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CANADIAN SECURITIES ADMINISTRATORS

AUTORITÉS CANADIENNES EN VALEURS MOBILIÈRES

ROUNDTABLE DISCUSSION RE

DISCUSSION PAPER AND REQUEST FOR COMMENT 81-407

MUTUAL FUND FEES

DATE: Friday, June 7, 2013

HELD AT: Ontario Securities Commission

22nd Floor, 20 Queen Street West

Toronto, Ontario

BEFORE:

MARY G. CONDON Vice-Chair

SINAN O. AKDENIZ Commissioner

DEBORAH LECKMAN   Commissioner

PANELISTS:

Panel 1:

Joanne De Laurentiis	Investment Funds Institute of Canada
Marian Passmore	Canadian Foundation for Advancement of Investor Rights
Peter Intraligi	Invesco Canada Ltd.
John De Goey	Burgeonvest Bick Securities Limited

Panel 2:

Doug Coulter	RBC Global Asset Management Inc.
Atul Tiwari	Vanguard Investments Canada Inc.
Ken Kivenko	Small Invesetor Protection Association
Greg Pollock	Advocis-Financial Advisors Association of Canada

Panel 3:

Sian Burgess	Fidelity Investments Canada ULC
Robert Frances	PEAK Financial Group Inc.
Afsar Shah	Sun Life Financial Investment Services (Canada) Inc.
Paul Bates	Independent Presenter

TABLE OF CONTENTS

INDEX OF PROCEEDINGS: PAGE

INTRODUCTION AND OPENING REMARKS:............. 6

TOPIC 1: THE ROLE EMBEDDED COMPENSATION 11
PLAYS IN ACCESS TO ADVICE FOR SMALL RETAIL
INVESTORS IN THE CANADIAN MARKET.

PRESENTATION BY MS. DE LAURENTIIS:............ 11

PRESENTATION BY MS. PASSMORE:................. 16

PRESENTATION BY MR. INTRALIGI:................ 21

PRESENTATION BY MR. DE GOEY:.................. 26

GENERAL DISCUSSION OF TOPIC 1:................ 31

TOPIC 2: UNDERSTANDING THE SERVICES 62
RECEIVED FOR TRAILING COMMISSIONS.

PRESENTATION BY MR. COULTER:.................. 63

PRESENTATION BY MR. TIWARI:................... 66

PRESENTATION BY MR. KIVENKO:.................. 71

PRESENTATION BY MR. POLLOCK:.................. 75

GENERAL DISCUSSION ON TOPIC 2:................ 80

Recess taken at 11:13 a.m..................... 111

On resuming at 11:47 a.m...................... 111

TOPIC 3: THE IMPACT OF CURRENT DISCLOSURE ... 111
INITIATIVES AND WHETHER REGULATORY ACTION
BEYOND DISCLOSURE IS WARRANTED AT THIS TIME.

TABLE OF CONTENTS

INDEX OF PROCEEDINGS: PAGE

PRESENTATION BY MS. BURGESS:.................. 112

PRESENTATION BY MR. FRANCES:.................. 118

PRESENTATION BY MR. SHAH:..................... 125

PRESENTATION BY MR. BATES:.................... 130

GENERAL DISCUSSION OF TOPIC 3:................ 135

CLOSING REMARKS:.............................. 159

--- Upon commencing at 9:00 a.m.

INTRODUCTION AND OPENING REMARKS:

CHAIR: Good morning, everybody. I think we will get started. We have a lot of material we would like to cover this morning.

My name is Mary Condon. I'm a Vice-Chair at the Ontario Securities Commission. I'm very pleased to welcome everybody here this morning, and I'm so pleased that we have such a busy, robust and engaged audience. I'm going to just make a few opening remarks to really set the stage and let everybody know how the morning will unfold.

As you know, we are here to have a discussion about some elements of the CSA's recently published Discussion Paper on Mutual Fund Fees, and that paper was really put out by the CSA as a way of trying to capture where we are in Canada around mutual fund fees and discuss a number of issues that are raised by the current structure in terms of generating discussion about those issues and giving us some sense of whether we need to have any particular regulatory response to the issues that are raised in the paper, and so we said in the paper that we were going to have a number of public discussions and consultations about what we had written there.

This is the first of those.

I do want to emphasize that it is only the first. We expect that we will have other discussions and consultations about the paper as we move forward. In fact, one of the things that I personally am hoping to achieve this morning is that we will, as regulators, get a sense of where we should go next in terms of what are more questions we should be asking, more data we should be gathering, more issues that we should be exploring.

We also, as you will know if you've looked at our web site, had a very large number of comments about the paper, which we were very pleased to receive, and so what we did was we looked at the comments that had come in, and obviously a large number of areas are covered in those comments, so we thought that for this morning we would focus on three of what we saw to be recurring themes that came out of the comments.

Again, they're not the only themes, and there will be other opportunities to discuss other issues, but the three themes we thought we would focus on today, and you will see that in our public notice, are, first of all, the role that embedded compensation plays in access to advice for small retail investors in

Canada; second, the nature and scope of the services that are received in return for trailing commissions; and third, the impact of current disclosure initiatives that many of you are well aware of that the regulators have put in place and whether further regulatory response beyond those initiatives is necessary at this time.

In fact, I should, just say by way of one last comment on our themes for today, that one of the things that was interesting in the comment letters was the number of comments that also referred to other initiatives that we have under way, including our initiative around exploring questions to do with whether advisors should have a best-interests obligation. We have an upcoming consultation on that very topic later this month so any of you who are interested in seeing the connections between this theme and that one are invited to attend that.

So how we're going to proceed is that -- as I say, when we reviewed the comment letters we tried to identify commenters who had addressed each of those themes, and we addressed those commenters to present this morning. We are going to be pretty strict about time limits because we have a lot to cover, large topics and limited time.

So we're giving each of the presenters five minutes. We will have three separate panels, four presenters on each panel, and each of the presenters gets five minutes to provide comments.

Then, after that, we, the Commissioners - and I will introduce my fellow Commissioners in a moment - will engage in dialogue with the commenters to try to probe some of the areas that they have raised.

We also hope that the commenters on each issue will have dialogue with each other. That will be very welcomed. I would only just ask that if you want to ask a question of a fellow panelist that you signal to me that you want to ask a question, and I will write your name and try to keep some order.

So I have with me two of my fellow Commissioners, as I mentioned.

On my right, Sinan Akdeniz, who has been a Commissioner since 2009. He started off his professional career as an accountant and most recently before joining the Commission as a part-time Commissioner was the Vice-Chair and COO of TD Securities.

On my left is Deborah Leckman, who has 30 years of experience as an investment executive and

20 years as a portfolio manager and also most recently before becoming a part-time Commissioner was a Senior Vice-President at TD Waterhouse.

So quite a representation of former TD expertise in the room. (General laughter)

All right. So for those who are in the audience - and we are very pleased that you have joined us this morning - after we have had a chance as Commissioners to dialogue with the panelists and they've dialogued with each other, if you have a question or comment that you would like to address to any panelist, raise your hand. There are comment cards, I hope, distributed around the room so if you want to write your comment or your question on a card Staff will be gathering those comments, and if there's time, I would be delighted on your behalf to address that comment or question to a particular panelist.

You should also know that even if we don't get a chance to ask your question this morning that OSC Staff will be collecting all those questions and certainly considering material on those cards as we continue to discuss the issues raised by the discussion paper.

Finally, we hope you'll all turn off your cell phones so that you can really concentrate on

what's happening in the room. This is a public consultation. I'm not sure if there are members of the media here, but some registered to attend. So there may be members of the media here this morning.

We do have a court reporter, who is transcribing everything, and so we intend to post the transcription of the entire proceedings this morning on our web site so that people who aren't here will have a chance to get a sense of what was discussed.

So without further ado, we will begin with the first panel, and the first panel is going to address the role that embedded compensation plays in access to advice for small retail investors in Canada. We have four panelists. I'm going to ask them to very briefly introduce themselves before they speak.

We are going to begin with Joanne De Laurentiis from the Investment Funds Institute of Canada. Good morning, Joanne.

TOPIC 1: THE ROLE EMBEDDED COMPENSATION PLAYS IN ACCESS TO ADVICE FOR SMALL RETAIL INVESTORS IN THE CANADIAN MARKET.

PRESENTATION BY MS. DE LAURENTIIS:

Thank you. So my name is Joanne De Laurentiis, President of the Investment Funds Institute of Canada.

On behalf of the industry and IFIC, I really welcome this opportunity to participate in the roundtable and to assist the Commission with its fact-finding and exploration of the topic.

I want to start off by saying that wherever this discussion and this analysis will lead we think the result should be that we ensure that Canadian investors, regardless of their level of wealth, have access to market products that are transparent in structure and objective, supported by a delivery system that provides quality information and personal guidance, are priced fairly and the full cost of ownership is transparent, and are well-regulated, both in product construction and market conduct.

So to begin, then, with the questions that you are most interested in, the first one is the unique aspects of the Canadian market that makes the use of embedded advisor compensation appropriate.
I have three.

The first, I would say, is the broad availability of advice for all income groups.
85 percent of Canadian investors purchase their funds through an advisor, and this degree of market penetration is higher than many other jurisdictions.

It's also available through lots of

providers - independent advisors, bank, credit union branches, the insurance channel - and it has made advice available to a very broad group of investors, particularly those with small amounts to invest. Studies that measure the outcome of the use of advice on household advice, like the CIRANO analysis, point to the creation of a very strong savings culture and discipline and the accumulation of more wealth. So a decision to regulate such a large portion of investors away from that current model would carry certainly some profound implications.

In our view, the most concerning is the impact on households with average account holdings that are not economic for the fee-for-service advice.

And so we look at our accounts. The average account for MFDA-licensed advisors is $35,600; IIROC channel is $67,000. The observable characteristics of fee-for-service markets is that the average size of accounts is higher and the fees for advisor services are higher.

According to Strategic Insight and PriceMetrix, U.S. fees for advice range from approximately 1 percent to 1.5 percent with accounts under $100,000 being charged the highest amount. In Canada, the embedded advisor charge is typically no

more than 1 percent.

Another important characteristic is the broad choice of funds. In Europe, for example, the dominant product is a money market fund and the dominant distribution channel is the bank channel. In some countries in Europe, as much as 70 percent of the assets are distributed through bank branches.

A further unique characteristic is, I believe, the comprehensive nature of our disclosure regime. It's very good compared to most countries and is about to get even better with full implementation of the CRM 2 requirements and the FundFacts. The full cost of owning mutual funds is going to be disclosed in plain language in detail, and it's going to be knowable in detail and plain language. This should increase the awareness about costs and dampen the concerns around the conflict of interest.

It's interesting to note that the jurisdictions who are prohibiting embedded distribution fees did not, and in some cases now will still not, have in place the level of detailed disclosure that Canadian investors will have.

In the U.S., where the cost of advice is typically paid over and above the fee that is paid to the fund manager and is paid directly to the

advisor, investors may know what they pay individually, but they have no idea whether it is consistent with similar accounts of similar size, and they don't know what they might have to pay if they go to a different firm.

So those are some of the reasons.

I want to move to another question, which is whether embedded commissions give retail investors more efficient access. I'd say the answer to that is a resounding "yes" because you need two conditions for this benefit to be realized. One is that advice has to be broadly available to the investing public. The second is that it should be, and it must be, equally available to individuals with small amounts to invest as it is to high-net-worth individuals. That it is working in Canada is really borne out by the data. Ipsos-Reid, IFIC's and Pollara data tells us that over 60 percent of our investors in mutual funds go to an advisor with under $25,000 to invest and a third of that have under 10,000. So this group of investors is not favoured by a fee-for-advice model.

Some evidence from PriceMetrix is showing a declining business interest in fee-for-service advisor clients in the U.S. In fact,

some advisors no longer get paid on new accounts that they bring in if they're under $250,000. So a point to keep in mind.

So potential disadvantages? Increased fees, I think I've made that point. Reduced access to advice providers.

In the U.K., some of the evidence is showing that firms are leaving the mass market and less transparent and higher pricing in the U.K. They're going to an à la carte basis, and some of the reports that are beginning to come through the media are that people are very frustrated by this. They can't figure out what the total price is going to be, and they appear to be a lot higher than was expected.

Thank you.

CHAIR: Thank you very much, Joanne.

Next, we're going to hear from Marian Passmore from FAIR, who I gather is a late replacement for Ermanno Pascutto who was originally intended to come.

PRESENTATION BY MS. PASSMORE:

That's correct. Good morning.

Thank you for asking FAIR Canada to speak to this important issue. Consumers do not understand and cannot be expected to understand the

complexities of how embedded commission influences advice. Consumers expect their advisor to act in their best interests regardless of any conflicts of interest. Unfortunately, this is not the current regulatory environment.

So what do consumers access through the embedded commission model? They get access to a system where third-party payments misalign the interests of investment funds and their investors and misalign the interests of advisors, firms, and their retail clients. They get access to a perverse system of payment for so-called advice, one that the average retail investor would be hard-pressed to understand.

"He who pays the piper calls the tune." Investment recommendations may be chosen because of higher compensation to the advisor-dealer, resulting in higher costs and less optimal results of recommendations for the consumer.

Many people think that advice is free and don't know what they pay for the advice they receive. Value is difficult to assess in these circumstances. While industry touts the value of advice, the latest thing, the so-called CIRANO study, the industry suggests that having an advisor leads to more assets, higher savings, and a higher level of

retirement readiness, the study, if you actually look at it, does not demonstrate this. It does not demonstrate the conclusions that industry says it does. We can provide a detailed reference if you'd like. The CIRANO'S own author has stated, "We need a better study and a better paper before being comfortable with the way they are saying what they are saying." He indicated that the study is absolutely refutable, given the limitations on the data.

So should we maintain this choice of business model? Industry argues that if we remove this business model we are removing freedom of choice for consumers. To suggest that prohibiting a business model which benefits the fund manufacturer and dealer-advisor at the expense of the consumer will result in harm to the consumer is nonsensical. Uninformed choice is not true choice. Only banning conflicted remuneration, including trailer commissions, will reduce the bias and misalignment incentives currently affecting the client-advisor relationship, and this will lead to better outcomes for consumers. That is the choice that should be made.

It is inconceivable that the majority of Canadians do not have any idea what the various options for advice are, let alone the costs and

benefits. You can only make a choice if you know what the alternatives are and are provided with those options prior to actually making your decision. To say that Canadians prefer the embedded fee structure because it's the most prevalent model out there is disingenuous.

There is no independent research that indicates that Canadians prefer to pay through embedded commissions. The only study that indicated a preference for this was commissioned by IFIC, and the questions were worded by them.

While we recognize that behavioural economics suggests consumers are more reluctant to part with their money if paid directly in cash out of their pocket - and people's credit cards bills are a testament to this - we believe that it's vital to separate the amount paid for advice. Ensuring Canadians know what they pay for their investments and for advice will encourage an efficient market, and competition will be stimulated to provide good value for the product and for the advice.

If Canadians are satisfied with the advice they're getting in exchange for the money they are currently paying, they will continue to pay those fees separately. If they are not, then alternatives

do exist and will arise to deliver the kind of advice that consumers want for a price they're willing to pay. A properly functioning market for advice will allow real freedom of choice.

At discount brokerages, more knowledgeable consumers are calling for low-fee options, but the supply of no-trailer-fee funds doesn't appear to be growing to meet that command. The limited number of no-trailer-fee mutual fund options is evidence of a lack of competition.

Certain discount brokerages refuse to carry funds that don't have a trailing commission, and this is also a cause for concern. Consumers should not be paying trailing commissions when they've made the choice to forgo the dealer-advisor advice channel.

FAIR Canada urges securities regulators to ban embedded commissions so that do-it-yourself investors will not have to pay for something that discount brokerages are not permitted to provide to them: personalized advice.

FAIR Canada does not agree that the embedded commission business model is the only way for Canadians to access advice if they only have a small amount to invest. We believe that there are lower-cost ways of servicing lower-wealth Canadians. We believe

that removing the embedded commission model will have the following effects on access and on cost.

It will spur the development of alternative structures or systems to deliver advice, and there will be access to the types of advice that Canadians want for a price that they are willing to pay.

The market will evolve.

It will reduce the incidence of poor advice through incenting the distribution of inferior product through the payment of higher-than-average fees, and it will allow for better price competition, lowering mutual fund fees and thereby increasing the ability of Canadians to save for their retirement or other financial goals.

Thank you for inviting us to the Panel.

CHAIR: Thank you.

PRESENTATION BY MR. INTRALIGI:

My name is Peter. I'm the President of Invesco in Canada, and on behalf of Invesco Canada I'd like to thank the CSA for inviting us to participate on this panel.

At Invesco, we believe it's critical that all Canadians plan for retirement, and whether they do it themselves or partner with a professional

advisor is simply a matter of choice. What matters most is they adhere to their plan and achieve their long-term lifestyle goals.

Over the next few minutes, I plan to demonstrate, first, that improving fee transparency, as outlined in 31-103, will eliminate any notion of a conflict of interest, and it will make it easier for investors to compare various fee options.

Second, maintaining the option to pay for advice through bundled fees significantly benefits small investors and the vast majority of Canadians.

