



VIA E-MAIL

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June 9, 2017

British Columbia Securities Commission
Alberta Securities Commission
Autorité des marchés financiers
Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
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, 22nd Floor
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Dear Sirs/Mesdames:

RE: Canadian Securities Administrators Consultation (CSA) Paper 81-408: -- Consultation on the
Option of Discontinuing Embedded Commissions

Thank you for the opportunity to provide comments to the Canadian Securities Administrators
Consultation Paper 81-408 regarding options for embedded compensation

Background for Bridgehouse Comments

Bridgehouse Asset Managers

Brandes Investment Partners & Co., operating as Bridgehouse Asset Managers ("Bridgehouse") is registered as Portfolio Manager and Exempt Market Dealer in all provinces and territories, Investment Fund Manager in Ontario, Quebec, and Newfoundland, and Mutual Fund Dealer in all provinces and

territories of Canada (except Quebec). Bridgehouse acts primarily as manager to distribute independent multi-manager products and services to financial advisors through IIROC and MFDA.

Bridgehouse Perspective: Financial Advisors Can Help Clients Receive the Full Benefit of Investing

Bridgehouse chooses to distribute through financial advisors because we believe advisors are best qualified to determine individual investor needs/goals and to build clients' plans to achieve those goals. Advisors provide great value by aligning investor needs with available investment solutions and financial strategies. It is critical that investors who invest in our products and services do so based on what they can do for them over the long term. Any mismatch in expectations can prevent investors from receiving the full benefit of our products and of investing in general.

Bridgehouse does not have the expertise or the needed infrastructure (technology, systems, processes, compliance, professional skills and independence) to deliver objective advice to retail investors. We are an investment firm that must access distribution in order to offer retail investors our independent product. We recognize that distributing through advice channels is costlier than other channels, but we believe it is the best way for investors to receive the full benefit of investing. We consider embedded compensation as a way to compensate dealers for delivering investment management to investors so they can get the full benefit of investing.

To Bridgehouse, a trailer helps cover costs of delivering financial advice. We believe it is a mischaracterization to label them as "commissions" because they are intended to cover both hard and soft costs of investment distribution.

Bridgehouse Perspective: Investors Benefit from Access and Choice

Bridgehouse believes investors benefit from having product choice (including proprietary and third-party independent investment firms) and payment choice. We consider embedded compensation as one of several payment methods from which investors can select.

Bridgehouse Perspective: Investors Benefit from Active Investing

We observed a bias in CP 81-408 towards passive investing and ETFs, suggesting they are a good solution for investors because of their low cost. While they can be suitable for investors in specific circumstances, passive strategies and ETFs are not solutions for all investors. We highlight several concerns of many:

- Many Canadians will not have enough money and will need to take on calculated risk. Most passive solutions follow the markets so they can never generate any additional alpha by definition.
- Dependence on the index is great when it is going up as it has been (coincidentally with the surge in ETF and passive investing) since the depth of the drop in March 2009. This can't and won't continue forever.

- As we saw in August 2015, the underlying securities can get unmoored from ETFs causing investors to panic and sell.

While passive and ETF strategies are popular and low cost, they are not without their investment risk and they should be used within the context of a portfolio that compensates for their risks.

Bridgehouse Perspective: Investors Need Face-to-Face Financial Advice

In CP 81-408, we observed a bias towards robo advice mostly because of low-cost attributes. While simple, digital contact can be suitable for some investors, robo advice is not a solution for all investors. Much can be done digitally today, but a bias to robo advice ignores the complicated and emotional context of individual lives.

Bridgehouse is particularly attuned to the emotional aspects of investing through our involvement with the Brandes Institute that considers investor behavior implications, and our recent program exploring the impact of mental health in the financial advice relationship. Face-to-face financial advice is necessary to detect mental health issues such as addiction, depression, diminished financial capacity and other stress-related impacts.

We urge the CSA to recognize that robo advice is not a solution for many investors and it should not be a default recommendation because it is a low-cost delivery mechanism.

