

TOOLBOX

By Michael Berton

PLATFORM PREDICAMENT

IDA registration offers advisors more business options, but the switch comes with some loss of independence.

For the better part of 20 years, Don Proteau, a Vancouver-based advisor, has been successfully building a select high-net-worth client base. But recently he's failed to attract a few top prospects due to his inability to take custody of their stock and bond assets. He's not IDA-registered, and that's become a problem because high-net-worth clients inevitably come with some assets they don't want to liquidate.

"When a sophisticated client comes to you with a large portfolio and you cannot deal with certain parts of it, your services appear limited," explains Proteau. "I'm interested in working for high-net-worth clients, so I must seek out the best platform."

Some trustees, like MRS Trust, offer partial solutions but advisors say these can be awkward, because the trustee, and not the advisor, acts as the holder of the securities. And regulators may soon rule out such arrangements for MFDA advisors. Even if they have no intention of actively trading stocks or bonds for their clients, many, like Proteau, consider the ability to at least take custody of such assets to be vital to the relationship and the completeness of their service offerings.

From her observations, Susan Monk, a compliance officer with PEAK Securities, explains, "Most advisors who have upgraded to the IDA platform really just wanted to be able to advise on their clients' existing stocks and bonds, rather than actually actively trade them." While this may be the majority intention, advisors must recognize the increased responsibility they're taking on, warns Vancouver-based financial planner Brian Goss. "Even though it may not be your main focus, you will be opening yourself up to a more intense



level of research, responsibility and liability once you start dealing with individual securities."

In spite of the wider range of investment-service options available under the IDA regulatory regime (see chart, page 17), many advisors have remained steadfastly aligned with the MFDA, in part because they wish to avoid the hassles of transition. More serious stumbling blocks include the desire by many to remain self-employed, charge direct financial planning fees, and retain their current levels of freedom. Since its establishment in 1998, the MFDA has generally permitted advisors to operate in a more entrepreneurial way. Self-employed status is recognized, permitting advisors to run their businesses as independent practices, rather than employees in an employer-owned branch. An exemption secured by the MFDA also lets advisors receive income through their corporations, allowing favourable income tax planning

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DIFFERENT WORLDS

Which platform you choose affects your business operations.

OPERATIONAL ISSUES	MFDA	IDA
<ul style="list-style-type: none"> Client name statements 	<ul style="list-style-type: none"> Annually 	<ul style="list-style-type: none"> Monthly for active accounts, otherwise quarterly.
<ul style="list-style-type: none"> Nominee statements 	<ul style="list-style-type: none"> Monthly for active accounts, otherwise quarterly. 	<ul style="list-style-type: none"> Monthly for active accounts, otherwise quarterly.
<ul style="list-style-type: none"> Disclosure 	<ul style="list-style-type: none"> Standard fee schedule; MFDA client complaint form; account information. 	<ul style="list-style-type: none"> Standard fee schedule; IDA arbitration form; account information; CIPF brochure.
<ul style="list-style-type: none"> Client history 	<ul style="list-style-type: none"> Can be transferred in. 	<ul style="list-style-type: none"> Client history prior to transfer in will not be reported.
<ul style="list-style-type: none"> Signage 	<ul style="list-style-type: none"> Dealer internal and external signage required. 	<ul style="list-style-type: none"> Dealer internal and external signage required; CIPF sticker; IDA member sticker.

Source: Investment Dealers Association, Mutual Fund Dealers Association

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advantages. Rather than receiving a T4, these advisors can manage their income through their corporations and control the form in which it's received. These accommodations have worked well for those entering the securities business via the insurance industry, where incorporated practices are common.

While both regulators require dealers to supervise any securities-related activities, they have slightly different approaches to the providing of

financial planning advice. In its consideration of Dual Occupations, the MFDA accepts that financial planning services will include non-securities advice and permits this so long as it is conducted, "through another entity that is otherwise regulated or that is subject to the rules of a widely recognized professional organization." There is no requirement for advisors to run their financial planning practices and fees through their MFDA dealers, provided they do so under the auspices of

another regulator.

The IDA requires its dealers to supervise the securities-related advice offered in financial plans. Unfortunately, the highly integrated forms of advice in most comprehensive financial plans make it impractical to try to send in this section of the plan without the context of the rest of the analysis. As a result, the dealer would have to verify and approve the entire financial plan, including sections that are beyond

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TOOLBOX

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the dealer's jurisdiction and the reasonable legal privacy permissions provided by the client. To properly manage supervision of these complex financial plans, dealers would have to standardize around a particular planning software tool, so that results could be consis-

tently and efficiently reviewed by their compliance departments.