But first I'd like to dispel the myth that compensation drives fund flows. Naturally, this would be a conflict of interest if it were true, and so those who support this view propose that embedded compensation should be banned. While we acknowledge that compensation can play a minor role in the advice channel, the fact is the main driver of flows is a fund's performance and its ability to preserve capital.

Since the market downturn in 2008, new money flows shifted sharply towards funds with 4- and 5-star Morningstar ratings, which represent less than 20 percent of all funds in Canada. Yet, this limited number of funds accounts for 100 percent of the industry's net flows each of the past five years.

Clearly, assets migrate to products with a demonstrated long-term track record of exceptional performance, as they should. Not surprisingly, the vast majority of these funds all pay industry-standard trailer fees of 1 percent.

Now I'd like to address fee transparency. We believe that a discussion of embedded compensation should be tied into a discussion of fee transparency.

Despite current disclosure requirements, Canadians generally remain uninformed about the cost of financial advice. Once cost disclosure is fully implemented by 2016, investors will know exactly how much they're paying and will be able to discuss with their advisor what services they are receiving for those fees. As a result, the method of compensation, whether it's paid through the fund company on behalf of the investor or whether the investor pays it directly to their advisor, will no longer give rise to an implied conflict of interest. Ultimately, the investor walks away informed and fully capable of determining for themselves whether they're getting full value for their money.

Finally, I'd like to address the benefits of pooled fees and advice. We believe

investors who seek financial advice achieve better results than those who don't. Comprehensive financial counsel ensures investors remain disciplined and focused on their long-term goals.

I think we would all agree that emotion is the enemy of any good investor, and it is advisors who provide that steady hand during periods of uncertainty. Smaller investors derive exceptional value when paying a bundled fee for advice. It's a convenient, single-ticket option and eliminates the need to negotiate a fee.

We recently conducted a survey of 170 advisors across Canada that primarily use mutual funds for their clients' portfolios, and we plan on expanding the survey to include all advisors in our database later this year.

I'd like to refer you to a few of the results on your handout in front of you for those around the table and for the audience up on the board in the corner.

The top 20 percent of clients pay the dealership an average monthly fee of $225 a month compared to $85 for the remaining 80 percent of clients, and this group is more representative of the average investor in Canada.

As you'll note from the table, investors have access to a number of essential advisory services for this fee. Clearly, smaller investors are benefitting financially from a pooled-fee arrangement. It is important to note that pooled fees are only possible when compensation is bundled into the product cost.

So what would be the impact, then, on smaller investors if embedded compensation were eliminated? Some suggest fees would come down, but the facts suggest otherwise. The cost of advice will likely increase anywhere from 25 to 150 percent for the average Canadian investor.

Embedded compensation allows small investors the choice to get personalized advice at a competitive price. When small investors lose that protection, they're left to negotiate fees on their own. Currently, those who negotiate fees pay substantially more than the common 1 percent trail embedded in a mutual fund, and for do-it-yourself investors we are prepared to offer Series F or a discounted-trail Series D so they won't pay a fee for a service they are not receiving. But we have no control over whether these series are made available on DIY platforms.

In conclusion, the strides regulators have made with amendments to 31-103 will significantly improve investor awareness of the fees they pay for professional financial advice. Most importantly, bundled fees ensure small investors have access to professional advice that's critical to their long-term financial health at a reasonable cost. It's our collective responsibility to preserve this choice for all Canadians.

Thank you.

CHAIR: Looks like you were number one in finishing before you got the hook from Blair behind me. Well done.

Our fourth speaker is John De Goey.

PRESENTATION BY MR. DE GOEY:

Thank you very much. I do hope that the OSC is better at regulating than it is at high school geometry. This table looks pretty rectangular to me. I don't know about anyone else. (General laughter)

Thank you very much for having me to offer my thoughts.

If I could summarize my key presentation into three words, it would be that compensation drives advice and that

embedded-compensation causes bias. I cannot stress enough how true that is, contrary to what Peter just said a moment ago.

I gave a presentation at a convention of certified financial planners in Niagara Falls about nine days ago, and I had about 80 people in the room, and I stated that as a self-evident fact in a room full of certified financial planners from across the country and not one person would even dare to suggest otherwise, which is to say it is widely accepted as a self-evident truth that embedded compensation causes bias. So I need to stress that that is extremely well understood within the industry.

As a result of that, we now have an opportunity to get rid of embedded compensation in order to remove all the negative effects of what that bias can cause. In particular, one of the things I haven't heard much yet today and that I haven't seen much with regard to the submissions that are made are with regard to the substitution effect.

There are frequently, and on an F-class basis, funds from actively managed products, from Mawer and SteadyHand and Beutel Goodman, that are oftentimes better than and cheaper than an F-class version of a similar product that pays a trailing commission or not,

even if you back the trailing commission out, and, of course, there are a number of different passive options from exchange-traded funds, dimensional fund advisors. Invesco has some funds, Altamira has some funds that are also very cheap. Together, by being able to substitute cheaper products that do the exact same thing, we can drive down the price of advice, and specifically the total cost, to the client.

If the price of advice is held the same, the total cost that you can save is probably in the neighbourhood of 20 to 120 basis points by substituting high-cost products for low-cost products. That can then go straight to the client's bottom line.

If you want to think about how important that is, a paper that was released just this month by William F. Sharpe -- for those of you who don't know, Bill Sharpe is a Nobel laureate who was one of the co-winners of the 1990 Novel Prize in Economics. He says that, "Under plausible conditions, a person saving for retirement who chooses low-cost investments could have a standard of living throughout retirement more than 20 percent higher than that of a comparable investor in high-cost investments."

So what's at stake here is a 20 percent difference in your lifestyle over the typically

20 years that a person spends in retirement as a result of being able to substitute out higher-cost products and using lower-cost products holding all other things, including the cost of advice, the same.

And here's the thing. There was a programme on PBS about a month or so ago that delved into this. Another quote from Sharpe's paper, and he's actually quoting research from the head of Morningstar U.S.:

"If there's anything in the whole world of mutual funds that you can take to the bank, it is that the expense ratios help you make a better decision. In every single time period and data point tested, low-cost funds beat high-cost funds. An investor should take expense ratios as the primary test in fund selection. It is still the most dependable predictor of performance."

So once again, contrary to what you're hearing from Peter, the 4- and 5-stars might drive fund flows, but they don't drive performance. It's been shown five ways until Friday that you cannot identify in advance. In fact, here's another quote from Sharpe on this:

"Extensive, undeniable data show that identifying in advance any one particular investment

manager who will, after costs, taxes and fees, achieve the Holy Grail of beating the market is highly improbable."

So what we're talking about here is trying to get people to misalign their objectives.

So by being able to substitute lower-cost products, we can then actually have people give advice based on what is actually right for the client, which is really what we're talking about here. I would say that people who give advice by using products that offer embedded compensation, it's sort of like having an inferior-mousetrap salesman. If you make a living on commission selling inferior mousetraps, the one thing that you can be certain of is that you will never, ever tell prospective clients about a better mousetrap because a better mousetrap would put you out of business.

So we have an industry that is chock full of inferior-mousetrap salesmen, and we need to get them out. If that means getting rid of 15, 20, 25 percent of our advisors... It's the low-end advisors -- the last thing that I would want and the last thing that the people in this room should want is financial advisors who are making $25- or $30,000 a year on commission giving advice to those Canadians who

we want to protect because that kind of commission can cause leverage and unsuitable investments and so forth, which is contrary to the consumer's interest.

I want to take a moment also to talk about saliency because not only are we talking about the possible elimination of embedded compensation, but I believe things can be done between now and the elimination that would make for a better consumer experience, and that is regard to disclosure.

Disclosures right now are being made in such a way that people don't really understand how important it is. If we look at what's being done in the cigarette industry with regard to disclosures that are on their packaging, there is no doubt at all that Canadians understand that cigarettes cause cancer and can harm the foetus and so forth. If we were to make those sorts of salient, undeniable disclosures on our product packaging with regard to mutual funds, it would lead to much better, much more informed investment decisions.

Thank you.

GENERAL DISCUSSION OF TOPIC 1:

CHAIR: Well, thank you very much to the presenters for being pretty much responsive to the time constraints. I can tell from all the writing

that's happening that each of you probably does have a question or a comment of each other.

But before we go there, I guess one of the things that obviously as regulators we are concerned about are the interests of serving retail investors through the mutual fund industry. We all know that it's such an important component of retail in the portfolios.

So I wanted to ask Joanne and perhaps Peter to comment on this issue about why it is that retail investors won't pay for advice if it is a self-standing cost that stands outside a product. How would we, as regulators, really test that notion in the Canadian context? What sort of research should we be doing to try to really get a grip on that in our current market?

I don't know if either Joanne or Peter wants to respond to that.

MR. INTRALIGI: I'm happy to make a comment.

Investors are willing to pay a fee for separate advice. They do it today using Series F. So I don't think that's the argument here.

I think what we're saying is that when you embed compensation in a mutual fund you have a

pooled nature of expenses, which ultimately leads to smaller investors benefitting from that pooled expense environment.

I think what the regulator should avoid is eliminating choice for the investor. Whether they choose to have it bundled, or buying Series F, or being a do-it-yourself investor should be left to them.
I think what matters most, again, is that there is transparency around that fee, what services they're getting from advisors.

John talked about the competency of advisors across the country. We're certainly in favour of maintaining higher standards and continuously raising the bar, but investors should be able to make that decision on their own whether they're happy with their advisor or not.

MS. DE LAURENTIIS: I would just add to Peter's comment that when we have asked the question it's really a matter of convenience because they understand -- as Peter said, people are willing to pay a fee, they are paying a fee. So it's really a matter of convenience. Once they've made an investment, they don't want to be writing a second cheque.

I think the other place to look would be the U.K. That's emerging quite clearly in the U.K.

They are looking at, for example, ways to allow that option. So it's a preference option primarily.

CHAIR: But again, I just wanted to pick up on a comment that Marian made on that issue, which is really to ask the question of: If there's a direct relationship between the investor and the fund, won't that be a preferable way for the investor to be able to engage in that negotiation about how much they're prepared to pay for advice and so on, rather than having this commission come essentially from a third party that's distant from the investor?

MS. DE LAURENTIIS: I think the whole issue of negotiation has been put to bed by the experience in the U.S. You know, there isn't a negotiation; there is a price that is set. It's 1 percent, it's 1-1/2 percent, depending on the size of your account. You can have that discussion, but ultimately, it's borne out that that's the price that will be paid.

MR. INTRALIGI: Just to confirm that, when you look at the U.S. fee-based advisory programmes, to get to an average below 1 percent - and this comes from Cerulli; this is third-party data - you have to actually have a $5 million account to average less than 1 percent for your advice fees. So for

accounts at around $100,000, the mean ends up between 1-1/4 to 1-1/2, but 30 percent end up paying more than 1-1/2; in fact, between 1-1/2 and 2-1/2 percent for advice.

COMMISSIONER AKDENIZ: I'll come back to a point that you made. Just help me understand because I've struggled a little bit with this in the responses, which is I understand that with an embedded-fee model the fund manufacturer gets to pool their costs, but I don't understand why the advisor gets to pool their costs and their charges. So the assumption is that if we take the embedded compensation that the advisor receives now and strip it out and make it explicit that that will limit access to small investors. But I've heard that small investors have investments between $20- and $30,000 in terms of balance.

Now, if I'm an advisor and my average embedded compensation in that portfolio is somewhere between 1 percent and maybe 50 basis points, I'm still only earning 1 percent on $20,000. $200 a year.

So when I face you as a client, I know that the advice I give you will be compensated by that amount. What difference does it make to me if I have large investors that I also -- if I can use a small

investor as a loss leader in the current framework, why can't I do it with explicit fees?

MR. INTRALIGI: Well, because there's one, I think, subtle difference you've missed. I guess the analogy I would give is it's kind of like going to a buffet versus ordering à la carte.

Typically, in a fee-based environment you have a higher degree of customization of services that are provided. On the board, as I mentioned, in terms of the services that are provided by those that are bundling -- or use the embedded compensation provide a variety of services pretty much equally across their group. Once they start getting into a fee-based environment, they start customizing and catering to individual clients, and you find they're spending more time with those higher-net-worth investors, and that's why they have the minimum set.

COMMISSIONER AKDENIZ: But why? Why does my behaviour change because I move from an embedded fee at the same amount to an explicit fee at the same amount?

MR. INTRALIGI: Embedded fees --

COMMISSIONER AKDENIZ: Same amount, right? I'm a small investor. I'm going to pay 200 bucks a year or 100 bucks a year as an embedded fee or

200 bucks a year or 100 bucks a year as an explicit fee. If I'm the advisor, why does my behaviour change?

MR. INTRALIGI: I didn't say that the advisor's behaviour changes. The advisor behaviour doesn't change. I had said in my notes specifically that an advisor's goal is to generate strong, long-term investment results for their clients. That's their behaviour.

The reason the fees are higher in a fee-based environment versus a bundled-fee environment is because there's a high degree of customization.

The advisor's behaviour remains unchanged whether they're working in fee-based --

COMMISSIONER AKDENIZ: But the customization is a change of behaviour, is what you're arguing. I'm going to limit access to small investors.

MR. INTRALIGI: The services are different; therefore, the fees are different.

CHAIR: Sorry, Joanne. I know you have a response to that, too, but I wanted to just bring Marian into the conversation since you've been asking to have a comment.

MS. PASSMORE: Well, I wanted to comment on your earlier question about what kind of research could be done to determine if consumers would

be willing to pay separately for advice. I think that's important research that we should give consideration to, but I don't think it need delay what's being proposed.

I think one could look to behavioural economics literature to get some indication of what that research would find. I think the main point is that people don't even know that they're paying for advice so the fact that you then strip it out and pay for it separately, people are going to know what they're paying, and then they're going to make better decisions and assess what they're paying and what they're getting. I think that is a fair point.

CHAIR: If I can just follow up on that though, Marian, I think the point that Joanne's made is that they will know that once the CRM 2 project finally kicks in and is implemented, that they're going to know what it is they're paying.

MS. PASSMORE: Yes, they will know what they're paying overall in their account. They won't know on a fund-by-fund basis what they're paying, given the way the current disclosure requirements will be set out. They will know in a total amount what they're paying in trailing commissions for the total amount of funds they have in their account, but it's not done on

a per-fund basis.

Also, the cost disclosure will not deal with the misalignment of incentives so people will still be -- those misaligned incentives will still be there, and, therefore, the product recommendations will not necessarily be the lowest-cost funds or the best for the client.

CHAIR: Joanne, I cut you off earlier. So you wanted to make a response to Sinan's question?

MS. DE LAURENTIIS: Yes, several responses.

The efficiency isn't there. The economic efficiency isn't there for the advisor. I think the place to look for really good data on that is the PriceMetrix analysis. If I have to go to each investor to collect that small amount of money, then the economics don't work for me, and so I'm going to skew to the higher account. I think that's the case. So you shut down that window of access, essentially.

CHAIR: John, you've been wanting to jump in, too.

MR. DE GOEY: Thank you. So I wanted to get back with regard to how it might skew behaviour, the question that was asked. I wanted to talk about it in two different levels with regard to the cost of

advice and the cost of the product.

With regard to the cost of advice, if you back it out there's no reason why the cost of advice should be any different. Whether you charge separately or have it embedded, the advisor would make the same amount of money either way. To those people who say, well, the advisor might wish to charge more, they may wish to, but the market forces would then allow people who can now compete based on price -- even if the advisor won't, there might be another advisor down the street who will, and if that is a salient decision-making factor for the investor, he or she may use that just as they would in seeking out an lawyer or an accountant or anything else.

But with regard to product, there is a much bigger difference. My experience is that the products that pay embedded compensation are almost universally more expensive than the products that do not. By stripping out embedded compensation, it allows the advisor to recommend the lower-cost product and pass that savings on to the client because the advisor gets paid the same either way, as I said a moment ago, but now the client can save between 20 and 120 basis points in cost by getting rid of the more expensive product and substituting a lower-cost product and

saving the difference. And that's something that I don't hear some of the people here talking about. There is an opportunity here to save money, all else being equal, by actually getting rid of the bias that causes advisors to use the products that cost more.

CHAIR: So, then, where does that drive you to in terms of a regulatory solution? Are you suggesting that, again, regulators by way of disclosure could accomplish that stratification in the market by requiring disclosure of how much is paid for advice, or are you actually going even further to suggest that we should be somehow closing down some methods of selling funds in Canada by banning embedded commissions?

MR. DE GOEY: Yes, I am talking about banning embedded compensation.

Again, this would be sort of like if you go back to your Adam Smith: The market works. If you allow advisors to compete on advice, they will, and it will not lead to a significant increase in price for advice, but because the market works, by removing the bias associated with embedded compensation you can save a lot more by substituting lower-cost products than you will ever have to increase by adding for the cost of advice.

The net effect on consumers is the

price goes down, you get greater transparency, you get greater understanding of what causes what. I should also mention - it hasn't been mentioned yet - but advisory fees are deductible for non-registered accounts, fully deductible as opposed to being partially deductible against capital gains, only when you have them, in an embedded compensation arrangement.

