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**Submitted via Email**

British Columbia Securities Commission

Alberta Securities Commission

Financial and Consumer Affairs Authority of Saskatchewan

Manitoba Securities Commission

Ontario Securities Commission

Autorité des marchés financiers

Financial and Consumer Services Commission of New Brunswick

Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Nova Scotia Securities Commission

Securities Commission of Newfoundland and Labrador

Registrar of Securities, Northwest Territories

Registrar of Securities, Yukon

Superintendent of Securities, Nunavut

**Attention:**

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor  
Toronto, Ontario M5H 3S8  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin,  
Corporate Secretary  
Autorité des marchés financiers  
800, Square Victoria, 22e etage  
C.P. 246, tour de la Bourse  
Montreal, Québec H4Z 1G3  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Sirs/Mesdames:

**Re: Trailing Commission Payment Ban to Order Execution Only dealers – related to Proposed Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments & CSA Staff Notice 81-332 Next Steps on Proposals to Prohibit Certain Investment Fund Embedded Commissions - Comments from Questrade, Inc.**



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We thank you for the opportunity to provide our comments to the Canadian Securities Administrators (the “CSA”) with respect to viable alternatives to the implementation of Proposed Amendments to National Instrument 81-105 (“NI 81-105”) and CSA Staff Notice 81-322.

## Introduction to Questrade

Since its establishment in 1999, Questrade Inc. (“Questrade”) has been a catalyst for improving the financial lives of Canadian investors. Questrade is nationally recognized as an advocate for consumers, offering a wide array of products, a transparent and value-based pricing structure and high quality customer service. Questrade provides self-directed and managed investing. Every product and service that Questrade offers is designed to minimize fees and friction for investors.

Questrade is a wholly-owned Canadian entity that has been named **Canada’s Best Online Broker for 2019** by *MoneySense* in partnership with Surviscor Inc., the most definitive ranking of online brokers in Canada. Questrade was also named as one of Canada's Best Managed Companies in 2019 for the eighth year in a row with Platinum distinction, which honours Canadian companies that have implemented world-class business practices and created value in innovative ways. In 2018, Questrade was recognized as one of Canada’s Most Admired Corporate Cultures™ and honoured with the 2018 and 2019 DALBAR Seal of Service Excellence for its best-in-class customer service.

At inception, over twenty years ago, Questrade launched a client centric pricing strategy, offering investors the lowest trade commissions in the industry. We continue to champion fair pricing in all financial services and have been recognized as “Canada’s low-cost leader for the mainstream investor.”<sup>1</sup>

## Mutual Fund Industry in Canada

We all depend on the financial system in one way or another. Consumers rely on it to safeguard and grow their earnings; industry counts on credit to sustain and develop business objectives. Financial service firms that provide products and services consumers need and who treat customers fairly at every stage of the sales process will not only succeed, but will build consumer confidence and enhance profitability. Trust and integrity are integral components, which fuel companies and our economy<sup>2</sup>.

Canadians pay some of the highest fees in the world for investment products such as mutual funds. According to a 2017 Morningstar Global Fund Investor Experience Study, Canada ranked in the bottom of the scorecard for fees and expenses<sup>3</sup>. The same study, conducted in 2015, ranked Canada in the last

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<sup>1</sup> Carrick, Rob. "Investors, Beware The Shifting World Of Online Trading Fees". The Globe And Mail, March 25, 2016, <https://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/investors-beware-the-shifting-world-of-online-trading-fees/article29394835/>

<sup>2</sup> See <https://www.ft.com/content/e70cfad2-07ee-11e7-ac5a-903b21361b43>

<sup>3</sup> Canada is in the "bottom bucket" for fees as a result of high fees in high asset weighted median expenses. Morningstar. Morningstar Global Fund Investor Experience Study. October 3, 2017, p. 22, <http://www.morningstar.com/content/dam/morningstar-corporate/pdfs/global-fund-investor-experience/GlobalFundInvestorExperienceReport2017.pdf>.

place amongst 25 countries with a score of D-. Participants at Questrade focus groups, which are conducted nationally, cite high, hidden fees as their greatest concern. In particular, embedded commissions are one of the key culprits in consumer anxiety over high investment fees.

In 2015, the Ontario Securities Commission conducted a Mutual Fund Fee Research study<sup>4</sup> which concluded as follows:

- Compensation influences the flow of money into mutual funds. Higher embedded commissions stimulate sales.
- Advisor recommendations are sometimes biased in favour of alternatives that generate more commission for the advisor.
- Advisors push investors into riskier funds.

The impact of high fees on investor returns is significant. The longer the time horizon, the more dramatically fees impact investor returns. Costs are an important determinant of long-term returns from collective investments such as mutual funds<sup>5</sup>.

