

Sent Via email

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CSA Notice and Request for Comment -Proposed Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments

http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_20180913_81-105_mutual-fund-sales.pdf

This CSA consultation is an affront to every Canadian. The CSA is asking retail investors to provide comments on two black and white issues.

The first involves discount brokers collecting commissions for as long as an investor holds the mutual fund but does not provide any advice associated with those commissions. Does the CSA think this is fair? Is this an honest way to deal with the public? In what world is this a relationship based on good faith?

It is discouraging to see the CSA not jumping to the assistance of investors trying to control their own financial destiny. These folks have made a deliberate decision to bypass the regular broker channel with its layer after layer of conflicts-of-interest. They should be protected from wrongdoing, not being asked to explain the wrongdoing or what to do about it. The issue is huge- for every \$10 billion invested this way, the Discount brokers receive \$100,000,000 per year (assuming a 1% trailer) for doing basically nothing. One has to wonder how the CSA deals with less obvious investor abuse when they need to ask about blatant investor exploitation of great magnitude. And why do fund management companies make these payments using fund assets? Does the CSA not know the answer? Retail investors have never felt so alone as they do now.

The second issue involves back-end load mutual funds. The CSA Consultation Paper lists all sorts of investor abuses including higher fees. The Mutual Fund Dealers Association (MFDA) has identified many cases of mis-selling especially to the elderly. Articles appear in the media of 80 year old seniors paying early redemption fees to meet an unexpected expense. Why would any professional advisor ever sell a back-loaded mutual fund when a 0% front load is available? Should a grandparent putting money in an investment account or RESP have such money subject a redemption penalty? In a MFDA report released in 2017, the MFDA found that smaller investors are a target of DSC sold funds usually by salespersons just starting out. As account sizes increase the use of DSC diminishes. This suggests that these investors are being used to finance the novices via the large upfront commission.

To say that clients should be charged more, or charged differently or charged a different load, because it is for a higher cause, saving independent firms or helping new salespersons start their business is just plain wrong. Clients should not be charged for those reasons, they should be charged a fee because of the quality service they receive, delivered in their best interests. Providing advice to families is not like selling used cars. The motivation to sell vs. provide trusted advice is improperly skewed when the DSC option is available.

Why would an advisor ever sell Fidelity's Canadian Money Market fund on a deferred sales charge basis. Such funds are designed as short term parking spots for cash. Why is such a fund even available on the market?

CARP's Chief Advocacy officer Wanda Morris has nailed the issue:

"There is clear and compelling research that shows embedded fees result in a mismatch between investment dollars and mutual fund performance; investors' assets are invested in mutual funds that pay the highest fees, not those that have historically generated the best returns"

The 5% upfront commission on back-end load funds represents an irreconcilable conflict-of-interest that harms investors. This is an incredibly high charge paid before any advice or service has been provided.

The higher the fees, the more the impact of de-compounding over time. This devours a large part of fund returns over time thereby impairing the retirement income security of Canadian families Any advisor living entirely off back load fees puts unsuspecting investors at risk. Does the CSA not know these basic facts?

It is disconcerting to believe there is a Company, Primerica Canada – which has approximately 6,800 mutual fund salespersons out there selling back load funds to trusting, likely financially unsophisticated, investors.

The deferred charge fund has no place in Canadian society. It is a dinosaur kept alive by those who are profiting from those outsized opaque commissions. It should be noted that a number of large firms have already stopped selling back-end load funds.

It's about time the CSA starting supporting Main Street - Bay Street is big enough to take care of itself.

Canadians have thousands of mutual funds to choose from, hundreds of low cost ETF's, nearly a dozen Robo-advisors and reputable firms like Steadyhand Investments who shun all forms of embedded commissions. More than enough choices. They do not need an expensive option that locks their life savings into a mutual fund or salesperson for up to 7 years. It is in the Public interest to ban such funds.

The core issue however is the low standard of advice permitted by the CSA . Canadians need and deserve financial advice that is provided in their best interests. Unfortunately, the CSA doesn't agree and that is why so much investor grief exists. Grief, that cannot be remedied, because the CSA is unwilling to give OBSI the right to make binding recommendation decisions.

Please post this letter so all Canadians can see what is going on.

Thank you for the opportunity to voice my opinion.

Ruth Elliott
Edmonton, Alberta

Reference

A Dissection of Mutual Fund Fees, Flows, and Performance: D. Cumming
"Regression analyses comparing across funds and over time indicated that trailer fees flatten the flow-performance relationship, and give rise to more flow regardless of performance. Similar effects on the flow-performance relation were found for other fee types such as deferred sales charges.

https://www.osc.gov.on.ca/documents/en/Securities-Category8/rp_20160209_81-407_dissection-mutual-fund-fees.pdf