



CANADIAN INVESTORS' COURSE

Session 8 – The Investment Industry Overview



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Session 8 – The Investment Industry





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The Investment Industry

- **Overview**
- **Who are the players?**
- **Licensing bodies**
- **How do they get paid?**



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Overview

The investment industry can be confusing

- Different financial product sellers
- Different financial licencing bodies
- Different named titles/same named titles

Investors' legal rights vary between product sellers

A restriction on the financial products available to you exposes who you are dealing with

Imitation IS the greatest form of flattery



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Who Are the Players?

- Bankers
- Insurance Agents
- Financial Planners/Mutual Fund Salespeople
- Stockbrokers – Investment Advisors
- Discount Brokers
- Portfolio or Associate Portfolio Managers



Licensing Bodies

'Financial certifications and designations are not the same as a registration or license.'

Regulators

- Investment Industry Regulatory Organization of Canada (IIROC)
- Mutual Funds Dealer Association (MFDA)
- The Autorité des Marchés Financiers (Quebec)
- Securities Commissions
- Insurance Regulators



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Investment Industry Regulatory Organization of Canada (IIROC)

IIROC is the regulatory body for all securities firms in Canada.

Of all investment product sellers, IIROC has the **MOST STRICT** requirements for individuals who sell securities such as stocks, bonds, ETFs, mutual funds, options and/or futures.

IIROC regulations require that those who have specific roles within the IIROC member firms must meet defined educational and work experience criteria.

Of all regulatory bodies, investment client consumer protection is the strongest.



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Mutual Funds Dealer Association (MFDA)

The MFDA is formally recognized as a Self Regulatory Organization (SRO) in Alberta, British Columbia, Nova Scotia, Ontario, Saskatchewan, New Brunswick and Manitoba and is currently pending approval in Newfoundland & Labrador. The MFDA has also entered into a co-operative agreement with the Autorité des marchés financiers and actively participates in the regulation of mutual fund dealers in Quebec.

The MFDA member rules reflect the mutual fund sales licensing proficiency requirements determined by the Provincial Securities commissions. The MFDA sets proficiency requirements for its members for individuals who supervise those who sell mutual funds. A MFDA licenced individual will, generally, sell mutual funds.



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Financial Services Commission of Ontario (FSCO)

FSCO regulates insurance companies, insurance agents and agencies, insurance adjusters, co-operatives, credit unions/caisses populaires, loan and trust companies, Mortgage Brokerages, Administrators, Mortgage Agents, and Mortgage Brokers Registered in Ontario, and pensions. Regulation includes registration or issuing a licence to those who are qualified.

FSCO is responsible for licensing insurance companies and issues licences authorizing persons to conduct business as insurance agents. There are three classes of agent licences.

- 1) Life Insurance (Including Accident & Sickness)
- 2) Accident & Sickness
- 3) General

Note: Agents listed may hold a combination of the insurance licences listed above. An insurance licence is issued by FSCO for a two-year term.

NOTE: Most IIROC licenced members are also FSCO licenced agents too.



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Securities Commissions

In Canada, each Province has its own Securities Commission. The majority of rules and regulations tend to be similar or uniform. There are few differences.

They ultimately are the authority for the licensing requirements of all individuals selling any type of securities. In the case of IIROC member firms, IIROC is responsible for filing with the appropriate provincial securities commissions.

Mutual fund companies file directly with the commissions.



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Summary -- Licencing Bodies and Players

Investment Industry Regulatory Organization of Canada (IIROC)

- Stockbroker/investment Advisor
- Portfolio Managers/Associate Portfolio Managers

Financial Services Commission of Ontario (FSCO)

- Insurance Agents/Brokers
- Stockbroker/Investment Advisor
- Portfolio Managers/Associate Portfolio Managers

Mutual Funds Dealer Association (MFDA)

- Independent Financial Planners/ Mutual funds providers
- Bankers



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How do they get paid?

Five Forms of Compensation: repeated in Session 9

1. Transactional Commissions compensation
2. Trailer Fees
3. Fee-based compensation
4. Salary compensation
5. Salary plus quota based or volume bonus compensation



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Compensation Forms and Players



Transactional Commissions compensation:

- Insurance Agents/Brokers
- Stock brokers/Investment Advisors
- Independent Financial Planners
- Discount Brokers
- Some Bankers and not all Banks

Trailer Fees:

- Insurance Agents/Brokers
- Stock Brokers/Investment Advisors
- Discount Brokers (under review)
- Independent Financial Planners

Fee-based compensation:

- Stockbroker/Investment Advisors
- Portfolio Managers/Associate Portfolio Managers

Salary compensation:

- Bankers

Salary plus quota based or volume bonus compensation:

- Bankers



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'Imitation is the greatest form of flattery'

There is some confusion in Canada about the 'Titles' used in the investment industry.

There are:

1. financial planners,
2. registered representatives,
3. investment dealers,
4. retirement planners,
5. investment advisors,
6. portfolio managers, and
7. associate portfolio managers.

And more. It seems that the **investment advisor, or advisor** title taken hold lately and has seemed to replace Financial Planners. Accounts are being called advisor accounts. You see the word 'Advisor' much more often. Everyone in the investment industry seems to be an 'Advisor'. Unlike the medical profession, not everyone can call themselves a Doctor or a Nurse. Or in the legal industry, i.e. Lawyer. The same is true of Accountant, Engineer, Pharmacist, etc ...

There is only one type of investment advisor. That individual is with an IIROC regulated Full-Service investment dealer. The term 'Advisor' confuses the general public. Greatly confuses. Too much imitation.

The IIROC regulated Full-Service investment dealer type of Investment Professional is the most educated, licenced and regulated of all the investment professionals in the Canadian financial industry.

And the 'Safety First Investing' full-service IIROC-regulated Life-licenced investment advisor is known as a **Trusted Wealth Professional**.



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