CANADIAN SECURITIES ADMINISTRATION
AUTORITÉS CANADIENNES EN VALEURS MOBILIÉRES

ROUNDTABLE DISCUSSION ON THE OPTION OF DISCONTINUING EMBEDDED COMMISSIONS

DATE: Monday, September 18th, 2017
HELD AT: 351 King Street West, 17th Floor, Toronto, Ontario

MODERATORS:	MAUREEN JENSEN,	Chair & CEO, Ontario Securities Commission
	GRANT VINGOE,	Vice-Chair, Ontario Securities Commission
	DEBORAH LECKMAN	Commissioner, Ontario Securities Commission

PANELLISTS

Warren Collier	BlackRock Asset Management Canada Limited
Scott Findlay	Independent Financial Brokers of Canada
Neil Gross	Component Strategies Consulting
Nicole Lee	RBC Global Asset Management Inc.
Robert Strickland	Fidelity Investments Canada ULC
Barry McInerney	Mackenzie Investments
John Adams	PFSL Investments Canada Ltd.
Marian Passmore	Canadian Foundation for Advancement of Investor Rights (FAIR)
Sonny Goldstein	Goldstein Financial
Paul Bourque	Investment Funds Institute of Canada (IFIC)
Sandra Kegie	Federation of Mutual Fund Dealers
Duane Green	Franklin Templeton Investments Canada
Dan Hallett	HighView Asset Management Ltd.

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--- Upon commencing at 1:00 p.m.

MR. MOUNTAIN: Hello, everyone. For those of you who don't know me, my name is John Mountain; I'm the director of the Investment Funds and Structured Products Branch at the OSC.

I would like to extend a warm welcome and thank everyone for coming today to the OSC Roundtable on the option of discontinuing embedded commissions. In particular, I would like to thank our friends and colleagues from other CSA jurisdictions who are here today from New Brunswick, Québec and B.C., who have travelled all this way to be here.

I would also like to note that Brenda Leong, the Chairman of the BC Securities Commission, is here today and thank her for coming.

The Roundtable is part of our ongoing consultation on the possible impacts of discontinuing embedded commissions. Before we start, I would like to take a few minutes to do some housekeeping announcements.

In addition to the panellists, at the front today are my colleagues Chantal Mainville and Andrew Papini, and I will be sitting there. As well, I will be taking notes.

I just note that Chantal and Andrew, along with our colleague, Dennis Yanchus, are the principal authors from the OSC of the paper.

Coffee and other refreshments are in the main foyer. Restrooms are located through the elevators and then on either side of the elevators. I've always wanted to do that, like a flight attendant, you know.

We are recording and transcribing today's events, so we will be making both the audiotape and the written transcript available on the OSC website. We're also taking some photos, so please be aware of that.

You should have an agenda on your seat, and we have extra copies if anybody needs one. The format for today consists of three panel discussions that will explore a variety of alternatives to the option of discontinuing embedded commissions.

The areas of discussion fall into the following categories. First, capping or standardizing trailing commissions; second, discontinuing or implementing additional standards for the use of the deferred sales charge, DSC option; and third, enhancements to disclosure and choice for investors.

While I'd like to emphasize that no decision has been made on whether to discontinue embedded commissions or pursue alternatives, the discussion today will be useful in helping us figure out what the best option for moving forward is.

We will provide time at the end of each panel for some questions. There are question cards on your seats. Please, if you do have a question, please write your question down and there are staff in the room who will bring it up to us and we will be happy to try and get it answered. We are under significant time pressure, so we may not be able to get to all of the questions that we do receive.

If you did submit a written question in advance, thank you very much. We have circulated those to the panellists in advance and hopefully we will have time to get to those. In any event, I'm going to turn the event over right now to Maureen Jensen, who is the Chair and CEO of the OSC, who will be doing the opening remarks and then moderating the first panel.

OPENING REMARKS:

MS. JENSEN: Good afternoon, everyone, and thank you very much for being here. I'd also like the panel -- to thank all of the panellists who will be participating in this Roundtable.

I'd just like to make a few opening remarks and then I will introduce the panel. So it's fair to say that the topic of embedded fees has generated a lot of interest, just look around this room, and we have moved this to -- we have moved our Roundtable to this venue because within twelve hours of opening the registration we immediately sold out of the other original venue where we have done all of our other roundtables. I will say that there's definitely interest.

The consultation paper, 81-408, that we're discussing today was published on January 10th and the comment period closed on June 9th. We have received 142 letters. That is a substantial number of letters, and most of them were way beyond ten to twenty to thirty pages, so we are reviewing, we are in the process of reviewing them with our CSA colleague. So this Roundtable is now part of our ongoing consultations on the option of discontinuing embedded commissions.

As regulators, we are very concerned about the conflicts that arise from embedded compensation. At the same time, we have heard compelling arguments about the unintended consequences, including that an outright ban could result in no access to advice for small investors and reduced competition in the marketplace.

I want to emphasize that we are not here to debate whether the harms for embedded compensation warrant regulatory action, but to discuss what that action should be. The status quo is not an option, but it is very important for us to make the right decision for both investors and the markets and we know that the decision that we make could have significant and far-reaching effects.

There is no perfect solution, but we're looking for a solution that best addresses the harm and lessens the negative consequences.

As you know, the paper fully canvassed the option of banning embedded commissions, and we received substantial feedback, which we are reviewing. So our goal today is not to debate the merits again, but to explore the viability of certain alternatives that were consistently put forward in the comment letters.

The primary purpose of today's Roundtable is to discuss a variety of different alternatives and how they could work, either individually or in combination, to address our concerns. And these alternatives fall into three categories: The first is capping or standardizing trailing commissions; the second is discontinuing DSCs or implementing additional standards for the use of deferred sales charge purchase option; and the third is enhancements to disclosure and fee option choice for investors.

I want to be clear that no decision has been made on the CSA on any option yet. While our analysis of the issues seems to suggest that banning embedded compensation is the path we should take, we are open to considering other credible solutions if, and only if, they address the harms that we have outlined in our paper.

The core issue in the paper was conflict of interest, and we can't ignore the evidence that the current model does not work for many investors. We know that when commissions are embedded in investment product, advisors may be incented to recommend products that maximize their compensation and are not best for their clients.

And the conflicts of interest under the current embedded compensation structure are not just limited to the advisor. Investment funds managers can also be incented to compete for sales primarily on the basis of embedded commissions that they pay advisors, rather than on the performance of their funds.

We also have concerns around investor awareness of embedded commissions, the complexity they add to fund fees and the inability of investors to negotiate them. This underscores our concern that embedded commissions don't seem to align with the services that are provided to investors. All this to say is we believe the current model isn't working for investors in the way they deserve.

So that's the summary of the paper, but we need your input to move forward. What we're going to discuss today are different suggestions from the industry. The consultation process so far has been very constructive in getting input and ideas, both from the industry and from investors and other stakeholders, and we know it's a complicated issue.

We know that changing any long-standing embedded compensation structure would involve significant disruption to many business models; it would mean shifts in culture and in ways of doing business, and that would not be easy.

What we're looking for is a practical solution that addresses the harms and lessens the negative consequences, but one that makes it better for investors. So we want to engage the industry on a solution.

In our view, the outcome is ultimately about fostering investor confidence, but any changes that we make must be appropriate for the Canadian market and Canadian investors, so that's why all of your expertise and experience are necessary today.

We have brought together representatives from investor advocacy organizations, investment fund managers, large and small investment firms and industry associations.

The panels reflect a diversity of views and we hope that this will mean that we will have meaningful debate. This Roundtable will help us build on the work to date and move us closer to a goal. Together with the comments received and the very important discussion that we will have today, this will assist us in developing the appropriate regulatory response.

I would like to thank Chantal, Andrew and John and also Jessica Allan and the many other members of our staff who organized this Roundtable. The next step will be the CSA considering all of the things that they have heard from the various roundtables, this one and the paper, and we are aiming to present our preliminary policy recommendations to the Chairs in the spring.

And now I would like to take the opportunity to introduce our first panel to discuss capping or standardizing trailing commissions. Our panellists are Warren Collier, managing director and head of Canada iShares at BlackRock Asset Management; Scott Findlay, President and Chair of board of directors at Independent Financial Brokers of Canada; Neil Gross, the president of Component Strategies Consulting; Nicole Lee, Assistant General Counsel at RBC; and Robert Strickland, President of Fidelity Investments Canada.

So introducing the background for this panel, Chantal will start.

TOPIC 1: CAPPING OR STANDARDIZING TRAILING COMMISSIONS:

MS. MAINVILLE: So for each of the topics we'll be discussing here today I will be giving you some background, including a flavour of what we heard through the comment process on the paper, which will help to lend some context to the questions we will asking the panellists.

I'll start with Topic 1: One of the primary concerns the CSA has identified with embedded commissions and, in particular, trailing commissions, is that these types of payments raise conflicts of interest that misalign the interests of investment fund managers and of dealers and their representatives, with those of their clients.

Specifically, we are concerned that trailing commissions give rise to compensation incentives that can skew the advice of dealers and their representatives towards products that maximize their compensation, or cause them to only look at products that pay a certain level of commissions, at the expense of their client's interests.

We're also concerned that trailing commissions can incent investment fund managers to rely more on payments to dealers rather than on product quality and price to gather and preserve assets under management.

These conflicts together do not foster an environment conducive to the growth of lower cost products, including investment funds that don't pay trailing commissions.

This raises investor protection and market efficiency concerns which have brought us to consider whether trailing commission payments should be prohibited altogether.

What has been made very clear by industry stakeholders during the consultation process is that the threat of negative unintended consequences resulting from an outright ban is very real.

For example, it's been consistently argued that a ban could lead to less access to advice among mass market investors and higher advice costs. It's also been argued that a ban may have the effect of creating a material competitive advantage for large vertically integrated firms, which we find already dominate the market, over small and independent providers, because such large firms have the ability to cross-subsidize internally by reallocating costs and revenue streams across a range of business lines. We are told that internal transfer payments by vertically integrated firms to their affiliated dealer may allow them to circumvent a prohibition on embedded commissions.

We are told this will further drive demand towards proprietary funds and away from third party funds, leading to greater concentration in the marketplace, which will in turn lead to less product choice and reduced competition. The possibility for these consequences to materialize has us concerned, because they don't foster positive outcomes for investors.

Many industry stakeholders propose that instead of an outright ban, the CSA should consider capping or standardizing trailing commissions.

So we'll focus this discussion on how, if at all, these alternatives of capping or standardizing can mitigate the conflict of interest and lead to a better result for investors.

Capping, just so you know the difference between capping and standardizing, capping would involve setting a maximum rate on trailing commissions below which investment fund managers could choose to pay a lesser rate; whereas standardizing would involve prescribing a specific rate with no flexibility for investment fund managers who pay trailers to pay more or less than the prescribed rate. In either case, capping or standardizing, we would consider whether the rate should be the same across all asset classes or differ by asset class.

These potential alternatives, however, leave open a few questions, and with that I'll pass it off to Maureen to ask questions to our panellists and moderate the discussion.

MS. JENSEN: Okay, so we'll start off first addressing the issue of the conflict of interest, and Warren put his hand up to start.

What we'll do is I'll direct the question at one individual and then we'll have a discussion with the panel after.

First of all, as discussed, the CSA is concerned about the conflicts of interest, so given these alternative proposals of capping or standardizing that would allow the commissions to persist, explain how the conflict of interest associated with trailing commissions can be effectively addressed so that dealers, representatives and IFMs are not incented by trailing commissions and are focused on getting the best investor outcomes. And, also, could you explain if you think one or the other proposal is better to address.

MR. COLLIER: Thanks very much, Maureen, and thank you to my fellow panellists. You will definitely hear a diverse set of views up here, I think, and this is a very important step in getting to the right outcome here. So I thank you for including us and thank you all for joining us today and for the active engagement many of you have demonstrated around this issue for years.

I think the OSC and Chantal right now, you have articulated very clearly the concerns that we continue to see with either capping or standardizing trail commissions as an alternative to banning. The onus is on us and the industry to prove that either of these alternatives will get us to an outcome, from an investors' perspective and a market efficiency perspective, that is better than an outright ban would be.

To date in the written submissions I haven't seen anything that gets us there. The fact is that trail commissions give rise to incentives that need to be managed. Capping and standardizing could both involve asking a securities regulator to get involved in the game of price setting, something for which you neither have a mandate, nor expertise. To me, that seems like a recipe for a more complicated, more burdensome regulatory oversight regime for us and mandate for you, and it doesn't, again as I’ll get to in a second, I think, address all of the other underlying conflicts.

There are five reasons that I don't think this works. First, both standardized and/or capped commissions would be incredibly blunt hammers for the personalized, nuanced and changing circumstances of investors that advisors are looking after day to day. A mandated one-size-fits-all solution is really a step backwards from where we already are today, I would think.

If you look today at the fact that there are still, notwithstanding significant progress on this issue within industry, do-it-yourself investors paying trail commissions not commensurate with the administrative costs of the services their dealer has provided. We would be taking that issue and making it worse, I would argue.

Further, standardizing across the industry could potentially, and capping would very likely, lead to an increase in fees paid by some or all investors. The research across industries demonstrates that the outcome over time of capping prices in an industry is that fees rise to that capped price.

Standardizing would not necessarily give rise to that issue, but unless all funds across all segments were standardized at the lowest fee level, it would give rise to a fee increase for some.

That being said, if all market participants were organized the same way and had the same economic models, you could argue, and I would argue, that standardizing commissions would go some way to ameliorating the conflict faced by advisors in choosing which product to use when there are varying fee levels between like products.

The reality is, however, we don't have a standard market structure. We have large vertically integrated firms; we have small independent firms. Their models are very different and I worry that any of these alternatives would be much easier to manage in a non-harmful way by the larger virtually integrated firms and the independent firms. I don't think any of us wants to see a decrease in competition in this market.

Finally, and I'll wrap on this, neither capping nor standardizing does anything, it doesn't even pretend to do anything, about the conflict an advisor faces in deciding whether to keep a client invested in a trail commission in any mutual fund versus any other investment product or vehicle. Roughly 24 percent, 25 percent of all investable assets in Canada are invested through mutual funds. Two-thirds of those are through trail commission paying mutual funds, roughly 75 percent of invested assets are in other products. Any model that maintains trail commission is an incentive to refrain from using any of those other vehicles for clients.

So I think it's really important that this debate be robustly engaged in. I do think you're absolutely right that any of these changes is going to disruptive. We have seen significant disruption across the financial services sector for the last decade and I think that's what's giving rise to a concern by investors around conflicts more than ever.

Again, thank you very much and I'll turn it over to the other panellists.

MS. JENSEN: Okay. Anyone want to go second?

NICOLE LEE: I can follow on to Warren's comments.

