

## Transcript

**Better conversations. Better outcomes.**

### **Episode 32 – CRM2 and the rise of fee-based advising in Canada**

*Jordan Lee* - The ones that I find are the best advisors really don't even have that many significant conversations about performance at all. It's this is what you need to get from A to B, we'll get you there, and if they get pushed, that well, we should be chasing this investment or my neighbor was talking about this investment, they have the conviction to say, we need to get you from A to B, this is the best way that I see that we should do it, and they have the conviction to back their financial plan and they stick to their guns.

*Ben Jones* - Welcome to Better conversations. Better outcomes. presented by BMO Global Asset Management. I'm Ben Jones.

*Emily Larsen* - And I'm Emily Larson. In each episode, we'll explore topics relevant to today's trusted financial advisors, interviewing experts and investigating the world of wealth advising from every angle. We'll also provide you with actionable ideas designed to improve outcomes for advisors and their clients.

*Ben Jones* - To access the resources we discuss in today's show or just to learn more about our guests, visit [bmogam.com/betterconversations](http://bmogam.com/betterconversations). Again, that's [bmogam.com/betterconversations](http://bmogam.com/betterconversations). Thanks for joining us.

*Emily Larsen* - Before we get started, one quick request: if you have enjoyed the show and found them of value, please take a moment to leave us a rating or review on iTunes. It would really mean a lot to us.

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*Ben Jones* - Today, we're diving into some current events that will be especially helpful our listeners in Canada. However, the overarching theme for this episode centers around how to frame your practice as a wealth manager rather than just an investment advisor. Resetting client relationships is something we've talked about a on a few other episodes as well. Especially our mini series with Steve Moore. We'll make sure we have links to those episodes on the show notes pages as well.

*Emily Larsen* - The Canadian Securities Administrators introduced a series of amendments to Canada's security regulations. The amendments focused on how cost and performance information is disclosed to investors, known as Client Relationship Model Phase Two, or CRM2 for short, the new disclosures are now fully in effect. Our guest is here to help us wrap our heads around what's changed and what advisors should do about it.

*Ben Jones* - So today we are here with Jordan Lee, a Regional Sales Manager for BMO Global Asset Management in Toronto Canada and we're talking about CRM2. So Jordan, tell our audience really at a high level, what is CRM2?

*Jordan Lee* - CRM2 at a high level I would say is all about transparency to investors and having them be fully in the know about how their investments are performing, and what fees they're paying for those investments.

*Ben Jones* - So Jordan, when you call something phase two, that implies there was a phase one. Tell me how this worked.

*Jordan Lee* - Sure thing. So really, it's all the same initiative and it's all about transparency to the underlying investor. But they are implementing it in phases, right? So CRM1 essentially was just disclosure to clients at the time that they opened their accounts, that there weren't any conflicts of interest that existed. They really wanted to unroll all of this in the same initiative, but very difficult to unroll the disclosures of fees and the performance changes all in one shot, so essentially what they've done is they unrolled some of those initial changes first, which was the CRM, and now the CRM2, so to speak, is the adjustment to the performance -- the transparency of the performance and the transparency of the fees on those statements.

*Ben Jones* - Wonderful. Now, with CRM2, talk to me -- I know it was phased in over three years, but tell me a little bit about what the key dates are that our audience should be aware of.

*Jordan Lee* - Sure. So the deadline is July of this year, so July of 2017 in order to have these changes in place on the statements, and they have the option to either issue these statements on an annual basis or a semi-annual basis, so most viewers opted to do it annually, right? So many of them actually started to issue these statements at the end of 2016 prior to the '17 deadline because they were just going to issue them annually. So they've made those changes now and many dealers are issuing these changes on their statements as we speak. So it's started.

*Ben Jones* - So dealers now have to disclose certain fees that are flowing back to the dealer, including indirect fees, trading fees, upfront commissions, and others. Times of great change are also times of great opportunity. And in the case of CRM2, that's no different. So how can advisors thrive in this transitory period? Well, first, advisors need to think about how they explain their fees to their clients without getting overly confusing. Remember, they're not necessarily new fees, they're just pointed out specifically on the statement now. We did a great episode of our show with Carl Richards where he talks about elegant simplicity. That's an episode that I think would really help in this case. You can find the link to that episode at our show notes page at [bmogam.com/betterconversations](http://bmogam.com/betterconversations).