Bridgehouse Supports: Investment Fund Institute of Canada's (IFIC) Response to the Consultation

In addition to our comments, Bridgehouse supports and agrees with the comments provided by the Investment Fund Institute of Canada in their response letter dated June 9, 2017 to the Consultation

Bridgehouse Overall Comments

It is from the abovementioned perspective that we offer our comments. We have reviewed CSA CP (81-408) and in our view, the rush to discontinue embedded fees does not take into account shifts that are already underway and that will require time to come to fruition. We would encourage the CSA to:

1. **Promote investor choice with regard to investment product, financial advice and payment methods.**
2. **Allow market-led forces to shift compensation methods over time to avoid unnecessary dislocation and additional costs.**
3. **Allow CRM initiatives to come to fruition while continuing to concentrate on promoting disclosure.**
4. **Review feedback from CP (81-408) in conjunction with any proposed changes resulting from CSA Consultation Paper 33-404 (Proposal to Enhance the Obligations of Advisers, Dealers and Representatives toward Their Clients).**

5. **Seek harmonization of compensation models with regulators covering investment fund-like products to minimize regulatory arbitrage and protect Canadians from industry players seeking to hide from disclosure requirements.**
6. **Avoid causing onerous technological, operational, client communications implications and associated costs that negate any perceived positives of discontinuing this method of compensation.**

Part 2

Questions # 1

We disagree with the issues described in Part 2. Embedded compensation is a way for advisors to offer independent products and services (like those of Bridgehouse) to their clients. In a deeply concentrated industry, it is hard for independent investment management firms to gain access to distribution. We recognize that distributing through advice channels can be more costly than through other channels, but we believe investors can receive the full benefit of investing if they work with a financial advisor. We consider embedded compensation as our contribution to help dealers with the costs of delivering of investment management with advice so investors can receive the full benefit of investing.

By contributing to covering the costs of financial advice, Bridgehouse can actually focus more on our business as investment managers and delivering performance instead of taking on ancillary functions (even though we deem them vitally important) that are not among our core competencies.

Question #2

Yes. Products under other regulators are used as investments for estate and financial planning purposes. These products carry embedded commissions with varying disclosure requirements leading to regulatory arbitrage, investor confusion and an unfair playing field.

Question #3

The advantages and benefits of working with a financial advisor are well documented. Bridgehouse would like to highlight another benefit of working with a financial advisor. Through Bridgehouse's recent Mental Health and the Financial Advice Relationship Program, we have been working with advisors to explore the impact of mental health within the advice relationship. Financial advisors are on the front line of mental health issues helping clients grow and protect their wealth from the impact of addiction, depression, anxiety and diminished financial capacity.

Advisors do much more than advise on products; they work with investors who are experiencing unprecedented levels of stress and mental health issues. Financial advisors play a big support role keeping Canadians on financial track. This is an unstudied area for which advisors do not receive credit. Bridgehouse believes it is very important for the industry to appreciate the support advisors are providing. We are currently undertaking research in this area so we can bring these important financial advice contributions to light.

Part 3

Question #4

Embedded compensation should remain one of several payment methods available to investors. Investors should have payment choices on all investment products. We recommend the CSA maintain an embedded payment method and focus on seeking harmonization of compensation models of other regulators to make it easier for investors to understand their payment options.

Question #5 & #6

Embedded compensation should remain one of several payment methods available to investors. Investors should have payment choices on all products. Some mutual fund mandates require a long-term hold for investors to get the full benefit of the mandate. For example, the DSC payment series encourages longer holds and this payment is perfectly suitable for some investors provided they fully understand the payment method.

Question #7

Investors should have the choice of paying in a variety of ways. Embedded payments are a way for investors to benefit from financial advice and ongoing service without paying for those services upfront or out-of-pocket.

