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Re: Canadian Investment Regulatory Organization of Canada (CIRO) Position Paper on Policy Options for Leveling the Advisor Compensation Playing Field (the Position Paper)

We strongly support CIRO's efforts to level the advisor compensation playing field. This is a critical initiative that has the potential to provide a key step forward for all advisors as well as the clients they serve. As we discuss further in this letter, it is imperative that CIRO act now to harmonize treatment of directed commissions while minimizing advisor disruption through Option 1, and at the same time, collaborate with the Canadian Securities Authorities (CSA) to permit corporations to engage in registerable activity through Option 2. CIRO and the CSA must work together in the near term to unlock the full potential of this initiative and implement Option 2 as soon as a corporation can engage in registerable activity.

Our Company

At Canada Life, we are focused on improving the financial, physical and mental well-being of Canadians. For more than 175 years, our customers across Canada have trusted us to provide for their financial security needs and to deliver on the promises we have made. Today, Canada Life provides insurance, wealth management, and healthcare benefit products and services, serving more than 13 million customer relationships across Canada, through our network of over 16,000 advisors.

We are one of Canada's preeminent wealth providers. Across our platform, Canada Life has approximately \$100 billion in Canadian independent wealth management assets under administration. In the securities space, we offer a full spectrum of wealth management services and solutions to our clients through our subsidiaries that operate in the mutual fund dealer, investment dealer, investment fund manager, and portfolio manager categories of registration.¹ We are building on our strong foundations to create a leading wealth management platform for independent advisors and their clients in Canada.

¹ Quadrus Investment Services Ltd., LP Financial Planning Services Ltd., and IPC Investment Corporation are registered as mutual fund dealers; IPC Securities Corporation and Canada Life Securities Ltd. are registered as investment dealers; and Canada Life Investment Management Ltd., Counsel Portfolio Services Inc., and Value Partners Investment Inc., are registered as investment fund managers and portfolio managers.

Comments on the Position Paper

Our activities across Canada and direct dealings with our advisors and clients have provided us deep insight into how independent advisors have structured their business to offer a broad spectrum of financial services to Canadians, as well as the issues and tension points in the present advisor compensation framework, making us well positioned to comment on the Position Paper. It is with this knowledge and experience that we provide the following feedback:

- (i) Permitting corporations to engage in registerable activities under Option 2 is the optimal solution.

We strongly believe that Option 2 is the best approach. It will achieve CISO's objectives of harmonizing the treatment of commission arrangements and enhancing investor protection, while introducing less incremental burden on advisors and their sponsoring dealer than contemplated under Option 3. It is imperative, however, that the corporation be permitted to engage in registerable activity. This will unlock the full potential of this option, allowing advisors to maximize the tax benefits associated with corporations, structure their business activities in a way that makes sense for their service offering, simplify their business operations, and importantly, reduce confusion for clients. We point to the success of a similar approach for insurance licensed corporations. The securities industry will greatly benefit from a comparable model. We urge CISO and the CSA to collaborate to ensure the full potential of this option is realized as quickly as possible.

- (ii) CISO must not implement Option 2 unless and until corporations are permitted to engage in registerable activity.

While Option 2 is the ideal solution, CISO must only implement Option 2 when corporations are permitted to engage in registerable activity. Option 2 implements oversight and additional compliance requirements that are only appropriate if the corporation is engaging in registerable activities. To the extent advisors and/or their corporations carry out activities that do not require registration, they can and should continue to be overseen by dealers through the already robust outside activity regulatory and compliance framework that was recently enhanced by the CSA through targeted amendments to National Instruments 33-109 and 31-103. Given this fulsome framework, the direct oversight by CISO contemplated by Option 2, and the additional measures required to administer oversight and compliance with Option 2, is simply not needed for corporations that are not engaging in registerable activities. In the interim, an enhanced directed commission approach as outlined in Option 1 (and as discussed further below) can effectively address CISO's existing concerns with less incremental disruption to advisors and their sponsoring firms.

- (iii) In the interim, CISO should act swiftly to level the playing field by implementing Option 1.

We acknowledge CISO's concerns that implementing the securities changes needed to permit a corporation to engage in registerable activities will take time, and that the path to national adoption is uncertain. It is imperative that CISO act now to level the long-standing, arbitrary disparity for the treatment of directed commission arrangements. There is no clear rationale to continue to permit an unlevel playing field. We urge CISO to immediately implement Option 1 while it engages with the CSA. Option 2 can and must be implemented when the full benefits of that option will be realized. We strongly believe this path forward responsibly and effectively balances the incremental disruption associated with any transition with the benefits that will accrue to advisors.

- (i) CISO must provide advisors with maximum flexibility in the way they structure and carry out their business.

The reality of the Canadian financial services landscape must be considered by CISO in its rule making. Corporations must be permitted to engage in insurance, financial planning, tax and estate planning, and other ancillary financial services. This will help ensure clients have access to a broad range of holistic services while dealing with one entity and the appropriately qualified individuals who carry out services on behalf of that entity. It is imperative that clients limit their touchpoints between different entities to ensure an optimal client service experience and limited confusion.

Similarly, CISO must also not arbitrarily limit corporate ownership to CISO registrants. Throughout Canada, it is common for individuals with complementary skill sets and licenses to work together in a multi-disciplinary setting to provide a "one-stop", comprehensive service offering. This grouping of services by qualified individuals should be

permitted to assist Canadians in obtaining advice. From our standpoint, it is critical that other individuals who are permitted to carry out insurance services or financial planning services, for example, be permitted to own the corporation in conjunction with those advisors carrying out securities related advice.

Additionally, it is imperative that advisors who conduct business through insurance licensed corporations be permitted to use those same corporations to engage in registerable activities. We would strongly oppose any requirement for advisors to create new or separate corporations that engage only in registerable activities. To promote optimal structures and succession planning, there must also be flexibility with respect to corporate structure (e.g. professional corporation vs. private corporation), and ownership by family members, trusts and holding corporations.

Providing advisors with maximum flexibility will promote efficient structures that more easily enable advisors – either alone or in conjunction with other qualified individuals – to provide valued financial and related advice to Canadians. Access to financial advice and services must not be limited because of rulemaking on this initiative. The value of advice is long and well-understood².

- (ii) CIRO must ensure the potential disruption to advisors and their sponsoring firms is at the forefront of its decision making.

The disruption that mutual fund advisors presently utilizing directed commission arrangements will face in a transition to any new approach should not be underestimated. To minimize disruption, we strongly encourage CIRO to allow existing mutual fund advisor corporate ownership structures and activities to continue. Many mutual fund advisors have invested significant time and money to establish their existing businesses to comply with existing rules, as well as achieve their business objectives, including with respect to succession planning and service offering. These pre-existing arrangements should be respected.

To the extent a transition for these advisors to a new approach is required, we recommend a transition period of no less than 4 years.

Conclusion

We thank you for the opportunity to provide comments on the Position Paper. To reiterate, we strongly support CIRO's initiative to move this forward, and urge CIRO to continue to progress this important work as expeditiously as possible with a view to minimizing disruption and unlocking the full potential of this project. Active participation and collaboration with the CSA will be a key component to ensuring a positive result for advisors and the clients they serve.

We would be pleased to engage with you further on this topic, and look forward to reviewing concrete rule proposals in the near future.

Yours Truly,



Blaine Shewchuk
Executive Vice President, Individual Wealth
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² Montmarquette, C., & Prud'homme, A. (2020). *More on the Value of Financial Advisors* (2020RP-04, Projects Reports, CIRANO.) <https://cirano.qc.ca/en/summaries/2020RP-04>