.

+ NEGATIVE IMPACTS OF COVID-19

- Acquisition of new clients has been a challenge for some. The lockdown has made it difficult to network and attend events where they could meet new people.
    - *"Working remotely makes it more difficult to connect as human beings."*
- A few advisors mentioned that they prefer to interact with clients in-person, as doing so provides a better sense of personal connection and is more conducive to relationship building. These advisors look forward to a time when they can return to in-person meetings.
- Feedback suggests that COVID-19 has resulted in increased screen time, which some advisors find hard on the eyes and exhausting.
- A few have found that working remotely from home has negatively impacted productivity.
    - *"Half the staff have children under the age of 5 running around their ankles."*
- Advisors with rural clients have been challenged by slow internet speeds and poor internet reception, which is problematic because they now have to deal with people online rather than in person.
- A few advisors mentioned that clients have been laid off and this has made them reluctant to invest. Some clients have paused their automated contributions/continuous purchase plans. A couple of advisors reported that some clients have been asking if they qualify for the Canada Emergency Response Benefit (CERB).

Awareness and Impressions of the CSA Review

Awareness and Familiarity of the CSA Review

At the time that this research was undertaken, there was very low awareness of the CSA review.

- Many advisors had not heard of the Canadian Securities Administrator's (CSA's) plans to review the concept of self-regulation as it relates to the investment industry.
  - *"I had heard nothing about it till you mentioned it."*
- Some had heard of these plans, but admitted they knew very little to nothing about them.
  - Note: This research study was undertaken over the course of several months. Advisors interviewed in the fall were more likely to report awareness of the CSA review.
- Some advisors had heard about submissions from IIROC and the MFDA, but only a few were aware of any details. Very few reported having read either of the two proposals. For that reason, most participating advisors felt they were unable to provide an informed opinion about the responses. Further, it was clear that most advisors – because they were licensed by the MFDA - were not familiar with IIROC. Due to this lack familiarity, they were uncertain as to what it might mean for the MFDA to consolidate with IIROC:
  - *"I don't know much (if anything) about IIROC regulation and how it compares to MFDA so its hard to comment."*
- Most advisors were however able to provide a high-level/general viewpoint or predictions about what consolidation might mean for advisors and clients.

Impressions of the CSA Review

Advisors in the focus groups were provided with a very brief description (see below) and asked to comment on the perceived benefits and drawbacks to the formation of a single SRO structure.

Some people have described the proposals put forth by IIROC and the MFDA in the following way: IIROC is seeking to consolidate the MFDA and IIROC, while maintaining the current practice elements already available to advisors under the MFDA. MFDA is seeking to establish a single SRO, working 'from scratch' and building it from the ground up, to address the challenges arising from the current two-regulator model.

- Overall, advisors lacked familiarity with the CSA Review and the submissions put forward by IIROC and the MFDA.
- Without knowing the details, most advisors indicated that they generally agree in principle that a single SRO makes intrinsic sense and is preferred over having two regulatory bodies. Simplification and the lack of need for duplication are often cited as the key advantages to moving to a single SRO.
- Some advisors mentioned that the industry has been discussing a move towards a single SRO for many years. Several commented that it is *"long overdue".*
- Most believe that consolidating the MFDA and IIROC would be an easier undertaking than building up 'from scratch'. A few noted that they believe IIROC would have the upper hand in the move to a single SRO.
- There was mention that there is little difference between the roles of the MFDA and IIROC and that the need for the MFDA has passed. One advisor explained that MFDA was formed when the banks started selling mutual funds as a stop-gap measure to ensure sufficient oversight of the increasing sales of mutual funds.
    - *"Back in the 90's, the MFDA had purpose. Now we have two parallel organizations doing the same thing."*

Impressions of the CSA Review

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Perceived Benefits to Clients

