

March 25, 2024

Delivered via E-mail

Canadian Investment Regulatory Organization (CIRO)
Bay Adelaide North
40 Temperance Street, Suite 2600
Toronto, Ontario M5H 0B4
Attention: Member Regulation Policy

Re: CIRO Policy Options for Leveling the Advisor Compensation Playing Field

Wellington-Altus Private Wealth Inc. (Wellington-Altus) is pleased to respond to CIRO's request for comments on its Position Paper on advisor compensation models.

About Us

We are one of Canada's fastest growing investment dealers, the top-rated wealth advisory company in Canada*, and consistently one of Canada's Best Managed Companies. With offices coast-to-coast across Canada, we have grown to over \$30 billion assets under administration in seven short years. We have had consistent success attracting successful, entrepreneurial advisors and portfolio managers, allowing them to best serve their high-net-worth clients.

Alignment with Industry Perspective & CIRO Commitments

We share CIRO's commitment to:

- protect investors,
- foster efficient and consistent regulation,
- build confidence in Canada's financial markets, and
- encourage initiatives that enhance Canadians' access to advice and increases regulatory harmonization.

In our view, this submission is entirely consistent with, and in fact helps, materially advance all of these CIRO objectives which we, and other industry members share.

We are in alignment with the Investment Industry Association of Canada (IIAC) on several fronts, particularly on the importance of enabling incorporation options for advisors. Our recommendation for an interim directed commission approach, followed by a transition to a registered corporation model, sets us apart from the IIAC's broader stance. In our view, this pragmatic pathway offers a balanced approach to achieving regulatory objectives without disrupting the advisor-client relationship or imposing unnecessary administrative hurdles.

Responding to the Position Paper

Wellington-Altus appreciates the opportunity to share our viewpoints on the Position Paper issued by CIRO. In our response, we address the three critical questions posed, offering insights drawn from our extensive experience in the wealth management space:

1. Which options should be pursued?

- a. Pure adoption of an Incorporated Approved Person
 - b. Pure adoption of a registered corporation
 - c. Interim adoption of an enhanced directed commission approach while pursuing either
 - i. An Incorporated Approved Person, or
 - ii. A registered corporation
2. Are there other requirements that CIRO should include within any rule amendments?
 3. Are there other matters not discussed in the paper that CIRO should consider?

Historically, the industry has grappled with the challenge of aligning compensation practices under varying regulatory bodies, notably between IIROC and MFDA frameworks. Our practical experience suggests that MFDA's approach to registrant supervision has effectively safeguarded investor interests without complicating or posing any deleterious impacts on any of CIRO's above-referenced commitments.

In our view, the MFDA track record is clear as it shows that, regardless of the form (i.e., commission re-direction versus incorporation), effective investor protection is in no way compromised with the inclusion of a corporate entity when that entity is properly structured.

The benefits of this to CIRO would include:

- **Reducing Regulatory Arbitrage:** By levelling the playing field and ensuring that incentives are equal, we eliminate the temptation for those delivering wealth products to opt for other regulatory regimes, such as the provincial insurance regulators. Currently, these frameworks permit practices like incorporation for the distribution of segregated funds – a mutual fund wrapped in an insurance policy. Often, advisors hold dual licenses under both the Securities and Insurance Acts, navigating between both regulatory landscapes. A harmonized approach to advisor incorporation would discourage such shifts, ensuring a level playing field.
- **Promoting a Uniform Regulatory Framework:** A unified stance on advisor incorporation would significantly diminish the perceived potential for regulatory arbitrage, laying the groundwork for a regulatory environment that is consistent and predictable across Canada.
- **Expanding Service Delivery Capabilities:** Recognizing registered corporations as a viable structure opens the door for diverse business arrangements, such as including family members as shareholders or forming partnerships. This flexibility not only aids in succession and tax planning, but also aligns with the advice that advisors often give to their clients, yet are unable to implement in their practices.
- **Clarifying the Regulatory Landscape for All Stakeholders:** Implementing a singular, nationwide strategy for commission redirection or incorporation simplifies the regulatory framework, making it more accessible and understandable for both the investing public and member firms.

