

**April 12, 2013**

**COMMENT LETTER /SUBMISSION MUTUAL FUND FEES  
CANADIAN SECURITIES ADMINISTRATORS  
DISCUSSION PAPER AND REQUEST FOR COMMENT 81-407  
*MUTUAL FUND FEES*  
December 13, 2012**

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I am a mutual fund licensed advisor and a Certified Financial Planner having been mutual fund licensed since 1994. I have significant investment experience trading the stock market through Stock Brokers in the late 1970's and early 1980's. I purchased my first mutual fund investment almost 30 years ago, so I have also seen the mutual fund industry develop over a very long time period.

I have spent a few hours reading the back ground information and 50 page document that the CSA has put forward for comment. In my opinion the research and information provided in the document is important and not readily available to the general public.

I note that it is a challenge to respond specifically to such a broad reaching document and would suggest that tackling smaller issues, more frequently, might allow for more active involvement from the investment community at large. As of April 11, 2013 a quick search of the Ontario Securities Commission website for " 81-407 " puts forward 62 results, but a review of the actual comments on 81-407 shows 34 responses as per the link below: Between 34 and 62 comments on possible policies that could affect millions of Canadians, their investments and the advisory firms and advisors who entrepreneurially run their own businesses, seems to be inconsistent with significant policy change and therefore one must question the entire process. Is part of this document regulation for regulation's sake, or are changes to the current system being proposed that will help investors move forward to accumulate wealth and become financially independent?

<http://www.osc.gov.on.ca/en/38419.htm>

Comments on introduction and history Points I to IV pages 1 to 20.

The independent advisor is important in the wealth accumulation process of Canadians as pointed out by the data you present. The mutual fund assets under management that you describe are Canadian's life savings

in many instances and therefore carries with it significant importance to the "investor" and significant responsibility to the professional advisor. It is the advisor who meets with "clients" during the day, night or weekend and advises them on appropriate strategies and investments that should be implemented to meet their financial goals. The current system has worked very well, as per the data presented with some of the CSA information quoted below.

**"Mutual funds are the most commonly held investment product, with 62% of Canadians with savings or investments set aside holding this product in their investment portfolios. In addition, mutual funds make up the largest share of investable assets for the typical Canadian household."..."In Canada, most mutual funds are purchased through an advisor. At the end of 2011, 91% of investment fund assets were acquired and held by investors through distribution channels involving the intermediation of an advisor, and over 80% of mutual fund investors said their last purchase was made through an advisor."**

I note that most independent advisors take on significant risk in starting an advisory practice with little to no personal income for a significant period of time until their advisory practice becomes established. In fact advisors starting an advisory practice have negative income in the starting days and months with no revenue and just expenses to pay. Many entrants into the financial advisory business are unsuccessful and after significant personal financial hardship leave the business or become salaried employees elsewhere. I would suggest that regulations be put in place to incent entrepreneurs and new entrants into the job market to pursue licensed financial advisory careers, so that the aging Canadian demographic can receive high quality financial advice. I view it as the regulators responsibility to put regulations in place to encourage competition at the advisory level and at the manufacturer level which will in this industry guide pricing policies, so that consumers benefit over time. Consumer education is also an important consideration as an informed consumer will make solid choices to their own benefit. It is important to note in any industry that if significant risks are taken to start a business and that business is successful over time, then it is appropriate that those taking the risks should be rewarded financially. Currently, my understanding is that the average age of professional advisors is increasing in Canada and that fewer new entrants are coming into the independent financial advisory industry, as the business risk / reward equation is not generous enough to incent new entrants. Please take the above points into consideration when new regulations are put in place such that unintended consequences, such as a significant shrinkage of the number of independent advisors and brokers does not occur, noting that Full Service Brokers and Financial Advisors account for 64% of distribution as per figure 2, page 7 of your paper.

