From: “Julie Leefe” <prisma@mts.net>
To: <jointforum@fsco.gov.on.ca>
Date: Sun, Oct 14, 2007 11:12 PM
Subject: Point of Sale Disclosure for Mutual Funds and Seg Funds

October 14, 2007

Dear Mr. Mohindra, Joint Forum Participants, fellow licensees, and the Canadian public:

These opinions are my own, and not to be construed to be those of my “Dealer”.

As a full securities licensee in several provinces, and an insurance licensee in Manitoba, I have lobbied through Advocis and other organizations and contacts since 2005, for full point-of-sale disclosure on seg funds.

I personally do not see any problem with the disclosure in mutual fund prospectuses. After all, during the last 10 years there have been changes in regulation that require plain language disclosure in the front of mutual fund prospectuses. I believe this disclosure is quite adequate. In practice, many advisors, when recommending mutual funds and seg funds to clients, print (for the client) one-pagers from one of the industry’s third-party software packages such as Globe Hysales or Morningstar’s PalTrak. These include most if not all of the information shown in the samples in Appendices 1&2 of the Joint Forum’s Framework. Therefore, while I feel mutual fund disclosure is already adequate, I also do not feel the proposed Framework is onerous in its basic form.

However, point-of-sale marketing material in CAP* seg fund offerings is sorely lacking. Since the CAP guidelines were issued as recommended but VOLUNTARY in 2004, insurance companies changed from disclosing full MER on seg fund offerings, to showing IMF Investment Management Fee only, and not quantifying the additonal components that make up full MER. IMF became a new created-by-insurance-industry acronym, and is totally misrepresentative of the cost of ownership of a seg fund investment. Group agents meet with employees in their workplaces, show them the “IMF”, and tell them that the cost of buying these seg fund offerings in their CAPs is considerably less than buying retail. The point of sale documents show IMF only, and then compare the historical GROSS rates of return of the seg fund offerings, to benchmarks which are net. This is not apples to apples. As an insurance licensee, I am embarrassed by this practice. I feel it is deceptive marketing, designed to gain market share at the cost of the unsophisticated investor. It is a step backward in time, especially since group plans prior to 2004 did disclose full MERs.

This misrepresentative marketing push is now extending to employees who terminate their employment. They are now being presented with the same “lower cost” argument, based on IMF only, for leaving their CAP money with the group plan supplier.

It is interesting to note another disturbing trend in the group plan segment of the investment industry. Employees of benefits consulting companies (e.g. Aon) are seeking insurance sales licenses in increasing numbers. Are the benefits consultants disclosing to the CAP sponsors this conflict of interest? Are they being paid consulting fees, and commissions or referral fees also? In the U.S. this type of conflict of interest is being investigated within the pension industry.

In summary, I believe there needs to be standardization of disclosure of MERs for both mutual funds and seg funds. However, I do agree with some of the objections to the Framework that I have seen voiced on Advisor.ca, such as the impracticality of delivery in real time when doing phone transactions with established clients. Delivery requirements for a standardized 2-pager ought to be within the same timeframe allowed for prospectuses. And, there is absolutely no reason why standardized disclosure, including full MER, cannot be in point of sale packages for CAP members, and terminating CAP members.

Thank you for considering this submission.

Respectfully yours,

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*Capital Accumulation Plan = group RRSP, or defined contribution pension plan, in the workplace