As CIRO considers amendments to its rules, we propose several key areas to focus to ensure the regulatory framework supports the wealth management industry's growth and efficiency, without sacrificing the core values of investor protection and compliance:

- **Enhancing Advisor Support:** A strong financial wealth management industry should seek to reduce potential operational costs for firms administering multiple approaches to advisor compensation and allow them to structure their own affairs in a manner that is most advantageous to their personal situations.
- **Providing Flexibility to Encourage the Industry Everywhere:** The role of an advisor extends beyond financial guidance and their practice is an active business. In many instances, particularly in rural areas of Canada, an advisor will often serve as the only source of financial guidance within a community. These advisors require the ability to structure their businesses, engage in succession planning and deliver services in a manner that is similar to that of other client-facing professionals. Without a regulatory path to advisor incorporation, advisors are precluded from these basic business strategies and may opt to deliver similar services under a different regulatory model. Enabling incorporation will aid in securing Canadian investors' access to the much-needed advice and services as the Canadian population continues to age and as Canada continues to experience an influx of new residents.
- **Reducing Retail Customer Impact:** At the core of any regulatory amendment discussion should be its effect on the retail customer. Additional administrative tasks or confusion stemming from potential changes to account opening procedures are unwarranted. When designed carefully to maintain advisor liability, accountability and professional obligations, the redirection model preserves client protection without imposing unnecessary burdens. Mandating extra disclosure or extensive paperwork for internal processes offers little to no benefit to the client-advisor relationship and, in our view, detracts from what matters most: enabling advisors to dedicate their efforts to meeting their clients' needs, rather than navigating through excessive administrative requirements.

Question #1 – Which Option should CIRO pursue and why?

Wellington-Altus strongly advocates for the interim use of an enhanced directed commission approach, while pursuing over the medium-term the adoption of a registered corporation.

Into the mid-term, advisors need the ability to structure their affairs, deliver services and provide advice on the same terms that similar professionals in other regulated industries currently do. Rules should not encourage regulatory arbitrage. The registration of a corporation, in much the same way the insurance industry enables corporate entities, is consistent with strong regulatory oversight and investor protection, but at the same time would allow advisors to contract through their corporation for services, leases, supplies etc.

Finally, a critical consideration is the tax implications associated with incorporating as an Approved Person. Under current regulations, a corporation classified as a Personal Service

Corporation – essentially regarded as an employee for tax purposes – faces the highest income tax rates, plus an additional surcharge. This scenario undermines the intended benefit of incorporation, which aims to serve as a tool for effective business and cash flow management and not simply a “corporate shield”. This underscores our preference for a model that avoids such adverse tax consequences, thereby supporting the financial sustainability of advisors’ practices.

Question #2 – Are there rule amendments CIRO should consider?

Investor protection should not be (and need not be) compromised in this process. Rule amendments should ensure that a registered individual is not able to use the “corporate shield” in regulatory related matters such as conduct, suitability, or fiduciary duty where applicable.

At all times, the confidence of the investing public in Canada’s regulatory oversight of the wealth management industry should be bolstered, while enabling innovative business and service delivery models. It is recommended that, in all options, both CIRO and the sponsoring firm should have unfettered access to the receiving corporations’ books and records.

Question #3 – Are there other matters CIRO should consider?

We would raise two additional considerations:

1. The majority shareholding of a corporation should reside exclusively with registered individuals whose license is sponsored by the same member firm. Minority shareholders could include family members, and member firm approved investors. The obligation for ensuring that the shareholder mix is monitored should rest with the sponsoring dealer member firms.
2. As mentioned previously, many advisors may be dually licensed for both securities activities and insurance and may already have an insurance registered corporation for their insurance activities. Ideally, a pre-existing insurance licensed corporation, like the individual registrant, could also be registered for securities activities, thereby eliminating the need for a registrant to form an additional corporation.

Conclusion

Wellington-Altus would like to applaud CIRO for undertaking this inquiry. There is a significant opportunity here to advance the wealth planning industry in Canada, and we eagerly anticipate the opportunity to collaborate and partner with CIRO in realizing this potential.

Respectfully submitted by:

Wellington-Altus Private Wealth Inc.



Per: Frank Laferriere, Executive Vice-President, Digital Strategy & Compliance, WAFI



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