I must point out that Mutual Fund Dealers and Investment Dealers receive trailing commissions and commissions in general and that the mutual fund salesperson or "advisor" or stock broker, receive part of those commissions. The payout ratio varies significantly across the market place depending on essentially the costs incurred by the "advisor" and the business model of the Mutual Fund Dealer or Brokerage firm. This payout ratio could be as low as 30% to as high as 90% approximately. The entrepreneurial models for the independent financial advisor in place today carry significant costs to the "advisor" to pay for professional office space, staff, capital equipment and compliance. After all these costs are paid money should be available to pay the "advisor" a professional salary. The professional net income that an advisor receives should be commensurate with the value added to the clients that they service.

#### **Comments on: IV. MUTUAL FUND FEE STRUCTURE IN CANADA**

Costs to the investor are a significant focus of your paper. One could focus on this area in a few ways to reduce costs to the individual investor or investor family including:

1. Large dollar pricing discounts
2. DSC / LL costs to fund
3. HST and GST

**1. Large Dollar Pricing Discounts** - I note that Mutual fund manufacturers businesses are very scalable, whereas financial advisor's practices are not anywhere near as scalable. Please take into consideration that if it was regulated that Mutual Fund Companies automatically reduce mutual fund management fee costs for clients based on the amount of money that an investor has under management with a fund company and on the expirations of DSC and LL schedules than investors would be well served. As is indicated in the CSA paper, many major mutual fund companies have introduced reduced management fee pricing at investor levels of \$100,000 or more. It is important to note that these policies came about through influence over the last number of years from Full Service Brokers and Financial Advisors who work in their client's best interest. It is a competitive market working properly. I note that these policies could continue to be improved on with there certainly being a cost savings to the mutual fund companies for investors with \$50,000 or more versus initial purchase minimums of \$500 to \$1,000 in most cases for mutual funds. If regulations were put in place mandating Mutual Fund companies to automatically provide discounts based on dollars invested per family, per address, or per account then overall costs to the investor (MERs) would come down dramatically, as you point out in your paper. Today the system is very manual and time intensive for the advisors to implement these solutions and therefore much less effective than an automatic system.

**2. DSC / LL costs to fund** - The approximate cost reduction on expiration of a DSC / LL schedule is currently set in the market at about 0.20% to 0.25% as can be seen by observing the management fee and MER differential of Fund Companies that take the additional costs of funding a DSC / LL purchase into consideration in the fee level charged to clients. If regulations were put in place mandating a different and lower management fee for Front End Charged funds and for DSC / LL funds whose redemption schedules have expired than all investors would benefit with lower costs on Front End Charged mutual funds.

**3. HST & GST** - Most mutual fund investors costs increased with the relatively recent introduction in Ontario of the HST. It is commendable, in my opinion, that some mutual fund companies created separate mutual fund classes for investors in those provinces not subject to the HST and then automatically moved appropriately domiciled investors into the less expensive mutual funds. Important to this discussion is "Why are investors being taxed on their savings and why are mutual funds targeted" Regulators should play a role and initiate discussions with the Federal Government, and Provinces as appropriate, on eliminating these taxes on the savings and investments of the Canadian Mutual Fund investor. This would certainly lower investor MERs by approximately 0.1% to 0.26% on an average management fee of 2.00% and is very significant to lowering overall investor costs.

## **V. CURRENT ISSUES ARISING FROM THE MUTUAL FUND FEE STRUCTURE IN CANADA**

### **i. Investor understanding of fund costs**

I believe it is inaccurate to suggest that investors don't believe that there is an ongoing cost to own a mutual fund as you indicate and I quote "...seems to have led many of today's investors to mistakenly believe there is no cost to purchasing or owning a mutual fund." As the CSA paper indicates, it is disclosed in the Mutual Fund Prospectus and in the much simpler and easy to read Fund Facts documents what the costs of ownership of a mutual fund are. Advisors do tell investors about the costs incurred on their investments, as you indicate that 64% of investors recalled having this discussion with their advisor. I am quite sure that if investors were asked about discussions about mutual fund costs and how advisors are remunerated, within a relatively short period of time after a mutual fund purchase that their recollection of the discussion with the advisor about costs and advisor remuneration would be higher. People in general forget these details quickly after their meetings with advisors. Further, Consumer education on investing and mutual fund

investing is also an important consideration and perhaps this could be a point of discussion by the CSA, as an informed consumer will make solid choices to their own benefit.

