

# ENABLING THE EVOLUTION OF ADVICE IN CANADA

**AN IIROC &  
ACCENTURE STUDY**





**IIROC recognizes the wealth management industry is evolving. We are committed to facilitating innovation and accommodating new advice and service offerings to better serve the needs and wants of Canadians, without compromising investor protection or choice.”**

**Andrew Kriegler**

President and CEO  
Investment Industry Regulatory Organization of Canada



**Accenture continues to be at the forefront of the transformation taking place in the global wealth management industry. We help our clients deliver scalable and profitable advice experiences that resonate with investors in the digital age. We are delighted to have worked with IIROC on this groundbreaking piece of research and industry consultation and believe the outcome of this study will assist the Canadian wealth industry to innovate at a faster pace and reduce unnecessary cost burden while continuing to provide protection and access for investors of all ages.”**

**Kendra Thompson**

Managing Director  
Capital Markets, Wealth Management Lead, North America  
Accenture

# FOREWORD

## Enabling the evolution of advice in Canada

The wealth management industry in Canada is undergoing a period of important transformation. Inter-generational wealth transfers, changing investor demographics, arrival of new players and the availability of new digital tools and financial technologies are fundamentally changing the attitudes of Canadian investors towards wealth and investing, how they consume advice and services, and how they prefer to interact with wealth management service providers. Given these changes, firms are exploring new business models to meet client expectations and redefining the scope of advice and services they provide.

As Canada's wealth management industry evolves, IIROC also needs to continue to evolve. We (IIROC) are in the midst of a multi-part strategy to accommodate new business models and help facilitate access to appropriate and relevant wealth management advice and services, while continuing to fulfill our investor protection mandate.

In some areas, the kinds of changes we (IIROC) need to make to our regulatory framework are clear. In other areas, we have hypotheses as to the direction in which we should go. And in a few areas, the best way forward remains uncertain. It was very clear that we needed to talk directly to the industry to test our assumptions, and to deepen our understanding of the issues related to the industry's evolution.

In collaboration with Accenture, we conducted an extensive consultation that included:

- A series of interviews with IIROC-regulated dealers ("Dealers") and other industry participants (e.g. non-IIROC members such as North American fintechs).
- A quantitative Dealer survey.
- A Dealer compliance roundtable (collectively, the "Consultation").

In each interview, we explored four topics:

- How investor needs and expectations are changing.
- How firms are responding to those changes.
- The challenges firms face when introducing new business models in Canada, including costs related to regulation.
- Opportunities to foster a more engaged and bilateral relationship between IIROC and Dealers.

In the Dealer survey and compliance roundtable, we explored the costs of regulatory compliance and the engagement between IIROC and its Dealers in greater depth. Concerning costs, we wanted to better understand the financial burden (direct and indirect) of regulation on firms and

where the burden could be reduced to improve the investor experience and allow services to be more accessible to Canadians, including those that are historically under-served, without compromising investor protection.

IIROC and Accenture express our sincere thanks to the industry executives and other stakeholders who participated in the Consultation. We have worked to appropriately capture, understand and assess the many comments, ideas, reflections and anecdotes that arose. We would also like to extend a special thanks to all the administrative teams at the firms we met with for their help in organizing the interviews.

This report – “Enabling the Evolution of Advice in Canada” – includes the views of a significant portion of firms that IIROC regulates, and summarizes the key themes from our Consultation. It explores the drivers of transformation in the wealth management industry, and is designed to stimulate discussion among the industry, other regulators and policy makers, as well as investors, so that we can work together to effectively and appropriately respond to the evolving wealth management landscape. Continued collaboration with the Canadian Securities Administrators (CSA) and other regulators is critical to ensuring that regulation continues to evolve while ensuring that the regulatory framework remains flexible, efficient and protects investors.

We are also committed to engaging other stakeholders, particularly investors, in these discussions. We will continue to solicit direct feedback from retail investors through our cross-country panel to stay current with the changing needs and preferences of Canadians who seek to consume financial services.

We know that there is significant interest in next steps. This report does not constitute proposed IIROC rule amendments or guidance but rather is designed to help advance the discussion of how regulation can evolve to better support investors across Canada. Among our next steps will be engagement with retail investors, the industry and our regulatory partners. We will also clarify misunderstandings and misinterpretations we encountered during the Consultation, and work collaboratively to update our rules and guidance where appropriate, including flexibility in application without compromising investor protection.

**PART ONE**

# KEY THEMES

**IN THIS SECTION, WE DISCUSS THE KEY DRIVERS OF TRANSFORMATION ACROSS THE WEALTH MANAGEMENT INDUSTRY AND KEY THEMES WE HEARD DURING OUR CONSULTATION.**



# Investors are changing

**At its core, the wealth management industry is about client relationships. Social and cultural movements correcting the gender power imbalance, combined with changing Canadian demographics, have led to the emergence of two new and powerful investor segments—women and millennials—both seeking a different style of relationship with their wealth management firm.**

## Rise of women and millennials

Approximately CAD\$1 trillion in personal wealth will be transferred from one generation to the next in Canada between 2016 and 2026 (Source: Investor Economics Household Balance Sheet Report – Canada 2017) resulting in a significant shift in investor demographics, in favour of women and millennials.

