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## **RE: Proposed Integrated Fee Model**

PFSL Investments Canada Ltd. (“PFSL”, “PFSL Investments” or “we”) is pleased to comment on the Canadian Investment Regulatory Organization’s (“CIRO”) consultation regarding the Proposed Integrated Fee Model. The proposed model is particularly significant for mutual fund dealers that have an objective of making financial advice available to more Canadians. Our comments on the proposed changes reflect this.

## **About Primerica**

Primerica Financial Services (Canada) Ltd. is a leading distributor of basic financial savings and protection products to middle-income households throughout Canada, serving the Canadian public since 1986. Our Canadian corporate group includes our mutual fund dealer, PFSL Investments, and our life insurance company, Primerica Life Insurance Company of Canada (“PLICC”). PLICC is represented by 10,000 licensed life insurance agents across the country, of which 65% are dually licensed as mutual fund Approved Persons (“APs”). We insure almost 550,000 lives and operate in every province and territory in Canada.

Our products and personal advice help middle-income Canadians establish and achieve their long-term financial goals. Our APs guide their clients at life's critical points, helping them avoid common pitfalls to gaining financial independence: higher cost and lower face value insurance that does not protect adequately, starting to save too late, not saving enough, and neglecting tax-advantaged savings opportunities, to name a few. Our APs take a holistic approach with their clients and offer our digital FNA (Financial Needs Assessment), which provides them with a snapshot of their financial situation and a road map to achieve their goals. Through PFSL Investments, 325,000 clients receive personal financial guidance and are provided access to investment vehicles that can be funded with as little as \$25 a month.

We have an exclusive sales force of APs, which allows us to put supervision, monitoring, controls, and restrictions in place based on trends and risks we identify.

## **Our Focus: Growing Distribution and Focus on the Middle-Income Market**

### *Renewing the Advisor Sales Force*

PFSL Investments focuses on growing the number of its APs across Canada to meet the expanding need for financial advice in the middle-income market. We attract new entrants to the industry, and they have a wide variety of backgrounds. As a result, our APs are a reflection of the Canadian population: diverse, a great percentage of them women, and many younger entrants looking to establish themselves in an independent business. We do not impose sales targets, minimum asset book sizes, or minimum account sizes (other than as set out in prospectuses) and allow our APs to develop their businesses on a part-time basis. This approach significantly reduces the pressure on APs to produce, resulting in better client

experiences and reduced incentive for mis-selling. Our model has enabled us to grow the number of APs, enabling us to cater to a broader segment of Canada's middle-income population. By increasing our outreach, we can provide financial advice to more individuals and families that otherwise would not be served, with many other dealers moving to focus on higher net worth clients.

The ability of Dealer Members to grow and retain the number of APs is crucial to maintaining an adequate supply of financial advisory services for the growing Canadian population. In 2019, Advocis surveyed 2,000 of its members and found that 51% of financial advisors in Canada were 55 years of age or older.<sup>1</sup> At the time, this meant that more than half of active financial advisors in Canada were approaching retirement. If the industry cannot attract enough talent to replace the aging financial advisory sector, an upcoming generation of middle-income Canadians will be faced with a significant financial advice gap.

Growing Canada's advisory force is particularly imperative due to the rapid population growth expected in Canada. In 2023, Canada's population grew by 1.2 million people and represented the nation's largest population growth since 1957.<sup>2</sup> By 2068, Canada's population is estimated to grow between 44,914,000 (low-growth scenario), 56,524,000 (medium-growth scenario) and 74,018,000 (high-growth scenario) people.<sup>3</sup> Given the existing advice gap faced by middle-income Canadians due to a constrained supply of financial advisory services, it is crucial for the Canadian securities regulators to implement policies that minimize barriers to entry and foster the renewal of APs to accommodate the financial needs of newcomers to Canada.

#### *The Importance of Diversity in Financial Advice*

Considering Canada's projected population growth, diversity of APs, such as those with PFSL, is important in meeting the financial needs of all middle-income Canadians. Clients are more likely to interact with APs who understand their unique cultural, ethnic, gender and socioeconomic backgrounds. The more our clients interact with our team of APs, the more comfortable they become with various financial products and services. This leads to a greater willingness to engage in financial discussions and activities, improving our clients' financial literacy, helping to ensure our clients receive financial guidance relevant to their unique financial needs while financially integrating newcomers to Canada.