When we're thinking about standardization of trailers, we are of the view that standardization is already in place, the trend is here.

We cited some IFIC research in our fee letter that said that over ten years ago about 18 percent of equity and balanced funds paid over the one percent standard; whereas, looking more recently to April of this year, there's about just under five percent of funds that are paying over the one percent. So standardization is well on its way, and we think it's on its way due to initiatives like point of sale and CRM2, and so our view would be to encourage increased disclosure and awareness over the issue in order to bring standardization to a close, rather than a setting or a capping of the trailing commissions.

MS. JENSEN: So you're suggesting just to stay with the current initiatives and not take a definitive step?

NICOLE LEE: Well, I think there's other definitive steps, you know. The third panel will be talking about, I believe, investor awareness and disclosure, and more awareness around this issue could bring further standardization.

MS. JENSEN: Thank you. Comments?

MR. STRICKLAND: I would agree with Nicole that there is a lot of standardization already in the marketplace and it's creeping in very quickly, perhaps as a result of the discussion that's been in the marketplace.

Then your question to her was should we do nothing or should we do other things. The reality is there aren't a lot of other aspects that we can pursue if we want to deal with these conflicts that I think the regulators are so concerned about, and I think our view would be that, yes, as a standardization has come into the marketplace, just allow that to happen because it does seem to be working out very well.

I would also point out that the opening comments were about the embedded fee not working well for most people. While I agree there has been some evidence it hasn't worked perfectly for everyone, I'm not sure we're prepared to agree yet that it hasn't worked out well for at least a lot of people in the Canadian marketplace.

There is 1.4 trillion dollars in mutual funds. A lot of customers use them and they have used them very well, and that's changed a lot in the last 30 years. It wasn't always like that. Back before embedded fees that didn't happen a lot, and a lot of people have captured a lot of these equity markets in the last 30 years as a result of it. So we have to be very careful about tinkering with it.

MR. FINDLAY: I strongly believe that it comes down to choice for consumers. I think consumers need that choice and there's different systems that we deal in in a regulatory environment and there's different product offerings, from insurance products to bank offered products to mutual funds to securities.

There's no one regulator that looks after all of that, so it's very difficult to blow up one sector and get rid of embedded commissions when you're going to have it on the other side. Our full view is that we need to support the choice of consumers and I think that's the key, by keeping that section until we come up with some better ways to handle it, and I do agree with standardization, I think we are going there, I agree with the panellists, but I think, you know, if we have to get it there a little bit more quickly that that's not such a bad thing.

We do believe that standardization is coming and it is sort of becoming a self-regulating issue, and we want that to continue because that will take the conflicts away, in our opinion.

MS. JENSEN: It will take some.

MR. FINDLAY: Some, yes. And I don't think, no matter what type of changes you make in a regulatory environment it's going to get rid of conflicts completely. I think that's almost impossible. It's a goal, but you're still going to have some conflicts I believe.

MS. JENSEN: Neil, what do you think?

MR. GROSS: Well, first of all, I don't think I can usefully improve much on what Warren had to say on the subject. I think he did a very good job there.
The only thing I would add would be that neither standardization nor more disclosure will ever put the dollars that investors pay for advice under investors' control, and that's really what we should be driving at.

Right now under the current system, there's as the consultation paper said, there's no alignment between the advice that investors get and the amount that they pay for it, on the one hand, and their investment advice needs and desires.

So if we want to reach a point where investors have that level of control over the advice that they're paying for, we're not going to accomplish that simply by standardizing the price of the advice. If that price is higher than what they want to pay and if that price represents a level of advice that they perhaps don't need, you know, small investors, in particular, while they come in all shapes and sizes, many of them have pretty straightforward financial circumstances and they may not need a Cadillac suite of investment advice. So it would best if they could tailor the draw on advice to meet their needs and, therefore, we need a mechanism that will allow them to have that degree of control.

I don't think we're going to get there just by standardization, and as the consultation paper indicated, as Warren has done a good job pointing out, we're not going to touch very many of the conflict issues through standardization or capping.

MS. JENSEN: So I think this is a good segue into our next question where we're going to talk about the advice gap and the cost of advice.

It's consistently claimed that discontinuing trailing commissions would lead to an advice gap and a higher cost of advice for investors. So how will these alternatives of capping or standardizing lead to a better outcome for investors; specifically, why will investors have greater access to advice and at a lower cost with capping or standardizing than they would with trailing commissions? And particularly with the mass market where these would be investors who have investable assets of less than $100,000, how would this work? How would capping or standardizing improve the access of advice?

MR. FINDLAY: I think I'll start off with that one. First of all, just a bit of background. I'm an advisor, probably one of few on the panel today, a few others perhaps. And, you know, coming from that background and experience, I deal with over 500 clients.

You know, there's 3500 members in our organization that we represent and they come from all parts, all walks of life: Small cities, big cities, little towns, country villas. There's such a diversity out there that I think if you're trying to get rid of a compensation system that pays them for giving advice, in terms of having it as part of the structure rather than having a smaller client have to come and write you a cheque for that advice, I think that's a very difficult path to go down.

We believe that it's a better outcome for investors if they have that choice, if they want to deal with a smaller advice, perhaps, segment they have options. They have do-it-yourself investment options, they have ETF options, there are many options out there that investors have, and I think a good part of their ability to put their faith in us as advisors is sometimes knowing that I don't have to write you a cheque, I know it's part of what you do, it's part of how you operate, it's I understand that you get paid for what you do and I think that is clear.

I don't think anyone doubts that if they have an advisor that that advisor is getting compensated in some way. So to have a trailing commission still a part of that system I believe is very, very valuable, especially for the smaller investor.

And it comes down to what we it do as advisors for clients, we provide advice. We don't just provide advice on an investment level, we provide advice on their situation, their family, their history of where they've come from and where they want to go. We have to sit down with them and understand all of what they do.

I'm just going to throw an example. Last week I met a client unfortunately going through a divorce. Mass market client, $100,000 in investable assets. Now they have to split it up. I spent six hours with each of them to try to get them to understand what their financial situation is going to be in the future. It's difficult, it's a task that takes time, and to say that there's no value in it in the advice channel, I mean, not necessarily that's what's being said here, but I don't think that getting rid of these trailer commissions is going to benefit those smaller clients. I think they're going to -- they're not going to write the cheque to the advisor, they're probably -- one of two areas they're going to go to, they're going to be pushed towards the banks or they're going to get no advice. And that's our concern. Our concern is the no advice issue. We really think that they're going to be headed to that absolutely no advice.

MS. JENSEN: So in this world of there are some products that have embedded commissions and some don't, what happens, do most - I mean, if you were sitting with somebody who is in the $100,000 level, do you actually sometimes recommend that they go into non-trailer products? Because that's part of the issue with embedded fees is that you then start looking just at the funds that have embedded fees.

MR. FINDLAY: Well, one of things we do in our firm, is we do both. So we have fee-for-service and we also have the embedded commission. Again, it's about choice. So we lay that out to the client and say, would you prefer to pay a fee or would you prefer to have that embedded as part of the MER, which we explain as the cost of doing business.

I'd still say 80 percent of the people that are in that mass market still prefer that embedded commission. They understand we get paid, that's not an issue, but they just would have more of a difficult time writing a cheque to an advisor than a client that has 500,000 plus in investable assets.

MS. JENSEN: But you think the cost of advice in paying it separately will mean that they will opt out?

MR. FINDLAY: I totally believe that. I think that will push a lot of the mass market out to probably the no advice channel. Is that good for consumers?

MS. JENSEN: Other comments on that?

MR. STRICKLAND: I think the question is how do these two solutions help, and relative to where we have been, I'm not sure if they do, but if they help preserve an embedded fee commission, then I do think they help preserve choice and advice at the lower end of the marketplace.

MR. COLLIER: So just quickly on the not going to write the cheque piece. I don't disagree that that may be the outcome.

Again, I go back to whether the securities regulators have a mandate to get into price setting. I also think there are limits to the social policy remit of regulators as well. If we think from a social policy perspective that it's important that all Canadians have access to advice, which I actually completely agree with, then I think we do that in a transparent and upfront way. Doing it sort of through the back door in a way that nobody really understands the costs, they know there are some, but they don't know what they are in many cases, is really not worthy of us.

I think that if it's a sufficiently worthy social policy goal, we do it up front, we raise money, we mandate that Canadians save and we do just like many other markets do in retirement space, and just like we do in healthcare space.

MR. FINDLAY: I just think that the CRM2 is the first step of that disclosure. We're not against disclosure. We believe that there should be disclosure so that consumers are well informed about what they're paying for the advice they're getting. That's not the issue. It's more, you know, if that advice has to come at a cost that they're not willing to pay, then they won't get advice.

MS. JENSEN: But for many they don't know or they are kind of unaware of what they're paying, and it did take ten years to get CRM2 in because of all the kicking and screaming.

MR. FINDLAY: Our point of view is give it some time. We have clients now that look at their statement and say, what's this. They don't know what CRM2 is. It's an acronym.

MS. JENSEN: It's a terrible acronym.

MR. FINDLAY: Yeah, exactly. So we have to discuss that with them. We have to have that open discussion. I think that's the first step. The first step is have that open discussion, disclose compensation, we have no problem with that. It's a matter of getting rid of the whole system of how we get compensated and how clients can pay for advice. We want that choice to still be there.

MS. JENSEN: Nicole.

NICOLE LEE: We also strongly -- a strong advocate for client choice. And, in particular, with respect to the mass market investor, just as an illustration, 60 percent of our accounts at Royal Mutual Funds Inc., which is our branch -- our dealer in the branch, 60 percent of those accounts have $25,000 or less, those are the balances, and 23 percent of those accounts are for individuals who are 60 years or over.

So if we just assume, you know, for an illustration, that that $25,000, that's $250 a year at a one percent trailing commission, for that -- for $250 we're asking investors now, instead of that being paid directly through the mutual fund fee, that you're going to now have to pay that directly and we're going to have to find a way to do that either through debiting your bank account or, you know, there's other proposals with respect to redeeming units of the mutual fund to pay for that, the additional burden on that investor is now that they're also going to have to manage their tax deduction for that advice that they've received, which is, with an embedded commission, is already taken care of with the fund.

So there's just a lot -- it increases the barriers to that small market investor in investing.

MS. JENSEN: Rob, do you want to say anything on this?

MR. STRICKLAND: No.

MS. JENSEN: So maybe I'll address something to Neil. If discontinuing embedded commissions leads to a loss of access of advice and higher costs for advice for those seeking it, how can this result be beneficial for investors?

MR. GROSS: Well, if you don't mind my saying, it's a mischievous question.

MS. JENSEN: It is. It really says do you think they're going to lose access to advice.

MR. GROSS: Well, yes, and you're asking me to assume they will. You're asking me to assume that advice gap is an inevitable consequence.

MS. JENSEN: Well, I'd like to know your thoughts on whether you think that's correct.

MR. GROSS: No, I don't. I don't think it is. I don't think that the evidence really shows that or certainly not in a conclusive way. There may be a reluctance to write the cheque, but that probably speaks more to a failure to advance a convincing value proposition to the client than anything else, if the client, fully informed, will still not write the cheque.

But, you know, if we are to assume for purposes of your question that we live in a world where advice can be economically and efficiently provided to the investor, you know, for X dollars in trailing commissions each year, but for some reason that same advice can't possibly be provided economically to that same investor for that same X dollars if the dollars have to be paid by the investor rather than by the fund company, if we're to assume that that's the kind of world we live in, then your question is, in that world are investors better off with a cap on those fees or with no cap. And intuitively you think, well, the answer has to be, well, they would be better off with a cap because that's better than nothing, but when you look at it from a functional perspective, I think actually the answer is that it makes no difference because the cap would make no functional difference. And here's why I say that. Presumably we're not talking about a cap of 25 basis points for an equity fund, presumably --

MS. JENSEN: That would be a whole discussion in itself.

MR. GROSS: Yes. I take it we're talking about something like a hundred basis points for that fund, and, you know, at that level that's not really moving the needle on fees from what we typically have right now.

And as the consultation paper says, a cap wouldn't really address the conflicts issue very much, we'd still be left with a lot of the deficiencies that we have in the current system, so in that sense, from a functional perspective, the cap really wouldn't change the status quo.

Alternatively, I suppose we could be looking at a cap that limits the maximum amount that could be paid overall for anybody holding live trailers or the maximum duration that trailers could be paid, and while that might, again, intuitively say to you that's bound to have some impact, we've got to remember that that kind of a cap would bring with it a new risk, and that would be a risk that advisors would be incented to recommend switching as soon as a product reached its maximum payout point. And, indeed, in that world that your question envisions where supposedly access to advice could only be guaranteed through trailing commissions, the investor would have to -- would be compelled to agree to make the switch, because otherwise they would lose their access to that advice.

So even though that kind of a cap might promise some benefit for investors, they wouldn't be able to capture it. Any way you slice it under that functional analysis, a cap just isn't going to make any difference at all.

MS. JENSEN: Okay. Any rebuttal to what Neil said?

MR. STRICKLAND: Well, it seems to me that there's a view with some of my panellists that if you just do away with these embedded commissions all conflicts are resolved and it's a happier world on the other side. And I'm with Scott, I don't think it just works that simply out here. I think if you remove these things you involve a whole lot of other commission strategies that end up causing a lot of other conflicts that would then have to be dealt with and we would be back here in ten years talking it through again.

MS. JENSEN: Oh, please not.

MR. STRICKLAND: Yes, please not.

MS. JENSEN: Okay. One of the things that we heard was that a lot of stakeholders said that discontinuing trailing commissions will ensure that there is a loss of competition in the marketplace. So how will capping or standardizing the trailing commissions lessen those consequences, and, specifically, how can these alternatives foster greater price competition or innovation in the market or even product choice for investors?

Second of all, what would the anticipated impact be of these alternatives on either the integrated firms or the independent firms, and Nicole has volunteered to be the first out of the gate with this.

NICOLE LEE: Great, thanks Maureen. I just wanted to kick off the discussion with just a view on competition in the current market. There's ample evidence out there that we do have an efficient and highly competitive Canadian mutual fund market with the existence of embedded commissions.

Looking at the past seven years or so, there has been over 1300 mutual funds launched in the Canadian market. There have also been new entrants and new product developments in the market in the same time frame and Canadian mutual funds have to compete with ETFs listed on both Canadian and U.S. exchanges, as well as other products and individual securities.

And so I say that just to answer the question with respect to the alternatives, and we support the alternatives in the sense that they preserve client choice, and it currently supports dealer models that are out there and there are various dealers models out there that rely on trailing commissions and so we support it for that reason.

Our other point on competition would be that with further standardization, trailing commissions which we support, what that does is it does put the focus on competition or on dealer service levels and fund performance, so we do think it's -- it focuses the competition away from the fee and on the value for service.

