

Consultation on the Option of Discontinuing Embedded Commissions – CSA Paper 81-408

June 9, 2017

To the members of:

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

In the Care of

The Secretary
Ontario Securities Commission
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Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin, Corporate Secretary
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My Background

- My office is in Vernon, BC and I'm licensed to sell insurance and mutual funds. I started in the business in 1987 / earned my Registered Financial Planner designation in 1995 and my Certified Financial Planner Designation in 1996. I also have the Elder Planning Counselor designation.
- I have approximately 250 households that I work with and they are a very diverse group of clients ranging from young savers to retired people...some professionals, small business people and regular individuals trying to save for their financial futures.

My Concerns

- I fully agree the client's interest has to be our number one priority.
- However, I do have several concerns with regards to your proposal, and in general with the direction the CSA policy has been going.

Embedded Compensation

- When I started in this business there were no embedded commissions. I can tell you it was difficult to convince clients to pay an upfront fee to purchase a mutual fund. At that time, it wasn't that clients didn't want to pay for my service as they had no issue for me being paid. The

issue was they didn't want to pay an upfront fee or a fee out of their pocket. They had no choice.

- I believe the embedded commissions started in 1988 or 1989 and this was a huge revelation for the mutual fund industry...it gave clients a choice.
- Clients could either buy funds with a fee or could buy a fund where you didn't pay a fee, but there was an embedded commission paid to the advisor.
- At first there were only a few companies offering the embedded commission structure where the client didn't have to pay anything upfront and the advisor received an upfront and ongoing commission. Of course, the client was tied into a six or seven year schedule but could withdraw up to 10% each year without incurring any fees. It didn't take very long before all the fund companies offered the embedded commission model.
- It was interesting to note that the fund companies never took away the option to pay upfront. The clients were given a choice and it was fully disclosed at the time of purchase.
- I can tell you from personal experience when I offered the choice to clients, they had no issue with the embedded commissions....it was their "preferred choice". I also have to assume that since mostly all the companies came out with an embedded commission model it was the "preferred choice" of most clients to purchase their mutual funds that way.

The CSA wants to do away with embedded commissions, but why take the choice away from the client.

- Over the last year, I have been explaining in detail to remind clients how we get paid with the embedded commission model and I have also explained "the regulators are wanting to take away your choice of how you purchase your funds by banning embedded commissions".
- I have not had one client say that they agree with banning embedded commissions. In fact, they understand we are in business and need to be paid. The most common response I get is "why are they doing this?" and many are insulted that their option may be taken away.
- I would argue...if clients are given all the information, they are very capable of making their own decisions and don't need to be insulted by taking away their choice. The market place will evolve over time and ultimately determine how the funds will be purchased. I know in my own practice, I am moving more to fee based accounts, but that model does not work for everyone...especially smaller accounts.
- I would also argue that human behaviour is such that if the CSA mandates that clients have to pay a fee that there will be a number of clients who will simply do nothing...meaning they will procrastinate and put off their savings. Unfortunately, this will impact their financial futures and put more pressure on governments to subsidize them in their retirement years. We want to make it as easy as possible for consumers to save for their retirement...not put up roadblocks.

CRM2

- The fact that the amount of compensation an Advisor's firm is paid is now disclosed on statements has just come into play in the last six months and clients can now see exactly how much compensation they are paying. This is a good measure that allows Consumers the opportunity to weigh the value of what they get, for what they pay.
- Over the last six months, I have had numerous conversations with clients and pointing out exactly how much they are paying and I would say most are happy to know what that number is. So far, this is definitely educating the clients. It has brought up some interesting conversations but it is important so they can determine if they are getting value for what they are paying.
- It's only been six months and the CSA should let this new initiative take effect before new rules are rolled out.

CSA policies are already excluding smaller investors from quality advice.

- The only department in my dealer that is growing is the compliance department! This passes on more costs to the advisor and more costs to the client.
- The cost of compliance and disclosure has forced most Dealers and Advisors to focus on their larger clients. Smaller clients are “encouraged” to go elsewhere. The increasing compliance burden (more forms, more boxes to check) means I can’t afford to take care of smaller clients. Ironically, these are the younger people starting out to save and they need our advice more than anyone. I can’t say offering embedded commissions will get them started sooner, but I can say forcing them to pay an upfront or ongoing fee will deter them from saving.

Banning embedded commissions doesn’t mean clients will get better advice.

- When I discuss the potential ban on embedded compensation with my clients, they don’t see how this will help me give better advice to them.
- Why should their ability to choose how they deal with me be limited? Regardless of how many rules you make or change, clients will either trust an Advisor and work with them...or not.
- Shouldn’t they be able to look at the numbers, discuss my services to them and agree on the best way to proceed?
- It seems closeminded to imply that all clients would want to do business the same way and your proposals are forcing consumers down a path where there will eventually only be one way.

It is very concerning...

- that a Regulator that regulates Advisors, does not have an Advisory Council for developing policies. The advisors are on the front lines with clients and would provide great feedback. You have policy makers who have no idea what goes on in a client meeting.

The consumer has no idea that banning embedded commissions are being contemplated.

- When I discussed banning embedded commissions is being contemplated with my clients, 100% of them were completely unaware.
- I find it very hard to believe...of all of the clients that I brought this up with, none of them had any real knowledge of the problem and were still not worried about it when I explained the issues.
- It is pretty hard for a consumer to comment on this process when they don’t know it is happening.
- Canadian consumers will be shocked if the CSA chooses to go ahead with these proposals.

Advisors can’t keep up to the pace of regulation and change.

- Other Advisors tell me that they cannot keep up with the pace of Regulatory change. You are wanting to change the rules and we haven’t even seen the impact of the new CRM2 rule changes...and whether they are working.
- If you gave the industry some time to catch up and implement the changes you wanted, you might see that many new potential policies would not be needed.

My clients want to deal with a professional that will build a long-term trust relationship with them and look after their best interest. They want to learn about their finances and to trust the advice and suggestions that their Advisor gives them, but they do not want to become financial advisors themselves. If we meet their needs, they will choose how they deal with me and how I get

paid. Regulators dictating that clients are incapable of being able to make a choice is an insult to their intelligence.

The only solution is to increase Advisor Professionalism

If you increased the professionalism of Advisors, it would solve many of your problems. I am member of the Financial Planning Standards Council, the Institute of Advanced Financial Planners and Advocis, I have to put my client's interest first and I'm bound by a code of ethics and have to adhere to many hours of ongoing education. With these principles as a guide, there could be a lot less rules.

These organizations already have a professional solution in place and they just need to be included in your policy development to make them even more relevant to Canadians. I would encourage you to work with them and make Financial Planning a Profession. This will benefit everyone...clients, advisors and the industry.

Please feel free to contact me if you have any questions,

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