In Canada, it is estimated that by 2026, women investors will directly control approximately

half of total personal wealth (Source: Investor Economics Household Balance Sheet Report – Canada 2017), as the number of women who are single, divorced or widowed continues to grow and Baby Boomer women continue to outlive their spouses. Changing social attitudes towards marriage and careers have further empowered women financially, with many Canadian women marrying later, earning higher incomes and maintaining financial independence within marriage and domestic partnerships. Women bring different investment and financial planning objectives and advisory demands compared to their male counterparts, which traditionally have not been adequately met, resulting in around 70% of women leaving their advisor within one year of the death of a spouse (Source: The Journal of Financial Service Professionals).

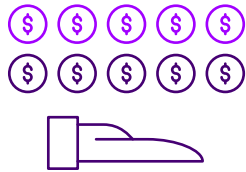
**Changing social attitudes towards marriage and careers have further empowered women financially, with many Canadian women marrying later, earning higher incomes and maintaining financial independence within marriage and domestic partnerships.**



Millennials, born between 1982 and 1995, have overtaken Baby Boomers as the largest living generation in Canada, (Source: Nielsen Millennials By The Numbers) bringing with them an increased comfort with digital offerings and increased demand for transparency and control over the wealth process. Millennials continue to challenge historical service models – demonstrating zero tolerance for friction in a relationship, instead

demanding rich, on-demand, personalized experiences. The new service models favoured by millennials are proving equally popular with Generation X and Baby Boomer generations. Different attitudes to careers and wealth have led to a focus on shorter investment time horizons, and greater value on flexibility, cash flow and the client experience.

### Women represent a growing segment of investors



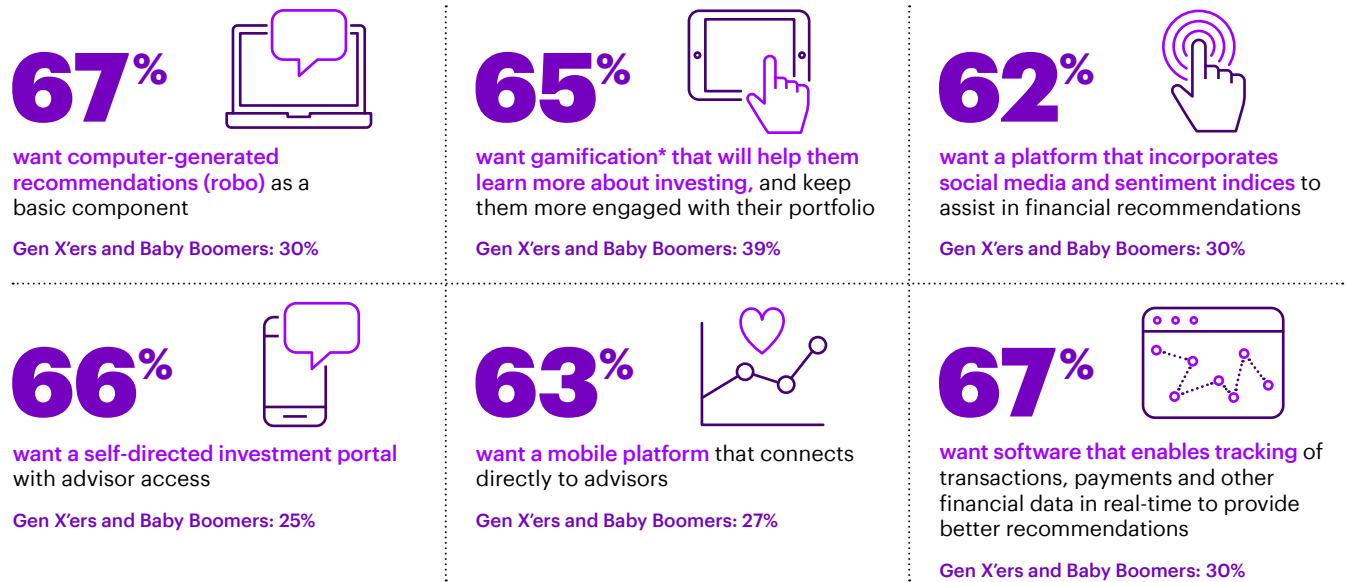
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Source: Investor Economics Household Balance Sheet Report – Canada 2017  
Source: The Journal of Financial Service Professionals

## What millennials want in the digital mix:



Source: [Millennials & Money – Accenture 2017](#)

## Changing expectations

Beyond demographics, investor expectations across all segments are changing, and increasing. They have specific views on money and investing, how they want to consume advice and services, and how they prefer to interact with firms – views that differ in many ways from those traditionally held by investors.

Canadian investors are generally more educated and confident than ever before and have rich digital lives. They don't expect their digital experience to stop when it comes to financial services. As a result, digital capability and tools represent basic expectations of clients and are no longer differentiators for firms. Firms who lag in the digital space may increasingly be viewed as dated and stale.

Canadians are looking for holistic, goals-based advice to support their overall financial objectives and life goals. Investors do not view their money from the perspective of individual accounts or products, and it could be argued that they never have. As one interviewee commented, "We have taken a most human and important issue to the well-being of a client (health and wealth) and we've (the industry) dehumanized it to the point where consumers do not even connect with it anymore".

Many of these clients are looking for an approach that not only supports their individual financial objectives and life goals, but one that considers the financial objectives of the entire family, or "household". In contrast, product-led offerings appear to resonate with fewer and fewer investors.