MS. JENSEN: So what about in the integrated versus independent, because integrated firms have a lot more ability to actually offer other incentives to sell certain products.

NICOLE LEE: Yeah, and I can't speak to all vertically integrated firms. At RBC we don't make any other payments other than trailing commissions to our related dealers, so our related dealers receive the same trailing commission that we would pay a third party dealer. So I unfortunately can't speak to what impact it might have on other business models out there for vertically integrated firms.

MS. JENSEN: Comments on that?

MR. STRICKLAND: Well, I don't think at the integrated firms it's going to do much in terms of changing the nature of competition, but I think if a standardized or a capped commission preserves the embedded structure, it does help for all of the independents, maintain the number of independents that are in existence and the number of advisors that work at those independents and therefore preserve competition and enhance service for investors that way.

MS. JENSEN: Okay.

MR. COLLIER: On the competition point, I guess just to be clear, Canadian mutual funds are amongst the biggest users of ETFs, they’re not competitors with ETFs, they’re big users, and you certainly don't compete with ETFs in the non-fee based channels. It's a pretty small area of competition.

MS. JENSEN: So I've just got the 15 minutes left, so I want to get the last question in and I want to preserve a chance for people to ask questions.

So the next one is around unintended consequences. A lot of the letters talked about the potential that if we banned embedded commissions that there would be severe unintended consequences. So how do we structure these particular alternatives to ensure that vertically integrated investment funds are still able to make internal transfer payments on a level playing field with independent advisors? How could we deal with that if we actually allow for capping?

MR. STRICKLAND: I'll start on that. I think the -- there are unintended consequences that would stream from standardizing or from capping. I think, as was mentioned earlier, there has been a fair degree of flexibility so far that has allowed the manufacturers and the dealers to find paths forward with a great deal of flexibility, and if we impose rigidity in the system we may not have that and we may find that other structures become more attractive to advisors and would distract people from mutual funds, even if they're superior investments.

So I do think we have to worry about that, but specifically your question is how do we use whichever alternatives are being discussed here to minimize the risks of those unintended consequences. And what I would say is I think capping is a whole lot better in that regard than standardizing. I think capping is far less rigid than standardizing and nobody has really been specific about if we standardize, exactly at what price points we would, but any price point of standardization would open ourselves up, I think, to a lot of unintended consequences in the future and capping would be the better way to go.

MS. JENSEN: So capping or standardization, how do we -- if we had a world where that continued, how can we encourage low cost products into the marketplace? Because Canada is one of the jurisdictions that has a very low penetration of low cost products.

MR. STRICKLAND: Well, there are lots of low cost products. That's a different question than penetration. The reality is I think low cost products have been entering the marketplace at a pretty rapid rate, I think there is some take-up there, and I think if you just allow the trends in the marketplace to continue on, you will find a very good balance of both types of products in the marketplace.

MS. JENSEN: Any comments to those answers?

MR. FINDLAY: I would tend to agree with that. I think that as the industry is evolving itself, with new disclosure issues and this discussion in general, I think that's good for fostering a self-regulatory environment where you'll see this capping or standardization come to fruition because of the competitive marketplace.

There will be some consequences, there's no doubt. With any new system or new regime that's put into place there will be some learning curves you have to go through, but I believe those can be worked out by the industry itself.

MS. JENSEN: Warren.

MR. COLLIER: I'm guess I'm just puzzled or I misunderstood the question, which I took to be how do either of these alternatives address and enhance the outcomes of those unintended consequences.

MS. JENSEN: Um-hmm.

MR. COLLIER: I don't think that's been answered. I think we have been told that if we maintain trail commissions we would prefer standard over cap and things like that, but I haven't read, nor yet today heard, any way in which these actually address those unintended consequences.

MS. JENSEN: Neil.

MR. GROSS: Well, the unintended consequences that concern me and are really here are the consequences that would come from the regulatory approach to solving the problem.

If the CSA turns away from using a comprehensive ban on trailing commissions and instead prefers a more piecemeal approach to the problem using, say, cap and stitching together other targeted initiatives, the concern I have is with something that Warren touched on at the beginning, and that is that those initiatives will just add more regulatory burden to the industry.

A lot of those initiatives will involve probably very intrusive and costly interventions and ultimately, with the added cost that that imposes on the industry, get passed on to the consumer. So we would have the real risk that the approach of moving from a comprehensive ban to caps and other targeted initiatives could wind up burdening consumers with additional costs that would wash away all of the financial benefits that these initiatives are intended to provide them and that would be kind of the mother of all unintended consequences. We would have a situation where the regulatory initiative had subverted itself. We would have an industry more burdened than it already is and we would have consumers, you know, having no net benefit out of whole thing.

That would be a very sad end to this long-lasting attempt to make progress. I would hope that that's not where we end up.

MR. FINDLAY: I think if you assume that the product is commoditized then that could be a threat, but I think in terms of the advice that's provided and the cost of that advice, I think it's sometimes missed in discussions, it's very valuable for a client to have a discussion around not just their investment portfolio, but their insurance products, a full financial planning approach that would take into account a lot of those issues that, yes, maybe there's a fee here that you have to pay in terms of a trailer commission and that's embedded with the cost of funds that are promoted, but if you look at the bigger picture, I think you've got clients that value your advice and are getting much more than just a high cost of a mutual fund trailer commission.

So when you look at that, there's been discussions made that the value of the advice would actually add one or two percentage points more in terms of a value that the client would be receiving and I think that has to be part of this discussion. It's very easy to commoditize and say it's just a product and that's all it is and it's just being sold. Well, that's not all it is; it's a full financial picture that you're trying to help Canadians with. I think you're going to lose that and one of these unintended consequences could be that you're going to lose some of that advice for those clients, and we really believe in that choice issue, give them a choice.

MS. JENSEN: You're going to lose them because they won't pay.

MR. FINDLAY: They won't pay, exactly.

MS. JENSEN: Okay, I think we're going to -- we have very different points of view on this panel. I think we're going to -- now we've got about ten minutes left, not quite. Let's get some questions that we get from the audience. Are there audience questions? Could someone pick up these cards? We have some. You have one that was pre-submitted.

MR. MOUNTAIN: I have a few that were pre-submitted while we gather these. And going forward, once you've got a quick question written out just hold your hand up and we'll pick it up.

The first question that I got over the internet from someone who is here today is that trailer fees look a lot like a guarantee of income to dealers and advisors. They get their one percent of the asset.

In a low rate return environment, how is it justifiable to pay that to an advisor or dealer on an ongoing basis when the investor may not be making much more than that on a gross fees basis?

MS. JENSEN: Who would like to take that?

MR. FINDLAY: I think, again, it goes back to the commoditization issue. If that's all we're doing then, yeah, in a down market it's tough for clients to see a fee come off and, yes, clients or advisors still get paid, but keep in mind, if you're a business person and you're running a practice, your main objective is to mitigate those losses because that's how we get paid. We get paid upon an asset-based accumulation of the clients that we serve.

So if we we're doing our job, and maybe this goes to more of a proficiency issue, we should be making sure that our clients' losses are mitigated. You can't stop them because it's still market-based investing so it's impossible to stop it, but certainly if we're doing our job and acting in the best interests of our client we can mitigate those losses, especially over time as a client ages and they're getting closer to retirement they have to get more secure with their assets. We are paid based on what that asset value is, so if the market drops 20 percent our income drops 20 percent --

MS. JENSEN: There's no question, and that's one of the issues that we know from this paper, is that people think that we don't believe advisors should be paid. Of course they should be paid. They're doing a service. But one of the main things that advisors do for their clients is, first of all, encourage them to save, and the second of all is to choose products that are appropriate for them, given the time of their life and what they're saving for, but there are those, and the research has shown that funds that pay more in trailers get sold more often, so there is obviously a disconnect there some place.

AUDIENCE MEMBER: That research is flawed. I'm sorry. It's not subject of peer review and it's --

MS. JENSEN: Put in a question card, please. Okay.

AUDIENCE MEMBER: Well, it's not a question.

MS. JENSEN: There is a lot of research that has shown that and some has shown the opposite. Next question.

MR. MOUNTAIN: Somebody has asked, if we were to move to a client service model, what sort of fees would we anticipate would be -- so if somebody had a $100,000 hypothetical account, what do you think the fees would be? Would it be the same as the current embedded or would it be different?

MR. STRICKLAND: I think the marketplace is showing us so far that the pressure is towards the high side. I'm hearing a lot of 125s to 150s in these fee-based structures that are popping up as the alternative to mutual funds, and I'm not sure many of us think that's a good trend.

MR. COLLIER: I would say in a market that is still dominated by commission paid advice that's the case. If it becomes more competitive, like in any market, those fees come down. You look across the world, you see that.

I also think the challenge is that under either of these proposals we are still proposing a flat fee, regardless of all these different services. The client that Scott sees who is mid-divorce who needs a lot of hand holding and all that, he's being paid just as much as the client who doesn't need anything in particular that year.

I think the move to fee-based will not necessarily lead to that higher cost, I think it will lead to much more differentiated costing, depending on the nature of the service the client receives.

MS. JENSEN: What we have seen, though, is very standardized fees across the market right now. Do we have time for another question? Okay.

MR. MOUNTAIN: What do you hypothetically think that the minimum account size would be for a full service account? Would it move up from where it is today?

MR. STRICKLAND: You mean at an integrated firm?

MR. MOUNTAIN: At an integrated firm.

MR. STRICKLAND: I can't see those advisors wanting to deal with customers at less than $250,000. I think there's lots of evidence in the marketplace right now that says they're all walking away from customers that have less than that.

MR. COLLIER: I mean, that's a problem that exists today. Those minimums are going up while we live in a world of trail commissions. I don't think it's causative in any way.

MS. JENSEN: That's something that was -- that we saw when we did the mystery shopping. It's clearly that in certain channels only, there was a definite minimum to play in that channel.

More questions?

MR. MOUNTAIN: Research shows that what retail investors value most in an advisor is transparency and an ability to trust them. How can a hidden fee ever be justified in the circumstances?

MR. FINDLAY: I don't think -- again, it's not hidden. With CRM2 it's disclosure now, so I think it opens that discussion, you know, it opens up a realm of knowledge that investors didn't have before and I think that's a good thing they have it now, but let's see how that plays out. Give that a year or two years to see how CRM2 and how advisors can start that discussion with their clients to say here's how we get compensated.

I agree in the past it wasn't disclosed as much as it should have been, there's no question about that, and I think that that's evolving and that's changing and that goes to my point of let the market and the industry self-regulate a little bit and then see how this plays out before we start implementing complete bans on commission.

MS. JENSEN: Okay. Does anyone want to respond to that as well?

NICOLE LEE: I was going to add, in addition to CRM2, the point of sale document actually has the trailing commission disclosed in dollars and cents, so, you know, it is a transparent fee in that way, which you may or may not get in a fee-based scenario.

MR. GROSS: But the disclosed fee still remains right now as part of the cost of owning the product as opposed to a specific cost of getting the advice that the client perceives they need. So, you know, initiatives like CRM2, while they may bring more transparency, they don't change the entire dynamic, they don’t change the tied nature of the cost to the product, as opposed to cost for the advice, and it doesn't allow the consumer to tailor the advice component to their needs and their wishes. So while an initiative like

CRM2 is great, we have to remember that that's not what it's built for.

MR. FINDLAY: I think one thing people are missing in this discussion is new entrants, new advisors coming into the business. It's very difficult for an advisor to start in this business without some form of compensation that's fair.

MS. JENSEN: Um-hmm.

MR. FINDLAY: And it's very difficult to get a new client who you don't have a relationship with yet, it's a referral from someone, perhaps you're just starting to build your practice, to get that person to say, yeah, well, I barely know you, but here's my cheque I'm going to write to you for X amount of dollars because of the advice you're going to give me, that’s a tough one, right?

MS. JENSEN: We know that abandoning embedded commissions will change the business model --

MR. FINDLAY: For sure.

MS. JENSEN: -- you will not be able to build the practice from scratch without some help from the company that you work for.

MR. FINDLAY: Or existing advisors, existing independent advisors. Maybe there's a -- more focus should be put on transitioning business.

MS. JENSEN: Well, but I think that's something that the business needs to think about, because what's happened is there has been a reliance on the embedded commissions to generate new practice fees. Anything else?

MR. MOUNTAIN: If the CSA were to cap or standardize the commission, what would be the process for finding an appropriate rate or do you have an idea about what it should be and why?

MR. COLLIER: Maybe call the CRTC.

MS. JENSEN: It's definitely not in the DNA for regulators to do that in the securities business, that's right.

Well, I think -- how are we, Perry, are we -- we're done? I want to thank the entire panel. Obviously we have people with very different backgrounds and very different views and I want to thank them for being open and putting your views out. It's a very intimidating room here and I want to thank you very much.

-- Applause.

MS. JENSEN: So the next panel will be led by Grant Vingoe. And so will that panel come forward and we'll just take a moment to get set up.

TOPIC 2: DISCONTINUING, OR IMPLEMENTING ADDITIONAL STANDARDS FOR THE USE OF THE DEFERRED SALES CHARGE PURCHASE OPTION:

MR. VINGOE: Okay, so to keep on time we'll start right away. So that we're continuing our panel discussions, and our next panel is focusing on discontinuing or implementing additional standards for the use of the deferred sales charge purchase option, the DSC option, and our panellists for this discussion are John Adams, CEO of PFSL Investments Canada, affiliated with Primerica; Sonny Goldstein, president at Goldstein Financial, Barry McInerney, president and CEO of Mackenzie Financial; and Marian Passmore, director of policy and Chief Operating Officer, Canadian Foundation for Advancement of Investor Rights, or FAIR.

So first I'll ask Chantal to introduce the discussion and I'd ask each panellist, and I'll do my best as well, to speak clearly into the microphone.

MS. MAINVILLE: In the paper, the term, "embedded commission," captured two components, trailing commissions and point of sale commissions paid by investment fund managers to dealers on purchases made under the deferred sales charge option, better known as the DSC, including the various low load options that exist today.

We heard through the comment process that when determining whether to discontinue embedded commissions and when assessing the potential impacts and outcomes of such a change, we should give separate consideration to each of the embedded commission components.

Some argue that the DSC option should be maintained for reason that it plays a valuable role in facilitating access to advice, particularly for mass market investors and helping new advisors grow their business.

For the purpose of this discussion we will focus on the DSC option separate and apart from any changes to trailing commissions. We want to better understand the role that the DSC plays today, independent of trailing commissions, and what the effects on competition in the industry as well as access to advice may be if the use of this purchase option is discontinued.

The paper set out various concerns with mutual fund sales made under the DSC option. Similar to the concerns raised by trailing commissions, the CSA is concerned about the conflict of interest that the DSC option can create.

