Really!?!

Quadrant's regular newsletter that highlights topics we believe will affect markets or are important in understanding them.

"A true professional uses his or her ability and power solely to advance the best and truest interests of the clients. When the professional's interests diverge from those of the client, the professional always follows only the client's interests."

Steven G. Blum
Lecturer, Law and Ethics
Wharton School
University of Pennsylvania

Quadrant Asset Management
Suite 720, One Lombard Pl
Winnipeg, MB
Ph: (204) 944-8124
email: inquiries@quadasset.com
web:www.quadasset.com

As a registered Portfolio Manager, Quadrant has a fiduciary duty to act with care, honesty and good faith and always in the best interest of each client. As Fiduciaries, securities regulations require the highest level of education and experience of Portfolio Managers in the investment industry.

Our commitment to our fiduciary duties to clients is rooted in far more than a prescriptive regulatory requirement. Our firm is comprised of a broad range of recognized professionals; Chartered Financial Analysts, Chartered Professional Accountants, Lawyers, Trust and Estate Practitioners, Certified Financial Planners, Chartered Life Underwriters, etc. As professionals we have each undertaken a commitment to continuing education and a code of conduct with each of our respective professional bodies. At Quadrant our fiduciary duty to clients extends beyond investment advice and is embedded in our culture both at the personal and organizational level. Accordingly, much of what follows is not relevant to your engagement with Quadrant.

That said, we believe it is important to note the fundamental differences between the responsibilities to clients carried by a Fiduciary versus other providers of investment products and services. It is equally important to be aware of recent developments in regulatory oversight of the investment business.

Oversight of the capital markets is under provincial jurisdiction in Canada. The Canadian Securities Administrators (the "CSA") is an umbrella organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. Typically, regulatory changes, particularly those relating to investment services have been adopted concurrently by all jurisdictions under the coordinating efforts of the CSA. For investment dealers and mutual fund dealers these regulations are applied and enforced (under the supervision of the CSA members) by two Self-Regulatory Organizations ("SROs"), the Investment Industry Regulatory Organization of Canada ("IIROC") and the Mutual Fund Dealers Association of Canada ("MFDA").

Unlike firms or individuals that are registered as a Portfolio Manager, investment dealers and mutual fund dealers are not required to adhere to a fiduciary standard. Rather they are only obligated to take reasonable steps to ensure that investment products sold to a client were suitable for their circumstances at the time of purchase. In recent years, a series of regulatory reforms (the "Client Relationship Model") have been implemented to improve the information provided to clients respecting investment products, costs and account performance. While this is assisting more sophisticated investors in making informed purchase decisions, investment products are still largely sold on the basis of "Caveat Emptor" (let the buyer beware).

A large part of the conversation which has not found its way into the regulatory lexicon facing investment and mutual fund dealers is that of a "best interest" standard. In April 2016, the CSA issued a consultation paper entitled "Proposals to Enhance the Obligations of Advisors, Dealers and Representatives Toward Their Clients". The paper included a number of targeted reforms to further the broad objectives of the Client Relationship Model. In addition, it proposed principles within which to establish a best interest standard:

- act in the best interest of the client
- avoid or control conflicts of interest in a manner that prioritizes the client's best interests
- provide full, clear, meaningful and timely disclosure
- interpret law and agreements with clients in a manner favourable to the client's interest where reasonably conflicting interpretations arise
- act with care

The best interest standard proposed by the CSA is not intended to impose a fiduciary duty on providers of investment products and services, rather it is intended to be an "overarching standard and governing principle".

In May 2017, after a consultation period with industry participants and interested parties, the CSA provided a status report advising that Quebec, Alberta, Manitoba and British Columbia would not be proceeding with a regulatory best interest standard. In addition, Nova Scotia and Saskatchewan are also standing down, subject to reconsidering any best interest standard adopted by the last two jurisdictions still standing, Ontario and New Brunswick. The three territories don't seem to be represented in the process.

We have been reflecting on a way to frame the recent (and often complex) developments in the investment regulatory environment. Turning to the iconic (42 seasons) sketch comedy and variety show, SNL (or Saturday Night Live), we tap the shoulder of the recurring sketch entitled "Really!?!" (Google search "SNL" and "Really" to find a video sample). This recurring segment was performed by Seth Meyers and Amy Poehler wherein they summarized developments in the world that they could not understand closing with the exclamatory: "Really !?!".

- Regulation of participants in the Canadian capital markets is the responsibility of thirteen (13) government bodies and (2) Self-Regulatory Organizations? Really!?!

- The proposed best interest standard reads much like fiduciary duty, but it is specifically declared not to be? Really!?!

- The members of the CSA appear to be going in a number of separate directions as it relates to a best interest standard. This will result in different requirements of practitioners from province to province making what are already complex standards, more so –not to mention the cost of administering the differences by each participating firm. Really!?!

While we are at it……

- The provincial securities regulators don't have authority over the licensing and conduct of insurance advisors (and vice versa). While still within provincial jurisdiction, licensing of insurance advisors is a provincial jurisdiction either administered directly or through a provincial SRO. We understand that coordination between the provincial bodies is limited. Really!?!

- With the exception of the province of Quebec there is no regulation over individuals or firms that hold themselves out as financial planners. Really!?!

  Unfortunately, the list goes on….but….

This newsletter is not intended to be a condemnation of the regulators who are charged with the conflicting tasks of facilitating orderly operation of financial services markets while at the same time providing for fair and reasonable protection of the public. This task has become increasingly difficult given the velocity of change in every aspect of the financial services businesses – not just in Canada but worldwide.

If you find the foregoing somewhat convoluted and confusing you would not be alone. Many of us at Quadrant have been in the financial service business for decades and we find the regulatory framework respecting investments, insurance and financial planning fragmented, complex and often conflicting. When any of us seeks any form of professional advice we implicitly believe that our advisor is acting in our best interests and from a position of knowledge, experience and professionalism. As participants in the financial services business it is our responsibility as individuals and firms to put our clients' interests first – period.

At Quadrant, we take comfort in our deep belief in and commitment to our fiduciary duty to each of our clients in all that we do for them. It simplifies our decisions and our relationships with clients and allows us to continue to earn the privilege of being their trusted advisor. **Really**.

If you or someone you know could benefit from our services, please have them contact our offices at 204-944-8124 or email us at inquiries@quadasset.com.