\*The idea of applying game design and game mechanics (i.e. interesting narratives, complex scenarios, use of competition and leaderboards) to engage, educate and inspire new behaviors.



## The wealth management industry is at a turning point

The industry is experiencing a period of important transition as significant intergenerational wealth transfers result in new investors with differing views on money and the value of advice.



Digital tools and hybrid advisory models

Investors are more confident and digitally savvy than ever before.



Shift toward goal-oriented investing

Investors **do not view their money from the perspective of an account** and are looking for broader wealth management advice and services.



Increased wealth transparency and control

Investors are demanding more **transparency and control in wealth management process.**

Source: IIROC & Accenture Industry Consultation Review, 2018

## Guidance from advisors regarding key life decisions is increasingly valued by investors

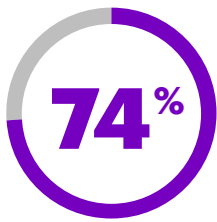
In a recent Accenture study, investors reported that they benefit the most from advice services regarding retirement and ad hoc advisory support. With other services such as goal planning, estate and advice on specialized products also playing a significant role. (Source: [Wealth in the Digital Age – Accenture 2017](#)).

## Transparency and seamless transition across service offerings

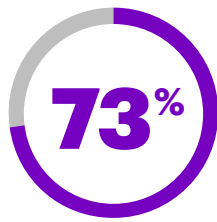
Many investors are demanding more transparency and control in the wealth management process, and the ability to move seamlessly between different types and levels of services, without having to transfer back and forth across business lines and open new accounts. For example, under the Canadian regulatory regime, investors still need to create and manage separate accounts across different lines of business at the same financial institution in order to access both dedicated full-service and order-execution-only services.

In a recent study, Accenture looked at over 30 tools and services that banks/brokerages offered and measured\* their importance to clients.

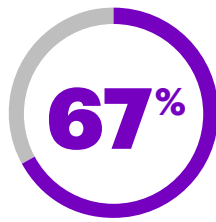
Advice services that investors prefer



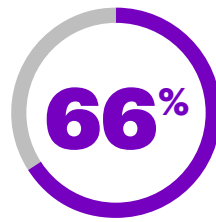
Retirement planning



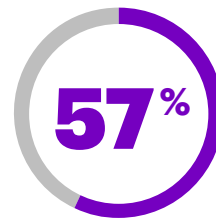
Adhoc and general advice



Estate planning (income tax & inheritance services)

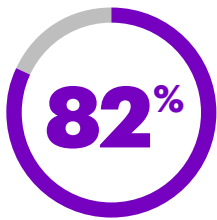


Support when investing in new & specialized products

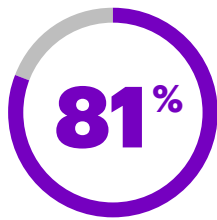


Education for long-term goals

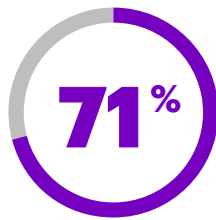
Tools that investors value



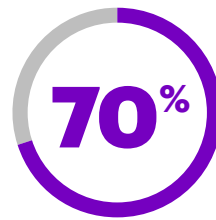
Statements & reporting



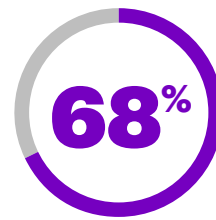
Detailed, aggregated account summary



Portfolio analysis & comparison with other products



Analysis of mutual fund performance



Portfolio risk indicators

Source: Accenture Wealth in the Digital Age Investor Survey, 2017



# The industry is transforming in response

**Understandably, the industry is responding by exploring and implementing new advice and service models to meet evolving investor expectations.**

## Broadening scope of advice and services

In response to changing investor views on advice and service, the industry is shifting from a product-led business to one that focuses on holistic advice, financial planning and related services. Firms are broadening the scope of wealth management advice and services they offer to include traditional financial planning support activities such as credit, estate, trust and tax advisory support. To do this, many firms are integrating banking, insurance and other specialists to improve their overall value proposition. Some firms in the U.S are even going further and seeking to blend wealth and health, recognizing the impact financial wellness can have in enriching the lives of investors.

This relationship-oriented model enables a more holistic experience that supports an investor's (or family's) financial goals and objectives – and ideally, their lifestyle – in which investment portfolios are now only one piece of the puzzle. For some firms, this shift started several years ago, but it is now expanding to the broader market.

Correspondingly, the focus on individual accounts has also started to change to a greater focus on planning for the “household”, and in some cases, the extended, multi-generational family. Increasingly, clients are being viewed as people, not just a bundle of accounts and assets.

In shifting to broader financial planning and relationship-oriented business models, many firms are breaking down the traditional business silos of investments, banking and insurance, with a view to optimizing efficiencies, the client experience, and enabling investors to interact through a single point of contact.

**“The industry is starting to shift from a product to an advice business. The overlay of the financial plan and related services will be at the crux of the business model in the future.”**  
– Consultation interviewee

# Emerging digital business models and tools

**Changing investor needs and expectations, as well as rising cost pressures, are resulting in an expanded continuum of advice and service models that are available at different price points, and not exclusively at a low cost.**

Many Dealers have implemented, or are exploring, new business models. Large, integrated Dealers and emerging fintech challengers are implementing digital wealth platforms and/or hybrid (human and digital) or partially-assisted models. This enhances their ability to profitably serve existing clients with lower levels of assets. And thanks to the more advanced technology associated with these platforms, it also further enables higher-asset investors with a better and more seamless overall experience, helping human advisors scale planning and asset allocation.

