

April 12, 2013

John P. Stevenson  
Secretary  
Ontario Securities Commission  
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Toronto, Ontario M5H 3S8  
Fax: 416-593-2318  
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Re: Request for Comments, CSA Discussion Paper and Request for Comment 81-407 Mutual Fund Fees

Dear Mr. Stevenson:

As part of a global organization whose mission is to help investors make better decisions, Morningstar Canada welcomes the opportunity to comment on the current regulatory environment for fund fees and advisor compensation. We are an independent third-party provider of investment research, data and consulting services. Our clients include financial institutions, investment managers for both retail and institutional accounts, financial advisors and other industry professionals and, of course, individuals.

Morningstar applauds the Canadian Securities Administrators for its initiative in facilitating a discussion of fund fees, and for its comprehensive discussion paper. Fees are a very important consideration for investors. They have a meaningful impact on returns, and one that is more consistent and predictable than market performance or manager skill.

We are also believers in the value of advice. Financial advisors who have the necessary expertise and who act in the best interests of their clients can significantly improve the investor experience. Our own published research quantifies the potential added value of financial advice in areas such as individually tailored asset allocation, dynamic withdrawal strategies, the use of annuities and tax minimization.

However, fees should not be charged for services that are not received. Regulators must act to end the practice whereby discounters that provide order execution but no advice collect the same trailer fees as full-service advisors.

If trailer fees are indeed a form of advice compensation, as fund-industry representatives have consistently stated, it then follows that these fees should not be paid to distributors that do not provide advice. There are at least three remedies that we believe regulators should consider:

1. Require distributors that are not providing financial advice (such as discount brokerages) to carry only "unbundled" funds that do not pay a trailer fee for advice (such as F-series and F-class funds that are currently sold through fee-based advisors).
2. Restrict fund suppliers to offering only unbundled funds to those distributors that do not provide financial advice (such as discount brokerages).

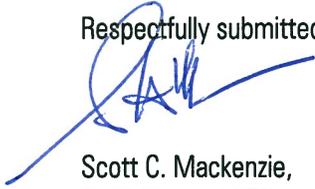
3. Require distributors that are not providing financial advice (such as discount brokerages) to rebate that portion of the trailer fee that is earmarked for advice to investors.

This third option is less desirable, but also implies that some of the trailer fee paid by the fund company is a distribution fee, rather than payment for financial advice. To the extent that this is the case, this portion should be broken out separately and disclosed to investors. In this instance, brokers and dealers that provide only order execution should be eligible to receive only the distribution fee, not the advice-giving portion of the trailer.

We support the March 28 announcement by the CSA that a dollar value estimate of trailer commissions paid by fund companies to intermediaries will be required to be disclosed annually to investors. We believe the additional costs of disclosing these dollar estimates are relatively minor and are far outweighed by the benefits afforded investors in making better-informed investment decisions.

Morningstar would very much welcome being invited to participate in the upcoming roundtable discussions to be held on the CSA discussion paper.

Respectfully submitted,



Scott C. Mackenzie,  
President and CEO