

Global Regulatory Developments in Investor Protection

How are regulatory changes in other countries relevant to Canadian investors?

As regulators from different countries share experiences and seek solutions to common challenges, knowledge of global regulatory trends can provide useful context for understanding deliberations that might be taking place in Canada.

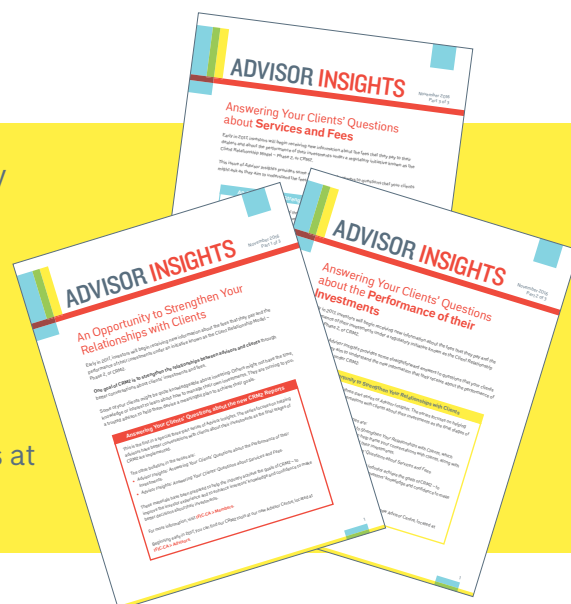
This issue of *Advisor Insights* provides:

1. An overview of regulatory changes and deliberations in 16 countries;
2. A snapshot of the Canadian regulatory landscape and how it compares to the rest of the world, and
3. Key points to discuss with your clients.

What is at the heart of recent global regulatory deliberations?

Many regulators are focusing their attention on new measures to ensure that advisors and their firms put the interests of the investor ahead of their own interests, where they may conflict. The most common approaches that have been explored to achieve this goal are: expanded disclosure; targeted reforms to improve the advisor-client relationship; imposing a statutory best-interest standard or fiduciary duty on advisors; and banning embedded commissions.

Advisor Insights is published several times per year by The Investment Funds Institute of Canada (IFIC) to deepen advisors' understanding of key issues affecting the industry and investors. Each issue provides insights to help advisors have meaningful conversations with clients to improve investors' understanding so that they can make better decisions about their investments. For more information, visit us at IFIC.CA > [Advisors](#).



A global overview

Different countries have different regulatory systems and not all regulators are responsible for all financial products. For example, in some jurisdictions a single regulator is responsible for the regulation of virtually all deposit, insurance, investment, mortgage and other commission-driven products. In other jurisdictions, such as Canada, securities are regulated separately from banking, insurance and mortgages.¹

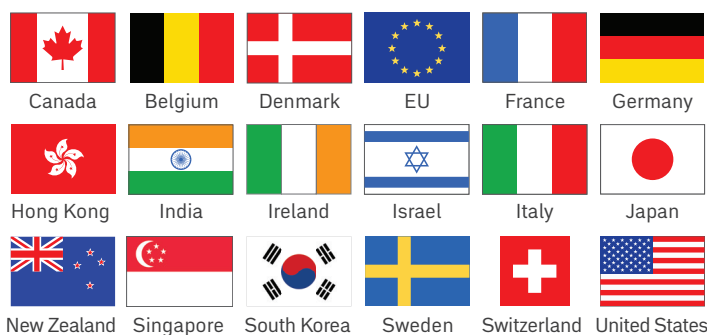
Regulators from different countries have approached the issue of potential conflicts of interest in different ways and there is no single regulation that effectively addresses these concerns in their entirety. However, an examination of major regulatory initiatives and associated impacts in 16 key international markets revealed a number of distinct trends:

- Comprehensive rules aimed at investor protection combined with enhanced disclosure – providing consumers with better, more detailed and personalized information about their investments is the favoured regulatory option in most countries.
- The most extreme measure – banning embedded commissions – has been evaluated by securities regulators in many jurisdictions. Only four (Australia, the Netherlands, the United Kingdom and South Africa) have taken action or opted to proceed. Securities regulators and governments in other countries, including Denmark, European Union, Germany, Hong Kong, India, Ireland, New Zealand, Singapore, Sweden, Switzerland, and the United States (U.S.),

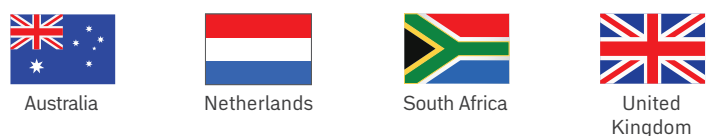
have examined this option and explicitly ruled out a total ban on embedded commissions. Other countries have examined regulatory responses to conflicts of interest more broadly and have decided to continue to allow for the use of embedded commissions. Even fewer jurisdictions have created a fiduciary or best interest standard. Only Australia has adopted a broad statutory best interest standard. The U.S. Department of Labor has adopted a rule that expands the definition of “fiduciary” for certain retirement accounts; however, it has not been fully implemented and it faces serious legal challenges.

- It is too early to evaluate success in the markets that have made sweeping changes.

✓ Allows for embedded commissions



✗ Bans embedded commissions



¹Quebec, Saskatchewan and New Brunswick have integrated regulators for securities and insurance.



How does Canada compare?

Canada has one of the strongest regulatory frameworks for investment funds in the world. A complex set of rules already require that firms and advisors put the client's interests ahead of their own anytime that a conflict of interest exists.

Regulatory changes over the last several years (point-of sale and CRM, which stands for Client Relationship Model) have focused on increased transparency and disclosure to help further protect and inform investors. The Canadian Securities Administrators has launched a multi-year research project to examine the impact of these changes on firm practices, product sales, fees and performance, distribution trends, and investor knowledge and behaviour.

Canada's regulators are currently considering whether additional actions, such as the banning of embedded commissions, the imposition of a best interest standard or the

introduction of a series of targeted reforms are warranted and what the potential consequences of these reforms might be for investors. Following a lengthy public consultation, the regulators are working on refining some of their proposed targeted reforms. Final decisions have not been made (as of May 2018) regarding whether to introduce a best interest standard or to ban embedded commissions.

The investment funds industry, through IFIC, has identified several potential unintended consequences that regulators could expect to flow from a ban on embedded commissions. Of particular concern is the likelihood that many investors would no longer be able to access the services of a financial advisor, limiting their ability to save for retirement and other important financial goals. IFIC has suggested a series of alternatives to banning embedded commissions, that would further protect investors by addressing specific conflict of interest situations.

Key points to discuss with clients

- Canada's investor protection rules are some of the strongest in the world.
- The rules that my firm and I operate under are very detailed and cover many aspects of my relationship with you on a step-by-step basis.
- They include requirements to put your interests ahead of my interests and the interests of my firm where they may conflict.
- Canada is also a world-leader when it comes to the information we provide to clients, from the discussions we have with you when you open an account, to the information we give you about how your investments are doing.
- By mid-2017, you started receiving new annual reports on the performance of your funds and the fees that you pay to the firm where I work. These reports are an important step forward in helping you learn about your investments.
- I believe that clients should have the broadest access possible to financial advice. You should be the one who chooses how much advice you want and how you should pay for these services.
- While there is always room for improvement, it is important that regulators ensure that any changes they make to the existing system also protect the ability of every investor, no matter how small, to build their savings with the help of an advisor.
- Few jurisdictions have banned embedded commissions. Several countries have considered it and ultimately decided against a ban.

If your clients have questions about fees, you could share these points:

- The average cost of ownership for actively managed funds through advice channels in the U.S. is 1.95%. This is equivalent to the cost in Canada, which is 1.96% when the impact of taxes is excluded.
- In part due to heightened competition in Canada, mutual fund fees have dropped 9% since 2006. Today, less than 4% of mutual funds pay a trailer fee above 1%.

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