For example, representatives can be incentivized to promote the DSC option, as it pays higher upfront commissions and higher total compensation over the life of the investment relative to other purchase options that may better suit investor's needs, objectives, and time horizons. Research has also shown that the DSC option impacts investor behaviour, as it can make investors less sensitive to poor performance, it can keep them invested at a time when this may not long suit their needs.

Recent compliance reviews have revealed problematic practices from the use of the DSC option. For example, reviews conducted by the MFDA indicate that clients have been sold funds with redemption schedules that are longer than their investment time horizon. We have also seen evidence in MFDA enforcement files that the DSC option can incent dealers and their representatives to promote unsuitable leverage strategies or churn their client's accounts. These practices lead to poor investor outcomes that must be addressed.

We understand that the original rationale for the DSC option was to allow investors to invest without incurring any upfront costs, allowing an investor to put all their money to work right away. This was an appealing option for investors who had long term investment time horizons, especially given alternative options -- which at the time of the advent of the DSC, was commonly a front-end sales charge, often as high as nine percent.

Today's landscape, however, appears to be quite different. Presently many industry stakeholders explain that commissions charged for purchases under the front-end option are negligible, if anything at all. This, together with the concerns we have identified in connection with the DSC, raises questions as to the benefits to investors of retaining the DSC option. And with that I'll turn it back to Grant to ask questions and moderate the discussions.

MR. VINGOE: Thank you, Chantal. Now we'll turn it over to our panellists.

The first area we wanted to explore is the basic rationale for DSCs and the benefit to investors. Given the evolution of the commission paid under the front-end sales charge option, which Chantal indicated originally was as much as nine percent, we wanted to better understand the current rationale for the use of the DSC option.

It's clear that sales made under this purchase option are beneficial for a dealer and representative as it allows the dealer to collect typically as much as five percent of the amount invested directly from the investment fund manager. This option also benefits the investment fund manager as the eventual redemption fee, if it's incurred, payable by an investor on the redemption made within a certain number of years from purchase, typically five to seven years, is designed to deter an investor from redeeming the investment and, accordingly, helps the investment fund manager to preserve assets under management.

It's unclear, however, how this option benefits the investor when an investor can commonly purchase under a front end commission option and pay negligible commissions. So the question really, and we'll start with Sonny Goldstein, is please explain why a dealer representative would offer a deferred sales option to an investor today, how it's beneficial for them, how it benefits the investor in these circumstances.

MR. GOLDSTEIN: Thank you. Because I do sit on the board of the MFDA, I have to preface my remarks by saying that the opinions expressed today are mine and only mine and not any of the MFDA or other boards or people that I may represent.

I also want to preface my remarks by saying that there is a lot of concern for the investor, without giving any credit to the investor that these are adult, grown people who are intelligent for the most part and do understand the entire concept of investing -- saving money, investing money, getting financial advice and paying for financial advice.

So defending DSC fees, and, again, it's not a one-size-fits-all, and there are places, like leveraged accounts and like short term horizons, that they are not suitable and I've never used them. But I have been involved in the mutual fund business since I was 18 years old, when I bought my first mutual fund myself, and I have been selling them for more than 30 years and I have never had a single complaint about DSC fees, which we use regularly for the benefit of not just me or my dealer, although I am my own dealer, I should make that clear, and I don't do it for the benefit of the fund companies to retain clients, because it doesn't matter which fund company we use, but when it comes to the investor, the knee-jerk reaction during a market downturn of pulling out a large investment, well, I could go back to 2008, '09, the markets dropped 50 percent. Index investors lost or would have lost 50 percent if they jumped out of the market, and many of them did jump out of the market because they had no access to advice.

My dealer -- in my case, the clients only went down 25 percent and only one out of 1500 clients actually took money out and they would not listen, but the other 1499 did listen and the fee, the DSC fee is a deterrent. When I tell them, look, it's not just what you're down, it's also a another three, four, five percent of DSC fees, do you really want to pay that and add insult to injury. I mean, you don't need to, just wait, just wait it out. We've been through this before.

And by giving that advice, by 2010 every one of those clients was whole again. That is the reason why, one of the reasons why, we have DSC fees.

As far as investor protection, looking after vulnerable seniors, a man and wife 65 years old today, again, research, research shows and has been proven, one will live to age 91. That's a 26 year time horizon. You know, paying a DSC fee or a commission or a trailing fee is not the worst thing to happen to a vulnerable investor; it's running out of money. I have had people come to me that buy cat food when they don't own a cat because they don't have enough income. Because they didn't plan, nobody planned for them and they didn't plan properly.

So when we talk about the advice gap, it's very real that people need competent advice; and we talk about paying for that advice, no one questions how much of their taxes goes to OHIP or to pay their doctor. When we -- I mean, I'm not an orthopaedic surgeon, but an orthopaedic surgeon does what? He listens to a patient, he gathers information, he analyzes the situation and doesn't get paid or gets paid a nominal hundred dollars or couple of hundred dollars for that.

But when he presents the solution that it requires a scalpel, and there's a three month waiting list for a hip replacement or a knee replacement, that's when he gets the 10 or 15 or $20,000 to do the surgery. He gets paid for providing the solution to his advice, and advisors should not be treated any differently.

There is -- I've disclosed fees, DSC fees for the last 30 years and have never had a client say, oh no, that's not how you should be paid.

As far as the front-end option goes, if it would be fair for me to do 15, 20, 30 hours of work on a case with a one percent trailing commission on a front load and three months later the client decides, oh, the person in the bank or the guy down the street or my nephew went into the business and they take all of my work to someone else and I get a quarter of a percent? Let's level the playing field for everybody. Let's level it to make sure that the -- I mean, the consumer is not hurt by DSC fees if properly applied.

Nobody has talked about the ten percent free unit redemption because people don't want to lump all their money all at once ever. I've been in this business 51 years and have never encountered that. What they want is an income. And even using a DSC fee will provide that income, up to ten percent of their asset, every year for as long as they live, if they get good advice.

MR. VINGOE: Okay, let's open it up to the other panellists. Would someone like to put the counter point on that?

MS. PASSMORE: Certainly. Marian Passmore from FAIR Canada. Thank you for having me on the panel.

I think in today's environment there's no place for deferred sales charges any longer. I don't see any advantage to investors through having this so-called option. In fact, many people who are placed in DSC charges are not given any other alternative, because of the incentives at play they're put in those funds because the advisor gets the immediate commission up front and so that's why we have 20 percent of mutual fund assets in Canada in DSC as opposed to less than one percent in the U.S. and Europe.

So with respect to other problems with DSCs, using DSCs in leverage, the last financial crisis and major market correction in 2008, we saw many people never recover from the use of leverage at that time, and so I don't think people in 2010 were back to where they were, far from it. They had lost, very often, their homes or, you know, significant savings that they otherwise had.

From our perspective we see no independent evidence presented by any of the submissions that DSCs have a place in today's market.

MR. VINGOE: Thank you. I might emphasize in this question we're not talking about discontinuing trailing commissions overall, it's just the DSC option. So to the extent that there are other ways for paying for advice, they wouldn't be precluded by a discontinuance of the DSC option.

Any other --?

MR. McINERNEY: Yes, it's Barry McInerney of Mackenzie Investments. So I represent on the panel an independent asset management firm. We don't support, advocate any particular model. Obviously what we do advocate for is choice; choice for Canadians to choose their products, choice for Canadians to choose their financial advice provider and choose how they want to pay for that advice.

I might add that DSC has proven there are good amounts of long term investors using DSC, particularly those in the RDSP and RESP areas, and they have provided some -- that particular model, for those particular investors has worked for them, as other models worked for other investors. Also, it does obviously, over time and going forward, it has encouraged a discipline of savings and long term-ism for investors in a DSC model, and our discussions, obviously as being an independent asset management firm, 70 percent of our mutual assets are distributed via the MFDA dealers.

Our dialogue with them has been over the years that there has been -- the vast majority of assets have not been subject to deferred charges before this DSC period has expired.

MR. VINGOE: Thank you. Let's move on --

MR. ADAMS: Can I just --

MR. VINGOE: Yes.

MR. ADAMS: John Adams. I run a large MFDA dealer, a lot of that on a deferred charge sales basis. We're a little bit of a hybrid in that we have our own product and we also have an open shelf and there's no incentive, one way or another, for our advisors to sell our funds or third party funds.

We heard from Scott on the first panel with the amount of work that goes into a relationship up-front, and this discussion, I believe, is about choice for investors having access to personal advice. When you get into -- particularly into a small account, there has to be some compensation up-front in order for that work to be done at the beginning of the relationship. The DSC option allows for that to be done with some compensation to the advisor who works for the investor, and the fees are the same or relatively the same, assuming the funds stay there, the charge isn't incurred, but they get access to that advice and we believe that has a value.

So I think that's really where we're coming from, and particularly on the smaller accounts.

MR. VINGOE: Okay. Thank you.

MR. GOLDSTEIN: I just want to add one thing Barry said about RESPs, for example.

I have a fourth generation client, great grandson of an original client, and her mother came in to buy an RESP for $200 a month. Does anybody think it would be fair to any advisor, forget me for the moment, that on a $2500 annual sale to make $25 for the work that goes in? Just the paperwork, let alone sending out four statements a year, let alone the other costs associated.

So unless you do that on a DSC basis, you can't do it and the client doesn't get the product or they go to the bank or they go to the scholarship foundation where they get locked in forever. You know, the alternatives are worse.

MR. VINGOE: Okay. That's a good segue into the next question, which is really the advice gap and cost of advice. So the question is really an analysis of the anticipated impact, if any, on the elimination of the DSC option and overall access to and cost of advice for investors in the mass market segment.

You know, in responding to this could you clearly explain why the elimination may have the stated anticipated impacts, and I think we need to take into account that there are other ways of paying for advice. The lead on this one will be Marian.

MS. PASSMORE: Okay, so my understanding is that you would like me to respond to how access to advice and the cost of that advice would change if we simply eliminated --

MR. VINGOE: DSCs alone.

MS. PASSMORE: DSCs alone. And before I answer that question, I just want to briefly state that I think today, just to have the wider context in mind, we have a significant advice gap in Canada right now. The simple fact is that Canadians often do not get objective professional advice in their best interest today.

What we need is advice that is of high quality, proficient, and that isn't subject to financial incentives. So if we define advice as a group of investors who can obtain the amount of advice they desire at the price they're willing to pay, similar to what Neil was saying on the former panel, Canadians now don't get the kind of advice they want because what they want is advice, objective advice, in their best interest and they're not getting that. They're getting a very limited choice of what to be placed in, based on what the advisor can sell and what his business model is like, his or her business model is like.

So -- and very often investors are not aware of the fees and charges that they have when they get into a DSC fund because, despite the rules, many advisors do not disclose these fees up front.

So if we do just look at how access to advice would be impacted if DSCs were eliminated, with the elimination of DSCs investors would be placed in mutual funds in the other loads, in the other types of either no load or front load. Again, they would be getting -- they would be offered or recommended mutual funds rather than being necessarily given a choice of being placed in a different type of product, such as an ETF.

These are the financial -- why? Because financial incentives would encourage the advisor to recommend the mutual fund over a different product that might perform better and/or have lower costs.

So I don't realistically foresee any material impact on the ability of dealer firms and their advisors to sustain a business model where DSCs are eliminated. As they have ably done in the past, I think firms would innovate and adjust and be able to continue to provide mutual fund recommendations and the skewed advice that they currently do.

With respect to costs, I don't think it will deal with the high mutual fund fee costs that Canadians currently pay. Effective price competition will still not exist. Mass market investors will still continue to be sold mutual funds with embedded commissions and likely, you know, actively managed high fee funds.

If you look in the U.S., about 20 percent of mutual fund assets are in passive mutual funds, indexed mutual funds, in Canada it's 1.5 percent. Why is that? Is it because investors in Canada have completely different needs that the U.S. investors? I don't think so. I think it's because of the distribution models here in Canada.

So I think we'll have mutual funds still being sold to mass market investors, but they'll pay a cost and they'll continue to be completely befuddled about how all these commissions and costs and redemptions and switch fees and so on work.

One small benefit of getting rid of DSC funds, DSC loads would be that the up-front commission that's financed by the investment fund manager would no longer be passed on to all the investors who hold that mutual fund, so the MER may be slightly lower for that fund because the fund is no longer financing those up-front commission costs. And another benefit would be we would get rid of the seven year redemption fee schedule that people in DSCs are now subject to, so that if they want to sell a fund and buy another one because it's performing poorly they won't have that disincentive any longer because people are reluctant to sell a fund even it is performing poorly because of the fees they're going to have to pay, and, similarly, advisors don't necessarily want their clients to sell a fund because they continue to get the trailer if they stay in it.

So that would increase slightly competition because an investor, if they wanted to move dealers, would not have to pay redemption fees if they can't move the investment in kind to another dealer and have to sell the funds in order to move. Right now if they want to sell their funds they might be subject to a redemption fee, in the future they would not.

MR. VINGOE: Thank you. Let's -- and dealing with the particular focus, I think the point is interesting about the switching fees and being able to change your investment decisions in particular, but I'll open that up to the other panellists.

MR. GOLDSTEIN: Well, there's a lot of blanket statements that are not really applicable. We'll start with why American investors have passive funds. Because they are paying, on average, one and a half percent fee for service on top of whatever the fund manufacturer puts in. So they're really paying more than Canadian investors for the same investments, not less.

The fact that 74,000 approved persons across Canada are selling mutual funds and there are less than -- I don't want to be quoted, the MFDA people that may be in the room, but I believe it's less than 500 complaints about DSC fees on an annual basis. So out of 74,000, don't try and paint everybody with the same -- tar them with the same brush that they're selling DSC and the people are negatively impacted.

As far as switching between poorly performing funds, the fees are per fund company, and I'm sure Barry can also add to that, that, you know, the average fund company today has a hundred funds. If one is performing poorly, they probably have eight or ten in the same category and 90 in other categories that can be moved to without any DSC fee being incurred. In over 30 years I have never yet had any single client pay a DSC fee, and yet 90 percent of my funds are sold that way.

You've got to take into account the actual that is happening, not the isolated few examples that disgruntled investors, and there are disgruntled people everywhere who do complain, and do -- you know, the squeaky wheel gets the grease, and we hear about them, we don't hear about the other 99 and a half percent of satisfied investors who are happy with the advice that they get. And that peace of mind comes from the result, not the investment, not how much is paid upfront, not how much is paid during the course of their lives, it's from the result. Do they get a decent rate of return to provide the income they need for the rest of their lives. And every one of my clients can answer that positively.

I have a couple of institutional investors. One when I showed them on the CRM2 statement, and I took it to them in January showed them that the CRM2 fee for me was close to $100,000, and they said that's not as much as a journeyman makes. We don't care what you make. We didn't give you $13 million, we gave you $9 million, we keep track, and that -- you've made us $4 million. We don't care how much you make, just keep doing what you're doing. And that is what investors want and that is what we are obliged to give investors, is choice.