The CSA paper indicates from the IEF Study that 80% of investors are not interested in a detailed cost breakdown as this data does not influence their purchasing decisions. However, fundamentally important to the wealth accumulation process and all investors is an understanding of NET investment returns to the investor after all fees. If NET investment returns were properly reported on a consolidated investor and family basis by the Mutual Fund Dealers and Brokerage Firms than investors would have a much clearer picture about how their investments are performing after all fees. They would also be able to decide whether it is appropriate to seek out other mutual funds, other investments, and / or lower cost mutual funds based on this information. I note that there is no definitive information on whether lower fee mutual funds deliver higher NET investor returns and in fact in many cases average or above average management fee mutual funds deliver higher NET investor returns and in fact better returns at lower downside risk levels than ETF's or Stock Index related investments. If additional information is required simply use one of the online tools to look up a mutual fund category or purchase a tool like Morningstar Paltrak which I use to analyze this information.

## **ii. Investor control of advisor compensation**

It is fundamental to an increase in investor satisfaction that they see their investment accounts grow over time and that they also experience solid NET investment returns. The CSA paper implies that some mutual fund companies are increasing trailer compensation to Mutual Fund and Brokerage dealers and therefore in turn, to the advisors. I have never seen this happen in practice on existing mutual funds from any major supplier and can site no examples where this has occurred, although it is possible that it has. More over, if anything I have seen and experienced reduced advisor compensation over time with mutual fund companies and Mutual Fund dealers and Stock Brokerages reducing all aspects of advisor compensation over the last decade.

I note that if what the CSA paper implies did occur that the investor would not be worse off, in that total fees to the investor would remain the same. I further agree that if increasing trailing commissions while keeping the MER the same did happen that the mutual fund could attract more assets because of increased advisor compensation. Importantly, a quality advisor must look at NET returns to the clients after all fees when recommending a mutual fund purchase, as in the long term the investor must receive solid investment returns after all fees in order for the investor to be satisfied or happy and to essentially remain a client of the advisor.

## **2. Potential conflicts of interests at the mutual fund manufacturer and advisor levels**

I agree that some mutual fund companies and bank owned mutual funds have higher trailer compensation than the rest of the market for the same asset class of product. This could incent some advisors to place more business with these mutual fund companies, however, as I have noted previously NET returns to the investor are very important and must be monitored by the advisor, or investor. Also overall total MER costs to the investor are an important consideration in wealth accumulation not just what the "advisor" ends up earning through trailing commissions. My experience and observations over many market cycles tell me that if these costs trend too high, than it will be difficult for the mutual fund to outperform it's Benchmark or peer group over time, or to even meet Benchmark or peer mutual fund returns. The monitoring and feedback to the mutual fund companies on total cost is part of the service that advisors perform in working in their clients best interest.

### **Examples of potential conflicts:**

**1. mutual fund pricing model** - I agree with the assessments made of the fund of fund market place and note that likely large ticket pricing on these models provides larger overall profit to the particular mutual fund company with the fund of fund offering. In a competitive market place overall cost to the investor and again NET returns after all fees is an important criteria. In my observations of the market place, which is not totally complete due to the size and dynamic nature of the market, only 2 of the larger mutual fund suppliers offer higher trailer fees to advisors while keeping total MERs competitive with the other mutual fund suppliers. The CSA's assessment and assumption that these higher trailer fees would incent advisors to place investor assets in these products appears to be incorrect according to data from Morningstar. The assets under management in the mutual fund "fund of funds" with the higher trailer fee products is not significantly higher when compared to lower trailer fee offerings and is not increasing rapidly. If the CSA assertion was correct then most of the asset flows and the size of the higher trailer mutual funds should be significant versus lower trailer fee alternatives, which is not the case. I note that both higher trailer fee offerings had this pricing initially and it was not increase over time to potentially "attract" more advisor support.

**2. automatic conversion arrangements** - The facts presented here are correct in my opinion. The assessment by the CSA however takes a negative slant stating in your paper " These conversion arrangements therefore appear to display an alignment of interests between the mutual fund manufacturer and the advisor that could be detrimental to mutual fund investors."