*Emily Larsen* - In addition to the fee disclosures change, CRM2 also includes changes to performance disclosures.

*Ben Jones* - What are the new performance disclosures and how does that work?

*Jordan Lee* - So the new disclosures from a performance standpoint is now performance is disclosed as a personal rate of return using a money weighted return calculation. And that's

changed because previously time weighted return is what was commonly used. Some dealers showing both to investors, but personal rate of return using money weighted return is now what is required at all dealers.

*Ben Jones* - And so this personal rate of return becomes the primary focus of this rule if I understand that correctly. Is that an accurate statement?

*Jordan Lee* - Yeah, that's an accurate statement and I think the benefit about it is exactly how it's described. It's more personal to that investor. The time weighted returns are helpful in comparing to benchmarks to give you an idea of relatively how that investment is performing, but a lot of the times, that that performance can differ greatly from what that individual investor is experiencing because of when they invested cash flows, etc, etc.

*Ben Jones* - Wonderful. So let's shift gears here to advisor practices, which I know is something that you spend a lot of time talking with your clients about and so you get some real world advice here from an expert. So when it comes to advisor practices, how is this rule going to impact advisors here in Canada?

*Jordan Lee* - It's going to initiate more focus on planning and more goals-based type conversations and more planning-based conversations rather than chasing return and chasing the better return.

*Ben Jones* - So moving away from hiring someone because you want them to pick the best funds and hiring a wealth manager to coordinate everything in your life, it takes time, planning, and money.

*Jordan Lee* - Right.

*Ben Jones* - So how will the service models then evolve for these advisors as a result of these involving conversations?

*Jordan Lee* - Well, it's interesting because for many advisors and a lot of advisors that I work with, it's really not going to change anything. They're doing a good job, they're disclosing fees, and their clients are aware of what they're paying. So for in many cases I think, there's not going to be a huge change in the service models. Where I think we're -- and we're starting to see these changes is more call it the infrastructure or the platform of how they're doing business, as in order to align themselves a little bit better with this CRM2, is moving away from that trailing commission model and imbedded commissions to more of a fee-based model and we're seeing these fee-based models adopted very, very rapidly in the last little while.

*Ben Jones* - I think that's a great point because in a fee-based model, it's no longer about the product paying you a commission, it's the client paying you a fee for all of the services that you deliver them throughout the course of the year. And in the absence of those services being known and valuable to the client, the fee is the only thing that matters. Which makes a really difficult conversation for those advisors who can't articulate what they do.

*Jordan Lee* - Absolutely. And I think it's just -- it's an easier platform to describe how the interests really are aligned in a fee-based platform rather than the imbedded commission model.

*Ben Jones* - So for advisors that are out there today saying okay, I already do a lot of these things and I'm already in compliance with these rules and I've articulated very well to my clients the services that I provide to them, how can they capitalize or leverage CRM2 to their advantage?

*Jordan Lee* - I think communication is the key. They can reiterate something that they've already been doing alongside how the regulators are now mandating. So essentially showing that this is the new regulation, not much has changed. This is how we've been doing business for some time now, and just reinforce some of those value propositions. I think it's going to -- at the end of the day what this turns out to be is a little bit more of a business opportunity. Because they can start to articulate those services that they're providing to their clients and their investors, and continue to ask questions around those services. As you ask more questions and as you have more touch points, and as you uncover more information, you will uncover more opportunity for yourself.

*Emily Larsen* - As Ben and Jordan mentioned, CRM2 is actually a perfect business opportunity to connect with your clients and discuss how your services can help them achieve their financial and life goals. We covered this topic in our mini series with Steve Moore, and I especially recommend the episode titled: *Stop Providing Only Investment Advice*. It's particularly applicable here, both for advisors transitioning from commission to fee, or investment management to wealth management. We'll link to it in the show notes, as it walks through how to have what Steve calls a re-fact meeting with clients to get crystal-clear on their goals and objectives.

*Ben Jones* - Next, I asked Jordan if he's already started to see the impacts of CRM2.