In the same report FAIR Canada found:

Independent academic research resoundingly supports the contention that mutual fund fees in Canada are among the highest in the world. While industry lobby groups challenge the findings of such studies, the arguments we have heard made in defence of high fees in Canada, for example, suggesting the comparisons are not “apples to apples” or suggesting that the size of the market in Canada inhibits economies of scale, are meritless.<sup>6</sup>

The lack of transparency between advisors and investors regarding mutual fund fees has become an increasing regulatory concern. In a study published by the Canadian Competition Bureau in December 2017, the Bureau concluded:

The opacity of embedded commissions has also exacerbated the principal-agent problem that can exist in industries where customers rely on a supplier’s expertise to make decisions. When suitable for a client, for instance, the advisor may be incentivized to recommend the fund with the higher commission, acting on the lack of transparency. Similarly, advisors representing large fund issuers (e.g. large banks and insurers) may have increased incentives to recommend the funds issued by their firm, rather than those that may cost less. Ultimately, the investor ends up paying more (and saving less) than in a market with price transparency and faces a product selection that is limited to a subset of what is actually available.<sup>7</sup>

<sup>4</sup> Mutual Fund Fee Research. Ontario Securities Commission, 2015, Mutual Fund Fee Research, [www.osc.gov.on.ca/documents/en/Securities-Category8/rp\\_20150611\\_81-407\\_mutual-fund-fee-research.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category8/rp_20150611_81-407_mutual-fund-fee-research.pdf).

<sup>5</sup> CSA Mutual Fund Fees - FAIR Canada". FAIR Canada, April 12, 2013, p.5, <https://faircanada.ca/submissions/csa-mutual-fund-fees/>

<sup>6</sup> ibid

<sup>7</sup> Technology Led Innovation in the Canadian Financial Services Sector. Competition Bureau Canada, December 2017, p.3, Technology Led Innovation in the Canadian Financial Services Sector, [www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/vwapj/FinTech-MarketStudy-December2017-Eng.pdf/\\$FILE/FinTech-MarketStudy-December2017-Eng.pdf](http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/vwapj/FinTech-MarketStudy-December2017-Eng.pdf/$FILE/FinTech-MarketStudy-December2017-Eng.pdf)

## **Restriction on payment and acceptance of trailing commissions where no suitability determination is made**

Questrade agrees with the CSA's efforts to enhance conflict of interest mitigation rules and increased transparency for investors. We also support restrictions on the payment and acceptance of embedded commissions, where no suitability determination is made but recommend flexibility in how those restrictions are applied.

With the global advent of technology and disruption in all service sectors, it is time to end embedded commissions to better meet the interests of Canadian investors, enhance competition and foster innovation in our industry. The four 'Ds' of disruption – digitisation, de-risking, disintermediation and democratisation – are already transforming the financial landscape. In the next ten years, changing investor demands and emerging technology such as blockchain will likely overhaul existing models, speed processes and streamline costs even further.

The time is ripe for the CSA to foster positive change, which will enhance technology solutions, offering greater transparency that will meet regulatory requirements and investor expectations.

While the industry's guiding principle should always be to act in the best interests of the investor, Questrade respectfully submits that allowing for flexibility in achieving this goal will meet the CSA's mandate while encouraging innovation in our sector.

### Mutual Fund Maximizer

Questrade launched Mutual Fund Maximizer ("Maximizer") in 2009, three years before Canadian regulators began their review of the appropriateness of embedded commissions and the potential conflict of interest they create. This program was initiated by our executive team who did not deem it fair to keep trailer fees when the firm was not providing any advice. It was decided that the trailer fee would be rebated back to the customer minus the administrative costs for managing the program.<sup>8</sup>

The Maximizer service enables Questrade to rebate trailer fees on mutual funds held at the firm to all its customers. The rebate/reimbursement happens automatically when a client either purchases a mutual fund or transfers their mutual funds into a Questrade account. No additional process is required. The actual yearly costs and savings of using this service depend on the amount of money a client has invested and the trailing fees associated with a particular mutual fund.

The CSA Proposal would effectively force Questrade to end a service that our clients benefit from, create additional friction and a bad customer service experience. The Maximizer is a proven, seamless, simple solution and the least intrusive way to meet the CSA's goals. It is a client-centric approach, which

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<sup>8</sup> See <https://www.theglobeandmail.com/globe-investor/investment-ideas/online-broker-lets-mutual-fund-investors-unhitch-from-trailers/article782929/>



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requires no disruption to the client's current portfolio and no change in administration from mutual fund dealers to accommodate the OEO community. Moreover, it would be unjust to impose additional hardships and costs on Questrade, by requiring the firm to abandon a solution that has been meeting the CSA's objectives since 2009.

Questrade's mission is to provide easy to use, and easy to understand financial services for Canadians at a lower cost, which enables our customers to keep more of their money. Part of that mission is to provide Canadians with the financial products that they want. If that product is a mutual fund that pays a trailer fee, we believe that a fully transparent program like Maximizer is a fair and viable solution that achieves the CSA's objectives.

### Conclusion

We support the CSA's objective to do away with hidden, unclear fees for financial products and services. The OEO community stands together with the CSA in supporting greater transparency and awareness for all investors. In our view, there are various ways to achieve this objective, one of which is through rebates such as Mutual Fund Maximizer. This model has been in practice for the past eleven years and has enabled our DIY clients to access the products that they want with ease and full transparency.

We would be pleased to take part in further discussion or consultation on this issue and look forward to working collaboratively with our regulators and all industry participants to find an equitable farseeing resolution that will enable Canadians to keep more of their money.

Sincerely,

A handwritten signature in black ink, appearing to be "E. Kholodenko", written in a cursive style.

Edward Kholodenko  
President & CEO, Questrade, Inc.

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