This is not 1984, the book, not the year, this is not Big Brother watching you and protecting you, taking away your freedom of choice. This is Canada, this is a free country where people should be allowed to choose how they want to pay.

MR. VINGOE: We're not going to get through the questions if we have long speeches.

MS. PASSMORE: I'll just respond by saying that Cummings' research shows that DSC funds over the long term have been --

MR. GOLDSTEIN: Cummings' research is flawed and is not subject to --

MS. PASSMORE: No its not and DSC investors have not fared well over the long term.

MR. VINGOE: You know, I think another point to be made is that there are no standards for the performance by the particular advisor. So you may be providing the best advice to your clients, and I don't question it, but I think you might be the first to admit that that isn't a uniform standard and you probably excel in comparison to some advisors who do far less.

MR. GOLDSTEIN: And there are rogue advisors, there are bad people, I'm not defending them. All I'm saying is that the vast majority, the 70 some thousand people out there are doing the right thing by their clients and the best thing for them, and that is why we don't get the client complaints. Who is complaining? The OSC, the CSA, FAIR. I mean these are not the consumers themselves.

MR. VINGOE: Well, the --

MR. GOLDSTEIN: Why don't we have -- you know, I said this to the OSC. What you're trying to do is regulate the jockeys when it's the horses that need the training.

MR. VINGOE: So let's open it up to the other panellists to see if they feel that, you know, the fact that there are complaints by the mass market investor in the space, you know, given their level of financial literacy and the fact that they may have better purchase options that are less costly is something that we should take into account or should we view this as a structural matter?

MR. ADAMS: Just a couple of comments on what Marian said. You know, it's interesting, everybody is reluctant to pay a DSC fee, but they're quite happy to pay an up-front fee. I think that's a real concern here, is that investors may be reluctant to pay upfront as well, and so we could end up having less people invested.

Our experience is similar to Sonny's. The vast majority are not paying in our firm, we've analyzed it, or they're paying under a hundred bucks in DSCs, so I think we need to analyze exactly what the exposure to fees are. And just a reminder that the DSC fee is financed to a significant extent by a reduced trailer fee, which comes out of the dealer's and advisor's compensation.

In terms of back to the question, the access to advice, our advisors go out to individual's homes, they look at their entire situation. Yes, they recommend our products, but we've got a wide shelf to choose from. They sit down with them on a personal basis, going through their situation and, really, for the small accounts, the DSC option enables them to do that. In the next question I'll cover why that's the case.

MR. VINGOE: Okay. Well, let's move on to the next question. It's the impact to dealer business models and representative succession planning.

Please explain the anticipated impact, if any, of the discontinuation of the DSC option on dealer business models, as well as how the impacts may differ between the integrated and independent dealer models. For example, will dealers need to compensate their representatives differently than they do today? Will they need to offer their clients alternative forms of payment options than they do today?

In responding to this question, please comment on whether these changes may impact the recruitment of new advisors and the ongoing retention of advisors as a reason often cited by industry stakeholders in support of maintaining the DSC option is that the DSC allows newer, smaller advisors to enter the profession and build their book of business with some certainty about their compensation, a practice that may perpetuate a culture of salespersons, we would argue, rather than investment professionals. Why should investors bear the expenses associated with recruitment and retention.

MR. ADAMS: I have the lead on this, so a few prepared comments. Thank you for the opportunity to present them today.

The majority of our firm's accounts are under $100,000, and our median account size is below $12,000. Economies of scale, account structure, and significant investments in technology enable us to maintain a reasonable cost per account.

The DSC model works well for investors and advisors. To receive personal advice and products they need, investors do not have to pay a significant up-front percentage of the amount they have available to invest. They are charged the same or about the same fees, and all of their money is put to work immediately. Advisors receive some up-front compensation for the significant initial effort on new contributions.

If the DSC structure is banned, dealers and advisors that service smaller accounts and offer a broad shelf of products may not be able to generate enough initial revenue to properly compensate them for their up-front work. This may result in fewer accounts, impacting a dealer's ability to maintain the scale to cost-effectively service those that remain.

The economics are straightforward. $10,000 invested in an equity fund on a DSC basis generates $500 in up-front commission. This is split between the dealer, the advisor and the advisor's supervisors. The trailer fee in the DSC period is cut in half to help compensate for this. The same fund sold on a zero percent front end basis will generate a one percent ongoing trailer fee, which is $100 per year or $8.33 per month, again split between the dealer, the advisor, and the supervisors. The compensation flow no longer follows the work effort. In many models, including ours, advisors must pay their expenses out of this revenue.

Options include an up-front fee or commission, but this disadvantages the smaller investor, in particular, as it reduces the amount available to invest. It may also act as a deterrent to them investing at all. Dealers could provide the up-front compensation, but there are two issues with this; many dealers would not have the capital to do so and there would likely need to be some kind of recovery method similar to a deferred sales charge, should the investor leave the dealer after a short period of time.

Developing new advisors and servicing smaller accounts is complementary. In order to gain experience and build the foundation of a book of business, a new advisor, under the supervision of someone more experienced, is more likely than an established advisor to put the effort in on a smaller account. Still, new advisors need to be compensated for their efforts, and the DSC model provides this, while also benefiting investors.

Servicing small accounts is not the only thing at stake. A structure to generate reasonable compensation attracts new advisors, which renews a rapidly aging advisory force. Investors benefit from this as it helps maintain a financially sound dealer network, and new advisors, offsetting natural attrition, provide service continuity.

As to the cost question, at our firm and many others, advisors are independent contractors. While there are costs, prospective advisors are not compensated for their time and effort for training and to get licensed. It's not a significant cost borne by the investors, as the question would suggest. Thank you.

MR. VINGOE: Are there -- yes?

MR. McINERNEY: If I could just reinforce a couple of John's comments.

Our view, again, is financial advice is absolutely essential for Canadians to save for their retirement years, and financial advice has proven to be very creative in terms of disciplined saving, saving more often, saving more, tax effective saving, estate planning, all that is very important for Canadians to get access to and have choice, and any change to the model that might disrupt that access is going to be detrimental to Canadians.

One change to the model, an unintended consequence, might be you have fewer advisors and this may impact the succession planning advisor in Canada That's not good because it can now limit choice. Our understanding, with the independent MFDA dealers, that over 70 percent of the client assets that they oversee are with accounts less than $100,000.

It's going to mostly impact the smaller Canadians, those Canadians that need the advice most and those Canadians that would be most impacted if they were unable to have choice in access to advice.

So, you know, that's our position. I think the benefit of financial advice is undeniable, choice is important, to have that accessible by all Canadians is important. And I might add, and I'm getting a little off topic here, just the active versus passive, I'll be 30 seconds. I just came back, I worked in the United States for fifteen years and I just came back to Canada last year, nice to be back by the way for a variety of reasons, and I oversaw companies, investment companies in the U.S., Europe, Middle East and Asia.

So I had a vantage point of seeing regulations come in, some come in, some did not come in, and seeing how intended consequences occurred -- some were positive and some unintended consequences occurred that were negative, and it was a very, very delicate ecosystem. It's working right now. Choice is important, we have new models always evolving, robo advisors are coming in, you've got bundled choices, unbundled choices. Again, the -- in Canada, obviously we’ve got a very powerful vertically integrated, bank owned, bank branch distribution model, that is one of the largest and most concentrated in the world. And that sort of model works very well for some Canadians, but, of course, 95 percent of product delivered through that channel is proprietary.

So, again, if someone wants another choice, another model, then they can choose another model. So it's important to have choice in the models and be accessible to all Canadians.

MR. VINGOE: That really leads into the next question, which is also one we're taking the lead on, the effect of competition and if we were to ban the DSC how it would affect the competitive marketplace in Canada, how it would relate to the concentration that exists or would it affect the integrated versus smaller firms in different ways, and you do have the benefit of this comparative viewpoint. Do you want to amplify on that?

MR. McINERNEY: Sure, I'll jump in. You know, another, if I may add, another observation I have had, being back in Canada, is the dialogue has been extremely thoughtful and we're taking our time, all the stakeholders, in this decision, and we have to because we all want to get right. Everyone in this room wants to get this decision right on behalf of Canadians.

So, as we know, what happens when you have some regulations that are adopted like CRM2, (inaudible), you have to have disclosure across the board.

When you have started just dialogue on other models, maybe shifting of models, what happens is at times you start to have good, positive discussions and trends start to occur with the natural market forces towards where we might have better balance, let's say, in Canada being bundled and unbundled paradigms.

In the U.S., of course, as you know, the natural forces of nature take good and bad, and in the U.S. free enterprise is so hard, it's just kind of move with natural forces.

So we're seeing this even at Mackenzie, I'm sure other manufacturers are seeing this, where, for instance, the percentage of our gross sales in F series, in the unbundled series, ten years ago in 2007, five percent of our gross sales were in F series. Last year, 33 percent of our gross sales were in unbundled F series, and this year we were 40 percent. So it's just naturally occurring where we have, again, a gravitation to that, to the fee-based model where advisors are comfortable with that and Canadians are comfortable in choosing that model, that's starting to become larger than the bundled model.

And, again, the bundled model, as we've all said, some of us have said, is a very important choice as well for Canadians because particularly the smaller Canadians with smaller account sizes, they need to access the advice, it's the only way they can access it, and, again, the financial advice has been measured and proven to - the gamma, measured and proven to give value arguably over what the independent managers can provide, it's actually the cornerstone of the retirement security being met by Canadians across this country. So I'll stop there.

MR. VINGOE: And I'll open it up to other panellists.

MR. GOLDSTEIN: Well, again, the benefits of advice, and I'll refer to research, qualified research by both advocates of IPSOS who proved conclusively by financial outcome that Canadians getting advice have three to four times the amount saved for retirement than those not getting financial advice.

MR. VINGOE: I think everyone agrees that advice is valuable, it's just how we're talking about compensating for it.

MR. GOLDSTEIN: Well, then you know, I think it's Will

Rogers that said if it ain't broke, don't fix it. Because it's not broke. I mean, this system has worked for the last, well -- well, let's go back to 1937, an Act of Parliament that established unit trusts and gave protection to investors.

We'll go back to 1954 when Sir John Templeton created the Templeton Growth Fund and said how can an ordinary person know how to invest, and he created a fund where at that time there were 1700 potential investments in the world and he created a fund that if you had put your $10,000 into that fund back then, it would be worth 3.2 million today. So it works, it really does work, and $1.4 trillion of Canadian savings that have been accumulated because of the way we distribute the product and now you want to change that distribution method by changing the way it's compensated?

It's not broken. We have to take a step back and not try and fix something that the unintended consequence will be the $200 a month investor, and there are thousands of them, and John can attest, his average client size is $12,000, and Barry, when he says 40 percent in F series funds, how many actual investors is that? Five percent, three percent? The wealthy are buying F class because they can pay for advice, but the ordinary person, the person that I am responsible to, will not, and in many cases cannot pay for advice and the detriment of making them pay upfront, out-of-pocket, where that money could be invested for their retirement, and instead it's going to go to pay for the advice? It's wrong. It's fundamentally wrong.

MR. VINGOE: I think the approach is that we're exploring is if there is a less expensive way, given the cost in recent years has been an enormous determinant of performance, the issue is can we get these services that Canadians deserve to Canadians at a lower cost.

MR. GOLDSTEIN: Yes, and we can. We can standardize or cap, I prefer the capping, but that's another discussion. And we can eliminate DSC where there is no advice for robo investing, for leveraging, there should no DSC associated with leveraging, that's wrong. And we can agree on those things, but in terms of me being able to -- and I don't have sub-advisors, I have two, but family, the ability for a firm like John's to bring in a young person and grow the business, as I did for 50 years, and this idea that commissioned salespeople, there's something wrong with that? Most of the professional guys out there started that way, and they paid for their own education, they paid for their own courses, they paid for professionalism.

I have ten letters behind my name because I wanted to be better at what I do for my clients, and I am and so are most of the professionals out there. Let's not all keep attacking them for the way that they are paid.

MR. VINGOE: Okay. Others who wish to go on competition?

MS. PASSMORE: On the competition point, I think that if we solely remove DSCs, but don't also remove embedded commissions, we won't have enough transformation to have a more competitive market for investors, and that's what we all want here in the room is to have a vibrant competitive market where objective advice is provided to Canadians at a reasonable cost so that they can have adequate savings for their retirement and, you know, there's a number of factors why Canadians don't necessarily understand that the costs that they're paying and move to other models that are lower cost at the moment.

We do have robo advice now, which has the ability to provide investment advice at lower cost, and some small accounts, you know, and younger people and some older people are moving to robo advice.

If we remove choices that are sub-optimal and harm market efficiency and investor outcomes, we will transform our market and be able to move to a model where we have the ability to get rid of conflicted advice and compensation structures that don't serve investor's interests and be able to move to better models where advice in the best interests of the client can be provided.

MR. VINGOE: Thanks.

MR. ADAMS: Could I just finish on the competition issue?

MR. VINGOE: Sure.

MR. ADAMS: We would like to continue to provide personal advice to that smaller investor, and the DSC model does work for that. I am concerned if you pull it away, we're already seeing advisors and firms going upscale, dumping off small accounts to the robo arm or whatever. We don't think that's in the best interest of the Canadian investing public, quite frankly, so we would like to continue that.

An integrated model, I'm not an expert on it, but I know there are economics there where you can cover off a lot of smaller accounts if you've got money coming in on the investment side. I think it will reduce the number of firms, continue to reduce the number of firms that are willing to service that market, and I do believe it will reduce competition.

MR. GOLDSTEIN: I just want to -- there isn't a shred of evidence that competition has been affected by fee structure, not one shred that I have ever seen. There are dozens of fund companies, there are thousands of mutual funds. There are six chartered banks, six major banks, are they not in competition with each other for that savings market?

So competition is not being affected by how we're paid, and to come out with a blanket statement that that -- and by changing that, that's going to cure everything, is fundamentally wrong.

MR. VINGOE: I think we want to base our decisions on empirical analysis and input from stakeholders, so we're not making those sorts of conclusory statements.

Let's move to the next item, the next question, and I think it may be an area of potential agreement, given some of the discussion that's occurred, and it relates to enhancements to DSC practices.

Should the CSA decide to continue to allow the use of the DSC option, what enhancements could we make to current rules to limit misuse of the DSC and ensure that the use of the option is both beneficial and suitable for investors. For example, how can we ensure that clients will not be sold funds with DSC redemption schedules that are longer than their investment time horizon and that any opportunity to engage in improper leverage strategies will be reduced? What other enhancements can be made to ensure that investors are fully aware of applicable redemption charges?

