

Designing Prudent Governance Practices

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OVERVIEW

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Overview

The Canadian Wealth Management industry is a vibrant and rapidly growing segment of the Canadian economy. Given the position of trust from which many industry professionals operate, there is a growing level of operational scrutiny and awareness in the marketplace, demanded by clients and regulators. As a result, effective organization of a firm's governance structure is critical to its success. This sets a 'tone at the top' from which a firm's business culture is established and flows.

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In establishing this "tone", though, many firms in our experience, often confuse 'Governance' with 'Compliance'. We believe that Wealth Management Firms need both Governance and Compliance, but they are not the same. While Compliance is a set of "rules" that everyone must live by, Governance is how you "play the game" within those parameters. Another way to compare these two important functions is that Compliance is "doing things right" while Governance is "doing the right thing"

In developing and implementing governance solutions for our clients, we do so with a strong belief that diligent governance practices create a sustainable business. As a result, the design of these practices is critical.



Key Design Items

The design of prudent governance practices for wealth management firms is not only an opportunity to enhance the strategic decision making and oversight within these firms but also an opportunity to showcase their prudent governance practices to their firm's clients, shareholders and key stakeholders. For these reasons, HighView Financial Group believes that wealth management firms should give careful consideration to the following design components of their firm's governance practices.

a. Governance Mandate

Given the breadth of governing bodies within wealth management firms, such as boards, investment committees, compliance committees, independent review committees (IRCs) and new product committees, we believe that careful consideration should be given first to the development of a Governance Mandate in order that the purpose of each governing body is clearly understood by all governance participants. Additionally, many wealth management firms will also incorporate a set of governance philosophies and principles into their mandates that address concepts such as objectivity, transparency and accountability.

b. Governance Structure & Participation

With a Mandate clearly defined, firms should then look to establish a structure that addresses the "roles" required as well as the most appropriate "participants" that can fulfill those roles. The roles for each governing body will vary depending upon the purpose of each governing body. For instance, roles required for the board of foundation will be different from the roles required of an investment committee at an investment counselling firm. A common mistake of many firms is that the initial appointment of people to governing bodies is followed by the definition of their roles. Successful wealth management firms always define the roles first and then select the appropriate people; in other words, the people should fit the role, not the reverse!

c. Governance Standards

Given the regulated nature of many wealth management firms, there are varying degrees of governance standards across regulated entities that wealth management firms need to follow. In our view, though, such regulatory governance standards form only the basis for operation. Any incremental governance



standards adopted by wealth management firms are left to their own needs and objectives. With the rising expectations and demands from clients, we expect that many firms will seek to adopt governance standards that exceed regulatory minimums and enable them to showcase their prudent governance practices to their firm's clients, shareholders and key stakeholders. In other words, solid adherence to a prudent set of governance standards will become more about competitive positioning and revenues than compliance and costs.

The challenge for most wealth management firms, though, is the development of a robust set of governance standards as the wealth management industry has historically been silent on such matters beyond the regulatory minimum standards. It is for this reason that HighView Financial Group has partnered with fi360 (www.fi360.com), a US based organization that has developed a set of global fiduciary based governance standards for three types of fiduciaries: Financial Advisors, Investment Managers and Stewards. As a result, the fi360 process provides a framework for wealth management organizations to organize, formalize, implement and monitor their governance practices according to a total of 46 fiduciary standards. Once a firm successfully adopts such practices, there is an independent certification process¹ that enables wealth management firms to showcase their prudent governance practices in a similar manner to which many manufacturing firms have adopted and satisfied ISO 9000 standards.

d. Governance Management

Once a governing body is established and operational, it is critical that adequate resources be provided for ongoing support in the area of meeting management, recordkeeping (including key regulatory documents and meeting agendas and minutes) and general communications. As many wealth management firms are regulated, one of the key areas that receives regulatory audit focus is such ongoing governance management and administration. In other words, the “books and records” of a wealth management firm are critical. Unfortunately, this can be an area that wealth management firms can easily “fall short” in regulatory audits.

To address this potential, we believe that firms should appoint an appropriately qualified Governance Administrator who is charged with the responsibility of managing the regular administrative and management function of the governing body on behalf of the appointed administrative and

1. Independent Certification provided by The Centre For Fiduciary Excellence (CEFEX) www.cefex.org



management function of the governing body on behalf of the appointed Chair. This could be either an internal or external resource. Additionally, given the breadth of documentation associated with many governing bodies, the Governance Administrator should also adopt the use of technology to support their role. For instance, HighView Financial Group provides a support service, utilizing a robust, secure, web-based administration application, in which governance structure, members, meetings, and documents are all stored in a secure, safe and electronic environment. Such solutions bring significant efficiencies to the governance management function.

e. Governance training

Wealth Management Professionals have spent significant amounts of training time in developing their sales, product and market knowledge. Equally important though, is the need to develop an understanding of how to comply with their Fiduciary Standard of Care given that many wealth management professionals operate from a position of trust.

We believe that such training is critical not only at the inception of a governing body but also on an ongoing basis, typically annually, to ensure that all governance participants remain current on their roles and responsibilities.

For those governance participants that consider themselves to be fiduciaries, such as Financial Advisors, Investment Managers and Stewards, HighView Financial Group, in partnership with fi360, provides fiduciary training services that adhere to the fi360 standards described above.



Benefits of Having Prudent Governance Practices

By adopting the above governance practices, we believe that wealth management firms will derive the following benefits:

a. Enhanced Oversight & Decision Making

Wealth management firms will bring streamlined organizational oversight processes to their firm which will enhance each firm's ability to monitor material governance matters and therefore make improved decision making on such matters. In other words, if it is "measured", then it will be "managed".

b. Reduced Business Risks

One of the benefits of enhanced oversight is that wealth management firms can materially reduce business risks in the area of fiduciary, regulatory and operational matters. In our view, whenever material "accidents" happen in the wealth management industry – Barings, Societe Generale, Long-Term Capital – there are always governance gaps that had those gaps been closed through effective governance practices, material business risks could have been reduced.

c. Enhanced Brand Positioning

Given the competitive nature of the Canadian Wealth Management industry, and the growing demands from regulators and clients for increased levels of objectivity, transparency and accountability, we believe that the adoption of prudent governance practices should be selectively marketed as a competitive differentiator, which can then lead to an enhanced brand positioning in the marketplace.

Contact

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Facilitating Excellence in the Management of Wealth™

HighView Financial Group is comprised of the following businesses:

HighView Business Advisory Services Inc.
HighView Asset Management Inc.
Concord Canada Wealth Solutions Inc.



A Way of Life

It is our sole purpose to help facilitate excellence in the management of wealth.

This will be accomplished by harnessing our industry experience and expertise to ensure that we gain a thorough understanding of our clients' circumstances, purpose and issues to enable us to design and implement the most appropriate strategies and solutions to meet their needs.

Our belief system is grounded on the principles of delivering the highest quality, client centric, offerings in a professional and objective manner. We will always strive to be the thought leaders in our professional practice areas in order to ensure that the solutions we take to our clients are current and relevant.

We are passionately committed to a service-based culture where values such as understanding, honesty and openness are not only encouraged but are, in fact, our way of life.

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