

October 13, 2015

Member Regulation Policy
Canadian Investment Regulatory Organization
Suite 2600
40 Temperance Street
Toronto, Ontario M5H 0B4
e-mail: memberpolicymailbox@ciro.ca

Trading and Markets
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto ON, M5H 3S8
e-mail: tradingandmarkets@osc.gov.on.ca

Capital Markets Regulation
B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2
e-mail: CMRdistributionofSROdocuments@bcsc.bc.ca

Modernization of requirements for account transfers and bulk account movements | Canadian Investment Regulatory Organization

<https://www.ciro.ca/rules-and-enforcement/consultations/modernization-requirements-account-transfers-and-bulk-account-movements>

Kenmar appreciate the opportunity to comment on this long-standing issue. We commend the CIRO for commencing this initiative.

Kenmar Associates is an Ontario-based privately-funded organization focused on investor education via articles hosted at www.canadianfundwatch.com. Kenmar also publishes the Fund OBSERVER on a monthly basis discussing consumer protection issues primarily for retail investors. Kenmar is actively engaged with regulatory affairs. An affiliate, Kenmar Portfolio Analytics, assists, on a no-charge basis, abused consumers and/or their counsel in filing investor complaints and restitution claims.

Account Transfers is a manufactured systemic problem that has, for too long, allowed conflicted Firms to profit at the expense of retail investors. It is unconscionable that it has been allowed to persist in a T+1 world. Investors expect uniform (short) transfer standard, basic client visibility during the transfer, and regulatory oversight of the process.

As noted in the CIRO White Paper, the use of antiquated technology, lack of consistency, and long transfer timelines erode public trust and confidence in the financial industry and its regulation. We have been made aware that some Firms

Kenmar Associates

are still using outdated processes like FAX and mailed cheques, leading to prolonged transfer delays.

Long account transfer times can cause a disruption in financial planning leading to financial losses due to decreased investment values. Transfer delays can lead to unexpected tax consequences, prevent investors from taking advantage of market-moving opportunities, and generally cause frustration with the financial system. Estate settlement delays, inability to transfer some securities, delayed Seg fund transfers etc. and high transfer fees lead to complaints and client dissatisfaction. Some securities must be sold/redeemed (with early redemption charges) before transfer with the resulting cash transferred with potential income tax issues. Clients should be notified of this fact **before** purchase.

Investors lose access to their holdings during the transfer period AND are also hit with transfer fees as high as \$150 or more per account for deciding to transfer those account assets. We suggest that Firms waive transfer fees if the Firm fails to meet a CIRO standard settlement period for an account transfer. We question whether an exit fee should be charged especially if the-transfer is being effected due to poor client service, abusive complaint handling or excessive fees.

A lengthy account transfer time should not be regarded as a mere service complaint. It should be regarded as a reportable complaint that can cause financial harm, investor aggravation and create a negative image of the investment industry. Clients dissatisfied with the account transfer should have access to OBSI.

Transfers occur because people want to change Dealers, people want to follow their advisor to a new Firm, people move to a new location- many reasons. See Appendix I for more reasons. Note that a fair number of transfers are due to inappropriate actions, inactions and negligence of the brokerage Firm.

Conflicts-of-interest are high -no Firm like to lose an account especially a fee-based account going to a competitor. Delays provide more time for Firms to try to convince clients to remain, they're also more likely to rack up excessive expenses.

Dealers have no incentive to speed up transfers. CIRO can level the playing field by setting a minimum account transfer time for its Members. With appropriate financial sanctions, enforcement against Firms can provide an impactful disincentive to slow down transfers.

In this day and age there is no excuse for long account transfer times. To be fair, Firm account transfer times are caused by many reasons. See Appendix II.

We agree that clients should be informed to any impediments up front and before the transferring of positions commences but we expect the clients will also want to know what is being done to remove the impediments. Kenmar recommend the publication of Guidance and other actions that CIRO can take to establish Member best practices for account transfers, such as the guidance put forth in the Appendix to the CIRO White Paper- see References.

Kenmar Associates

Kenmar concur with the proposed rules for investment dealers and mutual fund dealers should allow for a shortened timeline to identify and communicate any transfer impediments but we cannot opine if 2 clearing days is a sufficient amount of time.

The proposed standard settlement period of 10 clearing days for account transfers (including for transfers with impediments) is not totally unreasonable for now but we would suggest a much shorter time for the reasons stated, say ,no more than a 3-5 business days. This should be further shortened over the short to intermediate term as technology solutions are acquired and new automated account transfer facilities are launched. AI may be of assistance. This is not rocket science.

