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The Manitoba Securities Commission

Ontario Securities Commission

Autorité des marchés financiers

Financial and Consumer Services Commission of New Brunswick

Superintendent of Securities, Prince Edward Island

Nova Scotia Securities Commission

Superintendent of Securities, Newfoundland and Labrador

Superintendent of Securities, Yukon Territory

Superintendent of Securities, Northwest Territories

Superintendent of Securities, Nunavut

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

Request for comments include two issues, trailing fees charged by discount brokers for funds with no advice provided and DSC Mutual Funds. Neither practices should ever have been allowed. The first issue, trailing fees for advice that is not provided is incredulous. Clients are paying for a service they never received. They are being charged for a service that was not included. Why is this being allowed? Canadian Investors should be confident that they are being protected from being sold products that are unfair and deceptive. It is wrong and is not worthy of consultation.

The focus of the rest of my response is on the banning of DSC mutual funds. I have knowledge of the detrimental effects of purchasing these funds.

I support the ban of mutual funds sold on a deferred sales charge because they harm people and can easily compromise their future emotional and financial health. There has been exhaustive consultation on this topic. Many in the industry have implemented a ban on the selling of DSC mutual funds and this alone should be an indicator to all those involved in this process. If the ban is not upheld then I suggest every time a mutual fund is sold on a DSC basis the following procedures must be in place;

1. The advisor must explain verbally in plain language, exempt of financial jargon, the consequences of cashing a DSC fund if one requires their money before the time frame for retention has expired. The client must sign a waiver stating he/she fully understands the process and that there is a MER attached to each fund which is in place for the entire time frame.
2. Any advisor who does not hold a “legal fiduciary” obligation must tell the client that they are registered as a dealing representative, “commissioned salesperson” and are receiving an upfront commission of 5% for selling these DSC funds. The amount must be stated in dollar amounts.
3. If the client’s money is required the advisor must inform the client that they will have to repay the commission on a sliding scale. There are no exceptions! If the economy takes a downturn...you can’t get out without a penalty, if you get sick and need the money, you cannot get out without a penalty. If you lose your job...you cannot get your money without paying a penalty. If your child gets cancer and you need the money you will have to pay a penalty.
4. The advisor should tell the client that 10% may be redeemed each year and also promise not to buy the client another DSC fund if this portion is redeemed.
5. The advisor must tell all senior clients that if they die that the schedule of the DSC funds is the responsibility of the estate and must be repaid.

It is touted that people without enough investment money to hire a fee based advisor benefit from the purchase of DSC mutual funds as the advice is included. You only pay if you need to get out within seven years. How many advisors can forecast the next seven years in the lives of their clients? Once the funds are purchased there is no advice because it is the “set and forget” portfolio with DSC mutual funds. What kind of advice do you give for money locked up for seven years? Many millennials and others with smaller investments can now access robo advisors with “no lock in”, based mostly on ETF purchases with low MERs. The cost of the robo advisor is clear and transparent. In addition funds are selected by

portfolio managers with fiduciary duty. Another piece of inaccuracy is DSC funds forces one to save as you cannot access funds without a penalty. I think most investors who approach an advisor to invest their money want to save. This notion does not address the flip side ..if you need the money you will face tremendous hardship because you will pay the upfront commission awarded to your advisor. If you believe enough consultation has not occurred please seek out SIPA (Small Investors Protection Association) or CARP (Canadian Association of Retired People) and read the horrific stories of this harmful practice of selling mutual funds on a DSC basis. These two organizations have only one goal ...to protect the best interest of the small investor and in the case of CARP specifically retired citizens.

In my opinion, the purchase of DSC mutual funds is like playing the game of Monopoly. When you buy DSC funds you land immediately in DSC jail and you have to pay to get out. If you need "YOUR MONEY", the amount you pay is based on your incarceration served to date. The jail guard (aka advisor) was paid big bucks to keep you in DSC jail no matter what. You are allowed one visitor per year...a 10% withdrawal but unless you are a savvy investor you must practise "Caveat Emptor." This 10% money could be placed in another DSC mutual fund starting the jail sentence again. Your advisor may be able to move you to another DSC jail site run by the same wardens and convince you it is a better environment.

Your jail guard (advisor) will have to consult with the warden(mutual fund company) to make this switch. However, you are still in jail.

Name one great thing that DSC mutual funds do for the average middle class Canadian. Would you seriously recommend that anyone lock up their money for seven years with the caveat that if you need your money, there are penalties to be paid?

Banning mutual funds sold on a DSC basis is in the best interest of the investor. The best interest of the financial industry and the advisors are the only thing accomplished with maintaining mutual funds sold on a DSC basis. Investors want to know the cost of their purchases that are not clouded by hidden and ongoing fees. It is time to face the truth....time to protect the investor.....Australia, New Zealand and England did! Canada take note. It is shameful that this topic is still being discussed!

Sincerely,
Mary Boom
London, Ontario.