



# OMG Wealth Management Inc.

VIA ENCRYPTED EMAIL

January 8, 2024

Member Regulation Policy  
Canadian Investment Regulatory Organization  
Suite 2000, 121 King Street West  
Toronto, ON M5H 3T9

Dear CIRO:

Thank you for the opportunity to provide comment on CIRO's Proposed Amendment for Enhanced Cost Reporting. OMG Wealth Management Inc. (OMGWM) appreciates CIRO's efforts and desire to pursue completeness, clarity and comparability of cost reporting for investors. We also agree with CIRO that it is important to create harmonized requirements within CIRO's jurisdiction and across the broader financial regulatory environment.

As a firm, OMGWM has always endeavoured to be transparent regarding investment costs and fees with our clients, and we also take great care and consideration in optimizing these cost structures for our clients. The substantial majority of OMGWM's revenues are derived from unembedded fees charged directly to clients. Not only is this model more transparent, it also offers the advantage of being more tax effective for most of our clients, which are generally in the high-net-worth market.

We therefore broadly welcome the enhancements proposed as we believe it will provide the vast majority of Canadian investors with a clearer picture of the costs for their investments. At the same time, we believe there are additional considerations to be made and potential for increased transparency and completeness. Our thoughts on these areas of improvement are noted below.

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## **1 - Concerns Regarding Exempt Products**

Many of OMGWM's clients have risk profiles and levels of sophistication which make them eligible to invest in exempt products such as private equity and other alternative strategy funds (prospectus exempt investment funds). It is our understanding that under the proposed amendments dealer members are not required to report costs for these funds. Based on our preliminary discussions with our contacts at investment fund managers (IFM's) which offer prospectus exempt investment funds, they also believe they will be exempt and do not intend to voluntarily report cost information.

Where many of our clients have significant allocations to these products, we see the following significant implications:

- 1) True investment costs of the portfolio would be under-reported and not comparable relative to portfolios that do not invest similarly in these asset classes.
- 2) Where the proposed amendments permit (but may not require) the dealer member estimate costs for exempt products, we see this as an additional burden placed on the dealer member. It will result in the dealer member either allocating resources to calculating estimates and communicating estimates, or conveying to clients that such information is exempt and not included.

As such, we would suggest that any product, including prospectus exempt products, must have data or estimates provided by the product manufacturer or IFM. We believe that the product manufacturer or IFM is in the position to most accurately and most efficiently calculate the fees associated with the products.

To the extent that CIRO believes it is not practical or reasonable to expect complete, accurate and timely data from all product manufacturers and IFM's, there should be potential for exemptions or alternative approaches where the exclusion of such information would render the reporting meaningless or misleading.

## **2 - Consideration of Treatment of Performance Fees**

As mentioned above, many of our clients have allocated assets to alternative strategies and these products often include variable and/or contingent compensation commonly referred to as performance fees. These performance fees can be significant and can vary widely from fund-to-fund, and period-to-period. As such, we believe that the inclusion of performance fees has the potential to be misleading to investors when combined with other fixed fees. For example, if a private equity fund has an annual return of 80% and a performance fee of 20%, the inclusion of such fees, even if the fund is only 5% of the portfolio, could materially impact the blended expense ratio of the portfolio and possibly be misleading.

We therefore would suggest that where performance fees are present in investors' portfolio cost structure that a blended total cost rate exclusive of performance fees be permitted (or required). A total cost rate inclusive of performance fees could also be presented, but not on its own. In addition, clear disclosure regarding the nature of performance fees ought to be permitted/required.

## **3 - Opportunity for Transparency on Fee Recipient**

For greater transparency, OMGWM suggests that all dealer members report to clients which percentage of costs are paid directly and indirectly to the dealer member (including affiliated entities, or entities with which the dealer member has exclusive or preferential arrangements) and which costs are paid to independent IFM's, or to other third parties. It is our contention that this incremental measure would enable investors to not only better understand the costs of their investments, but also who is being compensated. This would help investors better assess value provided by those involved in their investment portfolios.

Where investors are able to identify whether their dealer member is recommending proprietary products or whether they are leveraging expertise of independent managers, they can ask critical questions and make informed decisions regarding the management of their money.

**CIRO Question – Do you anticipate that there will be a justified need for CIRO to consider any exemptions from the cost reporting requirements as a result of the Proposed Amendments and for what reasons?**

As per points 1 and 2 above, OMGWM is concerned about the meaningfulness and potentially misleading outcomes of total cost reporting where portfolios include products that are exempt from reporting by product manufacturers or IFMs, and where deriving estimates of such information is not practical for the dealer member. We are also concerned that where variable and/or contingent compensation are included in a blended total cost rate that the information could also become meaningless or misleading.

If points 1 and 2 can be appropriately addressed, we would not see any need for exemptions. However, if they cannot be addressed, there may be a need to consider exemptions for clients that hold and firms that offer the above-mentioned assets. Requirements for such an exemption would require further evaluation.

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Again, we at OMGWM appreciate CIRO's work with respect to the enhancements contained in the proposed amendments for the benefit of Canadian investors. We would welcome the opportunity to discuss our comments further with CIRO if appropriate.

Sincerely,



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