

The Secretary
Ontario Securities Commission

Subject: Study Feedback Fees Paid to Mutual Fund Dealers/Advisers

It is my view that most, if not all value added by the adviser is at point of sale and not in the provision of ongoing service. As such, their compensation should be entirely or primarily based on fees paid at point of sale. Ongoing trailer fees should be eliminated or at least capped at much less than 1% (a rate that many funds do pay). An analogy would be if the real estate agent that found you a home, knocked on your door to collect an ongoing fee every year. I am sure no one would pay him/her.

It is apparent that some dealers/advisers provide ongoing service/advice that has some value. But I doubt that it is equal to 1% of the asset value on a continuous going forward basis. In lieu of a trailer fee, a fee for service charge could be applied to compensate the adviser if specific ongoing work is done. Perhaps the Ontario Securities Commission should invite the Federal Competition Bureau to assist them in examining the “state of competition” and compensation practices in this part of the financial services sector.

Note-These ideas represent my own and are not those of any organization that I am employed by.

Glenn Belanger
Professor of Economics and Compensation
Toronto, Canada