So there's increased transparency, increased understanding, lower cost, and potential deductibility. That's four main benefits.

MR. INTRALIGI: Can I just make a comment?

I don't really understand the argument that somehow Canada is going to be any different than any other place in the world where the cost of advice typically ranges from 1-1/4 to 1-1/2. To suggest simply that costs are going to come down because people can negotiate fees I just think is in left field.

In the United States, where it's predominantly fee-based investing, the costs are between 1-1/4 and 1-1/2. There's nothing that makes us unique here in Canada to suggest that the costs would be otherwise.

CHAIR: Paul, you had your hand up over here. I hadn't really contemplated the idea that other

panelists would jump in, but we'll go there.

MR. BATES: I have a question. In fact, Peter, I want to thank you for putting this chart up. Can we put it back up again? (Chart reinstated)

So $225 a month is $2,700 a year. When your firm offers advice to a client --

MR. INTRALIGI: We don't offer advice by the way.

MR. BATES: When you work with a client and talk about expected rates of return, is there an average rate of return that comes to mind for you?

MR. INTRALIGI: We never talk about what the expected rate of return of any asset class or any product might be because it's determined by market forces.

MR. BATES: Just generally speaking, what would you anticipate as a reasonable rate of return today?

MR. INTRALIGI: Well, long term, I guess in equities probably between 8 to 10 percent long term, per year.

MR. BATES: So I have the great benefit of now having lived a bit longer than you, which means I can take the 30- or 40-year view, 30 years, $266,000 in an RSP today, $2,700 a year in current dollars, if

you did an average rate-of-return growth on that over a 30-year horizon, how much money has been taken out of the RSP?

MR. INTRALIGI: First of all, you're tying the cost of advice only to the --

MR. BATES: I'm just talking about the MER number.

MR. INTRALIGI: Yes. Which that dollar amount is embedded in the MER, and what you're doing is you're deducting it from the performance of the fund. The cost of advice is for a bunch of different services, not necessarily --

MR. BATES: I understand. I just want to do the math.

MR. INTRALIGI: Well, the number I gave you was net of fees. So the 8 to 10 percent that I talked about was net of fees. You have to add it back. Sorry, I can't do it off the top of my head.

MR. BATES: So 10 percent growth.

MR. INTRALIGI: Yes.

MR. BATES: My point here, and John started to get at it, was that -- actually, I've done the arithmetic, and the amount of money that gets taken out of somebody's RSP over that 30-year horizon with the current scheme is actually huge. I think we need

to give investors the clear choice. I don't know why we keep saying we shouldn't.

MR. INTRALIGI: Sorry, Paul, I'm not suggesting they shouldn't have a choice, nor do I think they do not have a choice today.

MR. BATES: So you actually would be in favour of potentially banning embedded fees because you --

MR. INTRALIGI: Not at all, not at all. I think investors should choose whether they want the convenience of paying for advice embedded in the cost of a mutual fund or paying it separately to their advisor. The costs don't change. In fact, we are suggesting that the costs of advice will go up if you push them into a situation where they have to negotiate fees on their own.

CHAIR: So maybe I can just ask a related question which gets to the issue of no-trail series.

So if as I understand it today, most mutual fund dealers work on the basis of commission only, doesn't that mean that the channel of no-trail commission, low-cost series isn't really available to them because their dealer doesn't actually offer that particular product? And how would we respond to that?

MR. INTRALIGI: Right. So there are providers that offer their product without the trail embedded. As I mentioned, from Invesco Canada's perspective - and I can't speak on behalf of the other investment companies - we are happy to provide that series for the do-it-yourself investor. I think, though, it's very important to note that the distributors determine whether they're going to sell the product or not, not us. We are a manufacturer, we are an asset manager.

CHAIR: So that gets to my point. What incentives can be created?

MR. INTRALIGI: Well, if you want to talk about regulation, then make it a regulatory requirement that either Series F or a discount-series trail is required to be for sale on a discount brokerage platform. Simple.

MS. DE LAURENTIIS: I just wanted to add one other thing. Paul, to your question, I think the assumption we make is that -- and we have to be careful not to make the assumption. I would say that individuals will invest, period, that they will take the money and they will put it into something that is either less expensive or whatever. I don't think we can make that assumption.

I think the other aspect that I don't think we should lose sight of is an embedded-commission structure does incent the advisor to seek out those small accounts.

What would happen to those individuals with smaller accounts? If they had no place to go with their first $10,000 when they start to invest, what happens there? I think that's the question we can't lose sight of. Those individuals may not, in fact, ever invest.

I want to come back to the point about the CIRANO data. The question that the professor who conducted that research was asked was: Yeah, but you haven't taken into account individuals who may have left advisors because they may have not had the experience they were looking for, and he said he acknowledged that that was the case, that, therefore, that's why there's more research.

I think if you were to ask him he would make this point, that it is undeniable that the impact of that discipline that gets put into the system, into the savings activity of Canadians, does result in durable economic value. I think that's the central question of this.

You know, there is no argument that

there should be choice, and if you take away the embedded fee you are, in fact, reducing choice, and where is that going to get us? We have an opportunity to look at whether the disclosure regime that we have created will work, we have an opportunity to observe it in an embedded structure or the abolition of that in the U.K. I don't think, by the way, Australia is a good example for us because they're a very different structure. So we have an opportunity here to really get the answers to the questions we're asking before we rush into something we may regret.

CHAIR: I'll just check in with my Commissioners to see if anybody has any other issues because I know I have a couple of panelists who want to...

John, I think you had your hand up first.

MR. DE GOEY: Thank you. I think what Joanne is saying is largely a red herring. People in the audience, you need to understand that these people we are talking about, these people with the $20-, $30,000 to invest, for the most part they're not working with commission-based advisors today anyway. For the most part, they're dealing with banks, and bank advisors get paid a salary plus bonus. So the

elimination of embedded compensation will have absolutely no impact on the decision-making and on the access, which is really the issue here, for those small investors to get access to advice because they're currently getting access to advice through qualified people, people who are not being paid through commission, and if we get rid of embedded compensation they will have the same access to the same advice with the same products. Nothing will change.

To the extent that advisors might not want to take on a $30,000 account on a commission basis -- we have already talked about how advisors will not change their compensation. If they're not going to take that account on with a fee, they're not going to want to take that account on with a compensation. The compensation to the advisor is the same. If the client is uneconomical for the advisor, the advisor will not take the client on under either circumstance.

So you need to understand here that what we're talking about is a situation where investors get access now, that access does not change; and to the extent that embedded compensation stays or goes, the viability of that client as a profit-seeking mechanism for the advisor giving the advice is unchanged.

MS. PASSMORE: I would just like to

make the point that I don't think people choose the embedded-commission model because it's convenient to pay it that way. They are sold mutual funds, and they have no idea they're even paying the trailing commission. So the majority of Canadians do not know they are paying trailing commissions right now. So they're not choosing convenience. I think that is disingenuous.

CHAIR: I mean, one of the things that does come up from this discussion is that we all have a set of assumptions about what investors do or won't do or will do or won't do. I think the challenge for the regulators is how can we actually get reliable information to guide us in ultimately making a decision. We have all said this morning things about how we think the investor will react to one or another model, and so I think the thing that is pressing for us is to, as I say, actually identify the research questions that we need to ask about investor behaviour in order to allow that to guide what we ultimately do.

Peter, I don't know if you wanted to comment on that.

MR. INTRALIGI: So I would say that you can always find research studies that support one view or another. I think the best way to really get a sense

of what people are thinking, believing they're paying for, et cetera, is by getting out there, going to the small communities.

I spend a lot of my time crisscrossing the country, meeting with financial advisors and their clients. I do investor events for him where we talk about our products and services. I got to tell you, I haven't met any investor, frankly, that's come to me and said that they think they're getting advice for free, that somehow they're unsatisfied with the service they're getting from their financial advisor.

Get into these communities. I think you'll be pleasantly surprised that the relationship advisors have with their clients goes well beyond just a compensation cheque. You know, we often paint advisors as they will step over their dying mother for an extra buck in compensation, and that's completely ridiculous.

CHAIR: I hope so, speaking as a mother. (General laughter)

MR. INTRALIGI: That's exactly right. These people genuinely have the best interests of their clients in mind. They realize that reputationally if they do end up screwing their clients that they're going to lose their book of business. In these small

communities, it's amazing how quickly news will travel and they won't have a practice anymore. So I think we often paint them in such a negative light that we lose sight of the positive work that they're doing for their clients.

CHAIR: Ken, you had your hand up. I'll give you one minute on this.

MR. KIVENKO: One minute? The research shows - don't need more research - that incentives drive behaviour. There's tons of research in England, the United States, Canada, France, Germany, Japan. They wouldn't pay incentives if they weren't getting results. So they drive behaviour.

You can tell by the number of index funds, which traditionally outperform 80 percent of all actively managed mutual funds. They pay the least trailer, .25 percent or some even less or none. But they're not sold. 1-1/2 percent of assets are in the top-performing funds. Why is that? Because incentives are driving what's gets sold.

There's an old adage that I was taught by a guy that started the mutual fund business. He said, "Mutual funds are sold, not bought." That stands today, and anyone who denies that will have to debate it with me and bring evidence because I have tons, I

have 40 research reports, including one by Susan Christoffersen right here in Toronto that studied U.S. behaviour, and absolutely proved without advice that bad advice is given when you're given incentives to pick a certain product. If anyone still argues that, I would be glad to debate it with facts, not with just words.

CHAIR: We have a couple more minutes so I will offer the invitation to any one of the panel members to make a final wrap-up comment on this topic about advice as it relates to small retail advisors.

MS. DE LAURENTIIS: Maybe just a comment about the research. I agree. I think the research is key. I think we need to understand exactly what the impact may be.

I think a great example is the FundFacts. We have taken probably much longer than we should have to get that to fruition. But in the research that you did around what investors wanted, what was relevant to them, what was going to be meaningful to them, that has come out loud and clear, and I think only through looking at it, experiencing it, and thinking about it, that's what -- to me, it's that kind of research, and so to me, I just want to repeat my point, we will have a really great

opportunity to observe the models that we're talking about. Let's do that because then we're going to know beyond a shadow of a doubt which one is the better course of action.

MS. PASSMORE: I think we have to recognize that although advisors often want to work in the best interests of their clients there are incentives that exist that do alter their behaviour and lead to poor recommendations than otherwise would be. If we remove the embedded-commission model, we will remove those incentives, and we will be making it more clear what people pay for the advice and what they pay for the product.

CHAIR: I was mistaken about our end time for this panel. We have 15 more minutes. So there is a question from the audience being directed to Peter. The question is: In your submission at page 15 - so here's where you are getting examined on your text - you note, "The manager seeks to increase assets in the fund, and trailing commission payments are obviously one way of doing so"; if this is the case, how can you say trailing commissions don't incent fund flows?

MR. INTRALIGI: So this touches on a really important point. About 10 percent of mutual

funds in Canada have the ability to charge more than 1 percent. By our research, we believe that 5 to 10 percent of those are actually doing it; they are actually paying a higher trailing commission. Over 65 percent of those funds are sold by manufacturers that have tied distribution. Therein lies the conflict of interest that I think John was kind of alluding to.

So in my comments also today I talked about how compensation does have a minor, I guess, impact on the advice channel, and we would point out that where that impact occurs is when you're selling a proprietary product at a higher trailing commission through captive distribution. That's what we're referring to in our letter there.

CHAIR: Thank you. More questions in the audience?

In the meantime, let me just pick up on a point that did come through in some of the comment letters I think perhaps, Peter, from your firm and perhaps Joanne's as well, which was: There is an acknowledgement that the mutual fund industry is very nimble and very capable of evolving. It's an industry that has seen a lot of change and a lot of development over the years, that it's been such a popular method of investing for Canadians.

Again, I would sort of go back to some of the commentary in the U.K. that Joanne referred to in her remarks this morning. I think you referred to a study that was done or a report that was put out by Deloitte & Touche on the kind of early developments in the U.K. That report ultimately suggests, yes, there is change happening in the U.K. because of their having banned the embedded commission, but the way that the report pitched it was this is an opportunity for elements of the industry to come forward and service that low-net-worth client and figure out ways to provide investment products cheaply.

So wouldn't this be something that we could potentially see in Canada, that the industry will evolve to perhaps segregate or stratify between the service provider to the high-net-worth client and the services provided to the low-net-worth client if we did move away from the embedded-commission model?

MS. DE LAURENTIIS: Well, I mean, the industry will evolve, obviously. I don't think that's debatable.

I think the other point, which hasn't come out in our discussion, is that in other jurisdictions, like the U.K., they didn't just focus on one product. They didn't just say, okay, mutual funds,

we're going to pick on that product, we're going to change that pricing structure.

I think if we want that kind of broader evolution within the industry we have to really be seriously looking at the broad spectrum of products that investors could then turn to. Otherwise, I think what we risk here in Canada is picking a winner and a loser and really creating a regulatory arbitrage that we're concerned about. So I think that would have to be a precondition, that we can't answer that question within the Canadian context unless we're having that broader debate about all commission-based products, all incentivized products.

If we look at the household balance sheet now, you know, Canadians are not making their choices based on what's commission, what isn't commission. They're making choices about I want investments for the long term, I want short-term products, I want insurance products. They're making much broader decisions, which I think is a really good thing. We have become a much more sophisticated consumer in Canada for financial products. I think that's a really important question for you to think about.

CHAIR: Peter, you can jump in in a

second.

Just you mentioned the issue of picking winners and losers, and I think the thing that we can't lose sight of is the fact, as the paper pointed out, there are at the moment two major elements of the mutual fund industry at the moment: one is the bank-sponsored part of the industry, and the other is the independent firms.

So, again, should the regulators be taking account of trying to stay agnostic as to which element of that industry ultimately becomes more dominant? Should we be trying to somehow manage the situation so that we move in a coherent fashion to a particular model?

What would be your reaction to that?

MS. DE LAURENTIIS: Well, I think you have to be agnostic. By nature, I think a regulator's role has to be one that is agnostic. Otherwise, you are then inserting yourself between the investor and the provider, and there you have no idea of what could happen.

I think the other consideration in that kind of scenario is: Who is accountable, then, for the range of products, the access to products, the pricing of products to the investor? You know, if we're

unhappy with what our consumers are consuming, who do they go to complain to?

One of the other important elements of the advisor who serves the small investor is the delivery of tax-advantaged public policy programmes like TFSAs and RSPs and education programmes. To what extent will you be monitoring, will you be looking at whether those programmes are reaching the broad spectrum of consumers and people who should be taking advantage of that?

So I think there's an important accountability and responsibility issue for the regulator when you insert yourself too much into the market and don't stay agnostic.

MR. INTRALIGI: Just a brief comment with regards to the U.K. and U.S. Often we look at solutions from other countries and we don't spend enough time understanding the differences in those markets.

So, for example, in the United States, they have marketing support payments, sub-transfer agency fees, networking fees, none of which exist here in Canada.

In the U.K., one of the main reasons they wanted to separate out -- and we have substantial

business in the United Kingdom. One of the reasons they did want to ban these commissions is because all mutual funds are distributed through what's called a "platform". That is basically an intermediary to the intermediaries. It's the advisors buying through a platform and then get seeded by mutual fund companies. What was happening was those platform providers by way of revenue-sharing were saying to the manufacturers you have to pay us X percent to be on a platform. That was the conflict of interest.

So the primary form of distribution drove the solution to banning embedded commissions.

None of that applies to Canada because these mutual fund platforms don't exist. So I think we need to be careful when we're looking at other countries and saying, gee, they do it a certain way. We have to understand truly the differences in distribution between us, the U.K., and the United States.

CHAIR: Lots of hands being raised. I'm going to let Marian have her moment, and then I'm going to go to one audience question, and then I think perhaps we may have to wrap up this panel. But don't despair. There are two others coming.

MS. PASSMORE: I think in Canada we

have an inefficient market for mutual funds, given the incentive structure, and that if you remove embedded commissions you will have effective competition.

I believe the market will provide systems and structures for smaller investors, and Canadians who have small amounts to invest, to invest in product that they choose to buy and get advice at a price they're willing to pay and that the system will be more competitive as a result.

CHAIR: In fact, your comment actually has a very nice relationship to the audience question that came up that I want to pose. I think I'm probably posing this question either to Joanne or Peter or both of you. It's the question: Where is the proof that fees will increase within the fee-based model?

MR. INTRALIGI: If you like, we can give you the data from Cerulli from the United States; and also here in Canada, closer to home, we have got some documents. They're actually for internal use only. We do happen to have copies of them. But for the bank programmes, in F-class right now, minimum account balance $50,000 to $150,000, the rate starts at 1.3 percent and it goes as high as 2 percent. So that's the hard evidence here, facts.

CHAIR: Joanne?

MS. DE LAURENTIIS: The U.S. data, the U.S. accounts for 50 percent of the assets under management for mutual funds in the world, so it's not a small laboratory. It's the most concrete evidence you could ever look for. So I think that's the evidence.

CHAIR: John, I'm sorry, I think we are going to have to finish on this topic now.