Question #8

Marketing and education practices under Part 5 of NI 81-105 enable financial advisors to gain in-depth industry knowledge and obtain their designation continuing education credits. These programs often provide the opportunity for investment managers to share insight and research with financial advisors relating to products, ethics and investors behaviour. Investment managers also gain feedback and information from advisors about their practices and their client interests and charges. These non-monetary benefits provide a practical and useful service to the industry.

Question #9

No. In our experience, value-added marketing and education practices enable advisors to learn about products and investment processes in depth so they are in a position to make good product suitability recommendations. These non-monetary benefits also create dialogue and a feedback loop between investment managers and advisors so we can better understand and serve advisors and their investors. Bridgehouse views this as a service to the industry. We do not anticipate business or track business results directly from these educational and non-monetary benefits.

Question #10

We do not know the answer to this question, but believe that it is worthy of investigation to see if the playing field is level.

Part 4

Question # 11

Currently, Bridgehouse offers an F Series for fee-based payment. We collect the amount on behalf of the advisor based on an agreed upon amount; however, this process is manual and has added to our cost structure. Managers are not equipped to accommodate a variety of dealer fee structures. It would be a manual process that we would be forced to charge back to the dealer.

Question #12

The data and evidence provided in Part 4 show more investors shifting to branch delivery from IIROC and MFDA advisors. This shift can limit product choice for investors because of the heavy push on proprietary product. Branch advisors and client liaison employees may not receive commissions but recent media investigations have exposed financial sales incentives in the form of bonuses and job retention.

Bridgehouse, along with other investment managers, is building awareness of fee-based payment series. Our marketing material and advertising include Series F and A in that order. (A check of advertising in Investment Executive, will confirm this trend.) We have also closed several series so we can offer clear payment choices

We are certain the industry marketplace will adjust compensation models to answer competitive pressures and the disclosure requirements of the CRM initiatives.

Question #13

We recommend the CSA maintain an embedded payment option and focus on seeking harmonization of compensation models of other regulators to discourage regulatory arbitrage and an uneven playing field.

Question #14

Dual-licensed advisors can shift their business to products with less disclosure requirements under other regulators.

Question #15

The CSA has outlined some of the possible impacts on Page 78. For mid and mass market, there is likely to be a basic fee for service and additional costs for additional services. While this piecemeal approach will work for some investors, it is at odds with holistic financial planning based on individual needs and it will hinder proper "Know Your Client" assessments resulting in less accurate product suitability recommendations. Investors may get what they want to pay for, but that may not be what they need.

We cannot forecast which channels will increase or decrease; however, we will project that price will be a driver for most Canadians. During good times, they may question the value of paying for advice;

however, if they only seek advice at certain times, they may not receive the full benefits of financial planning and investing.

Question #16

We cannot forecast which payment arrangements are likely to result if the embedded payment option is discontinued; however, we will re-iterate that price will be a driver and the price-mid and mass-market investors are willing to pay will not cover the costs for holistic financial planning and services. A cafeteria-style menu may emerge and investors, who need it, will not get the full benefit of investing.

Question #17:

This proposal will lead to an advice gap for mass-market, mid-market, rural investors and younger investors. Younger investors are likely to receive limited product choice based on the cheapest price (ETF and passive products) through robo advisors. With the lack of holistic/integrated financial plans and limited product choice, Canadians in these large groups will not have access to the full benefit of investing. They will not get access to the emotional support during the inevitable difficult spells of prolonged down markets or poor product decisions.

Using your definition of “advice gap,” Bridgehouse purports there is a distinction between an advice gap generally and face-to-face advice. This proposal will affect the provision of services that can help Canadians get the full benefit of investing: holistic planning that considers investments along with other assets, long-term financial planning that takes into account accumulation/de-accumulation strategies, diversification/re-balancing strategies, tax planning, intergenerational and estate planning, charitable donation strategies, along with financial coaching and education that counters negative investor behavior, assistance with proper documentation, family matters, diminished financial capacity, avoiding frauds and scams and mental health challenges. These services come from a relationship. They can’t be automated. And, Canadians may not think they need these services or even know they need them, let alone pay for them until something goes wrong, which, due to the stress and cycle of life, they inevitably do.

