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Mr. Bill Rice
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Re: Client Relationship Model (Phase 2) – Implementation Dates

A small investor voice from the SIPA files:

"For clients not to be told what they are being charged or the rate of return on their account is unbelievable to begin with. To have to mandate it is pitiful. How can an informed decision be made without it? Both are basic questions to ask which should lead you to ask "What are clients being told?" When my eighty year old father asked the advisor what this would cost, the advisor said "Nothing, my clients don't pay charges." When my dad asked a few minutes later "What if I need to get my money out?" The advisor told him he could have it within 1-3 business days. What the advisor failed to mention is that it was locked in for 7 years and if he needed it before that he would indeed face charges...hefty charges. CRM2 isn't even investor protection it is just an investors basic right and common decency." - A small investor

Only one question regarding investor protection remains.

Are the regulators concerned about investor protection or is their role simply to create public perception that they provide investor protection while they simply perpetuate support for the investment industry?

SIPA was founded in 1998 as a national non-profit organization as a Voice for Small Investors when it seemed there were only a few individuals speaking out for investor interests. There were many reports available but shelved so it seemed the Government and regulators were not concerned about protecting investor interests. We have talked with hundreds of small investors. Most believe their so-titled "Financial Advisor" as well as the "Dealer" have a fiduciary duty to look after their best interest.

"It is my understanding that [the dealer] and [my representative], have a fiduciary duty to their clients to ensure that their financial interests are fully safeguarded. Both failed in that duty." - A small investor

Since 1998 the landscape has changed. Regulators have helped with investor education, the media has exposed some of the issues, the Canadian Securities Administrators have implemented a National Registration Data Base where investors can check their Advisor's registration and discipline history, but the public is still being deceived and the investment trickery continues.

We continue to hear from small investors who have lost substantial amounts of their savings and the stories are consistent. They trust their so-titled "Financial Advisor" who sells them products but fails to disclose the associated fees and fails to provide reports indicating the performance of their investments compared to a benchmark. Many trusting investors have been placed in leverage and at times without their knowledge. It is only after they have experienced substantial loss that they learn about the deception when they had trusted their representative would look after their best interests.

That is why it is fundamentally wrong to hold investors responsible when information like fees and return on investment compared to appropriate benchmarks is not disclosed. It is impossible for people to make investment decisions without this information and they are forced to rely upon trusting their representative. Unless and until the regulators ensure that this essential information is disclosed they are providing a great disservice to the public.



There is no acceptable reason for further delay in the implementation of CRM2. The exploitation of the Canadian investor by a commission driven investment industry has been recognized for decades.

The focus on investor education and requiring the investor to be responsible for his own investments is at best unfair due to current asymmetry of information and sales persons titled as Financial Advisor when the public believes Advisor and Adviser are simply two spelling variations of the same word.

There is no doubt that the industry has a larger and louder voice than investors even with the much needed introduction of FAIR Canada. For too long investors have lacked the resources now available to FAIR to do a creditable job of representing investor interests. It was left to many individuals and a few small organizations to try to represent investor interests.

Ms. Glorianne Stromberg in her reports in the nineties, almost two decades ago clearly outlined the situation for the consumer/investor and proposed appropriate action. Stromberg's report *INVESTMENT FUNDS IN CANADA AND CONSUMER PROTECTION* is available on the SIPA website http://www.sipa.ca/library/SIPAdocs/Stromberg_InvFunds-Oct1998.pdf. Endless reports and conferences followed. SIPA made many submissions and presentations to Governments and regulators, including meeting with the Senate Standing Committee on Banking Trade and Commerce when a scaled down version of *The Small Investors Perspective of Investor Protection in Canada* was presented to the Senate Committee on Banking Trade and Commerce. The report is available on SIPA's website. It indicates there is little improvement. http://www.sipa.ca/library/SIPAdocs/SIPA_Report_20040227.pdf.

