



FPSC FINANCIAL
PLANNING
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Financial Planning Standards Council

Submission on Canadian Securities Administrators' Discussion Paper
and Request for Comment on Consultation 81-407, Mutual Fund Fees

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Financial Planning Standards Council (FPSC[®]) is a federally incorporated not-for-profit organization whose purpose is to instill confidence in the financial planning profession. We do this by establishing, enforcing and promoting appropriately high standards for financial planning and certifying individuals who meet those standards. Our multi-tiered CERTIFIED FINANCIAL PLANNER[®]/CFP[®] certification program is considered the standard for the financial planning profession. To successfully attain the designation, candidates must complete:

- An extensive educational program administered independently by over 30 public and private-sector institutions across Canada;
- Two levels of national, standardized, comprehensive examinations developed and administered by FPSC;
- A Capstone Course, (established by FPSC and delivered in partnership with the academic community), which includes the completion of a comprehensive financial plan; and
- Three years of practical work experience.

Further, once a candidate has been certified, to be permitted to continue to use the CFP certification marks, s/he must:

- Continue to adhere to a rigorous set of *Standards of Professional Responsibility*, which includes a Code of Ethics, Rules of Conduct, Standards of Practice and Fitness Standards; and
- Complete ongoing annual professional development/continuing education.

FPSC is also part of an international community of 24 CFP certification bodies around the world. Currently, there are more than 17,500 CFP professionals in good standing across Canada and over 150,000 CFP professionals worldwide.



We are pleased to offer our remarks regarding the Canadian Securities Administrators' (CSA) request for comment on Consultation 81-407 Mutual Fund Fees and look forward to further discussion on this important issue.

FPSC supports the CSA consultation paper's notion that "the current mutual fund embedded trailing commission structure, which offers a one size fits all approach, seems potentially misaligned with the current practice of providing services tailored to an investor's personal circumstances, expectations and preferences".

We believe that this misalignment is a direct result of a fundamental flaw in the configuration of the Canadian financial services industry that sees the notion of the service of professional advice (financial planning) being overlaid on a product sales infrastructure. The current regulatory system in Canada is constructed around product transactions, and thus only product transactions are ultimately regulated. Likewise, the majority of compensation for financial services providers, be they mutual fund sales representatives or CFP professionals, is also based on a product transaction model. The vast majority of financial planning services in Canada are compensated through the sale of product.

Imagine for a moment if a doctor's compensation structure was centered on the sale of pharmaceuticals. The compensation to the doctor for their skill and time during an annual checkup would be paid for by the pharmaceutical company whose drugs the doctor prescribed, based on a "pay schedule" established by the drug company. While Canadians would never accept a compensation model for doctors that saw them compensated by the drug manufacturer through the embedded cost of the drug, the financial services industry continues to accept an analogous model for its adviser and dealers.

The risk to the Canadian public is compounded by the fact that the compensation model does not distinguish between the service provided by a product salesperson (who is trained solely on the basics of product selection advice and overseen by transaction regulators) and, for example, a CFP professional who is fully qualified to offer financial planning services, has attained and maintains the extensive knowledge, skills and abilities necessary to provide quality advice, is held accountable to a professional oversight body for their professional advice, and to a duty of care and loyalty that includes an ethical obligation to put the clients' interests before their own and an obligation to maintain their professional competence and perform their duties in the manner of any prudent professional would be expected to do.

Not only has this misaligned system created an uneven playing field but it has resulted in confusion and a distinct disconnect between the level of service consumers should be able to expect from their financial practitioner and the actual service provided. Layer on this the lack of title and holding-out restrictions throughout the financial services industry



and it becomes clear how the current infrastructure has left the Canadian public vulnerable. Simply imposing greater disclosure requirements is not the answer to addressing these fundamental issues.¹

Financial planning advice is critically important to all Canadians. We encourage the CSA to review some of the highlights of the three year longitudinal *Value of Financial Planning* study which was first commissioned by FPSC in 2009 and conducted by The Strategic Counsel. The study, which included the opinions of over 15,000 Canadians, demonstrated unequivocally the value and importance of financial planning to Canadian society. Results indicate that consumers from all socio-economic backgrounds that are engaged in comprehensive financial planning are reporting significantly lower emotional stress than those engaged in either limited planning or no planning at all, and that they are almost three times as likely to feel on track to reach their current and retirement lifestyle goals.²

Despite the value financial planning can bring to the standard and quality of living for all Canadians, we recognize that today the vast majority of financial planning-based advice is not paid for directly by the consumer, and even those consumers who understand and value the importance of this advice are not inclined to write a cheque for it.