Another advantage of contracting with a diverse force of APs is advancing innovation in our product offerings. With a deep understanding of the diverse needs of middle-income Canadians, we can work with our partners to design and introduce products tailored to meet these needs. As examples, in 2023, PFSL began offering a Shariah Compliant Fund in collaboration with one of our fund manager partners.<sup>4</sup> We are also one of the largest dealers in the country of Registered Disability Savings Plans, a Plan type made available by only a few financial services providers due to its complexity. We are proud to make these available to our clients.

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<sup>1</sup> Kathy Kerr, 2021. [A different perspective on Canada's aging advisory industry](#). The Globe and Mail

<sup>2</sup> Statistics Canada. [Canada's Population Estimates: Strong Population Growth in 2023](#).

<sup>3</sup> Statistics Canada. [Population Estimates \(1971 to 2020\) and projections \(2021 to 2068\), Canada, both sexes, all ages](#).

<sup>4</sup> MacKenzie Investments, 2023. [Mackenzie Investments and Primerica Financial Services Launch Actively Managed Shariah-Compliant Mutual Fund](#).

*The Fee Proposal with Respect to Per AP*

We provided the proceeding comments regarding our business model and the renewal of the number of APs as background to our significant concerns with respect to CIRO's fee proposal, specifically the fee per AP. It is our belief that the fee per AP is a significant barrier to entry to developing the next generation of APs. This, in turn, will further reduce the access to ongoing personal financial advice that is already taking place in Canada. The diversity of APs will be adversely impacted, reducing the opportunity for new Canadians to obtain financial advice.

The consultation paper notes that the per person fee is a small monthly amount and does not consider it to be a barrier to entry. Unfortunately, the increased fee would be just another in a series of hurdles to becoming an AP and maintaining that registration. Here are some examples:

- Finding people interested in this as a career;
- Studying for and passing the entrance exams and related costs;
- Helping people become productive and achieving a book of business sufficient to earn a living;
- Ongoing registration fees, both for a mutual fund license, and as is often the case (and with virtually all of our agents) a life insurance license;
- Market participation fees;
- Errors and Omissions insurance; and
- Fidelity bond insurance.

Taken in the aggregate, these result in a significant barrier to entry and cause many APs initially interested in this as a career to look elsewhere after a period of time. In addition, the total fees for a dealer with a large number of APs, many of whom are building their books of business, is a significant cost, and a significant increase from fees charged by the MFDA. This discourages dealers from investing in new APs.

PFSL believes CIRO should reconsider the proposed per AP fee to reduce the potential negative impact of it being a barrier to new entrants. We understand CIRO's point that regulating APs draws resources. However, we do not believe that a business such as ours with a mutual fund product shelf and many APs with small books of business, draws the same resources as those selling complex products, potentially with the use of leverage and margin accounts. We are requesting that the proposal be reconsidered to reflect the resources that are being used and the risk in the market. Until that review is completed, we request that CIRO collect fees from Mutual Fund Dealers based on the interim Mutual Fund Dealer fee model until it is clear that the fees are allocated more proportionately and remove the barrier to entry that we believe will result. This approach would ensure that the financial burden is distributed more equitably without discouraging the recruitment of new APs or limiting the supply of financial advice available to the middle-income market in Canada.

In addition to these points, with respect, it is our view that the proposed Fee Model does not adhere to certain terms of CIRO's Recognition Orders and CIRO's own Guiding Principles.

## **The Proposal Does Not Adhere to Certain Terms and Conditions of CIRO's Recognition Orders**

### *Fees must be Equitably Allocated and Proportionate*

The allocation of fees must be equitable and proportionate to a Dealer Member's activities. It is important to note that 'equitable' does not necessarily mean 'identical.' We are particularly concerned that the common fee per AP is inequitable. We understand CIRO's assertion that CIRO regulates APs and this draws resources. However, as noted above, we do not believe that the new person at a mutual fund dealer with a relatively small book of business, and relatively low risk financial products draws the same resources as those with a large book of complex products. What may seem like a small fee has a greater impact on new entrants due to their lower income as they establish their book of business. The proposed fee on APs will most negatively impact those who serve small accounts and lower and middle-income clients, further exacerbating access to financial services and advice for those who need it most.