Section 10. *What is the Solution? – What do small investors need?* concludes by saying:

"Failure of the Government to act to provide meaningful consumer/investor protection with processes to resolve disputes and satisfy claims from small investors who have been victimized by industry wrongdoing will result in the continued financial exploitation of many Canadians who work a lifetime to save for their retirement only to see their savings destroyed by those in whom they placed their trust. The leaders of our Government and the investment industry have a social and moral responsibility to ensure that this essential industry is operated in a moral and ethical fashion, as well as a legal fashion. Industry leaders should not allow participants to flaunt the rules and regulations and then rely upon legal tactics to vigorously defend situations that are morally and ethically indefensible."

Several years ago an initiative to finally provide Point of Sale Disclosure for mutual funds failed. It seemed right that investors should be provided details regarding funds they were buying before being committed to the purchase instead of buying "a pig in a poke" which could turn out to be a racoon.

It seemed that almost everyone was aware of this need but the industry was able to derail the initiative and have it replaced by a document called Fund Facts. The regulators did a good job of developing a document which seemed to fairly outline facts an investor should know prior to purchasing a mutual fund. However when this was to be implemented it was no longer a Point of Sale disclosure but was to be provided two days after the sale. In December Fund Facts was announced to be required to be delivered before the sale (effective in 2016!) It seems to be Never Never Land.

That is not to say that the regulators have not improved since the early days of SIPA's existence when the regulators appeared openly hostile to investors with an issue. The CSA is to be commended for developing the National Registration Data Base and making it available to the public. However the continued delay in requiring the industry to provide information essential for investors to make a decision on their investments is unacceptable.

There are few submissions to support the implementation of CRM2 on schedule which is already a much delayed initiative. We fully support FAIR Canada's submission which states:

"As we have noted above, there is still a lot of time left in the existing timeframe and no reason has been given why the project cannot be completed on time if best efforts are made and sufficient resources (both human and economic) are allocated to getting it done. IIAC has failed to show that



additional resources cannot be marshaled to still get the project completed on schedule, and therefore IIAC has not put forth any justification to warrant regulators taking the extraordinary step of delaying CRM2 implementation."

An article by Tom Bradley of Steadyhand Investment Funds Inc. entitled "*Unfinished business: It's time to end embedded commissions*" published by the Globe and Mail August 29, 2014 includes the following statement regarding CRM2:

"The industry's primary argument for maintaining the status quo is that small investors will not be able to afford advice if it's charged separately. Trailer fees, with their inherent opaqueness, allow dealers to subsidize small clients (presumably by charging larger ones too much). This becomes more difficult to do with increased transparency."

To me, this argument lacks credibility. The dealer community is not the great protector of the small investor, as evidenced by the fact that in most shops the branch manager and compensation structure openly encourage advisers to cull their small clients – pass them off to call centres, bank branches or rookie advisers."

We feel it would be irresponsible for the regulators to back down from the implementation date on a broad basis. There are already some decent firms that are providing, for the first time ever, costs related to investment transactions before they will take action. Also numerous professionals in the industry support better disclosure of information.

The current situation of failure to disclose is a force driving investors to Do It Yourself investing rather than risk dealing with an industry representative who is commission driven and selling products without adequate disclosure. Too many Canadians are losing their savings when they place their trust in a so-titled "Financial Advisor" who is simply a commission driven sales person.

The practice of regulators allowing the industry to use unregulated titles is appalling. If the regulators allow industry to delay the implementation of CRM2 it will be tantamount to telling the public they are representing the industry's best interests.

The provision of the costs of investing and the percent return is fundamental to being in the advisory business. Each month that goes by, hundreds of millions of dollars of fees are not given the visibility needed for investors to make informed investment decisions. It's time to stop the decades long cycle of foot-dragging and make a determined decision to act in the Public interest.

We urge you to stay with the established schedule and not accept any further delay.

Yours truly

Stan I. Buell
President

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