Digitally served investors still value access to human advisors who provide financial planning and investment advice, and are looking for the ability to “dial up” or “dial down” their advisory services depending on their stage in life or the occurrence of significant life events (e.g. job change, birth of a child, domestic partnership or divorce). This is driving the development of new, à la carte and moment-in-time advisory services,

although this appears to be in the very early stages in Canada relative to developments in the US. All of these models are expected to still need licensed human advisors to support the human relationships, and to handle more complex life event needs.

In this new zone of hybrid (digital and human) advice and services, which spans the traditional, dedicated full-service and order-execution-only models, Dealers are increasingly creating “ask an advisor” chatrooms, investment advisor call centres and partially-dedicated investment advisor teams. Many Dealers are increasing their investment in digital tools and investor-education offerings to better support order-execution-only clients. Flexible fee approaches that underpin some hybrid models primarily in the US allow clients to select how they want to pay, including one-time fixed fees, subscription models and combinations to support semi-dedicated relationships.

Even though it didn’t come up expressly in our Consultation, we are aware of the expansion of services beyond what is traditionally viewed as financial planning and investment services. Some firms are introducing new tools and services to support budgeting, lifestyle management and career planning to help clients manage their financial well-being.

## Degree of digital transformation varies

Not all Canadian Dealers are investing heavily in direct-to-client digital models. Some smaller and mid-market Dealers are continuing to focus investment on the in-person-advisor business model, by growing investment advisor headcounts through recruiting and transitions from other platforms, enhancing differentiators and ensuring better execution of professional services.

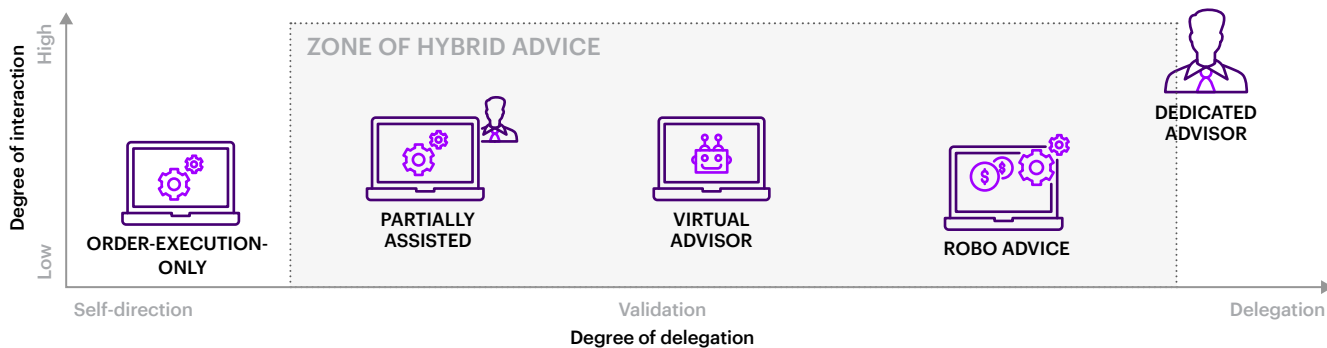
**“Success is less about innovation in the industry and more about better execution of professional services.”**  
**– Consultation interviewee**

Findings from Accenture’s primary research on [Wealth in the Digital Age](#) identified five distinct advisory models driven by the investor’s required frequency and style of interaction, combined with their desired level of control over decisions. Hybrid advice solutions have been emerging to serve investors who seek a more frequent and digital interaction model, while wanting a more collaborative approach to advice decisions. This convergence of digital and human models is delivering better tools for advisors and clients across all engagement models and decoupled investment vehicles from advice, allowing advice to become the product that is valued. These findings apply to investors globally as well as in the Canadian market.

### How investors are serviced today

ORDER-EXECUTION-ONLY	ROBO ADVICE	PARTIALLY ASSISTED	VIRTUAL ADVISOR	DEDICATED ADVISOR
<i>“I handle investing on my own”</i>	<i>“I use an automated platform that manages investments on my behalf”</i>	<i>“I use a robo platform but have access to a virtual advisor if I need help”</i>	<i>“I use a DIY investment platform but have access to a virtual advisor when I need help”</i>	<i>“I have a dedicated advisor that I go to for all of my investment needs”</i>
<ul style="list-style-type: none"> <li>• Self-directed digital trading platform</li> <li>• Multi-channel access</li> <li>• News and research tools</li> </ul>	<ul style="list-style-type: none"> <li>• Investment risk profile questionnaire</li> <li>• Algorithmic asset allocation and rebalancing</li> </ul>	<ul style="list-style-type: none"> <li>• Robo platform</li> <li>• Digital advisor access and interaction</li> </ul>	<ul style="list-style-type: none"> <li>• Self-directed digital trading platform</li> <li>• Digital advisor access and interaction</li> </ul>	<ul style="list-style-type: none"> <li>• Live and/or in-person advisory</li> <li>• More complex wealth planning services and investment products</li> </ul>

