April 12, 2013

PRIMERICA

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

**Attention**
The Secretary
Ontario Securities Commission
20 Queen Street West,
19th Floor, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs / Madames:

**Re: CSA Discussion Paper and Request for Comment 81-407 Mutual Fund Fees**

PFSL Investments Canada Ltd. ("PFSL") appreciates the opportunity to submit comments with respect to the Canadian Securities Administrators' ("CSA") *Discussion Paper 81-407 Mutual Fund Fees* ("Discussion Paper") published December 13, 2012. PFSL is one of the largest mutual fund dealers in Canada and is a member of the Primerica Financial Services group of companies.

**General**

The Discussion Paper identifies what the CSA considers to be potential investor protection and fairness concerns arising from the current mutual fund fee structures. The Discussion Paper's main concern appears to be with the perceived conflict of interest created by embedded distribution fees and proposes several possible solutions.

If implemented, the proposals may introduce a number of significant changes to the mutual fund industry and alter the business model of many companies. Mutual fund manufacturers may be forced to reconsider the structure and distribution of both new and existing products. They may lead to significant changes to the compensation structures of advisors and many may face more stringent requirements to manage perceived conflicts of interest. The Discussion Paper also leaves open the possibility of future rules requiring the negotiation of commissions directly with the investor, banning of trailer commissions and capping commission, all of which would significantly alter the current business model of many companies similar to and including PFSL.

We are concerned that the proposals in the Discussion Paper will limit our ability to service middle-income Canadians, which, in turn, will limit their options and opportunities to save for their retirement. Our representatives offer basic investment products and teach our clients the long-term benefits of saving through a diversified investment vehicle, such as a mutual fund. PFSL's model allows for the acceptance of small minimum monthly investment contributions, which allows those clients with modest means to start a retirement or other savings plans to help them to meet their expected retirement or other financial requirements. In order for such a model to be feasible, it is imperative that our costs be kept to a minimum. The embedded fee model allows us to do this.

**Embedded Fees**

The Discussion Paper asserts that a trailing commission may incentivise advisors to sell a particular mutual fund to investors over another comparable mutual fund with a lower commission. To begin with, trailing commissions are not paid by fund companies to advisors – they are paid to dealers. In addition to compensating advisors, dealers must use this revenue stream to cover overhead such as its cost of compliance, supervision, operation, administration and, indeed, significant regulatory fees. In addition to this consideration, assuming the dealer has a standard payment schedule to advisors, we believe that the incidence of this conflict is very minimal since trailing commissions are largely similar as a result of an open and competitive market. While there may be some funds paying higher than standard trailing commissions, the variance is small and unlikely to provide sufficient motivation to offer one fund over another. The practice of recommending an unsuitable asset allocation in order to earn higher trailer commissions would not be in compliance with an advisor's duty of care and suitability obligations under know-your-client. Nor would it satisfy Mutual Fund Dealers Association ("MFDA") requirements for dealers to review investment recommendations for suitability the cost of which is also covered by the revenue coming from trailing commissions.

The Discussion Paper also raised the possibility of banning trailer commissions and other embedded advisor compensation. This will require fundamental changes in the way that companies such as ours structure their business and compensate their representatives. Under a fee based compensation model, fees will apply to the sale price and will come out of the investment amount. Other direct fees are more likely to be charged, such as account setup fees and transaction fees. We are concerned that smaller investors will not be able to afford the up-front fees and advisors will not be able to service accounts under a certain amount.

Trailing commissions provide important benefits to consumers because they help to cover the cost of providing professional advice. Without these fees from the mutual fund companies, the actual cost of carrying the account would have to be passed directly to the investors, reducing the attractiveness of opening small accounts.

The portion of the trailing commission that goes to the advisor also benefits clients through the provision of advisory services. These services include but are not limited to suitability reviews, reviews on transfers, reviews of material changes in client circumstances, responses to client questions, general financial advice that can be unrelated to mutual funds, the rebalancing of portfolios, advice on registered products, the setting up of savings programs and the encouragement of good investment behaviours.