I should have said at the beginning that we will have our second panel and then we will have a chance for a break so people can stand up and walk around and chat before the third panel of the morning.

Our second panel will begin, and I think I'm turning it over to Deborah to introduce that one.

TOPIC 2: UNDERSTANDING THE SERVICES RECEIVED FOR TRAILING COMMISSIONS.

COMMISSIONER LECKMAN: Thank you, Mary.

The topic for our second panel is "Understanding the Services Received for Trailing Commissions". This panel will discuss the on-going services received for trailing commissions. Among the topics discussed will be: What services are currently captured in trailing commissions, whether greater

alignment between the services provided and the trailing commission is needed, whether there is a need for guidance to dealers and advisors to clarify regulatory and investor expectations, and the role of trailing commissions in the discount brokerage channel.

So I'll start with asking the panelists to introduce themselves and provide their five-minute opening statements, and then we will go to some questions.

Doug, would you like to start?

PRESENTATION BY MR. COULTER:

Sure. My name is Doug Coulter, and I'm the President of RBC Global Asset Management. Thank you for allowing us to be here.

I'm here representing a number of entities within the Royal Bank. As I said, I'm with Global Asset Management, which is the manufacturer of the manager, but I will also be bringing the point of view from RMFI, which is our branch channel, advice distribution channel; RBC Dominion Securities, which is our full-service brokerage; RBC Direct Investing, which is our do-it-yourself or direct channel; and PH&N Investment Service, which is again a self-directed direct-to-consumer business.

What I thought I would do is just talk

about our core beliefs and we can get into questions afterwards, but just one of the things is our core belief is mutual funds are a highly effective investment vehicle. I think we haven't talked a lot about that in Canada over the last number of years, and I think that's an important point that we should talk about; certainly, access to professional investment management, global diversification for smaller clients that wouldn't get access to it, many appealing features such as dollar cost averaging, reinvestment of dividends, for the most part no commissions, et cetera.

We also believe that advice extends beyond the selection of an investment solution, and so we will probably talk more about that in the questions, but certainly, it takes into consideration after the investment solution has been decided upon retirement planning, savings and budgeting, credit and debt management, tax planning, on-going monitoring, et cetera.

We also believe in the value of advice at all income levels and all asset levels. For many Canadians, this is a cornerstone of their financial success, is the advice that they're getting, and there has been a lot of talk about that earlier this morning.

We support investor choice, and I've

heard that word a lot this morning, about choice, and so we certainly believe that clients should be able to seek advice or not, and they should be able to seek whether they want to pay for advice or not pay for advice.

We have a full series of funds available to our clients. We have A Series, which has embedded.

We have D Series, which is for direct-investing clients. Somebody made a comment that there are not really that many available. We have over 120 funds actually available through our D Series platform with over $8 billion in assets in our D Series business.

We have F Series, which is the fee-for-advice model, so clients wishing to pay for fee for advice can negotiate the fees.

We have H Series, which allows clients with larger asset classes the ability to have a different fee structure, et cetera.

We also favour - and I think this has been talked about - greater disclosure and transparency about investing in mutual funds, and that includes what the investor is paying for the manager and the dealer. Just to be on record, we do support FundFacts and CRM,

and we really believe that once those two things are implemented over the next number of years that we will have a global standard here in Canada for disclosure and transparency.

We believe that when the investors are given transparency and choice they will choose a service and pricing model that best suits their needs. So we think choice is at the cornerstone of this and so is transparency.

COMMISSIONER LECKMAN: Thank you. Atul?

PRESENTATION BY MR. TIWARI:

Thank you. Atul Tiwari. I'm Managing Director/Head of Canada for Vanguard Investments. Thank you for having us here today to speak about these very important topics.

I don't want to take a lot of time on Vanguard, but I do think a couple of points are important just to show how we're uniquely positioned to, I think, speak about some of these issues.

We do operate globally. We have about $2-1/2 trillion in assets under management. We are uniquely structured in that we are ultimately client-owned by our U.S. fund and ETF shareholders. We don't pay for distribution anywhere in the world, so

all of those assets that we have accumulated are really through no distribution payments, and we operate at cost. What that means is that all of our profits go back to our investors in the form of lower fees. So that's all driven by our ownership model.

That said, in Canada the same principles apply, and we operate generally on the same basis.

I will also say that we don't see any of these issues as mutual funds versus other forms of investing. At Vanguard, in the U.S., our mutual funds, in fact, have a shared class, which are ETFs. So we really see it all as two sides of the same coin, and what we are all about is low-cost investing and really doing ultimately the best for our clients.

I'd say that in terms of transparency obviously we are all for it. Fee transparency is very important. We believe that fee transparency not only benefits investors, enabling them to make better and more informed choices, but also for advisors because it gives them an opportunity to have conversations with their clients and to show their value-added proposition.

One of the things that hasn't really been talked about is investor education. That's

another very important piece of this because we can have all the disclosure we want, but if the investor doesn't know where to look for it or how to interpret it, it really doesn't get us anywhere. So that's another important piece, is that there has got to be more education so that they understand the negative impact and high costs on their long-term net returns.

We obviously support the CRM initiative. We think it's terrific. It does provide greater fee transparency. The issue we have with it is it's too slow. To wait until 2016 to have this new disclosure in place for investors is a long time, and to wait another few years to see how it works out -- you know, you're talking probably five, six years before we see any potential, meaningful change; or maybe this is all we need, we don't know. We'd like to see it implemented quicker.

In many ways, the drive for transparency, we believe, reflects existing trends in the financial advisor market. There is cost compression in Canada even, as long as you're talking about ETFs, and there's a growing shift to a fee-based advisory approach.

We are strong believers in the value of advice. We believe advisors should get paid for their

services.

What we also believe is that advisors shouldn't spend their time stock-picking or trying to pick the most efficient manager. We think that by using low-cost investments and having a broadly diversified portfolio it takes away the drive to keep beating the market and rather send advisors out to spend their time on value-added services like tax planning, asset allocation, discipline rebalancing, and very importantly - and this was talked about before - behavioural guidance; you know, the value that an advisor provides to clients in down markets and helping them not sell at the wrong time is, you know, really worth the fees that get paid.

Unlike some of the other speakers, I didn't get a chance to interject so I'm going to have to go off-topic here for a second.

We don't really agree with all of what's being said about the U.S. experience. We have $2 trillion in assets under management in the U.S. We see the asset-level account fees more in the range of about 1 percent on average with the advisors that we work with. To try to portray U.S. mutual funds costing as much as Canadian, that's just not going to be true. The average equity fund, when you talk about

asset-weighted averages, the average equity fund in the U.S. is 77 basis points, and that includes the 12b-1 fee, which is a distribution fee, a trailer fee essentially.

So when you're talking about a fee-based approach in the U.S., what we're seeing is lower-cost products entering into these fee-based accounts, and 83 percent of the mutual funds that are sold now through fee-based accounts in the U.S. carry no load and no trailer. So to try to say that when you add all these costs up it adds up to 2 percent, that's not what we're seeing.

So in terms of global reforms, our experience in the U.K. to date, and it's early days, is that prices are actually coming down, access is increasing. Peter's made a very good point about the distribution platforms. We don't pay for distribution so nobody wanted our product, but once the RDR came in we're actually I believe now on six of the seven major platforms. They're being forced to take us onto the platform and provide clients with a lower-cost option.

We are also seeing greater increase in direct-to-consumer. The insurance companies are stepping in and now providing products direct to the consumers.

There is some closing-down of face-to-face advice through the bank channels.

But ultimately, you know, this is something we should all keep watching. I think it's great that the regulators here are looking at it. We are in a privileged position to be able to watch what happens and adjust things here accordingly, if need be.

So in closing, I would just say that in Canada we think the most effective way to protect Canadian investors is through disclosure and education, and that allows for greater choice and for advisors to really prove their value.

COMMISSIONER LECKMAN: Thank you, Atul. Ken?

PRESENTATION BY MR. KIVENKO:

I'm the chair of the Advisory Committee of the Small Investor Protection Association, the group that is supposedly going to be disadvantaged if trailers disappear.

We have a lot of experience talking to small investors. Our members are all small investors. A hundred percent of our complaints, except for the few that are coming -- not increasingly, I must admit, from seniors are from small investors. The complaints go from excessive leveraging, to churning the account, to

non-disclosure, fraud. You name it.

The mandate we have for this panel is to discuss what's covered, and I'll try and give you our view from what we see and what the regulators say.

What's supposed to be provided, according to FundFacts and the prospectus, is services from the dealer and advice. That's what you're paying this trailer for. That's what the legal documents say.

The services that we see being provided are legit. A broker or a dealer has to have a business. He's got to have people, he's got to have an infrastructure, he's got to have a computer system, he has to capture the account information, the know-your-client. He's got to do compliance, he's got to pay to be part of a regulator, IIROC or MFDA. He has to pay a fee to be a member of the Ombudsman for Banking Services. He's got to do the transactions, he's got to issue transaction slips every time you are being sold a fund. He has to provide a report, could be monthly or quarterly, or even annually in some cases, but they provide reports.

So they do things, they really do. And someone has to pay for that. So there's no problem.

In the case of a discount broker, when you make a transaction it's $9.95 or $25. It's not a

lot of money, but that covers those kinds of expenses. Very legitimate.

And some account reports are very good. Most of them are very bad. Delmar did a study of mutual fund reports in Canada and rated them horrible. The vast majority did not even have the percent return that people were making, they were disorganized and so on. Some rated high; most were very poor. Delmar is an internationally recognized firm for looking at various aspects of the mutual fund industry. Canada rated poorly.

By the way, Morningstar just put out a report. The only country of 22 on mutual funds that ranked an F, which was lowest rating they give, which means it's high relative to other people.

Getting back to the advice part -- and we're not lawyers, but I believe we understand this pretty well. When you look at the registration, people are not called "advisors". They are now called "dealer representatives". They used to be called salespersons. Somehow it changed. In a new National Instrument it went from a "salesperson", it became a new name, "dealer representative". I thought "salesperson" was actually a better representation, but that's what it is.

A dealer representative has to do certain things. He does provide services. He has to make sure that there is a Know-Your-Client form, he has to know what your goals are, what your objectives are, your risk tolerance, we're saying he should also understand the loss tolerance, but your time horizon. He has to understand who he's dealing with. He also has to understand the product that he's selling. We've seen so often that funds are sold where the advisors aren't adequately trained, like on the ETFs, the leverage in reverse. They themselves didn't know what they were selling. Same with asset-backed commercial paper and various certain types of mutual funds; they were talking capital where they didn't really understand what's going on. But anyway, they are licensed, and they are allowed to sell them.

The other thing they need to do, then, is once they know the product and they know what you're looking for, what you're supposed to get, they have to make a match and make a recommendation.

They make a recommendation, and the recommendation has to fit into a portfolio. In other words, you should have a balanced portfolio with maybe a bond fund and others so that it has to match your risk tolerance. They can't do it only with equity for

most people unless the risk tolerance was "I don't care what I lose, I'll lose it."

Mostly, you have to design a portfolio. This requires suitability. Suitability is regarded as the lowest standard for determining a fit between the buyer and the seller. There is nothing lower other than just schlock selling. The best-interest standard or the fiduciary standard, which is being vigourously opposed by some in the industry, would require the best interests of the client to be served.

So what we are saying is that the services are there, there are services provided, but the standard for them, the bar has to be set higher and, as Paul has told me, the bottom has to be set higher as well. They're both too low.

Once this is done - and getting rid of the commission incentive will do that - I think we have a very good solution to a socio-economic problem; namely, our pension and retirement savings.

COMMISSIONER LECKMAN: Thank you, Ken. Greg?

PRESENTATION BY MR. POLLOCK:

Thank you very much for the invitation to appear this morning.

Currently, in Canada, over 10 million

people receive advice from financial advisors, most of whom are paid by the providers of the products they recommend. One of the biggest benefits of this arrangement is it offers consumers affordable access to financial advice. This is of particular benefit to those investors who have modest amounts to invest and, therefore, would likely not be willing or able to pay a separate, more costly fee for advice. Happy to pursue the behavioural economics conversation in a few minutes.

In return for trailer fees, advisors provide a number of services to clients, including but not limited to the following: the development and monitoring of investment strategy unique to the client's circumstances, portfolio rebalancing, proper account structure - that is, RSP's, non-registered TFSAs and so forth - and appropriate placement in those accounts; continue to understand the client objectives and risk tolerance; introduction of alternative strategies if appropriate; possible development of a financial plan, either holistic or modular; overarching advice, including investments, risk management, charitable giving, debt management and savings; periodic consolidated reporting, periodic face-to-face meetings; facilitation of access to outside tax and

investment specialists; management of client behaviour - that is, talking clients through the tough times; and consistency of an advisor, not dealing with a different person at every transaction.

In Canada, the majority of advisors work with Main Street Canadians, not affluent Canadians. In fact, the average Canadian invests $2,500 to $2,800 a year into all investments, including mutual funds. For Advisors who will start charging separately for the services they already provide in exchange for trailer fees, which is what the CSA is contemplating, financial advice would become unaffordable, and therefore inaccessible, to the average Canadian.

There is a growing need to increase access to professional advice in this country. Many Canadians are struggling to meet their retirement goals. Our household debt levels have never been higher, two-thirds of people don't have a workplace pension plan, and we are living in an era of public pension and health care reform. The broader economic impact of reducing Canadians' access to financial advice is more reliance on government for their future financial needs. As government faces increased economic and financial challenges and the pressures of

an aging population, the financial security and independence of Canadian households is vitally important. So any proposed securities regulation should support general government policy and consider the larger picture.

Clearly, consumers face a daunting challenge in assuming greater responsibility for their own finances. Evidence shows that those who obtain professional advice will be better prepared financially.

The 2012 CIRANO study - and we have heard about it - on the value of advice demonstrates that those who work with an advisor have two to three times more assets, save twice as much, and have a higher level of retirement readiness than those who don't work with an advisor. Think of your physical fitness advisor who helps you at the local health club.

While the CSA might think investors would be better served if commissions were banned in Canada, choice in how one wishes to pay their advisor is important. Currently, Canadians have a number of options with respect to advisor compensation.

Giving consumers choice also ensures a competitive marketplace. Advocis supports many business models and a variety of compensation

structures because it's the right thing to do from the perspective of the consumer. What we want to avoid is following the lead of other jurisdictions that have banned third-party commissions. Early indications suggest that in these jurisdictions it is now more difficult for Main Street citizens to get advice. Read this week's papers in the U.K.

This is not what we want to have happen in Canada. It goes to my earlier point of ensuring securities regulation supports broader government policy.

Already the U.K. has lost 25 percent of its advisor distribution network because of its commission ban. That's debatable. It is estimated that 5.5 million U.K. consumers will no longer be able to access financial advice. Proportionally, in Canada that's 3 million investors. If we take steps to exclude those who need advice the most, then we have undermined general government policy that is calling for greater individual accountability.

Furthermore, we don't believe consumers will be well-served by the CSA's consideration of a checklist in which advisor services will be specified and provided in exchange for trailing commissions. While the CSA believes that such a list would justify

the payment of trailing commissions to the advisor, this would in no way guarantee that an advisor's guidance and judgment is being used to determine the best course of action for the client.

There is no question that we need to see change within the financial services sector, but we really need to be careful what any changes proposed do; that is, that they do not restrict financial advice, and that they, in fact, increase the quality of advice.

This is why we believe that the answer to increased advice is increased advisor professionalism. Consumers would benefit tremendously from a requirement that their advisor meet on-going proficiency standards, satisfy continuing education requirements, and adhere to a code of professional and ethical conduct that ensures the client's interest is always put first.

We believe that with this approach consumers are better protected by knowing their advisor is held to a higher standard, not by having their freedom to choose how they pay for advice stripped away.

Thank you.

GENERAL DISCUSSION ON TOPIC 2:

COMMISSIONER LECKMAN: Thanks, Greg.

So I'd just like to focus a bit on this amount of services that are provided by an advisor. If we could stratify this a little bit, because I think we all agree the higher-net-worth clients are well served and they do get the advice and everything, but if we are focusing here on clients under $100,000, or perhaps even under $30,000 because they use the bank channel, the list of investor services that Peter provided, such as financial planning, plan reviews annually, retirement planning, education planning, tax planning, estate planning, investment planning, cash management, trust planning, succession planning, debt management, life insurance planning, and talking through tough times, would you agree that clients in the lower stratosphere, $100,000 and under, do not get those services as the high-net-worth clients would? And who would pay for them?

So if you're paying 1 percent, whatever, do those clients -- and I have worked in the wealth industry so I have my own view. Do you actually agree that those small clients actually receive all those services that they are supposedly getting in the embedded fee that they don't know they're paying?

MR. POLLOCK: I'll try, Deborah.

You know, this is about building

long-term relationships with one's clients. This is not about an exchange one month, one year, that kind of thing; it's building up that relationship over a long period of time. So it may be at the outset when you look at those trailing commissions they're really not covering the cost of those services, but when you average that over a lifetime working with those clients, then the financial advisor is properly remunerated by that client. And so one has to look at that holistic approach.

