

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

April 12, 2013

CANADIAN SECURITIES ADMINISTRATORS  
DISCUSSION PAPER AND REQUEST FOR COMMENT 81-407  
MUTUAL FUND FEES

I have read the discussion paper, which describes the existing situation relating to mutual fund sales in Canada. My comments will be from the perspective of an independent fund and life insurance salesperson. An advisor myself, I have been active with industry groups, in writing articles and in leading a personal finance club for members of the public for over a decade.

The discussion paper cover a lot of ground, but it is deficient when it comes to current studies that consider the opinion of independent advisors and their clients. (A recently-released OSC study does just that.) In addition, it lacks an overview of independent evaluations of the policies that other countries have taken to ban trailer fees. I would expect that a Canadian study paper that was examining changes to such a large industry would have more depth than the current one offers. Perhaps this will be forthcoming in the next round of discussions.

I do not find any evidence in the paper of a problem that needs to be solved other than a vague and unsupported assertion that the existing trailer fee system can be abused and creates a possible conflict of interest. I do not see any evidence that clients are concerned with how their advisor is paid, nor that they have voiced complaints about conflicts of interest or abuse. Advisors could also potentially murder their clients in cold blood, but I find no evidence that this is actually occurring, at least on a large-scale basis. In my opinion, no action is required on either issue.

Independent fund advisors (i.e., advisors who are not tied to a single institution such as a bank or other company) have long provided valuable service to their clients. While there are few educational or practice requirements to become a fund salesperson, as the report itself notes, most fund advisors are also licensed for life insurance, which requires more extensive formal education and annual continuing education. Many advisors also have worked for, at their own expense, professional designations such as the CFP, CLU and FMA.

Independent advisors serve as a buffer between members of the public and the various Canadian financial institutions. They are brokers, and must be convinced personally of the advantage of a product before they will recommend it to their clients. The suggestion that this relationship would be influenced by a small increase in the trailer fee amount borders on offensive. Advisors are concerned with protecting their clients from abuse, not inflicting it upon them.

The relationship that advisors have with their clients is long-term. Not only does this reduce the potential for not acting in the best interests of their clients, it also delivers long-term personal financial education, advice, and support to individual members of the public. This, as I understand it, is an aim that various industry regulators support. We provide clients not only with advice on investment selection in keeping with their needs, we help them with budgeting, education funding, tax preparation, and support in times of family stress such as bereavement throughout their lifetime. We are always on-call as their personal and trusted advisor on a multitude of issues, and are recompensed for that service by ongoing service

fees.

Trailer fees are used to pay the various marketing, staffing, transportation, equipment and other costs of advisors, who are self-employed business people. We are advisors and not simply transaction-oriented order-takers. If our clients wanted that, they could make use of discount brokers or banks (who also collect trailer fees!) or certain fund companies. In a long-term relationship, stable funding is necessary. Service fees provide this.

I am distressed that there are some who think it wise to dismantle the independent advisor system in Canada, which, according to the report it seems, is unique in the world. To adopt the untested systems of Britain and other countries mentioned in the report to me is unwise in the extreme. If those nations were responding to actual problems in their countries, their solutions may be proper for them. We do not have any actual problem that requires a change in the payment system of trailer fees (whether disclosed in percentage terms or dollar amounts). The current system has worked well in Canada and is much to the benefit of Canadians. I think that regulators should study ways to extend the system, and that way provide more trained and experienced salespeople to serve the needs of our country's families, singles and seniors.

Robert K. MacKenzie, PhD, CFP, CIM, FMA