So I'd really ask that you -- you know, if you can, to make concrete suggestions about if we preserve DSC as part of the competitive environment that you believe exists, how do we address these problematic practices? For us it's not enough to say that enforcement and examinations does the trick. We're talking about structural changes to make sure that problematic practices like the ones we've described and the MFDA has found are not routine. So I'd ask Barry to weigh in on this.

MR. McINERNEY: Thank you. I'll be brief again so I can let my fellow panellist speak and we have a lively Q&A thereafter.

I just want to reiterate again that we believe the market forces are afoot that are addressing all the concerns in light of the CRM2 and the other regulations that have been passed to date, and we do believe the regulations should be proportionate to the issue.

We're a little concerned that banning of DSCs and Embedded commissions would be disproportionate to the dealer channels, but I will just cite one concrete idea would be -- and cite the MFDA DSC Sweep Report published in December of 2015, and we encourage the regulators that we're collaborating with SROs such as the MFDA, and they brought forth ideas such as suitability of time horizon, client age and disclosed redemption charges.

They also have established advisory controls procedures to oversee, and in some cases limit, restrict trading in DSC funds, and I think the MFDA has reported back very good process in light of those ideas.

So, again, you know, also considering outside of the Sweep report, considering requiring assets levels for DSC sales. So enhanced supervision, looking at time horizons, age, maybe asset thresholds, and, finally, stating the obvious again, more fulsome disclosure.

MR. VINGOE: Okay, thank you.

MR. GOLDSTEIN: On that point, I believe that -- we already have it in the 14-page document that clients sign off on, but there should be a separate DSC schedule showing the seven year DSC fee that the client signs separately, that it goes through the head office or the dealer, the head office of the dealer or the fund company, gets signed back and delivered to the client in a counter-signed version, so there's no doubt that the client understands the DSC schedule that they have signed off on, and with a cooling off period if they say no, I didn't understand that, I don't want it, we can change it. So that would be one thing.

I've said before, not on early redemption like where the -- short time frame, and certainly not on leveraging and, I might add, tax-free savings accounts. We do not do any of them on a DSC basis because we want that money to be available, and yet I see countless examples of people buying five year non-redeemable GICs at one and a half percent in their TFSA, and they don't understand -- you talk about disclosure. When they want to take their money out they can't get it. It's a tax free savings account and they can't get their money because the non-redeemable aspect of a GIC was not explained to them at point of sale.

So point of sale information is paramount and a separate disclosure form would go a long way to making sure that people who buy DSC know what they've bought, but give them the choice. Give them the choice to buy it.

MR. VINGOE: Thank you. Others --?

MR. ADAMS: Having said what I said, DSC isn't perfect and it can be improved. I have a number of things, but a couple of more significant ones; one that we've implemented for a long time at our firm, and the second one that I'm not sure will work, but at our firm we have a one commission policy.

So as new money comes into the dealer, you are allowed to go into a DSC schedule. If you switch between fund companies within our firm, because we have a broad shelf, that goes in at zero percent front-end, so that there is not a renewal of the DSC schedule in perpetuity. Once they're out, they're out and that's it.

We implemented it because of a churning issue, which Marian mentioned at the beginning, and I believe it's worked well for us and for our clients.

The one that I'm not sure will work, and I've got my operations chief there probably sending me daggers, but capping account sizes at the dealer as to when you can use DSC. There's operational issues around that, but I think it serves the smaller investor, let's focus on them, and leave the larger ones to that zero percent front end.

Quickly, other things, there are already restrictions on sales to seniors we've put in place, DSC schedule can't be longer than the time horizon, a review of large DSC charges going out to make sure that they're appropriate, disclosure Sonny mentioned, and leverage. We made the decision at our firm, because of the market, not to leverage, but there are significant MFDA restrictions on leveraging. I believe that we could make it work much better.

MR. VINGOE: Okay. I was also curious about the practices about withdrawals for emergency fund use without penalty. Is that -- I'm just curious, is that uniform across the market where if you suddenly have a sick relative and have an unforeseen expense that you could take out a certain amount or is that something that's susceptible to regulatory intervention to make sure that Canadians have access to funds without a penalty on the schedule if they really need it?

MR. ADAMS: I'm not sure it's a standard practice, but it's one that could be considered. We look at every complaint case individually and try to be fair.

MR. GOLDSTEIN: I've only had a handful of those situations and in every case I have offered to compensate for the DSC fee and in every case the clients refused because how much they had made in the interim was way more than the DSC fees and they didn't want to take money out of my pocket because they had a problem, but I agree that it should be available, the same as the benefits of insurance. If somebody's got a problem you give them their money back and I would not have any issue with that being legislated, you know, under certain conditions.

MR. VINGOE: Thank you to our panellists. We have a little time for questions. So if you have cards, our people will come around and bring them up. And I know John has a few already, so we'll try to deal with as many questions as we can.

MR. MOUNTAIN: Sure. So the first question I have goes to some research that IFIC, I believe, carried out. It says the primary benefit of advice is actually in encouraging good investing behaviour rather than in asset allocation choices. Do we really need to have a DSC to support good investing behaviour or are there other ways of solving the economic problem that advisors and dealers have?

MR. GOLDSTEIN: In my experience it helps, but you have to convince the client at the outset that the only way to long term success is to save part of everything you make and keep it saved. And you drum that home, and I've drummed it home all the way from teenagers all the way to 75 year-olds. You've got to understand, protect the principal, keep it safe.

As long as they do that, and I have 550 people drawing an income, and they take what they make and they don't impact the principal and they're very happy. It's education, it's client education.

MR. ADAMS: And it's not good investor behaviour, well, go out there and save some money and off you go and it's done in half an hour. It usually involves a couple of meetings. If you're in a rural area, distance involved, travel cost, it takes a while to build up the relationship and understanding in order to put that behaviour in place.

MS. PASSMORE: I don't think, given that a lot of Canadians have their investments in RRSPs, I don't think you need the additional savings discipline of a redemption penalty in order to incent savings, because you already get penalized if you take money out of your RRSP, so I don't see that as an added benefit for an investor, quite the contrary, nor is it sort of disclosed up front that that's what they're signing up for when they are sold the DSC.

MR. GOLDSTEIN: Well, again, I administer over 350 million dollars of group RRSP assets and the unions that have given access to that money, the redemption rate is as high as 30 percent, so people will cash in their RRSPs, pay the tax and go and buy the toy they want to buy, and they end up old and broke, and I've seen it.

Again, people -- the RRSP aspect is no deterrent to somebody who really wants to go and buy a new motorcycle.

MR. ADAMS: And the issue is where the money will come from to do that. Getting out of high cost debt, getting that program in place, not the fact that it's sitting there or the DSC is keeping it there, it's getting set up in the first place.

MR. MOUNTAIN: We have a number that are along the same idea, which is won't technology help solve this problem. Won't it drive down costs and allow mass customization far more economically than it is today. I guess it's not really a question, it's more a statement, but if anyone would like to reflect off that.

MR. McINERNEY: I might answer from a little different perspective because you mentioned technology. Obviously robo advisors is a huge internet technology.

Again, from our perspective, it's another model, which is great. We have new models coming into Canada and it's another model that Canadians can access. In fact, it's bringing in millennials into the retirement ecosystem earlier than they normally come in. That's a good thing, because they’re starting to save early, and if it takes the technology inducement and the low or no human touch and the social responsible type investment options to lure them in, let's bring them in.

But, again, once they're in and they commence their retirement journey, then we'll see how their needs might change and their advice needs might change. I just want to enable technology and then focus more obviously using technology to be more efficient and scalable, and that's clearly the case for any asset management company which we're focused on.

MR. ADAMS: And certainly for any dealer, including us, it's imperative that we invest in that, if you have a significant investment, getting rid of the paper and making it more efficient so that a proper job can be done.

MR. GOLDSTEIN: I can only concur.

MR. MOUNTAIN: Many studies show that the best predictor of future outperformance are lower fees today. Past performance is definitely not a good predictor.

In a DSC model, people have to sell a higher cost version of the product because that is embedded in. Don't the two get in the way of actually better performance over the longer term?

MR. GOLDSTEIN: Yes and no. With the choices out there, thousands, literally thousands of mutual funds available, again, through experience and research and whatever, we've found that the top performing funds over a long period of time continue to outperform and they outperform the indexes certainly, they outperform their peers over long periods of time, and we focus on those funds. Nothing to do with the compensation, it has to do with the best outcome for the clients.

I'm proud of our long term history of outperforming everything else in sight, you know, and that's what clients want, they want the result. They don't care about the fee, they care about the result. As long as we can deliver that over, in my case, 51 years, that's got to say something.

MR. McINERNEY: If I could add, because it does lend itself to this, again, active versus passive discussion, because there has been a lot of chatter I've noticed in the last year or so, being back in Canada, almost implying low cost is better for the Canadian investor.

I think Marian made a good point, I think it's important to separate out the issues. One issue is the availability of low cost options and then the other issue is what's better, active versus passive. So in the latter issue nothing is better, been at this 30 years and you use both right. We're agnostic manufacturing solutions, asset management firm, whatever you want to call us, we use both. You can use them both in the portfolio for the benefit of investors.

You know, it's good to separate out the active versus passive, that one's not better than the other, to low costs. Certainly what we're seeing going forward is, yes, you know, whereas you see this more in the institutional world, it's coming to the retail world in Canada, where there was a predominant focus on alpha and returns, and irrespective of costs, and there's becoming more a focus on balancing, producing those returns in a more efficient manner, and efficiency usually means lower costs.

So we predict that in Canada, Canada is a little behind in terms of passive options and arguably ETF is not necessarily only passive, there's a lot of active and smart ETFs, but ETFs are going very fast in Canada. They lag the speed and depth of the U.S. marketplace, but they will catch up. So, therefore, just naturally, competitive forces will open breadth, provide more options for Canadians and us manufacturers to put a wider variety of investment vehicles and strategies and types together on behalf of the client's portfolio.

MS. PASSMORE: Yes, my hope would be that models and the environment evolves so that clients have greater control over those costs themselves, because costs are a huge predictor of overall returns, and if you're in a 2 percent mutual fund over 50 years, two thirds of your amount is going to get eaten up in costs, and most investors have no idea that that's the case.

MR. VINGOE: Okay. Well, thank you, thanks to our panellists today. I guess someone -- one point of view has to be the final one, but we have had a -- and it's true that costs are really critical, so is performance and so is choice, so I think we have had a vigorous debate and we'll continue it in the third panel. Now we'll take a 20 minute break.

--- Recess taken at 3:04 p.m.

--- On resuming at 3:30 p.m.

TOPIC 3: ENHANCEMENTS TO DISCLOSURE AND CHOICE FOR INVESTORS:

MR. MOUNTAIN: Welcome back, everyone. We're coming up to our third and final panel today. I'd like to remind you that if you do have questions to write them down and as you write them down, if you can hold your hand up then and get them brought up, that helps us think about the question and whether we can actually ask it or not.

I'd like to introduce now the moderator of our final panel, Deborah Leckman. Deborah is a Commissioner at the OSC and she is Chair of the Human Resources and Compensation Committee of the Commission. Deborah will take over now. Thank you.

MS. LECKMAN: Thank you, John. Our next panel will discuss enhancements to disclosure and choice for investors.

The panellists for this discussion are Paul Bourque, president and CEO of the Investment Funds Institute of Canada, Duane Green, president and CEO at Franklin Templeton Investments Canada, Dan Hallett, vice-president and principal, HighView Financial Group, and Sandra Kegie, executive director, Federation of Mutual Fund Dealers. But first I'll turn to Chantal to introduce the discussion.

MS. MAINVILLE: The last two discussions primarily focused on the impacts resulting from structural changes to dealer compensation models to address the market efficiency and investor protection issues the CSA identified in the paper and, in particular, the conflict of interest that arises with the use of embedded commissions.

However, there are other important issues created by embedded commissions that flow from the inherent conflicts of interest in this type of payment model.

Specifically, we are concerned that embedded commissions, due to their embedded nature and complexity, inhibit the ability of investors to assess, understand and manage the impact of dealer compensation on their investment returns.

We're also concerned that embedded commissions cause investors to pay, indirectly through fund management fees, dealer compensation that may not reflect the level of advice and service that investors may actually receive; that is, the cost of advice and service provided may exceed its benefit to investors.

So this discussion will focus on other alternative solutions that have been presented by industry stakeholders that are mainly geared towards increasing investor awareness and understanding of fund fees, as well as improving the alignment of services received in exchange for the compensation paid.

Specifically, we want to focus on how these proposed alternatives can impact the behaviour of dealers and representatives and investors, independent from any structural changes to embedded commissions such as a cap on trailing commissions or the discontinuation of the DSC option.

I'll now turn it over to Commissioner Leckman to ask questions of our panellists and moderate the discussion.

MS. LECKMAN: Thank you, Chantal. Our first question focuses on service level agreements. One alternative option consistently presented to the CSA is to require dealers to provide their clients a minimum level of service in exchange for compensation through embedded commissions; for example, through a service level agreement.

While conceptually this could be a positive result for investors, we are concerned with how this type of agreement may be used in practice. For example, today, at the outset of an investor/advisor relationship, clients are provided a host of account opening documents and disclosure that can be overwhelming. Buried within these documents is disclosure that commonly limits a firm's liability and explains what the client will not receive.

Please, therefore, discuss how this type of agreement will lead to a different result. Specifically, we would like to understand how this can be used to ensure that an investor will receive the optimal services they want at the price they are willing to pay, and what those services will -- how those services will be aligned with the compensation they pay their dealer. We'll start with Paul.

MR. BOURQUE: Thanks very much, Commissioner Leckman, and thank the OSC for hosting this Roundtable.

As I chatted with an old friend, he suggested that I summarize the IFIC position, because he mentioned to me that not everybody would have read our submission and given its length, I'm sure that's quite true, but it does relate back to your question.

So when we reviewed the CSA paper it was very clear, and the paper made it clear, what the concerns were, and they're all legitimate concerns and they're all concerns worthy of regulatory attention. What we thought about conflict of interest, in particular, was that a ban on embedded commissions wouldn't solve the problem of conflicted compensation and we were concerned that it was disproportionate, the benefits were well articulated but the cost not so well quantified.

So we thought what could we do to address the overall question. We thought it would be very worthwhile to propose an alternative. And the topic under discussion right now was one of the things we had proposed, none of which, either individually or in their aggregate, would address all of the concerns around the conflict, the harm that's in the embedded conditions, only a ban would do that, but we thought we could address enough of the concerns that it would provide an alternative to moving to a regulatory solution that we thought was disproportionate and would have been very disruptive.

