

Via Email

June 9, 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 Commissions, 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

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H3S8
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montreal (Québec) H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs / Mesdames:

Re: **Canadian Securities Administrators (CSA) Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions (CP 81-408) ("the Proposal")**

Edward Jones welcomes the opportunity to provide comments with respect to the Proposal.

Background

Edward Jones is a limited partnership in Canada and is a wholly owned subsidiary of Edward D. Jones & Co., L.P., a Missouri limited partnership. Edward D. Jones & Co., L.P. is a wholly owned subsidiary of The Jones Financial Companies, L.L.L.P., a Missouri limited liability limited partnership. We are registered with the Investment Industry Regulatory Organization of Canada (IIROC) as an investment dealer and have more than 675 financial advisors located across Canada.

We help individuals achieve their serious, long-term financial goals by understanding their needs and implementing tailored solutions. At Edward Jones, we build close, ongoing relationships with our clients, beginning with a meeting between client and financial advisor to identify the client's specific long-term goals.

We then develop a thoughtful investment strategy and a diversified portfolio of quality investments. Edward Jones believes that all clients, regardless of the amount of investable assets, deserve the services of a financial advisor and the benefits of professional advice.

We choose to conveniently locate our branches where our clients live and work. We believe a financial advisor office with the dedicated support of an office administrator is the best way to deliver a consistent, ideal client experience. Our clients can work face-to-face with local professionals who better understand them and make investing a personal process. As a result, we do not offer online investing or online advice.

Overview

We agree with, and fully support, the spirit of the Proposal, in that fee transparency and client choice of payment to financial advisors is in the best interest of clients. We know that clients deserve transparency about how much they are paying as well as a full understanding of the value they are receiving for that payment.

We support any efforts to eliminate, where possible, conflicts of interest, and where it isn't possible, to mitigate or disclose conflicts of interest. Our primary principle at Edward Jones is that the clients' interests come first.

In support of our value proposition that our clients should be served in a manner best suited to their needs, we continue to offer choice through traditional brokerage, fee-based and managed accounts. Offering a suite of investment options including equities, fixed income, mutual funds and other quality investment solutions allows us to provide investments suitable for a wide range of client needs.

Comments

Below are our specific comments to the Proposal.

Mass Market Households

The Proposal cites industry data suggesting that investors with fewer investable assets are less likely to save using funds and/or securities and are more likely to save with deposit products. We believe this suggests the existence of an 'advice gap' in the industry where clients with smaller asset balances are less likely to be offered tailored, personalized, investment advice. We are concerned that any proposed changes would have an adverse impact on the ability of investors with fewer investable assets to obtain professional, high quality financial advice – something we believe should be available to all investors.

Making changes to embedded commissions may have disproportionate impact on investors with fewer investable assets. For example, our internal data suggests that households with fewer investable assets have a greater percentage of their assets in mutual funds compared to households with greater investable assets. Mutual funds represent an effective way for investors with smaller asset balances to achieve a properly diversified portfolio. We are concerned that any change could negatively impact the ability of smaller investors to build an appropriate portfolio for their needs.

Costs

We would like to understand what data or analysis is used to support the CSA's assertion that, due to the prevalence of integrated asset management and broker/dealer and financial advisor businesses (e.g. the business model of large Canadian banks), eliminating embedded fees and commissions would result in significant cost reductions. We believe this is an unlikely outcome in the absence of significant changes to the structure of the industry as there is no incentive for entrenched, vertically integrated market participants to dramatically lower their fees.

If the changes under consideration were implemented, we expect you will see more clients encouraged to move to fee-based accounts and likely incurring higher fees.

Value Proposition

We strongly disagree with the assertion that clients do not receive value for services provided beyond the initial trade. We have conducted considerable research into what our clients' value and external client studies corroborate our own findings. Clients want us to understand what's important to them and their financial goals. Clients want to partner with a financial advisor throughout their life and appreciate following an established process to build, track and adjust their financial strategies as they work to achieve their financial goals. Our business model is designed to help all clients work with a local advisor who can help them as their lives change. We would be concerned if our financial advisors did not provide ongoing service to clients, as this would result in a less than ideal client experience.