### Here is how investors interact with each of these models:



Source: [Wealth in the Digital Age – Accenture 2017](#)

# Innovation headwinds in Canada

**A variety of barriers to innovation were raised in the Consultation; some related to the broad regulatory environment in Canada and the costs of regulation, and others related to the understanding and application of current IIROC requirements. We have summarized the key issues we heard in the following section.**

## Fragmented and duplicative regulatory ecosystem

The most consistent comment made in the Consultation concerned the significant challenges presented by the current regulatory regime in Canada. Dealers and other industry participants noted that they are subject to a number of different national, provincial and territorial regulatory regimes, and not just for securities and investments. This results in a fragmented, complicated, sometimes duplicative and costly framework for both incumbents and new entrants to navigate. Other countries with regulatory regimes that split financial services oversight share some of these challenges in the face of rapidly evolving service models.

The layers of regulation, according to many of the participants, also negatively impact the client experience, resulting, for example, in the duplication of account opening processes that include the collection of client information and reporting disclosures.

The broadening scope of advice is further stressing the Canadian regulatory regime, given the expanding number of regulatory bodies (insurance, banking, etc.) involved. This adds time, complexity and compliance costs due to the number of regulatory touchpoints, regulatory rule and requirement layering, specialist headcount and duplication of compliance control systems. Incumbents and newer entrants both underscored how significantly this challenges their ability to launch and scale new business models to meet evolving investor needs.

**“The problem with regulations is really the compounding effect and not an issue with any specific regulation or regulator in isolation.”**  
– Consultation interviewee



## Legacy technology issues are a contributing factor

Many firms acknowledged that transformation of any kind involves costs, not all of which are driven by regulation. Dependence on legacy technologies continues to constrain the speed at which transformative initiatives can be implemented, including the roll-out of new business models and the move away from account-based services. It also impacts firms' abilities to respond to new regulations even when those regulations are designed to provide a more flexible regime.

Leading technology vendors from the US and abroad appear to continue to be reluctant to enter Canada. They struggle with the business case, weighing the costs to modify their platforms (dual-language and unique Canadian regulatory environment) with the size of the addressable market. This makes adopting leading technologies difficult, with firms often faced with the decision to fund the 'localization' of a platform at their own cost, or choose a commoditized technology solution.

Implementing new regulatory technology is also part of the solution to legacy issues and is a strategic priority for many executives. Accenture's recently completed [2018 Compliance Risk Study](#), which surveyed executive-level compliance professionals from 150 financial services firms across 13 countries, showed the following key statistics for respondents related to regulatory technology:

- Within the next 12 months, 57 percent of compliance respondents rank compliance technology transformation as one of their top three strategic initiatives.

- In the next 12 months, nearly half of compliance executives surveyed are planning to leverage innovative technology such as surveillance tools as part of their compliance operating model, and move towards adopting artificial intelligence capabilities over the next three years.

## Costs of implementing new regulation can delay innovation

Firms shared many examples of how investment in compliance-related technologies, processes, procedures and people, in order to comply with new regulations, can constrain or delay discretionary spending on innovation.

Dealer respondents to the survey part of this study highlighted account-opening and know-your-client (KYC) processes as well as suitability compliance as the areas driving the most cost. Other key investment drivers mentioned were the build-out of effective cybersecurity programs and increasing headcounts in compliance driven by perceived increases in regulatory reviews (frequency and depth).

And, over the next two to five years, over 80% of survey respondents indicated they expect compliance-related investments will continue to rise, with almost 40% expecting a further significant increase. Some firms requested more transparency on how regulators evaluate the cost/benefit of new rules, and stressed the importance of striking the right balance between incremental benefits and the cost of implementation.

## Top five drivers in compliance costs

1. CLIENT ACCOUNT OPENING
2. SUITABILITY AND APPROPRIATENESS
3. KNOW YOUR CLIENT
4. CLIENT DISCLOSURE & REPORTING
5. REPORTING TO IIROC

Calculated by taking the average scoring of each compliance area across 57 respondents

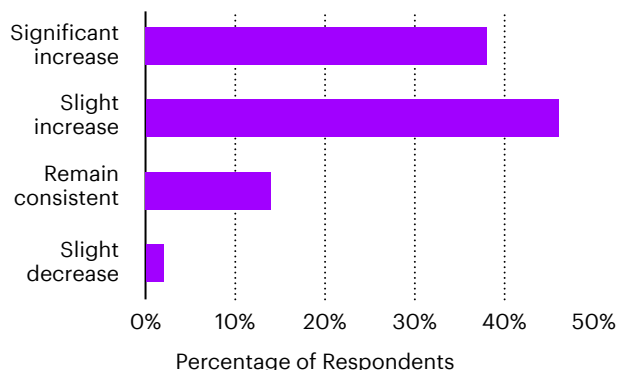
Source: IIROC & Accenture Industry Consultation Review, 2018

## Uncertainty regarding rule interpretation causing challenges

During our Consultation, incumbents and new entrants alike highlighted uncertainty regarding the interpretation of rules. We heard this theme from two different perspectives.

The first relates to the uncertainty some Dealers have in applying principle-based rules and accompanying guidance to their existing business models. That uncertainty can lead to a more conservative application of a rule than intended by regulators, and potentially, higher compliance costs. Related to innovation, some firms shared that they were uncertain as to how IIROC would interpret rules, which can lead to delays in advancing new ideas and sub-optimal client experiences. Greater clarity on the treatment of new business models would be useful to avoid these issues.