### *Fees must not have unreasonable effect of restricting barriers to access*

The fee structure must not create unreasonable barriers to consumers' access to financial guidance. The proposed fees added to the costs already imposed represent an additional financial burden for Dealer Members looking to grow their numbers of APs. It generally takes years for a new AP to grow their business to the point where they are self-sufficient. The costs imposed on these new entrants are the same as for someone that has been in the industry for years and is well established. Dealer Members are already subject to significant costs to comply with regulations. CIRO's proposed fees based on the number of APs contracted with a Member Dealer exacerbates this burden, making it increasingly challenging Dealers to renew and grow their numbers of APs to promote the financial well-being of Canadians, without having to ultimately pass these costs onto clients.

### *The process for setting fees must be fair and transparent*

We are concerned with the lack of transparency regarding the proposed fee related to APs and the rationale behind the fee's allocation to all APs, irrespective of the activities they are permitted to perform. The uniform fee allocation does not consider the diversity of roles and responsibilities among APs, which could lead to an inequitable distribution of fees. Without a transparent process, firms are unable to assess the fairness of the fee structure. Transparency ensures that all stakeholders understand how fees are calculated and allocated. Therefore, CIRO needs to provide clear and detailed information about the underlying rationale for the proposed fee model and how it aligns with the guiding principles and the overarching goal of serving the diverse needs of Canadians.

## **The Proposal Does Not Adhere to CIRO's Own Guiding Principals**

### *Proportionality – Fees Must be Proportionate to Usage or Consumption*

The principle of proportionality suggests that fees should be proportionate to usage or consumption. However, PFSL believes CIRO needs to be more transparent in how the fee model complies with this principle. We request that CIRO clarify how the fee structure was determined and why the fee uniformly applies to all dealer members despite the varying risks amongst Mutual Fund Dealers and Investment Dealers. Additionally, there is less risk

associated with new entrants, and treating all licensed individuals the same can contribute to the fee becoming a barrier to entry.

#### *Transparency - Fees Reflecting the Application of Guiding Principles*

CIRO's proposed fees should reflect the application of guiding principles. There is a lack of transparency in the rationale for the allocation of fees. We find it difficult to understand the rationale behind the fee structure without a clear understanding of the underlying basis for the fee calculations and how they align with the guiding principles. Transparency is more than understanding the mechanics of the calculation; it goes to the usage or consumption of regulatory services and/or benefits received from being regulated by CIRO, as noted in the Proportionality Guiding Principle. The lack of transparency in CIRO's Proposed Fee Model leads to questions about the fairness and effectiveness of the fee structure.

#### *Serving the Public Interest*

To better serve the public interest, CIRO must ensure fees do not become a barrier for Dealers to attract and retain new entrants to the industry. The proposed fee is only one of several fees that Dealers must consider. While each individual fee (approximately \$21 a month per AP) may seem manageable, they can pose a significant burden to dealers when assessing all fees cumulatively. As noted above, this will discourage attracting new entrants, thereby limiting the growth and diversity of the industry. By limiting the industry's growth and diversity, the proposed fee model will also contribute to the advice gap already experienced by middle-income Canadians. The proposal needs to take into consideration the cumulative impact of these fees and strive to create a fee structure that encourages renewing the advisory force and expanding consumers' access to financial guidance.

#### **Our Request**

Other than PFSL, there are few independent dealers encouraging new APs to join the industry. For this reason, CIRO's proposed fee model would result in a significant increase in cost and burden on our firm, disproportionately so relative to other members, and result in a barrier to new entrants. PFSL requests that the proposal be reconsidered in light of its potential negative impact on attracting and retaining new APs. One possible way of achieving this is through a differential fee structure for certain APs. Indeed, the consultation paper, section 3.2, third bullet, entitled "Reduced Rate for APs" states that CIRO considered this. According to CIRO, it was rejected because a reduced fee per AP would result in a much larger emphasis on revenue, thereby increasing inequity in the cost allocation. However, the reason for this inequity is not clear, nor was the option considered in light of promoting new entrants.

Here are some options that could be considered:

- a reduced fee for a period of time after obtaining a license to provide time for APs to establish themselves;
- a reduced fee for APs below a revenue threshold; and
- a fee cap for the dealer total per AP fee.

These could be easily calculated from existing data, address the inequity issue, and reduce the potential for fees to become a barrier to entry. We do not believe they would result in a significant shift in fees to other dealers. As a minimum, we are requesting transition time for

those facing a significant fee increase. We are open to working with CIRO to consider alternatives.