We agree that cost is an important factor when determining the suitability of a product for clients and is a key element of the value an investor receives from dealers. However, there are other factors as well, and acting in the best interests of clients does not rely solely on providing the lowest cost to clients. We urge the CSA to consider that any rule ensure that lowering costs does not impede the ability of advisors to provide high-quality products and services to investors.

We also disagree with the suggestion that investment fund managers and dealers are not focused on performance. Our Product Review and Mutual Fund Research departments factor in performance when assessing an investment fund manager, an individual portfolio manager, and a particular mutual fund. As our financial advisors focus on helping clients achieve their financial goals, they are fully aware that clients assess the value they are providing which naturally includes a concern with performance. Based on our ongoing discussions with investment fund managers, we believe that they too are focused on performance. The investment fund industry is competitive and the compensation structures are similar within an asset class; performance, particularly over the long-term, is an important factor when considering an investment fund manager.

Product/Regulatory Arbitrage

We believe that investors, and the public as a whole, would be well-served by ensuring that this view of transparency of fees and expenses is extended across the financial services industry, including banking and insurance products and services. In the absence of harmonized regulation, there will be advisors who recommend products and services in order to avoid the more stringent requirements imposed by one regulatory body. This would place increased pressure and costs on firms and on individuals in a supervisory capacity to identify and address these situations.

While we applaud the CSA's efforts to continue to liaise with other regulators to discuss these concerns, we do not believe that is sufficient. We ask that the CSA lobby the federal, provincial, and territorial governments to have the appropriate regulators take a more active role in addressing this regulatory imbalance. We would be pleased to partner with the CSA on this effort.

Client Relationship Model (CRM) / Point of Sale (POS)

CRM and POS, both just fully implemented within the last year, have resulted in increased transparency and greater client understanding. CRM, as intended, has enhanced the relationship between the client and the financial advisor. Financial advisors are required to explain costs more often, more clearly and to provide clients with information they can reference at any time.

While there has been an immediate positive impact, it is too early to assess the full impact of CRM and POS. In the *CSA's Discussion Paper and Request for Comment 81-407 Mutual Fund Fees*, the CSA indicated that it intended to monitor the impact of CRM and POS. We recommend the CSA continue to do so in order to be

able to fully assess the impact on transparency and share any lessons with the industry that might quicken the pace towards greater transparency.

With that said, we do believe there is an opportunity to enhance the impact of CRM. Specifically, we are referring to the annual cost disclosure requirements. We firmly believe that the investing public would be well-served by extending the disclosure to provide investors with a 'total cost of ownership' view including the costs, in dollar terms, of all embedded fees, expenses and sales taxes included in investment products (e.g. mutual funds).

Supervision

We believe that the direction the CSA is considering will create additional complexity with respect to the monitoring of suitability. The Proposal contemplates a negotiated compensation arrangement that, among other factors, reflects the level of service desired by the client. We have a concern that the suitability of the compensation arrangement may be determined by the regulator through the benefit of hindsight. To help mitigate that risk, we ask that the CSA provide practical guidance on supervising for appropriateness of the compensation arrangement.

Miscellaneous

We would like to understand the data or analysis used to support the CSA's assertion that embedded fees represent a barrier to entry. The number of new providers of ETFs and online 'robo-advice' platforms in recent years appears to contradict this.

In summary, we agree with, and fully support, the spirit of the Proposal, in that fee transparency and client choice of payment to financial advisors, is in the best interest of clients.

We would be pleased to discuss and elaborate if requested.

Yours truly,



Wayne Bolton
Chief Compliance Officer

- c. Tim Kirley, UDP, Edward Jones
Nawaz Meghji, General Counsel (Canada), Edward Jones