Investment Industry Regulatory Organization of Canada (IIROC)

Small Dealers Symposium – June 7th, 2012

St. Andrews Conference Centre, 147 University Ave, Toronto, Ontario

Note: St. Andrews website lists their address as 150 King Street West 27th Floor, **not** 147 University as shown in the IIROC documentation

Advisor Managed Accounts

- Definition
  - Advisor Managed Accounts (commonly referred to as AMA) are defined as a type of fee –based account with an Investment Advisor, duly registered in the capacity of Portfolio Manager, being responsible for all suitability and trading activities of a given account. Typically, trading activities are derived from individual security selections made by the IA/PM, asset allocation models maintained by the IA/PM (or their Firm), or asset allocation models offered by external 3rd party providers.

- Statistics (Source: "The Fee-Based Report – Winter 2011 – InvestorEconomics)
  - Of the $87 billion AUM that exists in the Discretionary Assets segment, $48 billion (or 55.2%) is Advisor Managed.
  - Growth in the Advisor Managed space outpaced all other Fee-Based segments at a 3-year CAGR rate of 18.4% to the end of December 2010.
  - Research indicates growth is attributable to:
    - Strategic focus, by both firms and advisors, on stabilizing fee revenue
    - Putting a spotlight on wealthier investors
    - Advisors desire to establish competitive fee structures for their top-tier clients

- Regulatory Questions
  - Transparency
    - At a recent MMI event, it was suggested by panellists that the US is shifting away from simple "best practices" and toward regulations surrounding transparency and that Canada should be prepared for a similar move. Can IIROC comment on where they see this going within Canada?
  - Proficiency (under 31-103)
    - In terms of proficiency, what activities constitute "experience"?
  - Supervisory Infrastructure
    - Are the activities that satisfy the experience requirement for a PM the same experience requirements for those who supervise PM's?
    - Where does overall suitability responsibility reside, with the PM or some oversight group?
  - Trading

        - Are there rules around timing of orders to market? Regardless of frequency, are trades done throughout the day average priced before hitting client accounts?
        - Are crosses (netting of buys and sells) allowed?
    - Best Practices
        - Some firms employ a centralized trading process (PM's submit trade instructions to a centralized team) while others are more decentralized and administer their own trading instructions. Are there rules envisioned to standardize this function?
    - SMA Differences
        - Typically, SMA programs employ external 3rd party money managers selected via an unbiased corporate due diligence process – forming part of the overall client suitability assessment. How is this accomplished in the AMA space when the IA/PM is essentially self-selecting themselves as money manager?
    - UMA / UMH Considerations
        - If an Advisor Managed "sleeve" forms part of a larger UMA/UMH offering, are there special considerations that need to be taken into account?