## Over the next two to five years, how is your investment in compliance function to change?



The second relates to a debate over principle-based versus prescriptive requirements. Views on this topic were divided. A number of firms requested that regulators provide more and clearer direction on how to comply. In contrast, a smaller number of firms indicated their preference for a more flexible, principle-based approach.

**“Compliance is not an area where we (firms) are trying to differentiate ourselves for competitive advantage. Compliance is an opportunity for all boats to float at the same level and move forward as an industry.”**  
– Consultation interviewee

We were also encouraged to clarify our expectations where we suspect rules are being interpreted inconsistently, at the expense of investors. A key example given was the practice of some firms accepting digital signatures to open new accounts, and yet requiring wet signatures to transfer accounts out to a different firm.

## Regulatory regime perceived as too slow and reactive, and not sufficiently focused on the right things

Perhaps not surprisingly, we heard that the regulatory regime is often too slow and reactive, with greater focus needed on accommodating the industry's drive to evolve. Responding faster to Dealer questions and industry issues would reduce delays and costs associated with uncertainty.

Many firms, for example, now focus on managing relationships across an increasingly complex continuum, with individual investment clients on the one side, and multi-generational households with holistic financial plans on the other. Yet much of the current regulatory regime focuses on specific account types and trades, rather than needs and goals at the relationship level.

There was universal support for our investor protection mandate and for our collective efforts and successes in raising the professionalism of the industry. However, we were encouraged to enhance our analysis of regulatory changes and programs from the standpoint of cost/benefit or "return on investment" to ensure that we focus on addressing issues that will drive the greatest value for investors.

For example, one interviewee observed that regulators are focused on ensuring that appropriate policies and processes are in place to protect seniors and vulnerable investors from being taken advantage of. Yet, the interviewee commented, as important as that is, lower income seniors in Canada who have little to no access to financial services or advice could be considered a much larger investor protection issue which does not appear to be getting the proper attention. As such, we need to collectively continue to assess if we are appropriately focused on the issues and solutions that will deliver the greatest value for Canadians.

# Opportunities to enhance engagement

**The final topic we explored in our Consultation was about IIROC's engagement with Dealers – what was working well and what could be improved. We heard a range of feedback, summarized below.**

## Differences in approach on when to engage on new ideas

There were differing views and comfort levels on when is the best time to engage with a regulator on new ideas the Dealer is considering.

In some discussions, it was clear that the Dealer felt there was a strong and positive relationship with IIROC, where the collaboration was clear and the engagement was constructive. Some shared that they regularly pick up the phone to bounce ideas around and to get informal feedback and guidance.

**“We feel that we have an open door with IIROC to discuss new business models, even if we don't end up walking through it”**

**– Consultation interviewee**

But in a few discussions, we heard that there is fear around engaging with IIROC (and other regulators) too early in the innovation process and resistance to share much in the way of detail before everything is properly fleshed out and vetted by their respective legal teams.

**“We (firms) feel that we need to have all of the questions answered, ducks in a row and “i's” dotted before we reach out to a regulator.”**

**– Consultation interviewee**

There was also a perception shared by some that there is a lack of openness to new ideas, and insufficient knowledge on the part of regulators when it comes to changing investor needs, particularly regarding digital expectations. Both factors appeared to play a role in the timing and degree of comfort in engaging with regulators earlier in innovation discussions.

**“How can we work collectively with regulators on what we are trying to solve, instead of trying to interpret where the goal posts are and trying to maneuver around them?”**

**– Consultation interviewee**

## Appetite for more timely, bilateral dialogue

One of our Consultation objectives was to be able to have our discussions with the firm's senior leadership – the Heads of Business, Strategy, Transformation, Marketing, etc. – as well as the legal and compliance executives with whom we more regularly engage. Not everyone accepted our invitation, but most did, and we were able to have what many described as a different, constructive and surprisingly positive dialogue around the future of our industry.

We heard a strong appetite to continue these kinds of discussions, with broader business representation from the Dealers that IIROC regulates, to better manage the pace of change and make faster and better decisions.

**“This was a very valuable conversation for us. Can we do this more often, say, quarterly?”**  
– **Consultation interviewee**





PART TWO

# LOOKING AHEAD

IN THIS SECTION, WE DISCUSS HOW A CHANGING  
LANDSCAPE REQUIRES A DIFFERENT APPROACH  
TO CLIENT EXPERIENCE.





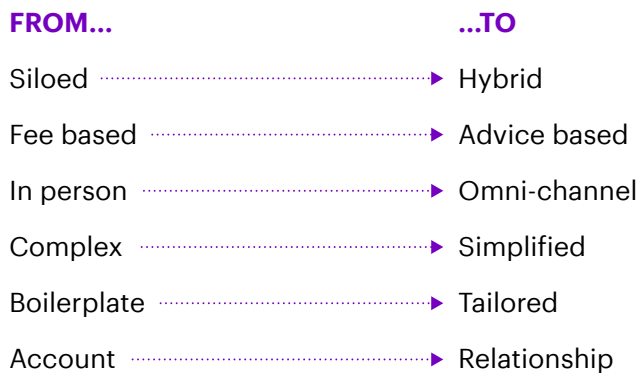
Accenture has observed that firms are now positioning the client at the centre of every interaction; this means moving away from the traditional siloed, line-of-business interaction model. Firms are moving from a client experience that was traditionally complex and required multiple accounts and in-person touchpoints, to one that allows for a single relationship-based experience that is simple, omni-channel and tailored to each client.