Question #18

The fund industry continues to adjust to competitive pressures and the shifting needs of financial advisors and investors as evidenced by fee reductions and a promotional focus on fee-based series.

We cannot speak for the industry, but without the proposal, Bridgehouse would retain embedded fees as one payment method so Canadians can chose a payment method that is appropriate for them.

Question #19

Figure 8 is quite accurate based on averages and a snapshot in time. It would be helpful and telling to look at Figure 8 filtered by new advisors in the industry under five years to understand who is servicing Canadians with smaller account sizes.

Payment options and business models are evolving as per our answer to Question #18. Anecdotally, we are seeing that fewer new advisors and younger people are able to build practices. These are often the people who start by servicing Canadians with smaller accounts and with whom they grow.

It is costly for advisors to service smaller accounts although many we speak with say they would like to. This is one of the reasons Bridgehouse recently launched the Morningstar Managed Investments Program, so advisors could service smaller clients more efficiently with a single ticket portfolio and an investor experience including an Investor Profile Questionnaire (determines objective, timetable and attitude to risk/reward) and an Investment Policy Statement that serves as an educational and discussion document.

Question #20

It takes time, but we expect more F series investments. The industry is still adjusting to CRM (looking at services and fees) and fee-based is a new payment method for mass and mid-market investors. For this reason, we encourage the CSA to allow CRM initiatives to come to fruition and allow the industry and investors to adjust.

Question #21

We believe this proposal will trigger industry consolidation. Product choice will be limited. Independent product will be avoided by a controlled distribution that will put an emphasis on supporting their proprietary product. Dual-licensed advisors have the option of focusing on insurance-based investments that fall under other regulation and do not carry the same disclosure rules.

Mid and mass markets will receive limited advice and will not get the full benefit of investing. Rural communities will not receive service. Financial decisions will be made piecemeal as opposed to holistically, decisions will be based on limited choice and price as opposed to what value and benefit they can bring to Canadians. Canadians will face more complication and stress and will not have the support to build a plan (accumulation/de-accumulation) that covers their longer age span and takes into account precarious work and varied income sources. None of this supports Know Your Client, product suitability or enables Canadians to get the full benefit of investing.

Question #22

The proposal will significantly increase the back office service processes at the investment manager in the following ways:

- The impact over any transition period required (potentially seven years or longer to allow existing DSC schedules to expire) will be to increase the operational effort required as processes that do not currently exist will need to be implemented to transition accounts from embedded commission structures to direct pay structures. These processes will require the relevant policy adjustments, books and recordkeeping and quality assurance oversight.
- The majority of investment managers do not currently have the processes in place to collect variable direct pay arrangements on behalf of the dealer. The reason for the proliferation of

fund classes is an outcome of the lack of operational infrastructure to collect a variable fee at the fund level. Substantial technological investments (multi-millions) would be required to build such an auditable system and oversight process.

- The co-existence of the embedded process, direct pay collection process that the CSA has suggested and the transition process between the two for a period that will likely exceed 5 years could be financially and operationally crippling to all but the largest financial institutions.

Question #23

The payment of embedded commissions requires controls and oversights to ensure accuracy and alignment with what is disclosed in all regulatory documents. Any conflict issues are dealt with during the implementation and approval of a compensation arrangement, not as part of the ongoing process – so to directly answer the question – no, the transition to direct pay would not alleviate any substantive controls and oversight.

In an environment where embedded commissions would not exist and dealers were exclusively responsible for all payment arrangements from investors, the majority of mutual fund control and oversight processes remain in place. These processes govern the collection and processing of all expense – not just commissions – as well as the processes required to ensure that every investor is in the right pricing structure. If the CSA proceeds as indicated on page 22 of the paper to allow dealers to outsource the collection of investor payments to the investment fund managers, the oversight and controls would substantially increase. These processes would be included in corporate and potentially CRA audits to ensure proper collection and disbursements of commodity taxes. The better solution from an operational perspective is to either continue with the embedded commission structure or to have dealers collect their own payments.