It's not just about product transaction. If that's what we're talking about, then there is an issue. We need to look at that much bigger picture, working with the client on an on-going basis, looking at all of their life events as they unfold and how are we going to meet the needs, the financial needs that that individual requires in order to be a productive individual within the family structure, let's say.

COMMISSIONER LECKMAN: So if I could just clarify what you're saying, if an investor has $50,000 and is paying a trailing fee that they don't know they're paying, they're probably not receiving all the services that are purportedly given to them?

MR. POLLOCK: No, I'm not saying that

at all. So in that case, that's $500. What I'm saying is that if I'm getting $500 to advise that individual on all of those services, I'm really not being properly remunerated.

But over time when working with that client, that portfolio is going to build, number one, and there will be other products and services that you end up selling to that individual. And so over time, on average, you will be properly remunerated by that individual. But to be paid $500 a year to provide all those services, that's not a reasonable fee at all.

COMMISSIONER LECKMAN: So, Greg, you're saying at $500 you don't get those services.

MR. POLLOCK: No, that's not what I said. Sorry. That's the second time you've said that.

COMMISSIONER LECKMAN: You said you weren't being properly remunerated.

MR. POLLOCK: What I'm saying is you're going to provide all those services but only receiving $500 in that particular case, so you should be receiving probably $1,500 or $2,500 for the kinds of services you're providing that particular year, but you will benefit in the future when you look at the total

revenue over time.

COMMISSIONER LECKMAN: I'm clear now. Thank you.

Doug?

MR. COULTER: Yes, just I think maybe to add some colour around that, at RBC we are now talking about our RMFI branch channel, and I think that's what you're trying to get at, is the smaller investor.

We have over 2 million clients that we offer advice to through that channel; 65 percent of the clients have mutual fund balances that are less than $25,000, so I think it leads to that. The other interesting thing is 75 percent of Canadians have less than 50. So I think we are on a good point here in terms of what's going on. Certainly, we have heard a lot about advice and service, and we have gone through the list and talked about all the other things.

The other thing that is I think part of this is when we pay the dealer we think we are paying for advice and service from those representatives, but we also think we are paying for access for our clients. I think you need to have all three for the relationship to work well. You could have great advice, you could have great service, but if you don't have access to

people properly, then Canadians don't get to use it.

We have over 1,200 branches in Canada, we have over 8,000 licensed representatives, we offer 24/7, 365-days-a-year telephone service for people to call us and again deal with a registered representative. We have over 3,000 accredited financial planners to talk to someone, making sure accreditation is there, et cetera. I think that's an important piece to bring into it. You really need to have all three of those to make the relationship work well.

On average, I think right now our Select portfolios, which is what we sell a lot in that channel, our client holdings are over ten years in it, and I think that gives the clients in terms of turnover and all those other things -- I think ten years is a good opportunity for clients to reach the goals that they're trying to reach. So I do think that those clients are being well-serviced in that marketplace at that dollar amount. It's a salary-and-bonus structure that we have in place, and so there isn't a direct correlation between the amount of trailing fees you get to make sure that clients are getting, I think, a reasonable value proposition.

COMMISSIONER LECKMAN: Do you sell

mostly proprietary funds in that channel or third-party funds as well?

MR. COULTER: We sell third-party funds, but for the most part we sell proprietary funds, but in our proprietary funds we have acquired a number of managers over a number of years, and so all Phillips, Hager & North, RBC, BlueBay out of the U.K., and Voyager Asset Management out of the U.S. would all be included in that.

And just a further point in terms of access, because I think we haven't really talked about it, but RDR is -- you know, we are in I think the very fortunate position that we can start to look at what the experience is in RDR, and I think it's early days, and so I think there is lots more to watch here, but early on there were a number of withdrawals in this very important public policy; we're talking about retirement and pensions for clients.

Right now, Lloyds Bank withdrew from the retail customer advice market, HSBC withdrew from providing retail advice, Barclays Bank withdrew from providing retail advice in the branches, Aviva has withdrawn and closed face-to-face investments. So those four people there represent about 50 percent of the market share in the U.K., and I think that is going

to be very harmful to U.K. residents.

CHAIR: I did say we would let Peter clarify his list.

MR. INTRALIGI: I just want to make sure, if we are going to quote the services, we were not suggesting at all that every advisor provides every service. We actually have the ratios of how many clients get those services provided. For example, business succession planning would only be relevant to people who own a business, and 20 percent of advisors said they provide that service. So it wasn't meant to be an exhaustive list, that every advisor does these services for every single client.

COMMISSIONER LECKMAN: Okay, I'll take that one off.

MR. INTRALIGI: I'll give you the percentages.

MR. COULTER: The other thing, I think one of the things that was a question was how do we check back to make sure that clients are getting this on-going. So one of the things we do is we actually run client surveys every year to see how many times clients are being contacted, and we have got the statistics around that, and how many clients are actually getting a plan. And so that's something that

we try to make sure that we have got an annual check-in with our clients on.

CHAIR: Can I just follow up on that and sort of bring some of Greg's comments into this as well? Because whether or not it's this particular list or some other list -- Greg, you made the comment about individual accountability at some point in your remarks, and Doug is just indicating that from the bank's perspective there is some compliance check with the clients to see whether they're getting certain services.

So if we were interested in individual accountability and if we sort of seem to generally believe that there is a range of services that advisors provide to clients, why wouldn't we at least try to establish some kind of minimum threshold of service that is being provided in return for the trailing commission? Ken mentioned it's half infrastructure and regulatory costs and then half advice-type services.

So why is it that we wouldn't say, okay, here's the universe of things we expect you to be providing to your clients in return for this commission?

MR. POLLOCK: Thanks, Mary. I do think it's worthwhile having a conversation, so I don't want

to leave you with the impression it's not. I just think we need to be cautious that we don't just create some more lists and people simply check the list off and, yeah, I did this, I did this, I did this and I did that; therefore, I'm compliant.

That's not going to serve the needs of the client and that we really do need to have a very in-depth conversation with clients about their needs and their on-going needs. That's what's really critical and that's what's really paramount in terms of serving the long-term needs of those clients.

So there might be a way to capture that in some kind of paper format. I'm not saying there's not. Again, we just need to be cautious that we just don't rush to doing checklists and saying it's all done and I'm good.

MR. KIVENKO: I happen to agree with what's being said by the two folks who represent actual advisors representing the small investors. We're not salesmen; we accept consumer services. We think proficiency definitely has to be improved. I've listed a few problems that we've seen.

Mis-selling. There's more than that. There was a lot of bad advice, tax advice on TFSAs, where they told people you can take it out, put it back

in. Turned out they're all being served notices by the CRA.

These advisors who sell mutual funds, that are limited to mutual funds, can basically take a correspondence course - and that's why I hate using the word; when I'm writing it I put quotation marks - are not "advisors". These are people who have been taught a certain minimum amount, they take a correspondence course and write a multiple-choice exam. There are many that are above that, but there's 80,000 or so, that's all they've done. For them to be unleashed on people -- and I see the result because we handle complaints. I do 150 complaints, our team of, a month from all people. The things that are being sold, it's incredible, including these returns of capital where they think they've got money that they haven't, and one day they have to pay tax, and they realize that they've lost... You know, just horrible products.

So proficiency we absolutely agree with.

The best interests we also agree with. But it's incompatible. Those are incompatible with a commission-based system and a suitability system. They're not compatible. You can't have a professional conduct with doctors getting paid by how much drugs

they've sold. They don't go together.

So although we agree, it's a whole package of reforms that are required. I don't believe you can just do the trailers. You have to increase the proficiency, you have to put a best-interests standard in or fiduciary standard, and eliminate the embedded commission. If all you do is take away the embedded commission and you don't improve proficiency and you don't apply best interests, you're not going to gain that much.

COMMISSIONER LECKMAN: Thank you. I think Atul's been waiting very patiently.

MR. TIWARI: I'm glad you came back to me. Otherwise, I wasn't going to ever cede my position again...

I just wanted a couple of points. I want to be clear that we're in favour of transparency here and not necessarily immediately banning embedded commissions. So I think some of the conversation has been around, you know, if we do this, gosh, the low-balance investor will have nowhere to go. I don't think that's the conversation we need to have.

I think it's making sure that investors with the lower balances understand what they're paying for and having an opportunity to make a decision as to

whether they're getting value for that service.

The other thing I just wanted to clarify on the U.K. issue is that, yes, we're seeing the face-to-face channels shutting down to some degree, but, as mentioned, there are other direct-to-consumer channels opening up, and, in addition, greater access to low-cost product as we talked about.

One of the other important things, and we have touched on this, is we're talking about securities investments here, but when the U.K. moved to ban the commissions some of the other steps that they took to address the possibility that the low-balance investors would miss out were in other areas like, for example, the NEST programme, which is an auto-enrolment DC plan for lower-paid workers, and so there are other things that could be done outside of the securities framework if there's a feeling that some of the lower-balance clients or investors would be left with nowhere to go.

COMMISSIONER LECKMAN: I wanted to follow up on a point you made about the transparency, about it had to be tied to investor education. Is it your view that it's incumbent on the advisor to provide the education to the client as to the fee structure and options that they have, or do you see, again, the

regulator or some kind of other service having to provide the education? Who does the education to the client in the end?

MR. TIWARI: That's a good question. I mean, I think the responsibility lies with every stakeholder in the industry. So it's not just advisors, it's not just the regulators, and it's not just the manufacturers. I think everybody should have some responsibility for providing some degree of education around the negative impact of high fees over the course of your investing life.

You might even take that further and say the education system. I mean, start educating people when they're young on these issues, and over time, by the time they retire, the lower fees that they might incur and lower-fee investing will compound to give them a happier and healthier retirement.

So I think it's pretty well spread throughout the industry.

That said, you know, when we do get to greater transparency in fees and performance through initiatives like the CRM, I think advisors again should take that opportunity to sit down with their clients and talk through the fees and talk through the services that the advisors provide for those fees because in a

number of cases that's really all that would be required, and investors would say that, hey, I am actually getting good value for the fees that I'm paying. And if not, then investors can make their choice there.

CHAIR: Can I just interject there? Because I think from the questions that are coming from the audience, I think a number of people in the audience think that there is a certain amount of ducking-and-weaving going on about the services that are being provided in exchange for trailer commissions.

Can we really focus on this issue for a moment and get some clarity about what panel members think is a reasonable set of services that are provided in exchange for the trailing commission, bearing in mind that some of the services that have been discussed are presumably services that would pertain to people's portfolio generally, not just the mutual fund aspect of the portfolio that they might have?

MR. POLLOCK: Sure, I can give it a shot if you want me to.

In preparing my notes for this morning I actually spoke to a number of advisors about the activity that they conduct with their clients on a regular basis, and I asked them to sort of give me an

idea of typically what are you doing. And so that list I read out quickly, given the five-minute limitation, really speaks to the activity that these advisors go through on an annual basis.

So I hear the ducking-and-weaving, happy to speak to individuals about that during break and afterwards and so forth, but these are passionate individuals. They are looking at long-term accounts, long-term relationships with their clients, and if they're not delivering service, then these clients will go elsewhere; it's as simple as that. So they need to demonstrate value on an on-going basis. So all of those kinds of things like rebalancing the portfolio or, again, what's happened in your life in the last year since we last met, you know, right, and, well, you know what, we're thinking of selling the house, the kids are just entering third-year university, whatever it might be, and --

CHAIR: That is being compensated by the trailing commission from the mutual funds?

MR. POLLOCK: That's all part of the overall dialogue that you're having because if you're -- I mean, some advisors will charge a separate fee, let's say, for modular financial planning, whereas other advisors will say, no, because I'm being

compensated through a product like trailer fees from mutual funds, then I don't have to charge a separate fee for that modular financial plan or that holistic financial plan.

So there are all these various models out there and combinations thereof, and individuals are offering these different business structures and are competing with one another out there in the marketplace, and consumers are free to access the type of structure that serves them best.

COMMISSIONER LECKMAN: So one of the services an advisor provides is reviewing each and every mutual fund to find the correct one, the best one to buy for a certain client, based on their objectives and risk tolerance and that sort of thing.

So perhaps someone on the panel would like to address the fund-of-funds structure that is growing right now that has a higher fee structure, where you've got a wrap product, everything's been chosen for you; all you buy is the package off the shelf, and off you go. There doesn't seem to be a whole lot of research to do when you've got the package to buy with the individual funds inside, and if you're in a bank, they are predominantly the bank funds anyway.

Secondly, there are the lifecycle funds, so once you get into them you kind of just stuff your way down to retirement. Again, not a lot of 'I need to meet with you every year to find out if you've aged a year and you need to go into different asset mix,' that type of thing.

So perhaps you could talk, Greg, about how do you explain the higher fees that are usually found in fund-of-funds structures than on an individual-fund basis.

MR. POLLOCK: Clearly, what is happening is 70 percent of mutual fund representatives across the country hold other licenses to sell other products. Many of them are certified financial planners or hold other designations related to the industry, and so my sense is that a lot of people are thinking that at least the group of individuals that we represent -- and very few are on the bank side. There are some. You know, we would have some folks from RBC Dominion Securities, for example. But the majority of our members are independent financial advisors, some career advisors with companies like Sun or London or, as I say, RBC DS and so forth. When they sit down with individuals, it's not just to sell them a mutual fund. That's not what they're doing. It just doesn't reflect

their business model whatsoever; they are looking at a whole host of products regulated by different regulators - in some cases, not regulated at all - and providing this on-going advice about what is best for you as you move forward with respect to your financial health.

What I am saying, Deborah, is that some of the compensation that they receive through various products pay for that on-going, broader advice that they are receiving. If they were not receiving compensation through an embedded structure, then they would need to receive it some other way. And, in fact, in some advisors, that's what they do; they don't receive any compensation through embedded structure, they just simply offer, for example, a comprehensive financial plan. 'I'll charge you $1,500 for this comprehensive financial plan.'

The problem with that is -- you know, I used the health club analogy earlier. If you have your fitness plan and you never actually go to the club or even if you do go to the club you don't have someone there to encourage you in terms of various things that you need to do to become more fit, often you just don't get it done. So you need that on-going support from that financial advisor to implement that plan.

COMMISSIONER LECKMAN: So, Ken, perhaps you'll address the fund-of-funds question.

MR. KIVENKO: The fund-of-funds basically, as written in the paper, collects proprietary funds, usually not the cheapest ones. They're from the company preparing the thing. They put it together and charge equal, or more, for the service, and that theoretically gets rid of the choice of the asset allocation and it gets rid of the rebalancing. Obviously, that takes away a lot of work that the "advisor", quotation marks - I have to do that all the time because I don't believe they're professionals by and large, or trained - has to do.

So what does he do with the extra time? We can't find what he does. Some of our people, I asked them. And we have got access to thousands. We give speeches to seniors groups, schools. We are all over the place throughout Canada. We ask them: What did you actually get for your advice? They tell you they go at RSP time, they sit down for an hour, half an hour, maybe hour and a half; they're told which funds to buy, there may be some adjustment, and that's it. One hour, two hours a year. Some get more. Some actually -- I've seen a financial plan with one in eleven years.

If you look at...I forget the name of the organization in Ontario that takes over people who are not competent and there's no family, the Trustee, Public Guardian, he is quoted as saying he's seen 10,000 in one period; not one had a financial plan. Not one. This is scary.

The IIROC Annual Report said the number one systemic issue in Canada, for them, for IIROC dealers: Suitability. Systemic. The MFDA reported suitability as the number one issue. "Suitability" means that what's being sold is appropriate for what is needed.

The latest one is from the Ombudsman. He said that it's also the biggest issue, and not only that, when he looks at complaints, I think 43 percent of them had to be overturned from what the dealer had originally said was an invalid case.

Now, that is scary. Four out of ten. In other words, either people don't know what "suitability" means, and that's possible. It is a very foggy term, and it's open to wide interpretation. No matter where you look, our complaint files, we could work -- I'm retired. I could work forever 24 hours a day and not deal with all the complaints.

Why is the debt-to-income ratio the

highest ever with so many advisors out there? Why are so many people worried about their retirement. Why? Things were supposed to get better. My parents didn't have an advisor, but somehow I ended up going to university. They didn't buy expensive products.

Morningstar has proven that the higher the cost of the product -- the MER is the biggest determinant of performance. 80 percent -- and I don't think anybody will argue with me, and I've checked GlobeFund. 80 percent of mutual funds after ten years fail to meet the benchmark. So if you bought an ETF at one tenth the price, you would get the same return.

So why sell them? It's a product that has become so expensive due to the trailer with unknown benefits from the advice that it has become a dysfunctional product even though I believe in mutual funds.

COMMISSIONER LECKMAN: Thanks, Ken.

I did want to turn the conversation a little bit over to the discount brokerage channel.

So, Doug, for you. If the cost of distribution in the discount brokerage channel is the same or substantially the same as the cost of distribution in the full-service channel because the embedded commission is paid in each channel, is it

reasonable for the consumer to think, inaccurately, that advice is free? And why is it that the trailing commission is the same charged in the do-it-yourself channel?

I'd also like to add to that. I know you have 120 Series D funds. They're all bank funds. Do you sell third-party Series D funds or Series F funds in the discount channel, if you do? Or if you don't, why not?