But that flies in the face of many financial planners' view that choice of planning software is a mark of professional independence. The tools they choose reflect the style of practice they run, the type of clientele they serve and

their personal methods of presentation. A software change also means a loss of practice efficiency for as much as one year while the staff is re-trained on the proper use of the new system.

Although financial planners who charge separately for their advice are in the minority, they tend to object to the requirement to surrender what they view as an outside activity to their dealers. While delegating the billing and collection processes might seem like a practice benefit, dealers will need to charge an override for the costs of administration, supervision and the potential liability they take on.

And then there are market-positioning difficulties: "Once all of your business is run through and supervised by the dealer, you have lost all control of your business from the perspective of promoting products and services the dealer doesn't support. Your business is 100% commoditized," warns Stan Wood, a financial planner with Assante Financial Management in Vancouver.

The IDA platform also involves more regulatory interference, more stringent continuing education requirements and has historically been more expensive (see table, page 15). "Advisors would see about a 10% cut in their mutual fund revenues upon joining an IDA platform firm," Monk says—a painful cutback for an advisor with a large mutual fund book who wants primarily to remain involved with mutual fund products.

But, while the costs are considerable in the IDA world, rapidly rising costs at the fledgling MFDA are expected to eclipse those of the IDA sometime this year (of specific concern are costs connected to the new MFDA investor protection fund). Over the long haul, the larger scale of efficiency and well-

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| • Investment Representative (IR) | • Cannot advise on trades, but can take unsolicited client orders. |
| • Registered Representative (RR) | • Can deal with the public, and can advise on trades. |

Source: Investment Dealers Association

established cost structure of the IDA would seem to forecast lower fees.

To upgrade to the IDA platform, advisors are required to write and pass the Canadian Securities Course (CSC) and the Conduct and Practices Handbook (CPH) exams. Successful advisors must then participate in a 90-day training program and abide by a prohibition from any trading activity, followed by a six-month supervision period. They'll also be required to join a branch with an IDA-approved branch manager, or to take the Canadian Securities Institute's branch manager course themselves and seek the necessary exemptions to quickly become a branch manager.

Once approved, advisors would then have to complete New Account Application Forms (NAAF's) with each of their clients and face the pain of a back-office system data conversion. The IDA does provide some exemptions for advisors who have recently written the CSC and CPH, or who have been recently licensed, but the process is still difficult. "Even if you're just switching between platforms within your own dealership, it can be as painful as a switch to another dealer would be," says Proteau.

The IDA appears to have been listening to some of these concerns and has begun to provide accommodations for some differing business styles. In particular, they plan to allow their dealers to pay commissions directly to the corporations, although that change awaits approval by the Canadian Securities Administrators (CSA) and the various provincial commissions.

Proteau says the regulatory load may actually be less burdensome on the IDA platform. "The NAAF's are no more difficult than the MFDA versions and will require fewer client signatures on a nominee platform," he says. To aid transitions between platforms within money-management firms, some dealers are seeking approval for a version of the NAAF that's jointly approved by the IDA and MFDA.

Ultimately the decision is philosophical. Advisors must decide whether they like working in the more structured, Big

Brother-employer world of an IDA firm or the flexible and entrepreneur-friendly MFDA platform. For Don Proteau, the decision to move to his dealer's IDA platform was clear—he was being prevented from courting the types of clients he wanted to serve. Other advisors in his branch are looking seriously at this option and plan to make their own decisions once they see how his transition goes. This puts pressure on the branch to provide proper compliance supervision for both MFDA and IDA representatives. And, in the not too distant future, the whole branch may have to make a decision about which platform makes the best business sense. **AE**

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APPOINTMENT



M. Jean Goulet, Publisher, Rogers Healthcare and Financial Services Group, is proud to announce the appointment of Sophie Bellemare as Account Executive, Advisor Group for Eastern Canada.

Sophie has a Bachelor's Degree in Marketing and over 13 years of experience in marketing and communications, mainly in the financial industry. She has worked for AXA Insurance, Assurance vie Desjardins-Laurentienne as well as with CIBC Asset Management, previously known as Talvest Fund Management, as Senior Manager, Relationship Marketing.