Hi Jason,

I have a few brief thoughts on embedded commissions and would like to share them with the CSA.

First, I would comment that as an wealth advisor, I am seemingly in a small minority in agreeing with the CSA that for the most part, embedded commissions should be banned.

Perhaps the most flagrantly offensive embedded commission structure is the Deferred Sales Charge (DSC). I would contend that DSC's serve as handcuffs to lock-in investors to a particular fundco for 5-7 years. Fund companies overcompensate advisors to place clients in DSC structure, by paying them 5-7 years in advance (unearned) commissions. Fundco's would argue that they are fronting the investor's fees, so it is only fair that they can protect their interests by retaining the investor's funds for the 5-7 year period, allowing the fundco to recover its advance. However when an investor leaves the fundco, the early redemption fee charged to the investor simply repays the fundco for monies it has paid to the representative as an upfront, unearned commission. Where is the fairness in that? Why isn't the representative forced to reimburse the fundco (or the investor) for unearned commissions? In effect, under the current DSC structure, the representative is paid in advance for work that has yet to be performed. If the client elects to move to a different fund company within the 5-7 years, the client – and not the advisor – is required to pay DSC fees (early redemption charges), which can amount to a considerable cost. Grossly unfair…

Furthermore, DSC structure also invites blatant skirting of the rules, as a small percentage of advisors actually move DSC expiring funds into a new DSC schedule with a different firm, effectively churning the client's money into another locked-in period. Of course, DSC structure also fetches the highest fund management fees (MER's). It's a double-whammy for the client. I appreciate that this is a flagrant violation of the rules, however I contend that this practice is quite prevalent. Possibly with CRM II and newly required disclosures, this practice may slowly ebb.

Notwithstanding my condemnation of DSC's above, I would point out that I believe embedded commissions as such may have a useful purpose to serve – in very a restricted context. Read on…

In the CSA report, it acknowledges that many stakeholders contend that the small investor may be left to fend for themselves if embedded commissions were banned. The CSA suggests that these folks would be able to acquire services somewhere in some fashion. I'm not certain the CSA is completely correct on this point. To my mind, the issue is a very legitimate concern. Most advisors that I know would have little to no interest in working with a client who had less than $150,000 to invest.

As most stakeholders will acknowledge, new advisors typically experience considerable difficulty in generating an income stream. Being new, they have a great deal to learn before larger clients might have an interest in working with them. This puts them in a difficult position… how to bring in clients and learn the ropes, while paying the heat and rent.

So my thought is that possibly new advisors could be given a specific Rep code that would remain in effect for 5 years (the 5-year code), afterwhich it would automatically convert into a new "permanent" code. Under the 5-year code, advisors would be permitted to invest client money into funds with embedded commissions, including the DSC structure. An appropriate, but simply-phrased and easy-to-understand disclosure form would be required to be signed by all clients being placed into fund with embedded commissions. After 5 years, no new embedded commission funds would be allowed, by virtue of the advisor's new code. Codes would be programmed to allow embedded commissions (under the 5-

year code), or prohibit embedded commissions (under the “permanent” code). Obviously, existing DSC’s would be allowed to run their course.

The multi-purpose effect of this recommendation is to hopefully:

- Create an advisory “field” that is ready, willing and able to service small clients (clients who would not meet the minimum investment threshold of intermediate and senior advisors)
- Provide small investors with a cohort of advisors from which to choose to service their requirements. This cohort might also be subject to minimum educational requirements to help them get their footing in the industry and foster professionalism. (This aspect could be an add-on for a future time)
- Promote new entrants into the industry by allowing them to earn an income while building their business
- Minimize unintended consequences

This proposed structure, or something akin to it, could be time-limited to measure its benefits and drawbacks – and as well could serve to ease the move away from embedded commissions.

Thank you for your time in considering this writing.

Kind rgds,

Joel Attis

Nurturing wealth. Managing risk…

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