The use of DSC / LL compensates an advisor for time spent on smaller investment accounts. As a CFP which mandates under the FPSC Code of Ethics in Principle 2 the following: ” **PRINCIPLE 2: OBJECTIVITY** *A CFP professional shall be objective in providing financial planning to clients.* **Rule 202 –** A CFP professional shall act in the interests of the client. ” it is important to do complete financial and investment planning work for all clients. Depending on the approach used by the advisor, it can take 5 hours to 30 hours of an advisors time to complete this work in a professional manner depending on the client / investor's situation. The work can also involve multiple meetings with the client / investor. The client can either pay directly for the advisors time which if they are just starting out can be a significant cost to the investor, hence the introduction and use of DSC / LL for some clients, as this arrangement provides compensation to the advisor at no direct cost to the investor, so 100% of their assets and excess cash flow is directed to their medium to long-term savings and investments. This is win-win which is somewhat fundamental to the function of doing business together and to wealth creation for the investors.

The automatic conversion of 10% free and mature units should be regulated and occur automatically by the mutual fund companies. This benefits the investor in at least 2 ways:

1. flexibility - in portfolio construction, it is usually appropriate for diversification reasons to use more than one mutual fund company's mutual funds. Over time portfolio manager changes and investment strategy changes might require rebalancing and the introduction of other mutual fund companies into the investor portfolio. The accumulation of 10% free dollars into No Load or FEL mutual funds in the client's investment account allows this process to occur at no cost to the client / investor.
2. on redemption - investors at times need money from their long-term savings. The accumulation of 10% free dollars into No Load or FEL mutual funds in the client's investment account allows the redemptions to occur with no transactional cost the investor or redemption penalty from the mutual fund company. I note that this would also be beneficial to the client if they determined that over time that they did not wish to work with the advisor, or if they wished to implement a different investment strategy.

I further note that only in larger client accounts do the trailer fees, which used to be called "service fees", compensate the advisor appropriately for time spent on monitoring the investors portfolio, researching and implementing investment strategy changes, updating and redoing financial plans and investment plans as well as all other aspects of ongoing service to the client / investor. The service fees are necessary to allow the advisor's business to operate and for all costs to stay in business, which are paid by the advisor, to be covered. If the independent advisors cannot stay in business and be profitable then the investors that wish to work with high quality independent advisors will not be served appropriately and perhaps they will pay more tax and their investments will not grow in alignment with their financial goals and plans. This is in no one's best interest.

**ii. Advisor -** The CSA paper in this area implies that their "may" be a number of conflicts of interest in the standard duty of the advisor to work with an investor or client putting the client's interest first. I point out that for almost each point their "may not" be a conflict of interest. In the interest of time, I will not comment on each point in this section but provide perspective as follows:

Twenty to twenty five years ago when there was a limited selection of investment mutual funds some of the assertions in this area of the CSA paper "may" have been true, but I suggest that with myriad of investment options in today's market that suitable investment solutions for investors can be obtained that allow the investor / client to meet or exceed their investment goals over the long-term while compensating the advisor over time for their expertise in investment selection, financial planning and ongoing service to the client / investor. In fact, if proper and complete research is done, there are mutual fund investments in almost every category that exceed low cost mutual funds in Net performance after fees over all time periods. These mutual funds if utilized in investment portfolios provide investors with very solid performance and can exceed the performance of index ETF's which are very low cost, while providing significantly better downside risk protection than ETF's. Advisors look for win-win arrangements with clients and must be compensated over time to stay in business, which can be done with a diversified investment portfolio which may include the lowest cost mutual fund solutions that pay no compensation to the advisor as appropriate (perhaps especially true going forward in the fixed income area).

To finish comment in this section, I agree with the IEF study as the CSA paper summarizes as follows and I quote: " While advisors may not be fiduciaries under securities legislation, most Canadian investors trust their advisor to provide recommendations that put the client first. The IEF Study reports that 7 out of 10 investors believe their advisor has a legal duty to put the client's best interests ahead of his or her own. They rely on their advisor to select the best investment for them and most believe the advisor will recommend what is best for the client even at the expense of their own commission. In addition, half the respondents in this study (51%) had no view as to whether commissions could potentially create a conflict of interest. Among the half of investors with an opinion on conflict of interest, three-quarters believe that their advisor would look out for their best interest regardless of how the advisor was paid.<sup>106</sup> With this belief, investors may not be prone to question their advisor's investment recommendations and the compensation incentives that potentially influence them."

