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Subject: Comments re: 81-406

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Re: rule_20070615_81406-pos_en.pdf
81-406 June 15, 2007 Volume 30, Issue 24 (Supp-4) Page 25 (pdf 29)

"Fund Facts" "How does my adviser get paid?" "trailing commission"

Comment. Fund Facts should include the formula which is used to calculate the trailing commission
Comparing the trailing commission rate of similar funds is misleading. See details below
All funds should use the same simple formula to calculate trailing commissions so rate comparison is not misleading

Details. Comments and Suggestion for better disclosure.

I have found that in many cases, the formula used in the calculation of trailing commissions is substantially different with many funds. For example, some funds may use an average of the daily close NAV for the quarter, and others may average the end of each month close NAV for the quarter. I have also found that, in some cases, the explanation of the basis of the calculation to be ambiguous. The result is that when a dealer or investor compares the rate of trailing commissions of one fund to another, he can be mislead.

A simple solution for better disclosure would be to require all funds to use the same standard formula for the calculation of the trailing commission. Each fund would be free to charge whatever rate it wishes to, but must use the same formula to calculate the trailing commission. My suggestion is that, the end of each month NAV be averaged for the quarter, and this average be multiplied by the rate the fund company wishes to charge with the result divided by 4

Example for the first quarter of the year.

(((NAV close Jan + NAV close Feb + NAV close Mar)/3) X Annual Rate) /4 = Trailing Fee $ paid for quarter.

The advantages of using this simple formula as a standard is that the dealer or investor would only have to compare rates in order to know which fee is higher. Also, if he wanted to, it would be easy for him to do the calculation himself. For the quarter, he would only need to obtain three net asset values and the rate charged.

Improving transparency in this way will increase the efficiency of the market by encouraging competition.

Note. Averaging monthly NAV’s instead of averaging daily NAV’s may cause temporary anomalies which would average out over time. This minor disadvantage would be greatly outweighed by the advantage of requiring only 3 readily available NAV’s per quarter for the formula. If it is decided to use daily NAV’s to calculate an average for the formula, it should be a requirement that fund companies publish and make readily available to investors the average NAV number they use in the calculation. In summary, in the interests of simplicity, averaging monthly closing NAV’s for the quarter, and paying trailing fees quarterly would be easy to implement and easy to explain to investors.

Sincerely

Bill Braithwaite,   Private Investor