While we also understand that for the foreseeable future that most financial planner compensation will continue to be paid for through a model that is ultimately determined by product regulators, it is imperative to mitigate some of the risk involved with this structure, through the development of a revised model which recognizes the drivers of inappropriate behavior and the inherent conflicts of interests that exist within the current model.

Recommendation #1: Fees Must be Explained and Justified

The vast majority of Canadians do not understand the cost or compensation models embedded in the purchase of a mutual fund.³ Many Canadians wrongly assume that financial planning advice is provided as a free service with their purchase. In fact, the majority of Canadians are being serviced by individuals who have no qualifications to offer financial planning advice, and who in many cases are conflicted between acting in the best interest of the client and selling particular products or types of products that would provide greater financial reward to the adviser or dealer, or the adviser's employer. The current model that rewards all equally through trailer commissions is unfairly harming the offering of true professional financial planning advice since there is

¹ Willis, Lauren E., *Against Financial Literacy Education*. Iowa Law Review, Vol. 94, 2008; U of Penn Law School, Public Law Research Paper No. 08-10; Loyola-LA Legal Studies Paper No. 2008-13. Available at SSRN: <http://ssrn.com/abstract=1105384>

² Financial Planning Standards Council, *Value of Financial Planning*, June, 2010, Page 3
<http://www.fpsc.ca/sites/default/files/documents/backgrounder-value-financial-planning-study.pdf>

³ Jonathan Bishop and John Lawford, PIAC *Purse Strings Attached: Towards A Financial Planning Regulatory Framework* Published January 2013 page 7



no requirement to justify the fees, thereby driving delivery of advice to the lowest common denominator.

In order to justify fees paid to the dealer (the advisory component currently embedded in the MER of mutual funds by way of trailer fees), we support that it should be the responsibility of the licensed dealer to outline to the consumer what services they offer and what value they bring (above and beyond their being licensed to sell a particular fund), and to be clear up front on the fee for the performance of these services, regardless of whether that fee comes directly from the client or from the products being selected.

Recommendation #2: The Use of Titles Should be Restricted

We suggest that any revised compensation model must ensure that those offering true, value-added financial planning advice have the opportunity to be appropriately compensated for the value they bring to the client. Any new structure must recognize and differentiate between the services that are available from licensed salespersons compared with the advice available from financial planning professionals. Title and holding out restrictions must be put in place to only permit titles and services claimed to be on offer for those who are qualified to hold the title or offer the services. The public must be clearly able to distinguish between those who offer a narrow form of advice related exclusively to investment product selection and those who provide broad, unbiased, independent, non-product-based advice that we deem financial planning.

Anyone holding themselves out as providing financial planning advice, that is advice that goes beyond that related to product selection, should be required to meet clearly established proficiency and ethics requirements, including specific levels of education and experience. They must be required to demonstrate their financial planning competence through a standardized examination process; meet prescribed continuous professional development/continuing education requirements; and agree to be held accountable to a code of ethics, practice standards, and the rules and regulations of a professional body (just as our CFP professionals are today). These requirements must also include clearly defined, common standards of performance so Canadians can be confident that those who claim to offer advice beyond product selection are truly qualified and competent to act in their clients' best interest.

Financial planning advice – that is, advice that goes beyond product selection, represents a professional service, and as such those individuals who offer such a service should be accountable to a professional oversight model rather than a product sales model for the non-product based advice they offer or claim to offer. This model can happily coexist with the product transaction regulatory model.



Recommendation #3: Consistency is Paramount

We would offer that whatever compensation model is considered by the Canadian Securities Administrators, the CSA should encourage universal adoption of a similar model across all regulatory sectors, including MFDA and IROC dealers, as well as Insurance-licensed practitioners in the sale of segregated funds for example. Any new compensation model must also apply equally to all practitioners, be they full-fledged professional planners captured by FPSC under the obligations of a CFP professional, or salespeople and product advisers captured under current securities (and insurance) regulation.

We caution that the creation of a piecemeal solution could well result in disadvantaging those who are in fact providing, or able to provide, more value to the transaction. Any new model introduced must recognize the distinction between product selection advice and professional planning advice and as such should not be constructed in a manner that shuts out consumer access to professional planning service. In other words, the model cannot be constructed in a way that penalizes a professional service and provides advantages for a lesser service.

We look forward to participating in further discussion on this important issue.



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