Canadian Dealers, products, platforms and investors are trailing global markets when it comes to the development and adoption of new digital advice and service offerings. Segment-specific strategies are largely still in their infancy, and pricing models are still based on traditional trade-based commissions, fees on assets, and fees on assets plus financial performance fees. There is no clear industry direction on evolving fee models to reflect the emerging digital wealth management advisory service models.

## Clarifying misunderstandings and interpretations

As discussed previously in this paper, we heard examples of what may be misunderstandings or uncertainty within Dealers about the interpretation of principle-based rules and more generally about the regulatory regime in which they operate. Such misunderstandings and uncertainty are leading, in some cases, to a more conservative application of some requirements than may have been intended by regulators, which could be putting unnecessary pressure on compliance costs, hampering innovation and hurting the client experience. While the conservative approach could be a strategic decision by a firm to manage risk across their organization in a clear and consistent way, we (IIROC) think additional clarification of our requirements could help industry participants reduce unnecessary costs and pursue innovative ideas.

### The changing landscape requires a different approach to client experience



Source: Accenture

To that end, IIROC will provide clarity on existing rules, including for example:

- When wet signatures from clients are, and are not, required on documentation.
- How KYC requirements are not one-size-fits all.

IIROC will also clarify how Dealers may use technology to assist them in complying with our existing rules, for example, regarding the requirements for a supervisor to approve new accounts and how the requirements apply to online account opening processes.

## Impact on our regulatory regime

The expanding scope of advice and services our Dealers are offering or exploring is testing IIROC's traditional regulatory approach. The shift in focus from product-based advice to more holistic financial-planning advice, and from a single account to a household account (that could involve multiple financial goals and time horizons), does not translate easily to our current rules and guidance and how IIROC has traditionally interpreted them.

We believe that advice and service offerings in Canada should evolve in order to meet the needs of existing investors and increase access to advice and services for traditionally underserved investors. We (IIROC) are assessing the flexibility of our existing rules and guidance, and how they support or hinder the emerging spectrum of advice and service offerings, as well as a client's ability to transition across that spectrum.

**The expanding scope of advice and services our Dealers are offering or exploring is testing IIROC's traditional regulatory approach.**

We (IIROC) will continue to seek input from interested parties, including investors, wherever possible, to ensure we continue to focus on the appropriate issues. This will support an overall review and assessment of our current framework, with a view to amending and/or adding rules to accommodate industry transformation and to reduce barriers to innovation and burden where appropriate. This should help make understanding and navigation easier for all stakeholders, and enable the wealth management industry to better serve investors.

Fundamental to our assessment is challenging the traditional concepts of:

- "Advice" – how to expand the definition beyond buy, sell and hold recommendations?
- "Client" – how should the core elements of our current regulatory regime – for example, KYC, suitability assessment and performance reporting – be applied to a client that has multiple financial goals, time horizons, and family members each with their own needs?
- "Investor protection" – should we look at investor protection not only through the lens of protecting investors from unsuitable products, but also from the perspective of ensuring they have access to appropriate advice and services at all stages of their investing life?

From there, IIROC will work with other Canadian regulators and industry participants to evolve our regulatory framework. We (IIROC) are determined to continue, during this process, to fulfill our public-interest mandate of protecting investors and supporting healthy Canadian capital markets and to do so without perpetuating unnecessary regulatory burden.

## Impact of Canada's multi-layered regulatory environment on innovation

We operate in a multi-faceted regulatory environment in Canada. This has its benefits: it facilitates regulatory expertise – and its costs: it can increase compliance costs for those operating on multiple regulatory platforms, and slow the resolution of issues making innovation challenging (as our Consultation has illustrated).

### Future policy framework ideas

#### Investor account opening

- Firms have the option of full digital new investor onboarding e.g. in-person meeting, phone call, or digital signature only required.
- Investor will be onboarded (paper or digital) once and have the ability to move across the no-advice/advisory spectrum.
- Investor goals, time horizons and risk profiling can be determined at the household level and with a financial planning approach.

#### Know your client (KYC)

- Required KYC questions will be relevant to the advice and service offering - e.g. online advice investors that are in less bespoke portfolios.
- Clear process for updating an online advice investor's KYC.
- Clear process for collecting KYC for households.
- Blueprint KYC form solutions provided to dealers to complement principle-based guidance.

To deliver emerging digital wealth management advisory services, many Dealers are growing the number of partnerships they have with other registered and non-registered industry participants (e.g. fintech firms and global partners). Partnering with non-registered entities can increase the challenges associated with the multi-layered regulatory regime for investors and their understanding of the level of protection, or lack thereof, associated with each activity or service.

#### Suitability requirements

- Suitability obligation clearly articulated for financial planning and à la carte or event-driven advice.
- Suitability obligation clearly articulated for households with multiple goals and time horizons.

#### Supervision

- Technology solutions analytics for supervision permitted to allow certain automated trade approvals.
- Supervision focus shifts from daily account checks to monthly reviews and focus on patterns and trends where appropriate.
- More tailored supervision - e.g. for sophisticated investors based on expertise and risk awareness.