#### **4. Alignment of advisor compensation and services -**

In reading this section, I agree with the facts presented. Fundamentally, a different level of diligence and on going service is required to the investor depending on the asset classes present in the investor's portfolio. I believe the mutual fund companies have assessed the situation correctly and provide increased compensation to the advisor, as the risk tolerance of the investor's portfolio is increased through the purchase of higher volatility mutual funds that potentially over the long term provide higher NET returns to the investor / client. Based on almost 19 years of professional experience in working with clients and investors the compensation model is appropriate today, as my clients with primarily equity mutual fund portfolios require significantly more ongoing service and portfolio monitoring than those clients with balanced, or income focused mutual fund portfolios. This is very important to understand because clients / investors whose circumstances and investment objectives point to higher equity mutual fund allocations in their family portfolios generally need these allocations to meet or exceed their financial planning goals which are generally to achieve financial independence over the medium to long-term. This is important from a societal perspective so that more Canadians achieve financial success and independence and are less reliant on the Government for support during their retirement years. This is surely a Canadian objective to have more Canadians NOT receiving significant OAS support as they have done solid financial and investment planning work over a long period and therefore have enough income such that OAS is clawed back. Generally when this occurs it is with the assistance of a high quality advisory relationship.

In order for the above to come to fruition, higher advisor service levels and adequate time spent with clients / investors who have portfolios that fluctuate up and down more significantly is needed. The higher service fees or trailing commissions compensate the advisor for this time spent.

**5. Low-cost options for do-it-yourself (DIY) investors** I believe it inappropriate for Discount Brokerages or other entities that offer mutual funds for sale to receive the same level of trailer fees as advisors, when no professional advice is provided to the investor. This also implies that these investors are currently paying too much in MERs to own the mutual funds. I don't believe that the trailer, or service fee rate should be zero but it should be significantly reduced. I also note that although Discount Brokerages receive this revenue they seldom promote or advertise mutual fund investing. This is simply a significant profit source for them.

**GLOBAL REGULATORY REFORMS** - My understanding is that the service levels that investors are receiving have declined significantly in some of the jurisdictions mentioned in this area of the report. I also understand that service levels by independent advisors to starting investors who over time might become wealthy, if they obtain high quality advice early in their lives is almost non-existent. This is not in the best interest of the Canadian population and our society.

It is important for the CSA to understand the business models of the "Independent Advisors" who provide valued service to Canadian investors which also means understanding the business models of Mutual Fund Dealers and Stock Brokerages. The mutual fund industry has achieved the level of "success" currently being experienced based to a significant degree on the hard work of the Stock Brokers and independent Mutual Fund licensed advisors. As noted in the CSA paper on page 7, 64% of the investment assets in the mutual fund industry are supported by mostly "Independent Advisors". I would suggest that the CSA would want to consider regulations that would strengthen the quality of advice in all distribution channels and support the business models of the Stock Brokers and independent Mutual Fund licensed advisors who are the most entrepreneurial and successful at helping Canadians implement appropriately structured investment portfolios, so that higher investment rates of return are earned over the long term as compared to bank account interest or GIC investments. A flourishing professional "independent advisory" community is in the best interest of all Canadians.

