

I wish to include my comments with respect to the CSA Consultation Paper 81-408

As a currently licensed life and health insurance broker and a formerly licensed IIROC investment advisor and exempt market advisor, I fully agree that commissions as such should be banned and the sooner the better. By commissions I mean front and back end load mutual fund commissions, not trailer fees. Deferred and up-front sales charges clearly are not in the best interests of the client as they effectively lock the client into a particular type of investment for years. The only person who benefits from this is the sales person.

Trailer fees, as long as they are fully disclosed, are really no different from charging a percentage of assets under management, so I am not sure why one would ban one without banning the other. Banning trailer fees on mutual funds while not banning a charge via a percentage of assets under management would unfairly penalize those who sell and promote mutual funds. If you are going to ban trailer fees, you need to ban charging via percentage of assets under management too.

Have you considered putting a cap on trailer fees, such as 1% of assets under management?

Personally, I think that the best system for all financial planning would be to charge by the hour for services rendered, like lawyers and accountants do. The only problem with that is that very few people would be willing to write a cheque to a financial planner.

Perhaps a system that requires that financial planners be paid a salary, rather than straight commission and living off trailer fees, might be a more client-centric approach. Sort of like Best Buy when they took over Future Shop. Best Buy does not pay commissions, whereas Future Shop was on straight commission. Best Buy is the survivor.

Under the current system, all of the rewards are based on assets under management (AUM). If advisors are rewarded for AUM, then how can we realistically expect 100% of them to provide financial planning services that are holistic and in the best interests of the client? I'm reminded of an article I read during my MBA studies "On the folly of rewarding for A while hoping for B" by Steven Kerr. The title is self-explanatory as it relates to the misaligned reward system in the financial services industry.

Finally, I think that the language within the industry needs to change. Financial services companies talk about "sales", "production", and "AUM", instead of client satisfaction and enhanced client outcomes. Rewards should go to those who provide excellent advice that is in the best interests of the client, not to the best salespeople. Idealistic perhaps, but that should be the goal.

Banning commissions would and should lead to having fewer so-called "financial advisors" out there. With fewer, better advisors, who are paid based on the value they add, the reputation of the industry and the profession would be improved.

Sincerely,

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