*Jordan Lee* - Yeah, I think there's much more emphasis on all those value adds that advisors are bringing to the table. These resources get used on a daily basis in my territory where they asking for some assistance on that, they know that they're doing it, to some end, but they're just -- they need that avenue of how do I communicate this to my investor? How do I communicate this? How do I tangibly show them in a black and white sense what this is worth? Right? So we have got some great pieces like the price of advice where we've done some empirical studies of what rebalancing has been worth over the years, behavioral coaching, efficient draw-down of capital where it actually puts a percentage on that, and then I also encourage advisors to think of some specific cases with real life dollar amounts that you can communicate with an investor to show them that this is -- this is real money, this isn't just fluffy value-add services that we're bringing to the table.

*Ben Jones* - And what are some of the poorer approaches that you've seen so far?

*Jordan Lee* - Well, I would say what I just said. Like the fluffy value-add, like just throw a list down in front of them and don't have any real tangible stories or applicable stories about it. That's not going to fly.

*Ben Jones* - And you know, it's so funny you say that. Like, I just think of someone throwing a list in front of me and me going down the list and saying yeah, you didn't do that, you didn't do that. Like, it's almost like revving your client the fodder to fire you.

*Jordan Lee* - Absolutely. Absolutely.

*Ben Jones* - When an advisor gets these conversations right, what does it feel like for the advisor, and what does it feel like for the client?

*Jordan Lee* - I think it's just an all-around motivating experience. I've had conversations with a lot of good advisors who are so excited about this change because there's -- as in any profession, really, there's really good advisors and there's some that aren't doing as good of a job. The ones that are on top of this and that are well-prepared and are doing these financial plans for the client are looking at this and thinking, this is going to be like taking candy from a baby once -- especially with those advisors that have the imbedded trail model, maybe they haven't communicated what the costs are very well and there's that sticker shock that is on a client's statement, and they do what you said. They look down that list and say I'm not getting any of these things. I don't even talk to my advisor, right? If they have a conversation with somebody who's doing a thorough plan, walking them through all the different things that they need, focusing on them, asking them all the questions about where they want to go, it's going to be a quick decision to get that transfer form in and move the money.

*Ben Jones* - If you could summarize our entire conversation in two sentences, what would you say?

*Jordan Lee* - I'd say ask good questions and focus on your client and focus on financial planning.

*Ben Jones* - If you could put a warning label on your advice today, what would that warning label say?

*Jordan Lee* - The warning for me is don't get caught up and tied up in performance. Like, don't focus so much on performance. Right? Focus on the plan.

*Ben Jones* - Anything you'd like to ask of our audience before we leave?

*Jordan Lee* - I would suggest that if you're looking at crafting your message around CRM2, to have a look at some of the tools that we have attached to this podcast and hopefully they can help you craft your message and help you in your client engagements.

*Ben Jones* - Wonderful. Thanks for joining us today, Jordan. It's been a real pleasure.

*Jordan Lee* - Thanks very much Ben.

*Ben Jones* - I really like Jordan's warning label here. Don't focus so much on performance and fees, but instead, focus on the valuable plan that you've laid out with your clients to help them achieve all of their objectives and aspirations, as well as the many ways that you're helping them navigate that journey. We'll have a number of links in the show notes page to resources for advisors to help navigate these conversations related to CRM2 and all of the change that comes with it.

*Ben Jones* - Thanks for listening to Better conversations. Better outcomes. This podcast is presented by BMO Global Asset Management. To learn more about what BMO can do for you, visit us at [bmogam.com/betterconversations](https://bmogam.com/betterconversations).

*Emily Larsen* - We value listener feedback, and would love to hear what you have thought about today's episode. Or if you're willing to share your own experiences or insights related to today's topic, please e-mail us at [betterconversations@bmo.com](mailto:betterconversations@bmo.com). And of course, the greatest compliment of all is if you tell your friends and coworkers to subscribe to the show. You can subscribe to our show on iTunes, Google Play, the Stitcher app or your favorite podcast platform. Until next time, I'm Emily Larson.

*Ben Jones* - And I'm Ben Jones. From all of at BMO Global Asset Management, hoping you have a productive and wonderful week.

*Emily Larsen* - This show and resources are supported by a talented team of dedicated professionals at BMO, including Pat Bordak, Gayle Gipson and Matt Perry. The show is edited and produced by the team at Freedom Podcasting, specifically Jonah Geil-Neufeld and Annie Fassler.

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