In working with clients fees are often discussed on a percentage basis. This is further supported by information in the prospectus and the simplified fund facts documents. Each investor can simply multiply the size of their portfolio by the stated MER and understand almost exactly the costs experienced to work with a professional advisor in mutual funds. For example:

A client with a balanced mutual fund portfolio in a non HST mutual fund of \$100,000 pays a MER of 1.99% yearly. Simply multiply the value of the portfolio by the MER to achieve very close to the total yearly cost that the client pays for all services from the advisor as well as of course the ownership of the mutual fund -  $\$100,000 \times 1.99\% = \$1,990$ . As I pointed out earlier in my response, the advisor does not receive all of this money. In fact the CSA paper shows the approximate breakdown of where this \$1,990 goes on page 12. If the \$100,000 is invested in a FEL or NL mutual fund, then 40% of the \$1,990 goes to the Mutual Fund Dealer or Stock Brokerage and the investment advisor receives approximately 30% to 90% of this money. Therefore to service this investor account and pay all advisor costs to keep the advisory business operational, the investment advisor or stock broker receives approximately an amount between \$238.80 and \$716.40 per year. This is not very much money to run an advisory business and be available to provide ongoing high quality professional service to this client.

I further note that my own analysis and many studies including the recent work contracted by IFIC and released on March 6, 2013 concludes that there is very little difference in fee levels paid by Canadian

Investors versus US Investors. Canadians are not overpaying to own mutual funds. This is entirely in contradiction to the many media articles that report the facts inaccurately to the Canadian public. I quote from the independent report which can be found at the link below. "On a tax-adjusted basis, through the elimination of the impact of Canadian value-added taxes, the asset-weighted cost of ownership in Canadian advice channels is estimated to be 2.02% of invested assets compared to the level of approximately 2% in the U.S."

<https://www.ific.ca/Content/Document.aspx?id=7476&LangType=1033>

## **VII. CURRENT REGULATORY INITIATIVES AND TOPICS FOR CONSIDERATION**

### **1. Regulatory initiatives in Canada**

i. Point of Sale - I support the publication and use of this document which allows investors to become informed with solid information about the mutual fund(s) being purchased.

CSA paper quote " Stage 2 of the framework, which would require delivery of the Fund Facts document instead of the prospectus within existing delivery timeframes under securities legislation. As part of this publication, the CSA have proposed additional disclosure in the Fund Facts that identifies that trailing commission payments may create a conflict of interest by influencing the advisor to recommend the fund over another investment. In Stage 3, the CSA will publish for further comment any proposed requirements that would require delivery of the Fund Facts document to the investor at the point of sale."

POS Stage 2 & 3 have merits and detractors. Simplified disclosure that investors would read is beneficial to the investor and appropriate. There are detractors around Stage 3 which include logistics, advisor and client productivity and the fact that a right of rescission in mutual funds currently exists mitigating the need for POS delivery before purchase.

In Stage 2, alarming an investor that a conflict of interest may exist with trailing commissions which is unproven and debateable is inappropriate in my opinion. There is more that could be discussed on this topic but is better put under separate cover.

ii. Client Relationship Model (Phase 2) - In working with clients, a particular focus on fees and costs is at times detrimental to the investment process and therefore not in the investor's best interest. This is particularly true in periods of declining markets or "Bear" markets of which we have had two very significant periods since the year 2000. A focus on fees could cause clients of larger accounts to change investment portfolio structure at inappropriate times so that they could "Save on fees". This is my assessment of human behaviour and is supported continuously through work done by Dalbar on investor behaviour. I agree that investor costs are one important consideration in a successful investment process, but if they become a primary focus, it can be very detrimental to the long-term investor. Please take this into consideration when it is decided how best to report mutual fund investor costs and please remember that a primary consideration to wealth creation and a solid investor experience is long-term performance reporting net of all fees.

### **2. Topics for consideration**

Some possible changes include:

i. Advisor services to be specified and provided in exchange for trailing commissions - Independent advisors need to be ready and available to discuss a myriad of financial topics with clients / investors.



Determining "a minimum level" of ongoing services that would be needed and wanted by every investor would be very difficult if not impossible to achieve.

ii. A standard class for DIY investors with no or reduced trailing commission - I support this initiative as mentioned previously with significantly reduced trailing commissions to discount brokerages or to those that provide no advice.

iii. Trailing commission component of management fees to be unbundled and charged/disclosed as a separate asset based fee - The higher focus on fees and fee breakdown could be overwhelming to an investor with debate between an investor / client and an advisor on whether the management fee that a mutual fund is charging is "worth it", if the fund is underperforming. This could also be true on trailing fees or service fees for the advisor with a debate around, are the advisor services "worth the cost". While important information costs are not the most important thing to investor success and the wealth accumulation process. The most important thing on the investment front which should be front and center for the client / investor is NET performance after all fees. Net Investment performance is what is calculated in a financial planning or retirement planning process and is fundamental to investing and long term financial success.