We are of the opinion that the Canadian market can support, and indeed requires, multiple compensation models, including a commission-based model. Hundreds of thousands of investors across Canada hold investment assets in commission-based accounts and their representatives are consistently providing good services to their customers. This strong customer preference for commission-based services in the current regulatory environment is difficult to reconcile with a claim that the providers of these services are consistently providing poor services to their customers, or that additional regulations could significantly increase value provided to investors.

**Benefits of Mutual Funds**

We are of the opinion that there is a misconception that mutual funds are more expensive to own without providing any offsetting benefits. We believe mutual funds are one of the most cost-effective ways to own a diversified and professionally managed portfolio. Mutual funds allow individuals to invest in several different stocks and bonds at a fraction of the cost of buying individual units. The simplicity of mutual funds provides great benefit to investors with limited experience, time or money.

Individuals and families who receive financial advice accumulate significantly more financial wealth, are better protected and are better prepared for retirement and unexpected events. Recent studies provide evidence that those who work with a financial advisor save more and are better prepared for their retirement years. The Investment Funds Institute of Canada in their 2011 Value of Advice Report showed that most investors first begin to work with an advisor when they have only modest amounts of savings. As individuals continued to work with a financial advisor their asset values increased. In July of 2012 the Center for Interuniversity Research and Analysis on Organizations published their report titled the Econometric Models on the Value of Advice of a Financial Advisor which outlined that those who worked with a financial advisor for 15 or more years had 2.73 times more assets.

**Conflict of Interest**

While it is true that the potential for conflict in the distribution of mutual funds may exist with embedded fees, this is equally true with embedded fees in other financial products and other retail products. For example, guaranteed investment certificates (“GICs”) are advertised and sold based only on their return and without mention of fees earned by their distributors. The fee charged to customers on this product, however, is ultimately the spread, or a portion of the spread, between the interest paid on GICs and the rate charged on credit products of the bank issuing the GIC.

PFSL believes that simplified and enhanced disclosure is an effective tool to help clients better understand how their investments are growing and how their advisor is being compensated. It is important that regulations create a consistent disclosure regime across all financial products Canadians own in their household balance sheets. The recently released enhanced disclosure rules in the Client Relationship Model should be given the opportunity to demonstrate their effectiveness prior to the consideration of the restriction of business models.

**Cap on Commissions**

We believe that implementing a cap or limit on commissions is a form of arbitrary price control that would not be appropriate. The consequences of a cap on a well-functioning and competitive mutual fund industry may drive advisors to reduce the level of service they provide to their clients, focus their business on the high net-worth individuals, or leave the industry all together.

The financial services sector is a vital part of the Canadian economy and is crucial to the long-term financial health of Canadian households. There needs to be a competitive market for financial services that offers consumers a range of choices. At a time when growth in the industry has been moderate, financial services regulation should protect consumers without reducing competition within the industry. Indeed, restricting business models could ultimately harm investors and potential investors by restricting access to a market that should be available to them.

**Duties for Advisors**

The Discussion paper mentions the possibility of imposing a duty on advisors requiring them to put their client's best interests first. We have submitted our comments to the CSA on their discussion paper - The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients, published on October 25, 2012.

We noted in our submission that the interests of investors are well protected by the existing legal and regulatory environment and that the industry is currently working on further initiatives with the regulators, such as the implementation of the Client Relationship Model.

**Conclusion**

We believe the proposals brought forward in the Discussion Paper would, if implemented, have a far-reaching negative impact on the industry. The proposals would cause a dramatic shift in the current advisor client relationship and likely result in significantly decreased access and choice to Canadian families who urgently need to begin or continue saving for their retirement and other savings goals.

PFSL appreciates the opportunity to comment on this important issue and we look forward to any further public discussion on this topic. Should you have any questions or wish to discuss these comments, please feel free to contact us.

Sincerely,
Original signed by

John A. Adams, CA
Chief Executive Officer