### **In Closing**

PFSL appreciates the opportunity provided by CIRO to provide our comments on the Proposed Integrated Fee Model. Please find our responses to the questions posed by CIRO in the Proposed Integrated Fee Model in the Appendix. We look forward to continuing to work with CIRO on these proposed Integrated Fee Model and would be pleased to discuss any questions or concerns you may have.

Sincerely,

*[Original Signed By]*

John A. Adams CPA, CA  
Chief Executive Officer

cc:

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## Appendix - Consultation Questions

### Question #1 - Does the proposal materially conflict with a guiding principle?

Yes, the proposal materially conflicts with the following guiding principles:

#### 1. Proportionality

Due to a lack of transparency in how this principle is applied, it is necessary to clarify the method CIRO used to establish the fee structure and the reason for its uniform application to all dealer members, despite the diverse risks associated with Mutual Fund Dealers and Investment Dealers. We also believe CIRO needs to appropriately allocate costs in proportion to the size and impact of its Dealer Members.

#### 2. Transparency

It is PFSL's view that CIRO is not transparent with the calculation methodology (other than the simple mechanics of the calculation) and the rationale behind the fee structure. We request that CIRO clarify how the fee structure was determined and why the fee uniformly applies to all dealer members despite the varying risks amongst Mutual Fund Dealers and Investment Dealers.

#### 3. Serving the Public Interest

CIRO's Proposed Integrated Fee Model does not serve the public interest well, as it limits Dealer Members' ability to renew or attract new entrants to the advisory industry. Due to this limitation, the advice gap will grow, particularly for modest and middle-income Canadians, the segment of the Canadian population that arguably requires financial education the most. We believe this can be achieved while maintaining an equitable fee model that enables CIRO to continue its mandate of protecting the investing public.

#### 4. Sustainability

The Proposed Integrated Fee Model jeopardizes the long-term sustainability of its Dealer Members by limiting their ability to grow and retain their numbers of APs. This is particularly the case independent Dealer Members that service smaller account sizes and middle-income Canadians.

### Question #2 - Does it appropriately allocate costs in proportion to size and impact?

No, PFSL Investments does not believe the proposal appropriately allocates costs proportionately to size and impact, particularly with lower-risk dealers. We note that it is difficult to fully determine if the proposal proportionally allocates costs as the calculations in CIRO's proposal lack transparency in the proposed fee structure's methodology.

**Question #3 - Is the methodology easy to understand?**

PFSL Investments finds the calculation easy to understand. However, due to a lack of transparency, PFSL Investments does not understand the rationale of the fee calculation methodology. We request that CIRO permit its Dealer Members an opportunity to review the calculation methodology prior to implementing its Proposed Integrated Fee Model.

**Question #4 – Are there other adjustments or factors that need to be considered that would not add additional complexity to the calculation or require additional and auditable reporting from firms, while continuing to meet the guiding principles?**

The Proposed Integrated Fee Model should more fully consider the negative impact on attracting and retaining new APs. This is vitally important for the health of the industry, ensuring its ability to provide accessible financial advice to as many Canadians as possible, particularly those in the middle-income market.

**Question #5 – Does the proposed integrated fee model create unreasonable barriers to entry or access to advice?**

Yes, the proposed integrated fee model will create unreasonable barriers to entry or access to advice if either Dealers or APs are required to pay additional costs to CIRO. Raising costs for Dealers will ultimately deter Dealers from acquiring new talent and grow the number of APs. This is a serious issue that requires further consideration.

**Question #6 - Will the proposed integrated fee model continue to apply as the industry evolves and transforms?**

The barrier to entry created by the proposal will be exacerbated by additional cost pressures and a focus on high net worth clients. Middle income and new Canadians will be particularly negatively impacted by this. There is a need to maintain and grow the supply of APs to mitigate the advice gap experienced by middle-income Canadians. Additionally, there is an important need to maintain and grow the supply of APs to meet the diverse financial needs of newcomers to Canada, particularly as the country anticipates a record number of immigrants in the coming decades.

**Question #7 - Are there other stakeholders that could unfairly benefit or be adversely impacted?**

The proposed fee increases will act as a barrier to entry which will adversely impact modest-to-middle-income and new Canadians who seek personalized financial guidance from APs. This group faces an advice gap and needs help obtaining personalized financial guidance. With its fee increases relative to Per AP, the current proposal will limit the supply of financial advice and disproportionately benefit affluent Canadians. The increased costs will result in modest-and-middle-income Canadians becoming less attractive clients for Dealers and their APs, further widening the advice gap.