iv. A separate series or class of funds for each purchase option - Creating more classes of funds than already exist will make a complicated investment market even more complicated to understand and implement.

v. Cap commissions - As mentioned, perceived conflicts of interest do not mean that there "are" conflicts of interest. In fact interests are aligned between advisors who are remunerated through trailer fees or service fees and clients / investors. The exact alignment is that there is an incentive for advisors to work hard to assist the client / investor in growing their account size through organic growth of the mutual fund investment portfolio and also through the client / investor becoming more disciplined in their spending habits, so that more money is saved / invested. The exact alignment is that the advisor's remuneration (service fee) increases as the client / investor's account grows, which is of course in the investor's best interest. This is the model that investment council for High Net Worth investors work under and is important in a win-win relationship, which is what one would work for in a client / advisor relationship. Any proposal to cap commissions or service fees or trailer fees is counter productive to this process.

vii. Discontinue the practice of advisor compensation being set by mutual fund manufacturers - In my opinion this option would put the mutual fund market place in complete disarray with the eventual out come after a few years of some significant winners and a lot of significant losers from an investment advisory perspective. Dan Richard's recent commentary on the retail industry transformation over time adds perspective on this. It can be viewed on the [www.clientinsights.ca](http://www.clientinsights.ca) website at:

[http://www.clientinsights.ca/en/article/will-you-be-target-stores-or-will-you-be-toast?accesskey=323E7E65-BB0EC30D00AF358F64C91490&utm\\_source=Aubrey%20Stork%20%7C%7C%20Email%20Strategy%20that%20Delivers&utm\\_medium=email&utm\\_campaign=Sitenowup%3AWhyoneinthreeUKadvisorsisleavingthebusiness](http://www.clientinsights.ca/en/article/will-you-be-target-stores-or-will-you-be-toast?accesskey=323E7E65-BB0EC30D00AF358F64C91490&utm_source=Aubrey%20Stork%20%7C%7C%20Email%20Strategy%20that%20Delivers&utm_medium=email&utm_campaign=Sitenowup%3AWhyoneinthreeUKadvisorsisleavingthebusiness)

Please remember that we are dealing with the life savings of Canadians which is paramount in importance, especially as a large part of the population approaches retirement age. This is not the time to experiment with policy and regulation. It is important that the CSA study and totally understand the implications to all investors of regulatory changes in the UK and Australia and answer the question of: "Is every investor better off and creating more wealth, with high levels of satisfaction, and advisory service in these countries?" My understanding is that this is certainly not true today and is likely to worsen in the future as these policies take further hold over time. The length of study should be over a complete market cycle, as it is during a Bear Market that the damage to investors who do not receive prudent advice will be done. Again please reference work done on an ongoing basis by Dalbar.

Lastly, in working with clients in a professional capacity for a very long time, it is apparent and a part of human nature not to want to pay for anything if possible or to pay as little as possible for something. I have this in my own make up. Therefore in regards to the purchase of mutual funds, the general thought is "the cheaper, the better". This could mean paying money managers or mutual fund suppliers 0.2% for money management services and advisors 0.2% for professional financial planning and advisory services. If this could be done, many people would opt to go this route not understanding the repercussions. My observation is that "you get what you pay for" as at this price point quality players would exit the market place and substandard participants would join. The end result is dissatisfaction. There is a reason why people buy Mercedes Benz automobiles and hold on to them for 15 years. Please ask yourself the following. If you needed a life saving operation would you opt for the best surgeon and surgical team with the most sophisticated tools and operation room regardless of cost, or would you opt for the cheapest surgeon and the tools that they could bring to the table. I know which route I would chose.

In regards to the life savings of Canadians, it is important and the responsibility of the regulatory environment to provide the opportunity for consumers to be informed, but Canadians also must have options, so they can chose the correct path for themselves.

Thank-you for your time,

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