MR. COULTER: Well, we will start with, I think, the discount channel, or Direct Investing. The trailing fees aren't all the same. So I think that was part of your question. And so with us introducing the D series we have substantially reduced the trailing commission, and it's typically between 10 and 25 basis points. Again, these are bought with no commission so there's no commission charged. I think Atul talked about ETFs. So there's no commission at onset or getting out of these funds. So we do pay that substantially reduced trailer fee, which brings down the cost, I think to John's question earlier about clients getting access to cheaper investments where they don't want to pay advice. I think that that's been introduced. It is over 120 funds.

In terms of some of the other firms,

I'm not sure we offer all the D series funds, and I think Direct Investing -- again, I guess I'm here representing Direct Investing, but they don't offer funds, I think, if they're not being paid a trailer fee, and I think it's really commercial value for them that, you know, putting something on their shelves that they're not going to make money on is expensive for them, and so they made that decision.

COMMISSIONER LECKMAN: So to be clear, if someone wanted to come onto your platform that's a third-party fund and offer a Series D platform, you would allow them on your platform?

MR. COULTER: We would allow them on our platform.

MR. DE GOEY: Just a very quick point.

In the earlier part of the discussion we talked about choice and about how people should have a choice between whether they paid an embedded compensation or a direct fee.

I think it logically follows that if you believe in choice, then if you're an investor who wants to forgo advice, you should have a choice not only as to whether you pay for it one way or the other, but if you forgo it that you can choose to not pay for it at all and do it on your own.

Right now, that system doesn't exactly exist. If we really are serious about giving people choice, then one choice is I don't want to get advice, and, as a result, I shouldn't be forced to pay for it.

COMMISSIONER LECKMAN: It was just my understanding that on most bank-owned discount platforms they are reticent to allow other than their own products on that platform. So I was under that impression.

MR. COULTER: The other thing I think that is important is...so we're charging, as I said, on an equity fund 25 basis points for the trailer, but we have all talked about the trailer; it's not just the up-front, what you should buy or sell, so that's certainly been taken off the equation.

But if you think about access, service and advice, and you sort of look at those as a pie, you know, you can sort of look at what percentage of that trailer you get for it, and I think when you look at it in a discount channel a lot of those have been taken off the table, and that reflects the 25 basis points or the 10 basis points or what have you.

COMMISSIONER LECKMAN: So I have a final question for Atul, and then maybe there will be some more questions from either the panelists or from

the audience.

You came into Canada and chose only to use ETFs. What was the business reason you chose not to offer your conventional mutual funds that don't pay trailers in Canada?

MR. TIWARI: Good question. Well, Vanguard actually looked at coming into Canada for well over 20 years; I'm told this was the seventh business plan that had been put together. We are a pretty prudent and deliberate organization, to say the least.

The original barriers all had to do with paying for distribution. Again, Vanguard doesn't pay for distribution. So when you look at the structure of the market in Canada, it would be a tough slog to kind of come in and have a business proposition that's based around trying to sell mutual funds without a trailer. The costs that you would incur in putting together the infrastructure to try to get something like that off the ground -- and Doug knows very well, given that RBC had purchased PH&N. I think when PH&N was bought there were probably about $3 billion in assets, if that's about right, through the direct-to-consumer model. And so Vanguard, basically like any other company, looked at the economics and decided that the market wasn't ready for Vanguard.

Now, what's changed is that in the U.S. Vanguard was started as a direct-to-consumer model and it's just worked very, very well, but over the last ten years, in the U.S. Vanguard's developed a financial advisor business all built around ETFs. So the advent of ETFs has actually made it possible for a company like Vanguard to come into Canada because we don't pay trailers on our ETFs or on any of our products. As the fee-based business grows amongst the financial advisor population, our business model fits very well with that. As you know, low cost, no trailers, and advisors do well by charging the account-level fee.

So what we're seeing actually globally is that those changes are, as John had talked about, really changing the marketplace in a number of countries towards low-cost investing. And that's exactly it.

At the end of the day the advisor will do as well as they would with embedded compensation products; the investor does better because they're actually paying less for their overall portfolio; and then by using as a proxy in the portfolio low-cost index funds or low-cost ETFs, the overall performance of the account over time is going to be much stronger to the investor.

So we see these developments as very positive globally, and we see them continuing to develop in Canada, and hopefully, we will play a part in continuing that sort of growth.

CHAIR: Atul, one of the members of the audience wants to ask you to clarify a bit more your earlier comments about the average fee paid in the U.S. as compared to Canada. You stated that the average fee for an equity fund in the U.S. in your company's experience is 77 basis points. The question is: Does that average include the significant asset pools in 401(k) plans? The point being that those pools don't exist in the same magnitude in Canada, and so that if you took those out of the equation that the appropriate number in the U.S. would be higher. So I guess it's really a question about economies of scale and whether we can attempt to achieve that in Canada.

MR. TIWARI: Right. Yes, those numbers are industry-wide, so that would include any distribution channels. So the answer is yes, 401(k)s would be in that number.

Industry-wide equity funds, it's 77 basis points. Bond funds, it's 61 basis points. Those numbers have come down in the last 20 years, so in equities funds by 20 percent, bond funds by 30 percent.

Basically, what we're seeing, again just to tie that in, is a dramatic increase in fee-based models through advisors, and what we are seeing is that within those models of business what's happening is that advisors, as well as investors, are going to low-cost investments within those models to ultimately deliver better performance to their clients.

MS. DE LAURENTIIS: If I may just interject one point? This is related to the 77 basis points. We don't disagree with that general number, and with the 401(k) it is higher.

I think the question is really: What does the investor end up paying?

Atul, you have mentioned that these go to advisors, and then advisors distribute them to investors. So I think in order to get what the investor pays, you've got to add the cost of advice. You know, it's the cost of ownership that is relevant.

In the Morningstar report you mentioned that has recently been produced, that point was made quite clearly, that the transparency of U.S. fees, if you look at it from a cost-of-ownership perspective, is difficult because the posted rate, the fee, does not include advice.

So I think it's important for us to understand that and not make a comparison of the management fee that is paid to the advisor and the cost that the investor ends up paying.

MR. TIWARI: Actually, the 77 basis points includes the trailer. That's the distribution fee.

I think what you're saying is if you buy through a fee-based advisor there's an additional cost, and that's accurate. But when you look at, again, the 77 basis points, it includes the equivalent of a trailer.

MS. DE LAURENTIIS: But 80 percent of investors in the U.S. do buy through an advisor. So I think that's the comparison I think we need to make.

MR. TIWARI: Sure. They might. And then, again, in a fee-based account, 83 percent of those mutual funds carry no trailer or no load. We can talk about this forever, but at the end of the day I don't think you can characterize in the end that investors in the U.S. pay the same as Canadian investors.

MS. DE LAURENTIIS: We can agree to disagree.

MR. TIWARI: Thank you. That's fair enough.

CHAIR: Yes, I think this is not something we're going to solve this morning, but it certainly gives us food for thought as we move forward.

I just had one quick question for Doug. I didn't quite get that whole list of the four significant firms that you said were withdrawing from the U.K. retail space. I know two of them were Lloyds and Aviva.

Would you expect that if we were to move in a similar direction in Canada that it would be firms of a similar size that would exit from the retail space in Canada?

MR. COULTER: I don't have an answer for that. I mean, I think there are lots of variables here. We have to see what it would look like and what outcomes were, et cetera. I'm not even sure...

I haven't dug into this enough to really get to the root of why these four firms aren't doing this anymore for retail investors. So I think we are in an enviable position in Canada, is that we do have an opportunity. We have got disclosure coming, we've got FundFacts coming, we've got changes to CRM 2, and we have got an opportunity to really look at what's

happening in other marketplaces because they've introduced some of the things I think we are all talking about today.

But to answer that directly, I just don't have enough information.

COMMISSIONER LECKMAN: So I think we have reached 11:12, which is pretty close to our break time. I think everyone could use a break. We will be back here promptly at 11:45. Thank you.

--- Recess taken at 11:13 a.m.

--- On resuming at 11:47 a.m.

CHAIR: Good morning, everybody, again.

We are delighted that the break prompted so many animated conversations among the group here, but we also feel compelled to give our last panelists equal time in the discussion so we need to get started.

We are about to embark on our final panel, and I'm going to turn over the chair role to my fellow Commissioner, Sinan, to get the ball rolling on our final topic for discussion.

TOPIC 3: THE IMPACT OF CURRENT DISCLOSURE INITIATIVES AND WHETHER REGULATORY ACTION BEYOND DISCLOSURE IS WARRANTED AT THIS TIME.

COMMISSIONER AKDENIZ: Thank you, Mary,

and thank you to the panelists.

I thought the first two topics were great discussions, and most people agree with me because most people seem to have come back after the break.

As we move to our final discussion point, perhaps it really is the crux of the question, which is what should we do and when should we do it. We know we have moved forwards on disclosure initiatives, on CRM 2, on point-of-sale disclosure, but is the traditional route that the CSA would take of disclosure sufficient for this market? So that's the question I'm going to ask the panelists to address. Same format. If you would please, just take a few moments to introduce yourself, and then five minutes of comments, and then we will come to questions.

Maybe we will start with you, Sian.

PRESENTATION BY MS. BURGESS:

Good morning. My name is Sian Burgess, and I work for Fidelity in the capacity of fund oversight.

We, at Fidelity, believe investors should understand the costs of ownership of mutual funds, but they should really understand the cost of all of their investments, not just mutual funds. Right

now we don't believe that investors have the same transparency across different investment products.

My basic position is although we do believe in transparency we do not believe that regulators should regulate mutual fund fees. You asked that question, and that's our answer to that.

I do think that we can be informed by the international landscape. I realize that some of these jurisdictions that are moving to changes have different infrastructures, but there have been some interesting international studies.

The Australian regulators actually performed their own research and came to the conclusion that Australians were only willing to pay $300 a year for financial advice, but the regulators themselves concluded that the cost of advice in Australia actually amount to about $2,500. The Australian regulators were worried back in 2010, before they brought in their initiatives, that there needed to be a solution to address this potential gap because they recognized that retail investors do much better with financial advice.

Of course, the situation in Australia is different. Australians have the benefit of a superannuation fund for their retirement where 9 percent of their earnings must be contributed to a

retirement fund and excess investments through mutual funds supplement Australian retirement savings. Nevertheless, the Australian regulators were still concerned about this gap because they recognized that the 9 percent was not enough to meet the needs of Australians for retirement.

As you also know, the regulatory structure in Australia is very different. The same regulator regulates banking products, insurance products, and securities products. So when they brought in these new changes they applied to all competing products. We need to be mindful of that in Canada as we think about the changes we are proposing for securities products, I think.

Another paper in Australia examined the importance of financial advice to savings rates in Australia and concluded that financial advice actually does improve savings rates, so similar to the research we have seen in Canada and other places around the world. It is hard to dispel that kind of research when it is coming out of several jurisdictions by people like KPMG in this case. So we shouldn't lose sight of the potential impact on Canadian savings rates. In that study, that study actually created an economic model which tied the impact of savings from financial

advice to the health of the Australian economy.

In the United Kingdom, research was done to consider the move to a fee-based remuneration model for mutual funds, and the paper asked whether retail investors would be willing to pay a fee for financial advice. And I should admit that this is a Fidelity paper. I didn't even know it existed until IFIC found it. It was done jointly between Fidelity and the Cass Business School.

That research concluded that most U.K. investors would not be willing to pay for advice in a fee-for-service environment and that financial advisors would not be able to afford to service smaller accounts, and they called that the "guidance gap".

You've already heard a lot about the U.S. here. We see the growth in F-class in Canada, and we believe that we see it on our platform. It's growing quite a lot, and we think it's going to continue to grow whether we regulate for it or not.

We think that the recent introduction of cost disclosure and performance reporting will have a major impact on investor understanding.

So here's how I describe it when I talk to advisors.

At the beginning of the year after a

financial year has ended, a client is going to open an envelope and two pieces of paper are going to come out of that envelope. On one piece of paper they are going to see, in dollar terms, how much they paid to their advisor and to their dealer, the commissions and the fees. So they're going to see a dollar amount, a total. Say it's $800. In another piece of paper they are going to see exactly how much their account made and performed in dollar terms, and they're going to have $800 versus $1,200 or $800 versus $500, and that is going to prompt a significant awareness and discussion.

I think we need to see how that plays out, and I think we need to give financial advisors time to absorb the fact that that's coming and let them prepare for it. If we don't wait to see what the impact of that is, we aren't going to understand whether we have advanced this debate here in Canada.

There are products that compete head to head with the mutual funds that are, in my view, far less regulated - that's my view; I know insurance regulators wouldn't agree - and they have significantly less fee transparency. I'm talking about lots of banking products, no offence to my friends in the banks here, like GICS. I think if you're worried that mutual

fund investors don't understand mutual fund fees, do you think Canadian think they pay anything for GICs? I can assure you, they think they don't pay anything. Similarly with segregated funds. There needs to be more fee transparency around some of these other products. We are so focused on a product that is so incredibly well-regulated now where there's so much disclosure.

Let's not forget that 87 percent of MFDA advisors are also licensed to sell insurance products and 63 percent of IIROC advisors are also duly licensed. I think that's an important thing to keep in mind.

So in our view, the changes of disclosure and fee structure should be evolutionary, not revolutionary, and we think the regulators need to take into account broader retirement goals and think about the protection of Canadian investors broadly.

We would urge the Securities Commission to take a strong stand with the ministers of finance to achieve fee transparency across all investment products. If banking regulators, insurance regulators and securities regulators all work together or were all under one umbrella, imagine the work that could be done to increase investor awareness of fees. Wouldn't we

have a better outcome than simply regulating mutual fund fees alone?

Thank you.

COMMISSIONER AKDENIZ: Maybe, Robert, you can pick up the discussion.

PRESENTATION BY MR. FRANCES:

Thank you. So Rob Frances. I'm CEO of the PEAK Financial Group in Montreal. Please allow me to say a little bit about the group.

We have 1,300 employees and financial professionals, who, in turn, serve 150,000 Canadians across Canada. There are no ownership ties between any product manufacturer and the products that are recommended by our advisors. I'm told that makes us the largest, completely independent, non-proprietary fund dealer in Canada.

The products that are used by our advisors include mutual funds, obviously, GICs, stocks, bonds, life insurance, annuities, ETFs, and a host of other products.

PEAK provides all the pricing options, be it bundled, unbundled, fees as a percentage of assets. Some advisors also have fee-for-service on an hourly basis. We also have discretionary portfolio management now. So I hope we can offer a unique

perspective on what is going on out there in the field, as was suggested. And we report to all the different regulators; 19 of them, actually.

CHAIR: That's a topic for another day.

(General laughter)

MR. FRANCES: So we welcome any attention to conflicts of interest by the CSA because it's at the core of the work that we do and the core of what we have been proclaiming for years. The independence of advice and impartiality are quite important, and we are advocates for that. However, we would like to provide some clarifications and insights especially from the perspective of the independent fund dealer and the independent advisor. So we're very grateful to be here to discuss that.

The document makes reference -- and there were questions today about the advisors being paid directly by fund companies. Please note, fund companies are prohibited from paying advisors. You cannot, as a fund company, pay an advisor directly; you can only pay a registered fund dealer or a securities dealer. I think that's got to be out there.

This is relevant because the firm earns those revenues and pays for a host of expenses, including compliance, licensing, the Investor

Protection Fund, confirmations and statements, errors and omissions insurance. And the list goes on and on. These are all services that benefit the client directly, and some of them might be financed by what we are calling trailing commissions. They are a form of compensation.

Once that's done, the dealers also do pay their financial advisors. Some are on salary; we have some on salary. Some are on commission, a share of revenue. Some are on bonus, some earn profit-sharing. Employees earn a share of what's left after all that. And advisors themselves have -- notwithstanding the list that Peter had, with the correction of course, there are significant amounts of other services that these advisors provide, including continuing education to themselves and their staff. They hire staff. Many advisors have two or three people on their team, some licensed to give service to their clients. They have licensing. Many do communications to their clients: seminars, workshops, client dinners where they bring in portfolio managers to speak about the product.

So it would be difficult to list all of them and get exact measures, but it is something, I believe, if we are serious about looking at this,

that we should go a little bit further into finding out about.

In terms of consumers wanting choice, that's what we see. We have got all the options at PEAK, and consumers are very adamant about which ones they want. Advisors constantly tell me, "You know, Rob, I sat down with this client, I went through the whole presentation, why they should go fee-based instead of commission-based, the way they are now," and they said, "You know what? I prefer it this way. Leave it this way." Not all of them, not many of them, but some do. And I think it would be a very big mistake to rob Canadians for what they've already voted on in places like ours and said, "This is what I want."

Some advisors come back to me and say, "You know, it's kind of weird. My client said you're going to have the fees here --"

And in all due respect, and I think it's great for disclosure, and we need that disclosure. The point I want to make is there is a group of customers, and it might be a minority, who don't want it that way. What they want is: Get me the net return; I want to know at the end of the day what did I invest, and what's it worth now net of all these fees? I don't want to run any risk that there's a

small fee somewhere that I didn't see.

From that point of view and for those clients, as small as that group might be, mutual funds with bundled fees are extremely transparent because you cannot hide from your return after all expenses.