#### Other considerations

- Reassess meaning of 'investor protection' to include empowering investors and facilitating access to advice and services to under-served investors.
- Clear view on the definition of 'household'.

Source: IIROC & Accenture Industry Consultation Review, 2018

In light of the pace at which the wealth management industry is changing, enabling the evolution of advice and services will require increased coordination among Canadian regulators and other industry participants. Coordinating our efforts as regulators to have a shared vision and to resolve issues common to all platforms, rather than working independently, will lead to greater certainty for all industry participants, including investors as well as those exploring innovative business models.

## Enhancing engagement

There are several ways in which we (IIROC) plan to enhance our approach to engagement with the industry. The challenges to innovation inherent in regulation will, in our view, benefit not only from increased coordination and a shared vision among regulators, but also from more flexible interactions and bilateral dialogue between IIROC and Dealers.



Source: IIROC

In our consultations with Dealers, we believe that including a broader range of departments within the Dealer – for example, compliance, legal, business, strategy, technology, operations and product-development leaders – will benefit all parties. It will help Dealers in their day-to-day operations and with their innovation plans, and it will also help us keep on top of industry trends and better understand the challenges and risks associated with the new advice and services offerings being explored.

To enhance our engagement with Dealers and stay abreast of future developments, IIROC:

- Is including business and strategy leads in our standing advisory committee structure wherever possible.
- Will hold discussions with an expanded range of industry participants to explore emerging business models and issues related to innovation.
- Has enhanced our process for reviewing and approving changes in Dealers’ business models, allowing for a faster, more-efficient process and ensuring existing rules are applied as flexibly as possible, while adhering to the underlying principles.
- Will approach new ideas with an open mind, and a view to finding practical solutions where appropriate and within the context of our investor protection mandate.

Additionally, we (IIROC) are committed to increasing transparency where we can, including sharing rule interpretations that we have made that could benefit others, without compromising confidentiality.

We also plan to continue to engage investors directly through the channels that we have established over the past several years.

## Conclusion

In addition to the next steps discussed above, IIROC is in the process of refreshing its three-year strategic plan, which will reflect our learnings from this Consultation, and provide more detail on our plans to better accommodate the evolution of advice in Canada.

As all parties look to adopt a more coordinated approach to facilitate innovation in Canada, we hope the insights from this report can support ongoing industry and regulatory discussions.





# About the consultation

This report incorporates insights from three streams of research:

- A series of in-depth interviews with more than 60 senior business, strategy and compliance executives from both Dealers and other industry participants.
- A roundtable workshop with chief compliance and risk officers from a cross-section of Dealers.

- A quantitative survey with more than 60 respondents from Dealer compliance and operations staff.

A broad representation of Dealers – by size, geography, and ownership—plus a handful of ‘new entrants’ were included in the Consultation.

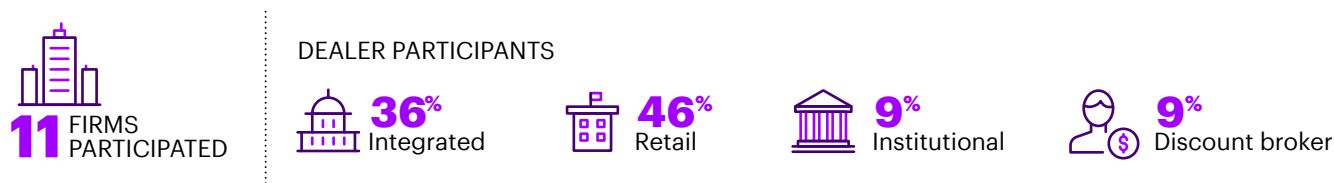
## Interviews

Interviews were conducted with leadership from Dealers and other registrants across Canada to better understand the future of advice and how IIROC can accommodate its evolution.



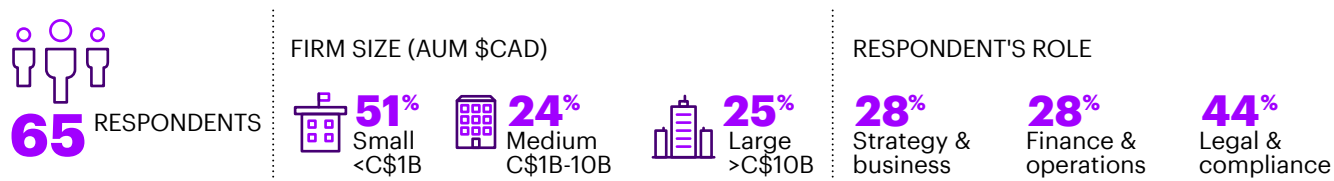
## Dealer workshop

Workshops were conducted with senior compliance staff from Dealers to explore the costs of compliance and how IIROC can enhance its engagement with Dealers and other industry participants.



## Survey

A survey was conducted with compliance and operations staff from dealers to explore the costs of compliance and how IIROC can enhance its engagement with Dealers and other industry participants.





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## About IIROC

IIROC is the national self-regulatory organization that oversees all investment dealers and their trading activity in Canada's debt and equity markets. IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while supporting healthy Canadian capital markets. IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian debt and equity marketplaces. Visit us at [www.iiroc.ca](http://www.iiroc.ca).

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