Question #24

No and recent indications are they will part ways with advisors and investors who do not meet specific revenue-generating targets and quotas. The industry will not be able to onboard and support new and young advisors.

Question #25

As investment managers, we are not in a position to comment on compensation details of dealers.

Part 5

Question #27 & #28

We submit our answers to Question #27 and #28 by re-iterating our opening recommendations because the mitigation measures will cause dislocation add confusion and cost and will take longer the natural evolution of shifting already underway.

- Allow market-led forces to shift compensation methods over time to avoid unnecessary dislocation and additional costs.

- Allow CRM initiatives to come to fruition and continue to concentrate on promoting disclosure.
- Review feedback from CP (81-408) in conjunction with any proposed changes resulting from CSA Consultation Paper 33-404 (Proposal to Enhance the Obligations of Advisers, Dealers and Representatives toward Their Clients).
- Seek harmonization of compensation models with regulators covering investment fund-like products to minimize regulatory arbitrage and protect Canadians from industry players seeking to hide from disclosure requirements.
- Avoid causing onerous technological, operation, client communications implications and associated costs that negate any perceived positives of discontinuing this method of compensation.

Question #29

Anecdotally, we are seeing that fewer new advisors and younger people are able to build practices. These are often the people who service Canadians with smaller accounts and with whom they grow.

The industry will not be willing or able to onboard and support new and young advisors. Recent indications are they will part ways with existing advisors who do not meet specific revenue generating targets and quotas. Dealers will take on many new advisors, but the only ones who survive will be asset collectors with a selling mentality, which usually does not encompass skills associated with financial advice and planning, servicing and supporting clients.

New financial advisors could come up through the bank system which, according to recent media investigations, is not without its selling and quota pressures.

New advisors coming up through the insurance system will have the advantage of offering investment products wrapped in insurance contracts, which fall under different regulation and do not have the same disclosure requirements as the investment industry.

Question #30

We suspect there will be a significant cross-subsidy loss; however, dealers are in a better position to provide details.

Question #31

The industry is putting more of a focus on F series, fee-based payment methods for advisors and their clients who wish to pay in this manner. We recommend the CSA let this market-led shift occur. We suspect that an embedded payment option will still appeal to many Canadians, but if it does not, the industry will continue to shift to those competitive pressures.

Question #32

It's impossible to scope out the changes from an investment manager point of view because it is dependent on the dealer lead; however, it would affect every aspect of our business and we would not be in a position to collect fees for dealers.

We would need to change everything from standard product information, communication materials, technology, and training and perhaps even our business model because we would need to establish entirely new relationships with even existing dealers. We would require outside services and legal counsel. This conversion would overwhelm our business to the detriment of health of our business because of the dislocation, cost, time and the forgoing of revenue generating activity.

But most of all, none of these activities would improve the position of investors because it would not contribute to them getting the advice, access and services that enable them to gain the full benefit of using our products and from investing in general.

Question #33

We oppose this proposal.

Question #34

We are in support of capping; however, if the CSA allows a market-led transition and allows the CRM initiatives to come to fruition, capping may not be necessary.

Question #35

The initiatives discussed go beyond the role of regulation and while the intention is honorable market-led initiatives and a focus on disclosure and literacy will help investors get the full benefit of investing.

Question #36

Market-led and competition supported by a focus on disclosure and literacy are the best ways to help investors get the full benefit of investing.

Summary:

We thank the CSA for undertaking this Consultation and we thank you for the opportunity to submit our comments. We would be pleased to provide additional information or participate in any further discussion.

Sincerely,

Bridgehouse Asset Managers

A handwritten signature in black ink, appearing to be 'Carol Lynde', written over a horizontal line.

Carol Lynde
President and COO