So I would caution any efforts to remove that. I believe at PEAK we are well set up, and we are moving to fee base, and we are very happy about that, but I think that those consumers who are looking for that would, if we speak for them, not be very pleased that that choice is now removed from them. And our advisors are saying that loud and clear.

Finally, in terms of public policy that's been mentioned, our finance minister, Jim Flaherty, recently said that he would like to see the two-thirds of Canadians without a TFSA take advantage of it. And he says if parents want to start a savings plan in the late teenage years of their kids, this would be the first place they should turn.

I recently spoke to a grandfather who is a client of ours, and he says, "I've got fee-based accounts with you, I'm very happy, and I like the transparency." I engaged him in discussion. I said, "Oh, really?" He says, "But what I'm most proud of is I've got 12 grandchildren." I said, "Well,

congratulations." And he says, "I've got an RESP for each one of them, and am I ever happy that you've got those options where I don't have to look at it and worry about it, and one day I know I could pass it on to them and the advisor will still look after them with that bundled system that you set up, because I don't want to be nickeled-and-dimed for that kind of stuff."

I think we have got to be very careful. It's not just about the small investor; it's also the large investor who wants to have those options and who, for different reasons, wants those set up. He doesn't want to have to explain to his grandchild why he's getting different pricing up on top and how much money he has. He says, "This is where you start, and this is how your money will grow." And I think we have got to be conscious of that.

In terms of what's going on around the world, there are a lot of issues coming about, and we need to be careful about those.

So, in summary, I believe consumers deserve options, and they deserve the ability to choose. I think we have got to be very careful about that.

We have observed that advisors do act in the best interests of their clients most of the

time. Those who don't, I think something has to be done about that, and we certainly are very conscious and concerned about that if that is the case.

In terms of further analysis, we believe there's unintended consequences that are very well documented. I don't have enough time to go through all of them, but it's clearly documented that there are consequences.

It is not clear whether some of the things stated involve causality or not. There seems to be correlation, but it's too early to know if there is causality.

As CSA continues to study conflicts of interest, as an independent dealer we also believe all products need to be looked at, all structures need to be looked at, and we believe independent financial advisors - at least, those who do work properly, and there are many - would have very articulated points of view to make to you, and we would be happy to be part of that.

That being said, there's one last thing. The U.K. has a definition for "independent advice", and that came with their whole reform. If the CSA does go down that route, keep in mind that's something that they gave to the independent dealers

that does not exist here in Canada.

COMMISSIONER AKDENIZ: Thank you. Very much appreciate your comments.

Afsar?

PRESENTATION BY MR. SHAH:

Thank you, Sinan, and good afternoon everyone. First off, let me start by thanking you for giving us the opportunity to participate in this discussion and share with you our views on the issues at hand. I'm appearing today on behalf of Sun Life's mutual fund dealers, Sun Life Financial Investment Services, which is a nationally registered dealer with over 2,900 representatives serving primarily the middle market in Canada, and these advisors are registered to sell mutual funds in approximately 90 financial centres in Canada.

I'm mindful of the fact that I have the coveted next-to-last spot in this session, so I'll attempt to keep my comments brief and not belabour any particular point.

Let me say that we support the CSA in its attempt to explore ways to increase transparency and investor understanding as it relates to the costs associated with the purchase of mutual funds, and we support reasonable initiatives intended to better align

the interests of fund manufacturers, advisors and investors.

Our comments on the issue as to whether regulatory action beyond disclosure is warranted at this point is really quite straightforward and similar to what many participants have said today; many, but not all. We believe that the current regulatory framework and behaviour of market participants over the past number of years have evolved to the point where together they have done a good job of informing and protecting investors and aligning investor interests with those of other key stakeholders in the industry.

By that, do I mean to suggest that the current framework is perfect and could not stand further enhancements? No, I wouldn't go that far. No regulatory system or framework is perfect and couldn't benefit from additional tweaks and reforms.

But I would suggest that as of today that further major regulatory action beyond disclosure is not really necessary. Now, why is that? As everyone knows - we have talked about it today - the CSA has recently introduced CRM 2, and industry participants will be investing a significant amount of resources to implement this regime. I think it worthwhile just to highlight for this group and remind

ourselves just exactly what CRM 2 is expected to deliver in terms of reforms over the next three years. Sian did a really good job of highlighting in very poignant terms what this is going to mean for investors.

Among other things, CRM 2 will include new cost disclosure reporting to clients, which includes an annual summary in dollar terms of fees paid not to the investor but to the dealer in respect of a client's account. This disclosure would also include a summary of trailing commissions paid to a dealer in dollar terms.

It will also include annual performance reporting in which dealers will be required to provide clients with information on how much a client has contributed and what an account is worth as of the report date.

It will include information on deposits and withdrawals for the past year since the client's account was opened, and it will include percentage returns for the client account over one-, three-, five- and ten-year periods since the account was opened.

In three years' time, in our view, it appears that Canadian investors will have far more information at their disposal regarding how their

portfolio has performed and what they have paid for that return. To my knowledge, this kind of disclosure and transparency to investors does not exist anywhere else in the world today.

Also, while you're not seeing the final rules on POS, we believe that providing clarity to the FundFacts document and addressing rules relating to its delivery will also likely assist to address investor protection concerns relating to client awareness of the costs of owning mutual funds.

So viewed in its entirety, I think it fair to say that these planned reforms will be transformational to our existing regulatory framework and have a major impact on the level of understanding of investors.

In light of all this, we suggest that it would be beneficial to wait, to understand the effects of the current domestic reforms before undertaking any further major regulatory initiatives.

As has been said before, we would also suggest that the CSA monitor the international legislative developments dealing with advisor compensation reforms before proceeding further.

The merits to this approach we think are several. We will get to see any potential positive

or negative impacts resulting from the changes to the CRM and point-of-sale rules, and we will better understand if they address CSA concerns with respect to transparency, investor understanding of costs, and alignment of interests. We will get to see the impacts of the major structural reforms in the U.S., the U.K. and Australia, even bearing in mind the structural differences between the various jurisdictions.

We should be able to get a better handle on the questions of whether or not they achieve their intended outcomes and what, if any, unintended consequences arose from these international reforms.

These are great opportunities for us to observe, and learn, and benefit from these experiences.

Now, Mary, you had stated earlier this morning that we have a lot of assumptions regarding investor behaviour, and you were wondering how can we get more reliable information to guide our actions.

What I would suggest to you is that we have a great opportunity to observe what's going on in the U.S., what's going on in Australia, what has gone on in the U.S., and what's taking place right here with respect to CRM 2 and POS. That's going to give us a wealth of information around actual investor behaviour.

Is it going to take a long time for us to get that information, as suggested by Atul? Perhaps. But I think, as many have suggested, we are investing a lot of resources in these changes. Let's wait and see how it plays out. To the extent that we can, I'm not so sure that we can speed up reforms because just the level of work and interdependency between the stakeholders in the industry, but to the extent that we can, we should look into that. But I would suggest that major structural reform over and above what we have got right now is probably not warranted at this time.

So those are our points, Sinan, and we hope that they've been helpful. Thank you very much again for allowing us to participate.

COMMISSIONER AKDENIZ: Certainly. And we appreciate your participation.

Paul, I believe you have the coveted spot of the last word - at least, the last structured word.

PRESENTATION BY MR. BATES:

In fact, I'll start by saying I didn't realize this was an invitation. I thought I was being compelled. (General laughter)

COMMISSIONER AKDENIZ: Wouldn't be that

useful in a policy discussion.

MR. BATES: But since I am the last one, I think I will start by perhaps stating the obvious. Regardless of our different points of view here, I think we are all, everybody in this room, here because we believe in the health of this industry and for the few of Canadians and our business, and I keep that firmly in front of me.

I will say that on the issue of embedded fees -- and, clearly, you've got a sense of where I am on this, and certainly, the investor advisory panel which I represent here today has come down completely on the side of banning trailer fees.

From a personal point of view, that was a difficult journey for me. You know, I'd lived many years in the industry, and trailer fees are part of the way that our folks got paid, part of the way I got paid. Doesn't mean we shouldn't change. In fact, I just want to give a little history of this.

I was in the industry when we closed the floor of the Toronto Stock Exchange. Everybody said that's it, that's the end of the market in Canada. I was in the industry when commissions were deregulated and we had the Green Line hearings in 1983, and everybody said that's it, that's the end of the

industry. I remember when discount brokers charged $30 a trade. Now it's $9.00. How do they make money at $9.00? Somebody once said to me, "That's not a commission, that's a tip." (General laughter)

I was here when having mutual fund managers pay for conferences was banned. I was here when one particular investment firm used to sell monthly, even weekly deposits into mutual funds only to find out that the first almost 12 months' worth of contributions to those funds was actually the commissions to the salesperson. That was banned.

So what I'm trying to get at here is I'm a big believer, in fact I'm a fervent fan, of the entrepreneur. If there's a gap in the marketplace, an entrepreneur will fill it, and they will do it correctly.

But I do have a couple of things to say specific to the question. We actually think that there are five broad areas that the Commission is doing and should continue to focus on. In no particular order, one is the best-interest duty. We do believe, and I've witnessed it in person, and we've seen recent reports on it, that KYC process is just not doing it, and we need to find a way to move -- you'll note that we stay away from the word "fiduciary", because there are some

implications there. That's up to the regulators to think about what they call it, but we really think that that's a critical issue.

I was so impressed to hear Sian talk about what I'd love to see on every statement. Why can't every dealer say: Here's what you made, here's what we made? The fact that Fidelity might be doing that is quite extraordinary.

Disclosure is part of the way. I do believe that moving all of the way to banning embedded trailer fees is key.

Titles and credentials. The only title that I haven't seen on a broker's business card is, in fact, what they do a lot of the time, which is asset gathering.

By the way, on that note, I heard about all of the things that people do for the fees that they earn. I didn't hear one person say what I used to spend nearly four hours a day doing, which was becoming more knowledgeable about the market. Maybe I should say that a little bit louder. Becoming an expert in the area of what you do is actually worth money.
I think the challenge is that it may have been overtaken by the asset-gathering issue.

We need a strong complaint-resolution

process, and we need continued investment - forgive me for saying this - in investor education.

These five things taken together will, in fact, result in the kind of industry that I think we all want.

I do appreciate and understand that we create an imbalance because there are other products out there that Canadian securities administrators cannot oversee. I'm particularly distraught over the lack of transparency in insurance products, for example. We can't deal with that.

But we can deal with this, and I think the more that we move towards saying when you buy a product that is provided to you by an organization that is under the aegis of the regulator, the securities regulator, there are certain things that you can rely on. I think taking those five things together are worthwhile.

And CRM? I think it has some wonderful elements. I think the language is soft, frankly. I think there are too many phrases in there where it says should "reasonably attempt" to do something. I think the regulators could be a lot more prescriptive and say, no, it's not a question of doing it reasonably; here's what has to be done.

I also think that laying out really rigid timelines -- I'm very sensitive to the industry needing to absorb and digest all of this stuff, and that's a very fair concern. I think about the way the accounting industry introduced IFRS. They didn't do it all perfectly, but there were key milestones over multiple years, and they said by this date we're going to do this, by this date we're going to do that. Laying it all out there would be probably a very useful thing to do.

Those are my comments.

GENERAL DISCUSSION OF TOPIC 3:

COMMISSIONER AKDENIZ: Thank you.

Okay, so I'm going to come back to you, Paul. You're a little bit the outlyer here because I heard three wait-and-see's and one do-everything-now. Ken's got his hand up for do-everything-now.

MR. KIVENKO: No, I'm not. I'm not. I'm a priority.

COMMISSIONER AKDENIZ: So when you say why ban trailing commissions, what work would you do if you were sitting here again prior to banning trailing commissions? Do you think we have enough information to make that decision, or do you think that is a decision where we should wait and see and watch the

other markets?

MR. BATES: I think that there are moments in time where intervention is required because the industry, given its own timetable, may not move as well as it should.

I think the conversations we have had this morning around comparative costs of ownership, I think the conversations around, "Well, look what's going on in Britain," are interesting, but I don't think that they should be the things that we should base our decisions on.

We have got a timeline here. A lot of those things will advance. I think there's nothing wrong with the Commission saying we are going to ban embedded trailer fees five years from now and during that period of time we will see what happens from an entrepreneurship point of view, we'll see what happens in terms of the way other jurisdictions and the environments within those jurisdictions have evolved.

But I think to put off the decision is unnecessary. The research is complete. There's plenty of evidence that this will evolve the way it should.

I don't know if I've answered your question.

COMMISSIONER AKDENIZ: I think you

have.

When I sit here through the morning, making my own notes, we're talking about an enormous industry. It takes a long time to change an enormous industry. It's almost a trillion-dollar industry in Canada now. The last numbers I saw were $900 billion.

But the last information I saw from within the Commission as to how well investors understand the trailing commission was unfortunate, was part of what drove us towards more disclosure. But let's be clear. That research says that really they don't understand the trailing commissions or what they're doing. If I put those two together and say that this is a 50-basis-point carry, that's $5 billion a year that is being paid in fees by retail Canada that they don't understand well.

And so here's the two sides of the equation. One side says that there's a $5 billion carry in misunderstood fees; the other side says, well, there's an enormous risk in changing before we wait and see what happens in U.K. and Australia and with disclosure.

So maybe the question I ask, and I'm going to go to the general panel rather than just mine, is whether or not the industry is actually willing to

more forward voluntarily to time frames on disclosure. If disclosure cures this issue without the risk, why wait three years for the last person to achieve disclosure? Why not move now for your customers and achieve CRM 2 in your own time frame? And I'll take that answer from anybody.

MS. BURGESS: Can I start with that?

COMMISSIONER AKDENIZ: For sure.

MS. BURGESS: It's interesting because I've been out talking to big groups of advisors about the regulatory changes. What I've heard a lot of advisors say is they need time to absorb how to prepare for this, but they're not afraid of it. They think they can demonstrate the value of their advice, but it does require a lot of conversations with their clients, it will require a new approach to how they sell and what they emphasize. Does it mean it needs three years? Well, there's more to it than just talking to clients. There are some operational implications for these dealerships, especially the small dealerships. There are systems that need to be changed and so on, and there are changes that need to be made to service providers. I don't know whether it's three years, but I know it's a transition time that's reasonable for that side of the industry to absorb it, is what I'm

hearing.

Is that fair?

MR. FRANCES: Yes. If I can add to that, at PEAK it's ten years we are doing it. The traction is a lot slower than we estimated, and I suspect you'll be surprised that it's a lot slower than you might be estimating, too, given our experience with it.

We have not got any evidence in our firm that there's a huge appetite of this from customers. Our great disappointment is that even when advisors take the time to explain everything to their client they are grateful and thankful but forgetful.

What is surprising is that many advisors, not all of them -- that's why I believe these options are all very important to maintain. But many of them say, "Please don't put the onus on me of having to figure all this out. I trust you, as the advisor, to collect all the payments everywhere, set it up, and I'm not looking for the lowest bidder, I'm looking for the one who will give me the best long-term results." That's what we are facing with clients.

So we're torn between the two because we would like to make it mandatory in our firm, and we don't think that's constructive.

COMMISSIONER AKDENIZ: I'm going to come to you, Rob. I'll just ask Afsar his --

MR. SHAH: I think the issue with respect to the implementation can move faster. I think people need to realize that in order to do that requires the co-ordination of a number of industry stakeholders and players in order to achieve that. So you need the manufacturers working together with the dealers, working together with the underlying systems providers, like Univeris, in order to share information, make sure the dealers have appropriate account information from the manufacturers in order to provide all this data and information on various account statements and portfolio and performance reporting.

So I don't think the advisor is the constraint and whatnot. I think there's a practical element to the implementation of CRM 2. To the extent that we could find a way to move it forward, that would be great. But I think there are some realities that we need to be mindful of.

COMMISSIONER AKDENIZ: So I take that as a no.

MR. SHAH: I think it would be very difficult. I think it would be very difficult.

COMMISSIONER LECKMAN: Robert, were you saying that when you show a client, "This is how much money I make from your account, and this is how much money you make from the account," they don't particularly care, they're not interested? Is that what you were saying a minute ago?

MR. FRANCES: No, I said some clients say, "Just show me the bottom line. I want to see what the net return is. That's really what I'm interested in." And it might be a greater percentage than we think. To our surprise, that leads them into a behaviour where they say, "Bundled or unbundled really doesn't make that much of a difference to me. What I care about is my bottom line and how you as an advisor are there for me and my family long term."

COMMISSIONER LECKMAN: So you're saying they don't care to know the advisor makes $500 and they've made $500; they want to know that they've made $500?

MR. FRANCES: When I go see a doctor, I don't care what money he's making. I just want to make sure I get out of there healthy. Many clients are like that.

COMMISSIONER LECKMAN: But are you really saying most people don't want to know how much

money --

MR. FRANCES: I didn't say "most". I said many clients are in that situation.

COMMISSIONER LECKMAN: Could you give me a percentage?

MR. FRANCES: I don't know. I can research it and --

COMMISSIONER LECKMAN: No, but saying "many" and "most", it's pretty close, so...