- Most advisors suggested that the move to a single SRO will not be felt by clients. They explained that the vast majority of clients only use a single advisor, so already they are only ever exposed to a single regulator.
  - *“The only time the regulator becomes important to them is if there is an issue. If that happens, they’d only be referred to a single regulator.”*
  - *“Most clients don’t know about the two regulators.”*
- Still, for clients who change advisors/firms, there may be some reduced confusion as there will be standardization of processes and regulations and therefore a more consistent client experience:
  - *“Hopefully the ultimate goal is to make the industry accountable to one set of rules and that these will be in the best interest of the Canadian consumer.”*
- Some advisors noted that consolidation will simplify the navigation process. For investors, there will be a single point of reference to look up regulations and to verify the credentials of advisors.
  - *“The industry is complicated enough for consumers to navigate. The more we can simplify how it functions…”*
- Uncertain about what consolidation will ultimately look like, some advisors relayed their hopes about how regulation might change:
  - There was mention that the move will mean increased Continuing Education (CE) requirements for advisors currently registered with the MFDA. In turn, this change is expected to positively impact investors as they will end up dealing with better educated, more knowledgeable advisors.
  - There is a desire for greater oversight to ensure bad advisors don’t continue their career selling an alternative product offering: *“You could be banned for life by IIROC and then end up as a mutual fund advisor. Lose that license and you can go on to sell insurance.”*
- As previously mentioned, most MFDA advisors do not view lack of access to ETFs and individual securities as detrimental to investors. Still, a couple of advisors felt that clients will benefit from access to a wider variety of investment products.

Impressions of the CSA Review

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Perceived Benefits to Advisors

- Advisors lacked information about what a single SRO might look like and what specifically is being considered by the CSA. Therefore, when asked to cite specific benefits, most were unable to do so. They tended to respond by citing regulatory issues they'd like to see resolved.
  - Advisors express hope that the move to a single SRO will mean lower registration fees.
  - They asked if it might eliminate the requirement to be licensed in every province.
  - A few expressed a desire that the change will result in a 'level playing field', meaning that the banks will be held accountable to the same set of rules as non-banks.
    - *"One regulatory body hopefully means everyone plays by the same rules."*
- As mentioned earlier, this research did not reveal a strong desire among MFDA-licensed advisors for access to a broader range of product offerings. Consequently, few mentioned access to ETFs or individual securities as a benefit of consolidation.
  - *"We've probably lost business over the years because clients have wanted to buy stocks."*

Perceived Benefits to Dealers

- Advisors mentioned that they foresee how consolidation might benefit the dealers. There is some expectation that removal of duplication should reduce costs for those dealers who are currently dually regulated. Further, among dually regulated firms, it might lessen any strain and confusion experienced by their internal compliance departments.

Impressions of the CSA Review

Perceived Drawbacks to Advisors

Advisors generally see there to be more benefits than drawbacks to a single SRO model. Perceived drawbacks are limited to the following:

- A few advisors mentioned that they believe IIROC is more demanding than the MFDA, although they stated feeling the added rigor was justified due to the complexities of security trading. Some concern was expressed that consolidation might mean that current MFDA advisors will be held to the same rules as IIROC-licensed advisors and face even greater regulatory overburden. Advisors who wish to only sell mutual funds could be unnecessarily burdened with regulations that don't apply to them.
- The move to a single SRO is considered a big and daunting undertaking. For that reason, there is some assumption that it could be costly and time-consuming to implement. Further, some advisors envision a lack of cooperation between IIROC and MFDA, and that the self-preservation efforts of these two regulators could negatively impact timelines and resources.
- The participating advisors lacked familiarity with the proposals. As such, most were unable to project if and how the potential changes might impact their business model. As well, most seemed unfamiliar with the differences between an MFDA licence and an IIROC licence.
    - Only a couple of advisors questioned whether their ability to incorporate might change if there was one rather than two regulators. Feedback suggests that MFDA advisors are extremely protective of their ability to incorporate and the advantages that come with that business model.

Impressions of the CSA Review

Perceived Drawbacks to the Industry

- There is some perception that IIROC carries more weight than the MFDA, in the eyes of the CSA. It is believed by some that IIROC will come out ahead in the negotiations to establish a single SRO. For this reason, a few advisors concluded that the move to a single SRO could give the banks even greater power.
  - *"Both organizations are going to want to protect their footprint in terms of revenues and employees so I don't have a lot of confidence in a combined platform being designed in the most optimal way because of existing self-interests, but I'm hopeful it will be a positive move."*

Perceived Drawbacks to Clients

- Most advisors believe there to be no drawbacks to clients as investors have little interaction with regulators unless faced with a problem.
  - *"I don't think it matters to the clients – it is an internal issue."*
  - *"Clients want oversight to be there, but investors don't care or know if it is MFDA or IIROC."*

Thank you