

June 08, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Re: **CSA CONSULTATION PAPER 81-408 – CONSULTATION ON THE
OPTION OF DISCONTINUING EMBEDDED COMMISSIONS**

I am an investor. A significant portion of my portfolio is invested in mutual funds. I am compelled to provide feedback on the above consultation paper. As I am not a fund manager, dealer or advisor I cannot respond to many of the questions in the consultation paper. However, I offer my overall perspective on some of the key matters being raised in the consultation paper. My points of interest are:

1. Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors.
2. Embedded commissions limit investor awareness, understanding and control of dealer compensation costs.
3. Embedded commissions paid generally do not align with the services provided to investors.
4. The requiring of disclosure of the actual dollar amount of fees paid and returns foregone. The CSA chose not to proceed with this option as it does not anticipate that it will have any measurable effect in addressing any of the other investor protection and market efficiency issues identified by the CSA.

I offer the following perspective on the above four points.

Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors.

This matter has been of concern to me, and other investors I have spoken to. This is an obvious conflict of interest that has the potential for increasing the value of returns foregone due to investments in underperforming funds offering higher commissions to dealers and advisors. The elimination of embedded commissions including such incentives as ongoing trailing commissions and upfront sales commissions would be

beneficial in ensuring dealers and advisors remain focused on providing services that benefit investors.

NOTE: Although not discussed in the consultation paper, there is the matter of fees being based as a percentage of the value of the investment in a fund. It is unclear to me how a fund manager can justify an increase in dollar value of fees based solely on the value of the investment. A doubling of the value of my investment in a fund does not double the cost of managing that investment.

Embedded commissions limit investor awareness, understanding and control of dealer compensation costs.

The myriad options of embedded commissions are overwhelming for the lay person investor. Even with ongoing interaction with investment advisors, it is difficult to comprehend what fees are being paid and for what purpose. The introduction of clear and simple fees for service would offer the average investor the opportunity to make informed decisions on investment options. Fee based series of mutual funds provide a methodology for compensating dealers and advisors. The amount paid should be based on what level of service the dealers and advisors provide to investors.

Embedded commissions paid generally do not align with the services provided to investors.

Presently, the services provided by my investment advisor are superior to past experiences. However, this is mainly due to the character of my investment advisor and not a reflection of the embedded commission structure presently in place. My experience with past advisors certainly suggested that their services did not align with the embedded commissions they received. Analysis of past performance of my portfolio and a straightforward review with a knowledgeable and principled investment advisor identified obvious shortcomings in service delivery. The elimination of embedded commissions could provide an opportunity for improved service delivery based on clear and simple fees.

The requiring of disclosure of the actual dollar amount of fees paid and returns foregone.

The CSA has chosen to not pursue this option. It is puzzling to me why that position has been taken. Although explained in the consultation paper, it does seem to me that the reasons for not pursuing this option are somewhat weak. The reasons include such matters as limited benefit to investors and potential significant costs for implementation.

It is my opinion that there is significant benefit to investors. Namely, knowing exactly how much of my money is being used to manage and administer the fund. Not an MER that I use to attempt at calculating an estimate of fees paid to a fund manager. It is unreasonable to expect an investor to have to perform some form of calculation to determine an estimate of fees paid. Full disclosure, as now required of dealers and advisors, is fundamental in building trust from investors.

To exacerbate the matter, the media has been inundated with advertising from regulators encouraging investors to ensure they know the fees they are paying. The ads are structured in such a manner as to indicate that full disclosure is now required. However, it is not – only the dealers and advisors portions are being disclosed. Not the fund managers. This is confusing in the least and deceitful at its worst.

Further, it is my view that the cost for implementation may be overstated. At present, it is my understanding that the fund managers have the information for each investor in any fund. That is, the fund manager knows how many units I hold in a fund. Additionally, in general the fund managers calculate their fees daily and collect those fees monthly. Although not trivial, I do not believe the cost for manipulation of this data to report individual investors' fees is prohibitively expensive.

Lastly, fund managers should be held to the same standards as dealers and advisors. There is no place for regulatory oversight that establishes a higher standard of disclosure for one portion of the investment industry and not the other. Full disclosure should be just that. It is the only manner in which the average investor can maintain a sense of control on investment decisions impacting portfolio performance.

Sincerely,

Robert Bernard