MR. FRANCES: We know it's not zero, and based on the results that we have in our firm where advisors are speaking about that -- and in terms of incentive, I would say many of our advisors are in John's camp. They have incentives to go fee-based. Contrary to what was said, I think there's greater incentive to go fee-based than to stay in bundled. That's another discussion if we want to talk about incentives.

COMMISSIONER LECKMAN: Yes, it seems a bit inconsistent to me.

MR. FRANCES: Despite that, they haven't gone to that model. So the empirical evidence is they don't seem that interested in it.

COMMISSIONER LECKMAN: It just seems a bit inconsistent to me because consumer products,

clients are very aware what they buy. Look at your cell phone bills and all that type of thing. Consumers seem to be very, very attuned to how much something costs, so it seems inconsistent to me that they wouldn't care, when it's a big number like $500 or $1,000, to know how much they make; they just want to know net how much they made.

MR. FRANCES: Exactly. And I think that's where we need to be careful. It is inconsistent. There is a difference in behaviour, and investors want to know what the net return is. In the end, it doesn't really matter what they're paying their advisor. Look at hedge funds and how much they charge.

So customers are very interested in the bottom line. We are very happy that those who are going fee-based are using that because it's a competitive advantage to be able to say here are the fees we charge and how we do it and it's less. We wish that all clients would be like that. That would make our company more profitable.

It is not the case, and that's what we're pointing out.

COMMISSIONER AKDENIZ: I'm going to come to you in a moment, Ken. I'm going to still stay with you for a moment, Robert.

So I personally, personally, agree with you that the client should have choice. Some clients wish to pay high fees to take products that they believe will give them a larger net return, and I understand you want to provide that choice to your customers, but how do you deal with the conflict that exists in the way the compensation is paid?

So I'm not challenging whether mutual funds should have a fee of 50 basis points, 100 basis points, 500 basis points. People can buy what they want to buy, in my book. But when they buy, it has to not only be transparent, but the structure of the industry should not include embedded conflicts. We have seen in every case that where there are embedded conflicts in the structure that eventually people will have bad behaviour. We can argue about what percentage that might be, but generally, we structure things to avoid conflicts. So when you have advisors paid in different ways, how do you deal with the potential conflict that their advice will be dependent on the payment from a third party?

MR. FRANCES: Again, advisors are not paid by any third party. They are only paid by us because --

COMMISSIONER AKDENIZ: Yes, they're

paid by you, but you're paid by a third party. So let's be clear. The more money you make, the more money the advisor makes. But putting an intermediary platform in a conflicted situation doesn't cure it. It might improve it, but it doesn't cure it.

So I'm not asking about your advisors per se. I'm asking about the industry. Do you see a conflict between third-party payments to an advisor, or do you see no conflict there at all?

MR. FRANCES: Well, maybe I'm misunderstanding, I'm sorry. In a fee model, at least our fee model, the client still does not pay the advisor; they pay the dealer.

COMMISSIONER AKDENIZ: Yes.

MR. FRANCES: So I'm not sure what...

COMMISSIONER AKDENIZ: The advisors presumably align to act in the best interests of the dealer.

MR. FRANCES: No, the advisors are working in the best interests of the client because if they don't succeed in that they're out of business.

COMMISSIONER AKDENIZ: Well, they're also out of business if they don't act in the best interests of the dealer, right? But if they're your employees --

MR. FRANCES: Okay, but I don't see how the dealer can survive if they don't act in the best interests long term of the clients.

This is very competitive. We have so much competition. I know the advisors are working really hard. I don't have any advisors coming to me saying this is an easy business, we don't have to fight to prove why we give value to our clients. So what we're hearing on our side is very different.

That's why I'm pointing out to you: Be careful where you're going with this, and be careful what you wish for. Now, I don't know how many people will be out of work, if any, but if I look at what's going on in the U.K., the stats speak for themselves. That's public information. There's a huge number of advisors out of work.

Also, there are underlying premises here that I'm concerned about. And we don't have any skin in the game. We are on both sides here. We will be fine, I think, as a dealer, and I think our clients will be fine, but I'm concerned about the state of the industry not today, where it's going to be if we're not careful what we do.

I think our premises here need to be tested further. One premise is that we will correct or

eliminate conflicts of interest by certain behaviour that we will have as dealers or as regulators. I think that's got to be tested. That seems to make sense to some, not to others, based on what I heard, but I don't see much evidence of how the savings rate will go up, how people will use more advice. If anything, I'm seeing evidence in the U.K. that there are fewer advisors. So unless someone can show a really strong case of how there being fewer advisors in circulation is good for Canadians and is good for public policy, I can't defend that.

MR. KIVENKO: This industry, the regulation is not geared for advice. It was originally defined for a transaction. The transaction was the sale of a mutual fund. It started with 8 percent, and it evolved, and all these fee structures were designed for sale. So we don't regulate advice. There are no proficiency requirements. The SROs may set some minimal, but the regulators have no proficiency requirements. We don't know who's selling these things.

The IEF, the education fund, did a study, and it found that most people don't know there's a conflict, but when asked -- this is what's interesting. If they knew there was a conflict, a very

high percentage would still go. There was a study at Laval that basically -- to be very polite, the financial literacy of Canadians is abysmal, it's horrible. They doesn't do compound interest, they couldn't take the coupon and divide by the capital cost and calc...

To me, that's incredible how our schools are doing this.

So we're talking about a very bad toxic mix: a conflicted advisor with a regulatory structure based on suitability that is not geared for advice with people who cannot evaluate what the hell they're getting.

And then we're dealing with the seniors issue, which I could expound for hours, and won't. We are heading for a triple storm, and if reforms don't happen and we use the old models -- and by the way, return rate, somebody said 10 percent growth. Good luck. For North American, Western, most economics are talking 5 to 6 percent; and throw in bonds for a portfolio, 5 percent. Forget 18 percent. When the fee is 2-1/2 percent and you're making 5, and then you've got to pay tax and inflation, you're making nothing.

So please, let's have this discussion. I'm willing to use numbers - being an engineer, I'm

pretty analytical - but the triple storm is there. And please, I ask the industry - because I love mutual funds, I really believe in them, and I've recommended some in a non-advisory way - to look at the low-cost producers because they win all the awards. I even own one, I even own one.

So there's a lot of reform that has to happen as a package.

CHAIR: I know that Atul has had his hand up, but just to bring in some of the questions from the audience, this is a question that is directed both to Ken and Paul, whoever wants to provide the response. It's really the question about regulatory arbitrage, which was raised by a couple of speakers on this panel, and it's really to get your reaction to that.

If it is the case that the securities regulators impose a harsher framework on the products that we regulate, will there be a shift to less regulated products in a different sector, and what advice, in the generic sense, would you be giving your fellow retail investors about what to do in that context?

MR. BATES: I think the answer is there might be. There might be an imbalance that is created.

But I remember a friend of mine telling me that he got pulled over on the 401 doing 120, and he said to the police officer, "But everyone else is doing 120." And the police officer said to him, "Yes, but you're the one I pulled over."

You know, you can't wait until every player in every sector of the industry is going to make change concurrently. We have to deal with what's in front of us.

Also, by the way, you'll notice I've never suggested that by removing embedded fees will we see advisors make less money. That doesn't necessarily go hand in glove. I think that there will be a better opportunity for investors to negotiate their fees correctly, pay their fees in the most tax-advantageous way. It will actually require a higher level of knowledge and expertise and actual time spent with a client.

I also, by the way, completely dismiss the notion that small investors as a result of this will be disadvantaged. The fact is today, and it has been for at least 20 years, that in every dealer firm there's something called a compensation grid. If you don't have a certain annual run rate in compensation, if there isn't a certain ticket size, then your

compensation is disadvantaged against your peers in the firm.

You know, if you have $100,000 or less today, you are just as badly off in the current structure as you might be in the new structure. In fact, you might even be better off in the new structure because it will cause you to learn more, go and negotiate what's going on, and pay it in a way that is the most tax advantageous.

You know, if you go to Mexico, strangely enough, you've got one regulatory authority. It took a crisis, a major crisis to get there, but today in Mexico there is one regulatory authority that covers banking, brokerage and insurance. I pray for the day when we get to that same place in this country. It might even happen in our lifetime. But until we get there we have got to do the interventions that we've got to do.

COMMISSIONER AKDENIZ: That case is as likely as me making 5 percent on my portfolio, quite frankly.

Atul, you had a question?

MR. TIWARI: Yes. I just want to say that we've spent an interestingly large amount of time today talking about the U.K. I'm all for watching what

goes on in these other jurisdictions, and I think we are privileged to be in a position to be able to do so, but I just think everyone should be careful in drawing conclusions five months into an exercise that's taken a number of years of planning in the U.K.

I really didn't spend a lot of time trying to figure out what's going on there just now, but I did talk to our office yesterday very briefly getting ready for today. My understanding is they're down currently 15 percent in terms of the number of advisors, some due to the closing of the face-to-face businesses in some of the banks, but there's also a new proficiency standard, and a number of advisors, as I understand it, have decided not to take the exam for fear of not passing it, and others either have not passed or won't. So that's another factor in there.

Again, I think it will be really interesting to see how some of these alternative channels develop in terms of the direct-to-consumer model and things like that. So I would just say let's watch it, be cautious, and don't make conclusions this early in the experiment or exercise.

MR. POLLOCK: Just a couple of quick options. The U.K., of course, is part of the E.U., and it's the only jurisdiction that, in fact, has moved in

this direction, so it might be interesting as well to look at those other 17 jurisdictions and see why, in fact, they did not replicate that and they've gone more like CRM 2 here in Canada.

The other thing is I did serve on the National Literacy Task Force. It's interesting, Ken's comments, because clearly Canadians are not financially literate at all. That was the conclusion of that report.

So when I think of what Paul just said, that individuals will be more savvy in terms of how can I do this in a more tax-advantaged way, maybe deduct fees from income tax, all these kinds of things, I actually think that that is not realistic, given the level of financial literacy in the country. Can we get there in 30 years, 40 years? Perhaps. If you looked at our report, we talked about generational changes, not changes over one or two or three years. This is going to take a long time before we have a well-educated population in terms of financial literacy.

COMMISSIONER AKDENIZ: I'm going to cut you off, Paul, just because we've been making Atul wait all morning. I'm going to give him a chance to answer.

MR. TIWARI: Thanks for that.

Just a quick clarification. Actually, Germany's drafted legislation similar to the U.K., and in the Netherlands, to Sinan's point, six of the parties in the industry have voluntarily agreed to stop receiving distribution fees, and legislation is expected shortly. What we understand is that the E.U. is working on something in probably about two years or so for broader implementation.

Again, just to be clear, it's not that we're supporting banning embedded commissions. Again, we are, in Canada, supporting transparency. But that's what's going on in Europe, and we're watching that.

MS. BURGESS: The one thing that I think about when I think about this banning of embedded compensations, and I'm sorry to be trite, but I think about my mom, who is 80, and I wonder how is she going to know when someone comes to her that the fee that is proposed is a reasonable fee, too high, too low, and really, does she have the kind of bargaining power that we think we are going to give investors?

Ken, won't you end up with more complaints from seniors when we get to the end of this?

MR. KIVENKO: I'm nearly 80, so I could talk to --

MS. BURGESS: I need you to meet my

mom, because she's single. (General laughter)

MR. KIVENKO: Actually, the seniors, if you look at the IFIC data, for whatever reason some of us have a little more money than the small investors that we are talking about. They're vulnerable for different reasons, and that's why exactly -- you are helping me out here. Not the embedded compensation; you're helping me out with the fiduciary. That's another vulnerable group. The small people have a different issue with embedded; they may not get a service. The other ones may get a service; they're going to get over-serviced.

That's why a fiduciary duty, or "best interest" as the panel calls it, is necessary, and that's a related but separate issue than embedded commissions. The problem is once you -- and everyone here talks about "best interest", but the minute you agree that they really are going to do best interest you must remove embedded commissions because they're in conflict with each other. There are documents and research and behavioural science that show that. So If you really agree with best interest, you cannot possibly be agreeing with retaining embedded commissions. That's all I'm saying.

COMMISSIONER AKDENIZ: So I'm going to

just end that discussion there and move to Marian, please.

MS. PASSMORE: I just wanted to make the point that if you banned embedded commissions you allow the consumer to actually be able to negotiate, whereas now they have absolutely no ability to do so. Maybe the individual, elderly 80-year-old wants to be able to go in there and battle. Maybe they will.. I know a number of 80-year-olds who are very capable of doing so. And as a whole, the market, if you allow that, you will have effective competition, and there will be the ability for negotiation.

MR. INTRALIGI: So what I've heard around the table is Canadians are financially illiterate, that somehow costs are hidden, and that people aren't taking the five minutes it would take to read a fund fact sheet to learn exactly what they're paying, but suddenly, when they have an opportunity to negotiate a fee, they're going to go in and be able to negotiate that fee. I mean, something doesn't connect here for me.

I think there's always going to be an argument, depending on which side of the fence you're sitting on, to support embedded or to support going to fee-based, but ultimately, it always comes down to

choice, and people should have a choice in how they want to invest their dollars.

MR. SHAH: I was just going to say, Marian, just to get back to your point, you said that right now consumers don't have an opportunity. They do have an opportunity to negotiate. It's called F Series. There are high-net-worth programmes. There are a lot of different opportunities for them to negotiate fees.

I go back to a point you made, Sinan. You said the problem, as you articulated it, was that a high percentage of Canadians don't understand trailer commissions, right? That to me is education, that to me is literacy, that to me is an understanding, right? Let's address that problem. I don't necessarily follow the logic that says because they don't understand it let's ban it.

COMMISSIONER AKDENIZ: Really, that wasn't my logic. My logic was they don't understand it, and so there's a price to pay for waiting. Waiting isn't free. If there's $5 billion being paid in fees that are misunderstood or poorly understood, there's a price to waiting.

My personal view, my personal, is that if people are well-informed and they choose to pay a

fee that's clear and transparent and non-conflicted, that's their choice. My problem is the confliction and what I perceive.

MR. DE GOEY: One of the things that we talk about is these so-called unintended consequences, and we go back and forth about how long it would take to transition.

Let me give you an example, if I may. If we were to have an announcement similar to what was done by Minister Flaherty a year and a bit ago when he announced that Old Age Security, to get the full benefit, would be phased in over a number of years, and if you were a young punk like me that you'd actually have to be 67 before you get your full OAS, if we could actually wave a magic wand and get some sort of a movement done to actually ban embedded compensation today, any mutual fund sold in the first six and a half months of 2013 would still have a seven-year time frame, would still have an embedded compensation associated with it. I don't know how we can 'unpay' compensation that has already been agreed to contractually, which is to say if we did something today we would probably need at least seven years before we could actually say now embedded compensation is totally banned because there are already products on

the books that will be paying an embedded compensation for the next seven years, and the only way to forgo that is to make the client pay the difference.

So if we gave a signal that the change was coming to allow this change to happen, that would give market forces enough time to do the education, to help everyone to be on a level playing field, to send a signal to give ample time to adjust, to do all these things. It does not have to happen overnight, and I think one of the problems that might be part and parcel of what's gone on in Australia and the U.K. is they did it rather quickly without having the proper lead time, but if we give that signal, then the arbitrage that you're talking about can take place very efficiently.

COMMISSIONER AKDENIZ: I have effectively run out of time for this particular issue. If anybody has any last point that they're dying to make, I'll take it. If not, I'd really like to thank the panel for their honest and transparent answers. It's been really very useful for me sitting here and thinking about the issues.

CLOSING REMARKS:

CHAIR: Thank you all very much. Again, I echo Sinan's thanks to the entire group of panelists this morning who have come and given their

time to help us as regulators better understand these issues.

For those of you in the audience as well, we are extremely grateful for your very engaged and animated participation. We have a stack of questions here, not all of which we were able to get to in this oral conversation but which, as I mentioned earlier, will certainly become part of our on-going consideration about where we go next.

It's very clear from the discussion this morning that there are a significant number of issues. We were able to hear, I think, from a very good cross-section of the various participants and players in this industry, and so I think we have learned a great deal certainly about the pressure points and where we need to go next to get further information that will inform our deliberations.

So we are at the end of our proceedings. For those of you in the audience who haven't yet met the Staff of the Investment Funds Branch who do all the heavy-lifting in this area on behalf of the Commission, I would just introduce Rhonda Goldberg, who is the Director of the Investment Funds Branch, and there are a number of Staff members sitting behind her. So those of you who have more things to

say, more comments to make on this issue that you would rather do on a more one-on-one basis, feel free to contact Rhonda with any follow-up issues that you want to bring to our attention.

So again, just as a final word, as I mentioned at the beginning, we have had our court reporter working extremely hard transcribing all of what was said this morning, and we will be posting that transcript on the OSC web site within about a week or so.

So thank you, all, very much for coming this morning, and thank you to the panelists for their contributions.

--- Whereupon proceedings adjourned at 12:44 p.m.

I HEREBY CERTIFY THE FOREGOING
to be a true and accurate
transcription of my shorthand notes
to the best of my skill and ability.

____

RACHEL L.A. ROSENBERG, CSR
Chartered Shorthand Reporter