In terms of why this might be a good thing for investors, clearly investor behaviour can be impacted by disclosure and disclosure doesn't always work. A lot depends on how it's framed, how it's -- the timing, and there's lots of good research on when disclosure will work and when it won't work, so we're really in favour of a solution that would focus on regulatory measures that promoted disclosure as a solution here, putting in -- making it transparent to the investor what they're paying for when they're paying a trailer fee. It simply allows the investor to understand and to assess the value, is the value worth it to me or not. Should I be paying this fee or not, so then an investor can make a decision.

Trailer fees, today everybody has a position on trailer fees, and we've set out what we think they should be for and there's really four things. Trading and access to capital markets is part of the trailer fee, account support, account opening and closing, account statements and confirms, advisor overhead, reporting to clients, most of which is found in 31-103, part 14, division 5 sets out all those things that have to be reported.

Supervision compliance and investor recourse, things like OBSI and investor remedies, and finally, advice, assisting the investor in determining financial goals, risk tolerance, recommendations, portfolio construction, ongoing review and rebalancing, we think all those things should be set out for investors on their merits and allow investors to make an informed decision about the product they want to buy and the way they want to pay for it.

MS. LECKMAN: Would anyone else like to add their comments?

MS. KEGIE: I would be happy to mention something about service agreements, if I could get on with that, but before I do that, I just have one little thing to say about deferred sales charges, because now I'm up here you can't say no.

I just want to remind everybody that over the last at least ten years, where there's been a market decline, mutual funds have been the investments that have been touted as buoying a slumping market. It's because of DSC, because of the buy and hold nature of that product, how that product started and how it is still sold today, that's what kept the markets going over the years. I just wanted to remind people about that. They have served a very, very important purpose.

And the other thing I want you to know, sitting up here with no skirt on the table, it's really hard to keep your legs at the same angle for a whole hour. If you want to know what I'm really thinking about through this whole thing, it's keep your legs where they are.

A service agreement might eliminate trailers paid to discount brokers, which we would think is a good thing, but in the mutual fund dealer channel, independent from any structural changes to the existing compensation models, the Federation is not in favour of a service level agreement.

We believe that service agreements would unnecessarily increase the regulatory burden, which was mentioned earlier, with the addition of prescriptive rules and oversight, additional supervisory controls and amended policies and procedures, all with little or no corresponding value, especially when you add this to existing account opening pre-trade, post-trade, quarterly and annual disclosures, including the annual report on fees and compensation.

And we agree that while disclosure requirements are what they are at the moment, this would get buried in the plethora of incomprehensible account opening documents clients receive.

That said, should the CSA, for example, determine to eliminate trailer fees and all embedded commissions for a full fee for service remuneration model, I would expect that a menu of potential services would be articulated for the client to choose from. One section would be devoted to what information and service is provided that is mandatory, i.e., due to securities regulation with a corresponding fee. And the list would move on from there to items that the dealer and/or advisor would or could offer with corresponding fees.

However, given the opportunity to build their own customized bundle of services, many of our research participants did not choose the things that behavioural research shows are key to achieving long term investing decisions. Just because I will refer to it again, the Federation commissioned an independent qualitative research study with a sample of mass market Canadian investors aged 25 plus who are in an advised relationship with portfolios of $100,000 or less, comprised mostly of mutual funds. The purpose of our study was to understand the potential impact on these mass market investors currently in advised relationships.

MS. LECKMAN: Thank you, does anyone want to add anything or we'll move on to our next question.

MR. HALLETT: I wouldn't mind just addressing that briefly. I think it makes sense to talk about service level agreements independent of how advisors are compensated, because it shouldn't matter. The idea that you would put on paper in plain English rather briefly and review with a client what you're proposing to provide to them as a service in return for your compensation doesn't seem like anything to be debated to me. I'll leave it at that.

MS. LECKMAN: Thank you. Duane, do you want add anything?

MR. GREEN: I mean I think the other panellists have said it pretty succinctly, but I think anything that leads to the streamlining of the account opening process lays out a list of services, regardless of what you want to call it, whether it's a service level agreement or, for lack of a better term, just a list of services that Dan just mentioned, I think should be pretty standard within the relationship between an advisor and their client to understand and then ultimately be able to make the decision as to whether they see value in those services provided and how they want to pay for those services.

MS. LECKMAN: Sandra?

MS. KEGIE: We already have a relationship disclosure information form; it's really boring, it's really dry. If we're going to go this route, then I would recommend looking at, as regulators are, not everything, but let's look at what we already have out there that does address relationship and make it better. So if you're going to include a list of services in particular, whether fees are attached or not, let's add it to something that's already there that talks about the relationship between the advisor and the client.

MS. LECKMAN: So improve existing forms before adding more forms.

MR. BOURQUE: Could I add one more thing?

MS. LECKMAN: Sure.

MR. BOURQUE: If you believe in this type of disclosure, and it has value, then it should adhere to certain criteria like plain language, no generic or boilerplate language, it should be in conjunction with a mandated discussion around fees so the focus is about fees. And I think the industry has a role to play in providing standard templates and forms in plain language without boilerplate, if it gets done for the CRM2 implementation. I think there is a role to play for industry associations to foster better transparency and better understanding.

MS. LECKMAN: We'll move to our second question, and that focuses on direct-pay options alongside embedded commissions. To provide investors with choice and flexibility in how they would like to pay for advice, another option consistently put forward by industry stakeholders is to require dealers to offer their client a direct-pay arrangement, alongside an embedded commission option. Should the CSA require dealers to offer a direct pay option in addition to the current embedded commission payment model? What type of direct-pay arrangements would likely be offered? For example, would the alternative simply be a fee-based account, or would dealers offer a range of alternatives?

Also, how can we ensure that investors will be better off under this model and actually be offered a direct-pay option that would be truly competitive with the embedded commission option, i.e., that investors would not be skewed or incentivized to favour the embedded commission option if it is not in their best interest.

Sandra, could you start the discussion?

MS. KEGIE: Oh, sure. Well, as everybody knows, direct-pay today lives alongside the embedded commission option and it works well, and we're in favour of that continuing with the direct-pay approach only, though, investors may forego, and our advice shows this, paying for advice and choose investing alternatives that may not support good long term investing behaviour.

Some dealers aren't set up for it internally, so this is the business structure, and some are considering moving in that direction as they see business reasons to. The ability to sell ETFs, for example, the ability to sell F class shares, or to provide their advisors with the ability to run a fee for service business alongside embedded commissions.

It's an evolution, though, and it takes time and it's not for everyone, every dealer, advisor or client, and we don't believe that the CSA should require a dealer to change its business model.

Our research showed that investors preferred choice in how they pay for their investments. Having the choice between indirect and direct payment options increased the feeling of control and a research participant said I think it should be up to me to decide whether or not I pay indirectly or directly. That said, 77 percent of participants want the option to continue to pay indirectly, and this supports John Adams' comment on the front-end versus the DSC option.

You asked within the question, how do you ensure the client understands which option is best for them. I'll give you an example of my own situation. I went to my advisor and he said it was time to look at my accounts and how the fees were being paid. I have five accounts. We looked at each account and the activity in the account and we determined on a case by case basis, comparing if we go fee-based or embedded commission, which one was best for each account. I understood the comparison, I understood the recommendation for a change, because it was to my benefit, and we moved forward. That seems to me very common sense and I don't think overly onerous.

MS. LECKMAN: Dan?

MR. HALLETT: I'd like to maybe start by clarifying what direct-pay would likely mean or what it does mean today. There has been a lot of reference to paying up front, writing a cheque, and unless you're in a fee-for-service financial planning arrangement with no products sold at all, no products bought, that doesn't happen.

A client has an account, the fees are set out ahead of time, and the investment account is debited from the cash for the amount of the fees every month, every quarter, whatever the arrangement is.

With that understanding, I would ask those that are vehemently against eliminating commissions, what's the difference between getting a one percent trailing commission, from a revenue standpoint, and a fee debited from the account, not written with a cheque, that is charged at the same level of one percent. If the revenue level is the same, what is the burden on the industry in that comparison?

MS. KEGIE: You're talking about the sale of a product. What about provision of financial planning advice that's over and above product fee?

MR. HALLETT: That can work the same way. If the one percent trailing commission isn't enough to compensate for the planning, a separate fee is charged. Same thing here. If you're charging one percent explicitly debited from the account and that's not enough to pay for the financial planning, then you charge additional fees. You present that to the client before the services are engaged.

MS. KEGIE: And the client pays it directly out of his pocket?

MR. HALLETT: For financial planning that would be the case in most scenarios, but that's independent of whether we maintain commissions or not.

MS. LECKMAN: Duane.

MR. GREEN: I looked at the question perhaps a little differently in that, to me, I read it as the premise here is that embedded is more expensive than a fee-based model. I don't necessarily think that's going to be true in all cases that embedded compensation is going to be more expensive, but I think it really goes down to the underlying case and I think everyone is making the same comments and have made the same comments through the other two sessions today. It really does come down to choice.

As an independent asset manager you've heard Barry before me in the previous session and then you heard Rob in the very first session. Franklin Templeton, we are an independent asset manager. We are manufacturing our investment capabilities, offering them in a number of different vehicles, from low cost ETFs through the whole range of the investor cohort life cycle, so to speak, and we operate a retail business, an institutional business and a high net worth business, so to us it should be about choice in how Canadians access financial advice. Obviously we advocate the value of advice. I don't think any of us would be here if we didn't believe in that.

Quite frankly, it should really come down to choice, choice in how an investor wants to pay for that advice and then what is the right vehicle that they can use to then ultimately lead to their future financial security. So I think options are great, but I don't necessarily think that just -- you know, the focus is around the banning of embedded compensation, but I don't want to necessarily put it out there and saying it is this bad, all-encompassing higher cost structure, no matter what. There are multiple ways, I think, in how you get value from that advice.

MR. BOURQUE: So just my two cents. Of course we have the two models side by side today and some firms offer both platforms and some offer them through different affiliates and some offer one or the other. So you have the products and services available in the marketplace today.

But, you know, Dan answered the question and the answer is, of course, the industry can provide both for a cost. It's being done and it would continue to be done. If one was banned the industry would go with the other.

But I think that perhaps the impact on the account might be different; the cost might be the same, the impact on the account might be different. When you shift the cost of calculating fees from the fund company to the individual dealer, you have sort of a different cost model. And anybody who has to calculate fees, as you do when you do a fee-based account, has to do a couple of things that were once done by someone else.

You have to cost -- you have the cost of calculating the fee, you need a fee engine to calculate fees, you have to calculate the fee frequency and you have to calculate taxes, you have to aggregate or exclude various accounts, you have to do all that at the dealer level and there's a cost to that. You have to administer the fees, you have to administer the fee agreements and then, as Dan says, if you're taking the fee out of the account you have to clear the quarterly debits and you have trading costs and printing and mailing confirms. So there are costs to doing a fee-based account and that cost, while it's incremental and it's not probably impossible by any means, but it would impact smaller accounts far more than a large account and it would impact a smaller account in a way different than an embedded commission.

And it gets back to this whole argument about, you know, would people be willing to pay that cost, would they -- would advice be less available.

MR. HALLETT: I'd like to add just two more quick things. I think those are valid points all around the cost, but every fund company I've spoken to, and I think Barry said it earlier, is that the fastest growing part of the sales is on the F series, so clearly dealers are getting on board with the fee-based platform.

On the issue of choice, you know, I don't know how real the choice is. Sandra, I think your experience, based on my experience, just from everything I've seen and heard, is unusual, that it would be laid out that clearly.

Usually, and I think this is not a big surprise, clients would look to their advisor to say, well, what do you think is best. So is there really a menu of choice being presented and clearly a lining up, here's how the impact, here's what it's going to cost you with each scenario? That's certainly not what I'm seeing throughout the rest of the industry, so -- you know, there's actually a lot of research that says too much choice is actually a bad thing. There has been books written about this.

But I don't know that there -- even where different options are available, an advisor or a firm is going to really promote the option that either suits a particular client or suits the business model without catering to a specific type of client. I don't see firms putting a bunch of different choices for compensation in front of people.

MS. LECKMAN: We'll move on to our third question, which is on disclosure. Many industry stakeholders urge the CSA not to discontinue embedded commissions, but instead to focus on enhancements to disclosure to improve investors' understanding of the impact of fund fees and dealer compensation on their long term investment outcomes, as well as to improve their ability to assess the reasonableness of the fees relative to other investment options.

While enhancements to disclosure may be helpful in certain circumstances, in CSA CP 81-408, the CSA did not believe that disclosure alone could mitigate all of the issues. For example, the CSA point to research that has shown that disclosure of conflict of interest can have unintended perverse effects such as clients being more likely to follow conflicted advice.

The CSA also found that investors' high level of trust and reliance on their advisors for investment decisions may cause them to not thoroughly review disclosure documents and reports, and thus limit the benefits to be derived from disclosure. Other research also shows that clients do not read disclosure, irrespective of whether they are advised or not.

Given some of these shortcomings, please explain your views as to how, if at all, disclosure can be enhanced to help better inform investors and improve both investor and dealer representative behaviour. Let's start with Duane.

MR. GREEN: Well, I'm certainly not going to sit here and say that we need more disclosure, so I don't think the answer is more disclosure, I truly think it's more meaningful disclosure and I think that's -- if that's a throwaway comment, I know it's easy for me to make that comment, but, you know, at the end of the day we have to figure out how to make that disclosure more meaningful and effective.

We've already got point of sale now, we have CRM2. I think these are good first, initial steps of moving that forward. Quite frankly, I think we're in such early days still with respect to point of sale and CRM2, I know it was said in the earlier panel, I think we need to give it some time to see how those pieces of regulation take hold and will they potentially solve some of the concerns we have today and do we need to continue to add more forms and disclosure at investors or will this work itself out over time.

You know, I'm certainly supportive of the fact that the CSA and the regulators do want to look at the overall regulatory burden, so I think that's meaningful and I think that's very constructive, but at the end of the day it is about client education and advisors need to be educating their clients around what is the deal that they have with their advisor and then what is this ultimate disclosure.

So obviously, you know, we support, you know, disclosure to the nth degree in that regard, but I think we don't necessarily need to go and have more regulation on top of it, but look for ways of making that disclosure more meaningful so it is read.

MS. LECKMAN: Just to follow up on your question, though, a lot of the comment letters stated that, you know, let's see how long -- let's get the -- let's see how CRM2 is working and point of sale is working. Can you give me an estimate on how long we need to wait to find out if those are actually working?

MR. GREEN: Man, wouldn't that be good if I had that answer.

MS. LECKMAN: Well, you tell us to wait so you must have an idea how long you want us to wait. Is it another 20 years or --

MR. GREEN: I don't think -- I doubt there would be any regulator that would be willing to wait 20 years, but I think it's incumbent upon us to see if the existing -- these are relatively still very new, very young pieces of regulation. Giving it time to wait, I could probably defer to Paul here, to see if he's got more of a time frame, I think longer than the year or two. For a member of IFIC, I can kick it over to him like that.

