Dear Canadian Securities Administrators,

When I read that you have opened a discussion forum regarding mutual fund fees, I was really glad that you decided to look out for the best interest of clients. Since you are looking at how mutual fund fees are paid and whether they are fair, I figured I would give my opinion as an ex-industry insider.

Truth be told, in my opinion, there is only 1 way you can make sure client is fairly treated, and that is for the client to personally write an Annual cheque to Financial Planner for the fees they are paid, just like with Private banking. This way, client can judge if the advice they are getting is worth the fees they are paying. Right now, most clients have no clue how or how much they are paying their Financial Planner on an annual basis. I was reading your article on http://www.jdsupra.com/legalnews/canadian-securities-regulators-issue-dis-57654/ and noted that the above-mentionned solution takes care of all the 5 issues raised in the article.

Different ways:

1) The system in place right now is that the client does not see how much the Financial Planner is paid, in trailer fees. It gets deducted from the MER fees. This system would work fine if you could be there, witnessing each client conversations, making sure financial planner is transparent with the client, but the unfortunate truth is, that you cannot be present in every client and advisor interaction.

In this system, Financial Planners are also pushed/encouraged by their Managers to sell mutuals that pay the highest trailer fees, because that increases profitability, both for the firm and financial planner. Now, obviously there is a conflict of interest here. I had a friend who used to work at Future Shop and he said something that I could never forget. He said, if the client asked Which is the BEST TV? The answer would be the TV that paid the highest commissions that week, the one being promoted with incentives to the salesperson, so the "Best TV" changed from week to week. Not the same industry, but similar thought process is applied in many transactions. The best mutual fund recommendation to the client could be the one that pays the highest trailer fees to the financial planner. And guess who pays the Trailer fees? The client. So the client is at a disadvantage because they are expecting you to the be the advisor/expert, and yet you are also looking at sales pressure from your seniors to sell the mutual fund that pays the highest trailer fees because it benefits both you and the firm, but costs the client a lot more.

This way, if the client pays high trailer fees and MER, and their return on investment over the long run is lower, and therefore the total Amount lower, which means the government (taxpayers) might have to compensate for low retirement savings with OAS and/or GIS. Not fair to anyone.

Another point I want to bring up, which is very important is that lets say you have $200,000 with the advisor and the trailer fees are 100 bps. Now you are paying $2000 a year just for the trailer fees to the firm. When I was in the industry, we needed to see the client minimum once a year and that happened on quite a few occasions. Sometimes, it was twice a year. Now you be the judge if $2000 for a few hours is worth the cost? Obviously its not upto me or you, but it should be the person who is paying the $2000 deciding whether that advice is worth it or not. When we used to discuss this issue, one of the arguments often brought up was that well its RBC paying us the trailer fees, not the client. That baffled my mind, because trailer fees comes out of MER and it is the client paying the MER. It always astonished me how the person who was paying, had really no say in the entire process. Whether it was lobbying by the financial institutions or government policies, nobody really looked out for the common man and ultimately low returns on portfolios for retirees needed be compensated with higher OAS and GIS payments by the tax payer.

Another major issue with this approach is, lets say I buy a mutual fund directly through my brokerage account. I will say RBF591. Now, I am not getting any advice whatsoever and I did my own research on morningstar, etc... yet I am paying the FULL MER of 2.5% of which 100 bps are trailer fees that the RBC keeps because I am not buying it through their salesperson. That is very unfair to a direct investor, as I am not seeking any advice, yet I am paying as if I was dealing with a financial planner.

Another thing you might want to look at, is that over the last 10 years, many mutual funds have returned about 6-7% on average and the MER is about 2.5% on average. That is a lot of money financial institutions are making without taking ANY risk whatsoever. Almost close to 50% of what the investors are making who are risking their life savings and taking on all the risk. During bad years, their losses are magnified, and during good years, their returns are diminished. I could not live with my conscience seeing that and these were the reasons I got out of the industry.

2) In my opinion, we should let client be the judge of how much the service is worth, that they are getting from Financial Planners. We should eliminate trailer fees just like Australia and U.K. One of the things that surprises me, is if financial institutions feel that they are providing the required service to the clients, then why are they scared of having the clients write a cheque annually? Thats because the truth is, most clients have no idea how much they are paying yearly for their 1 or 2 meetings a year with the planner. They think MER is simply payment for someone managing the mutual funds, and not sure how trailer fees work.

Now you can create all the awareness campaigns you want regarding better informing clients of what they are paying, how they are paying, but unless you can be part of each interaction, there is no way you can really control that. Therefore, in the opinion of someone from the inside, the only fair way for this to be administered is to eliminate trailer fees altogether and replace it with an annual fee that the client pays to the financial planner on an annual basis. Its the only way to make sure client decided how much the services are worth, that they are receiving in return.

I am extremely glad that at least you had the courage to the re-open this topic and ask for opinion. I am really hoping you will make a final decision in the best interests of the clients, and ultimately the government and tax payers. Waiting anxiously for your decision. Please let me know if you have received my email and it is forwarded to the appropriate department.

Regards.

Ali