Conflicts-of-interests must be dealt with if progress is to be made. The industry should be seeking technological solutions to digitize and standardize the account transfer process, aiming for real-time transfer processing. This will make the industry more competitive and cut expenses.

We recommend requiring Firms to provide information to clients, at the commencement of the relationship, on whether their investments can be transferred in kind, the fees, and the expected length of time it takes to transfer accounts between unrelated Firms.

If an account cannot readily transfer all holdings, the holdings that can be transferred should be transferred immediately.

The CIRO White Paper suggests that any new tool should include real-time tracking and status updates for receiving Firms, we strongly recommend that incumbent Firms must also be required to provide progress reports to departing clients as well.

Technology alone won't solve all the root causes of extended transfer times but it will make dramatic improvements. In many cases the transfer requires both Firms to work together to expedite transfers.

We recommend that CIRO publish an educational Guide for investors on transfer impediments and how to minimize them.

After improvements, we expect to see fewer forced redemptions/tax timing events and shorter out-of-market periods that CIRO should actively monitor going forward.

As an aside, we note that the AMF has lead the way in reducing complaint resolution cycle time. We urge CIRO to provide leadership and set the standard complaint response time to 60 calendar days rather than 90 days plus up to 30 days to introduce an appeal-so-called " internal dispute resolution services".

The CSA should also examine the account transfer practices of the Firms it regulates.

Conclusion

This initiative is a positive step forward. It will increase client satisfaction and industry competition. We urge CIRO to proceed with enthusiasm and speed. A quick phase-in plus a public review after a year to underscore that this major retail investor problem can be resolved without more consultations.

K. Kivenko, President
Kenmar Associates

Appendix I Investors change Dealers for a number of reasons

- Are dissatisfied with account performance
- Lower fees or better service at the new Dealer
- Desire to remain with existing advisor who migrates to another Firm
- Want to become a DIY investor
- Increased minimum account size forces migration
- Forced to transfer because they do not want a fee-based account
- Do not feel the Firm has kept up with technology
- Are dissatisfied with the way their complaint was handled
- Are unhappy with limited product shelf e.g. proprietary products
- Firm has been sanctioned by a regulator or is the defendant in a class action
- Move to a new location or city
- Looking for more than transactional investment advice
- Poor corporate culture ; lack of client focus
- Aggressive sales tactics
- Beneficiary of estate has different brokerage Firm

Appendix II Reasons for delay

Complaints about long brokerage account transfer times are common due to factors like manual processes, incomplete paperwork, specific account types, and the complexity of the transfer itself. We appreciate that the issue is more complicated including differing systems, manufacturer-Dealer agreements, antiquated system rules, and of course conflicts-of-interest. The main issues include:

Outdated Systems: The technology and systems used by the brokerage Firms, as well as the need to communicate with the other firm, can impact transfer times.

Manual Processes: Delays often occur because some firms still rely on paper-based *documentation for transfers instead of efficient electronic systems.*

Deficient Forms: Incorrect or incomplete forms are a common cause of delays.

Kenmar Associates

Complex Accounts: Transfers involving certain registered accounts, like RRIFs, or securities that require selling assets before transfer may need additional steps or documents, leading to delays. Registered Retirement Income Fund (RRIF) accounts can only be transferred after the minimum RRIF withdrawal payment is made. Certain securities may be thinly traded making timely disposition more difficult.

REFERENCE

CIRO White Paper: Enhancing Timely and Efficient Account Transfers in Canada: Phase 1 – Defining the problem and laying the groundwork for change (CIRO White Paper) <https://www.ciro.ca/newsroom/publications/ciro-issues-white-paper-and-publishes-rule-amendment-proposals-improve-account-transfers>

How Canada’s Broken Account Transfer System Led Us to Automatically Reimburse Transfer Fees: Wealhsimple <https://newsroom.wealhsimple.com/how-canadas-broken-account-transfer-system-led-us-to-automatically-reimburse-transfer-fees>

Wealhsimple urges Ottawa to rein in transfer fees on registered accounts | Wealth Professional <https://www.wealthprofessional.ca/news/industry-news/wealhsimple-urges-ottawa-to-rein-in-transfer-fees-on-savings-accounts/390364>

OBSI's approach to complaints related to investment account transfer delays <https://www.obsi.ca/en/how-we-work/our-approaches/investment-account-transfer-delays/>

Transfer delays lead to additional costs when settling father’s estate | OBSI Case study <https://www.obsi.ca/en/news/posts/transfer-delays-lead-to-additional-costs-when-settling-father-s-estate/>