MS. LECKMAN: Someone is going to give me a number on this panel.

MR. GREEN: It's fair and I don't think it has to go on indefinitely, but I think we haven't given it enough time to see if it is taking hold and giving us the results we want it to.

MS. LECKMAN: Sandra, did you want to add something?

MS. KEGIE: Well, there's a lot of information out there, hundreds of studies over many, many, many years about how people learn, and we don't all learn the same way and we don't all learn in the same time frame. I like pictures, other people like reading, other people like to be told, some people need to be told ten times, some people like to see a picture five times, it's very, very different.

And the OSC's own Office of the Investor, I believe it was, issued a behavioural insights report, so you may get a little closer answer from them, but it reviewed how research and experience has shown how most choices are not made with careful deliberation, so essentially why provide more if it's not going to be deliberated.

So I'll go back to what I said earlier, look at what we have now and what the purpose of it is for and how it's been written, how it's being received, and enhance what we already have.

Given the market and its participants -- give the market, sorry, and its participants time to evolve. In time it will become evident what is working and what is not. CRM2 makes all dealer fees clear, including embedded commissions, but it is recent. Ongoing compliance with CRM2 and point of sales should help with huge fee awareness among investors.

It is unclear that banning commissions will materially improve awareness and understanding of investment fees. Our research shows that even with direct fees, if investors choose to pay through automatic redemptions or preauthorized debit, for example, there is unlikely to be an increase in their understanding and awareness of their fees. Out of sight, out of mind.

MS. LECKMAN: Paul?

MR. BOURQUE: Well, let me -- when I discussed disclosure, I'm talking about it in the context of a long tenured relationship between a client and advisor; that's the sort of framework for disclosure. And investors will advocate the advice they get over the long term and to the extent that the advice is useful and productive and enriching, then they will continue in the relationship, probably deposit more trust into that relationship.

So disclosure in that context can work or not. There is research, just as you say, on the impact of disclosure, some of the perverse impacts, some of the positive impacts. I think we have to look at all that research carefully. It all has limits. None of it answers the question, but I think it's important to consider it all.

To your question about how long we should wait; I mean, there is research going on now, the CSA has a project to assess some of the impacts of CRM2 and Fund Facts and I know that the first tranche of that research is to be delivered some time in 2021, but other Commissions are doing research as well, as well as IFIC, which is a little more current or at least the timing is a little more current.

We know the ASC has done some research on this, we know the BCSC is doing research of their own and they have released some of it. Here is an early finding. Awareness of direct fees has risen from 67 percent to 76 percent and awareness of indirect fees has risen from 48 percent to 59. So that's research based on CRM2, and none of it is conclusive, but I think it shows that things seem to be moving in the right direction, at least for now.

IFIC included in its annual Polaris survey of investor sentiment some questions on CRM2 and how it's working, whether it's working in that people are reading their statements and when they're reading them what are they getting out of them. We will be publishing that shortly as well.

I don't know we have to wait forever. I think we should look at some of the research that we're doing that suggests that disclosure can work, and I know that the regulators, I know the CSA believes that disclosure works. It's in the principles of the Ontario Securities Act, it's one of the key tools that the Ontario government and the OSC are going to use, it's timely, accurate and efficient disclosure, so that's -- obviously the legislation makes that a primary objective.

There are 23 National Instruments just dealing with investor-targeted disclosure, so clearly we believe in it, it can work, and I think it's just another regulatory tool, amongst all the others, rule making, disclosure, enforcement, compliance, efficiency, they're all tools, but I think disclosure can work if it's framed in the right way and I think it is probably less impactful or at least has fewer unintended consequences than some of the other proposals.

MS. LECKMAN: Dan?

MR. HALLETT: So I was involved in a project some years ago in creating an on-line tool, portfolio analysis tool, that for an entire fund portfolio provided people with percentage, average percentage fee and dollar fee, provided them with some performance information and a correlation matrix.

That was in 1997, so I do feel like in some ways we have been waiting 20 years to get to this point, and of course it's been 22 years since Glorianne Stromberg first wrote, published her first report, so it does feel like this stuff takes a long time and I think some of that has to do with the perspective that you come from.

I'll just speak to my own, it's always been around trying to do what is right for the client and how I would want to be treated if I was sitting on the other end of the table, and I think sometimes that perspective gets lost, sometimes because the investor doesn't have often a voice in the various processes, but I think, Duane, you touched on it, we don't need more disclosure.

I've sat in lots of client account opening meetings and the stack of documents can get fairly high, so just adding a few more pages in there is not going to help. I think disclosure can be effective; again, I'll speak to my experience, I'm not aware of any research that addresses these issues. When it's truly written in plain English, when it's accompanied by a simple explanation, verbal, when it's in writing, so it can be referred to later, and when that is paired with meaningful periodic reporting so that when the fees come off the account, the quarterly report shows, well, here are the fees you paid last quarter, year-to-date and over the past year, so it's not out of sight, out of mind. You really have to look at that as a whole and it's part of an entire reporting regime for clients.

I'm proud to say that we've created that at our firm. I'm not here to promote the firm. These issues have zero impact on our business. I'm here just out of personal interest, frankly. A glutton for punishment perhaps.

I think that's my view on disclosure. I know there's been lots of research on it, I'm not aware of any. I mean, even I look at Fund Facts, for example, I think it's a good document, but one of the pieces that I think is most important, which is the risk rating summary, I think needs a lot of work. I won't go into detail here, I've, I think, detailed fairly specific recommendations in my submissions in the past so I won't go over that now.

And with CRM2, with the reports that resulted from that, again, I think an excellent step, but something along the lines that I did about 20 years ago, I think we need to take the cost and charges disclosure one step further so people can get a total picture, so that firms that have completely unbundled their costs don't look more expensive than the client who is invested in a DSC fund where the DSC commission was outside the disclosure window.

So I think there's some work to be done, but I think we're making some progress.

MS. LECKMAN: So our fourth question addresses conflict of interest. Many of the alternatives we discussed mainly focus on addressing investor awareness, as well as ensuring fees paid through embedded commissions align with the services received. They do not appear, however, to directly address the conflict of interest inherent in an embedded commission model.

Are there any other changes needed to adequately address the conflict of interest?

How can any of these options, either alone or in combination with one another, sufficiently address the conflict of interest inherent with embedded commissions. And, Dan, could you lead us off?

MR. HALLETT: Sure. You know, I guess I go back a little bit to the comment I just made just around, you know, if standards are set based on doing what's right for the client, I think this becomes fairly simple and instead of focusing on why it can't be done and why it's too hard, I think the process should be, the order should be, let's figure out what needs to be done and figure out a way to get it done. I'll just leave it at that. I think it's fairly simple.

MS. LECKMAN: So your comment that doing what's best for the client sounds a lot like a best interest standard, but we're not going there today.

MR. HALLETT: Well, again, some have suggested to me, well, you know, my point of view is influenced by the firm I'm with and the model we have, and I say it's quite the opposite. Regardless of what was happening in the industry, I made a choice as to how I wanted to deal with clients and, as a result, I made decisions to put myself in a position where not only am I a legal fiduciary as a licensed portfolio manager, but I fully embrace it and we promote that as a firm. So I ...

MS. LECKMAN: I had to get that in –Paul, next.

MR. BOURQUE: Just, Dan brought it up, but IFIC's position has been that the clients always have to be put first where those interests conflict with the firm's. So our understanding of best interest has always been in the context of conflicts of interest, so obviously we're very focused on conflicts of interest. And by virtue of some research we commissioned, but this is just economic theory, there are conflicts built into all principal agent relationships and all compensation arrangements, and they result from conflicting incentives, which we see writ large in embedded commission, and the information asymmetry, which is inevitable when you're dealing with an expert.

What further complicates our particular issue here is the uncertain and future nature of financial advice. It makes it very difficult to assess whether it's valuable or not. Won't know for perhaps many years. So there is a real reluctance to pay immediately for something that you're not sure you're going to get and you're certainly not going to get it today, you're going to get it some time later.

So those are the sorts of things that create a conflict and we have proposed a number of initiatives, eight altogether, some of them deal directly with conflicts of interest, so capping and standardizing trailer fees would deal directly with the incentive, the differential incentive which may incent bad behaviour. So we have focused on some of them that deal with conflicts of interest. You know, not selling mutual funds, which have an advice fee attached to it, through the discount brokerage channel, that's a narrow slice of the conflict issue, but it's there.

There are things that we proposed. We also proposed some things that deal with awareness of fees and getting value for money, the other issues, but we don't think that banning embedded commissions will eliminate compensation-based conflicts of interest and we know there are many. The CSA did a review in late winter last year and there was 27 compensation arrangements examined, 18 of them had conflicts, so I think that understanding that we're not going to eliminate conflicts of interest, are there things that can be done that would mitigate or mute the impact of the conflict and yet allow investors that choice.

MS. LECKMAN: Duane.

MR. GREEN: I think all the panels summed it up. I might throw in a bit of a different wrench. I do agree that we do largely now have -- embedded compensation is largely standardized today, so as far as I'm concerned, the conflict is more mitigated, but we could focus perhaps on other aspects of the overall relationship, and probably bring in a little bit more scrutiny around 81-105 and enforcing sales practices, which probably isn't something everybody wants to hear, say let's really dig into that, but I think it's inherent on all of us to look at all aspects of the relationship and look at various aspects of it to make sure that we're trying to remove as much as potential conflict as possible.

MS. LECKMAN: Sandra.

MS. KEGIE: Well, I think identifying and resolving conflict of interest situations is crucial, but conflicts are not necessarily a failing, they are a description of a set of circumstances. Again going back to our research, we found weak indicators of investor concern about conflicts of interest.

Among the research participants, some investors were concerned about a conflict of interest, some felt it was a reasonable way for an investor to be paid, while some are with comfortable with indirect fees, but wanted more transparency. One participant said, I feel okay about it, they have to get paid some way. There was no strong conclusion, though, that this was a problem overall.

MS. LECKMAN: So for our final question, and it's already been asked, but new panel so perhaps a different point of view on this.

So when research reveals that what retail investors value most in an advisor is trust and transparency, then how can embedded or hidden compensation ever be justified?

MR. BOURQUE: Well, I mean I think it's been alluded to by other panels, but while it's embedded, it's not hidden. It's disclosed, fully disclosed. It's fully disclosed both in the annual cost report and in the Fund Facts, so you get percentage of the investment is disclosed, as well as the trailer fee in dollars and cents. As I said at one time, if the industry was trying to hide it, it did a terrible job because it's fully disclosed, it's available, and investors can consider whether or not they're getting value for their money.

MR. GREEN: I don't know whether I can state it any better, Paul.

MS. LECKMAN: Dan?

MR. HALLETT: Well, I think on a product by product perspective, the information is there and I think that's improved with Fund Facts because it's easier to find. But, again, if I -- as I've done over the years and we do today, put ourselves in the position of the clients, we say well, isn't this most meaningful to provide to them on a total portfolio basis, because in most cases advisors are not recommending a single product for an entire portfolio across all accounts.

So we're doing portfolio analysis anyway to lead up to the recommendation to the client, so that is just one piece of information we already provide and have for years, which is, here is what the cost is going to be. So even before they have committed, again, this is something that -- that was one of the purposes of that tool that I helped create twenty years ago. I think that is something that should be done.

It does fall on the dealers, and I know they're the lower margin component of the food chain, but they are the client-facing firms, as we are, and we've taken on that obligation as well, so I'm at least taking my own recommendations.

MS. LECKMAN: Final word to Sandra.

MS. KEGIE: I agree with Paul and we don't expect that the outcome of banning embedded commissions, not hidden commissions, would materially address the three concerns in the CSA's paper.

MS. LECKMAN: Thank you. So now we'll take questions and I'll turn the floor over to John.

MR. MOUNTAIN: Do we have any questions? The questions we received in advance have already been covered in the discussion. This one came directed for Sandra and Paul.

A shift to a fee-based system would involve 12,000 to 36,000 added transactions per year for many advisor practices. I guess the calculating of the fee on a quarterly basis over the number of accounts. An embedded model sees no transactions, only fund dealer payments twelve times per year. Which model is most economical and which fosters better client behavioural outcomes.

MS. KEGIE: Beats the hell out of me. Paul?

MR. BOURQUE: I think the question answered itself.

MR. MOUNTAIN: Is there a concern over the fact that a ban on embedded commissions may result in an increased cost to investors. Trailing commissions are typically one percent, while fees paid by investors in F class are typically north of 1.5 percent. Is that your experience?

MR. HALLETT: I mean the starting fee, one percent is very common, sometimes with a dollar minimum, sometimes one and a half. I've never seen it higher than about 1.4, 1.5. I think to the issue of low cost rise in that environment, I think it's an issue of it will rise for some and it will fall for others, but overall I don't think that we will see an overall increase in costs, but I think when you have that greater transparency you've got greater accountability and that puts the client in a better position to at least start negotiating.

MS. KEGIE: Our research by the way showed that clients were not inclined to negotiate.

MR. HALLETT: I don't know how knowledgeable they were about --

MS. KEGIE: We're talking 25 years under and older, under $100,000 in investable assets.

MR. MOUNTAIN: This is a question that perhaps directly at the OSC, Maureen. At the end of the day what does success look like out of today's discussion?

MS. JENSEN: That's a good question.

MS. LECKMAN: I would just like to thank this panel for their thoughtful and candid responses on the discussion and I'll pass the podium back to John. Thank you.

-- Applause.

MR. MOUNTAIN: Thank you very much to everyone for coming out today and making the time for this; in particular, both the moderators and the panellists. I thought it was a great discussion. It will assist us, as I noted earlier, in ensuring that the results we come up with are really well aligned and do serve to make it better for investors.

I do want to spend just one minute talking about the shorter term and what to expect. As was alluded to earlier, we received 142 comment letters on this, which I'm told is more than we've received on any other issue in the history of consulting. It has taken a very significant amount of time to actually properly read them and think about what they are telling us and how to understand them. We're almost at the end of that process, but we're not quite done.

We're going to take that analysis, we're going to take the outcome of today and of the discussions that are happening across Canada in all of the jurisdictions and we're going to work with our colleagues across the CSA to come up with a policy response. We will be very carefully working with our colleagues who are thinking about targeted reforms to make sure that there is consistency and coherence between the work they're doing and the outcomes of this work that we are doing.

That said, we are moving to put policy

recommendations to each other through the fall with a view to having recommendations to the CSA chairs early in 2018.

So I'd like to remind you that we did make a recording today and we will be preparing a transcript and those will be available on our website as soon as they can, so if you do want to reflect on anything that was said it will be there for you, and I want to thank you all for coming out today.

-- Applause.

--- Whereupon the proceedings adjourned at 4:26 p.m.

I HEREBY CERTIFY THE FOREGOING
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