

Cyril Fleming

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March 28, 2013

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorite des marches financiers
800, square Victoria, 22e etage
C.P. 246, tour de la Bourse
Montreal, Quebec H4Z 1G3

Good day/Bon jour

CSA Request for Comment 81 - 407

This letter and its attachments are intended for each of our thirteen Securities Regulators. Thank you for the opportunity to comment on your belated initiative. This submission is largely an echo of all that I have written to you over the past eleven years. What I have said has been limited to what I consider to be the biggest Regulatory weakness of the industry – lack of transparency in client Statements. On that there is nothing NEW for me to add. Your failure to act to try to curb the abuses allowed, indeed I might say ENCOURAGED, by this lack of transparency is puzzling and disappointing. And so I can only ask that you read or in most cases reread the enclosed information. These abuses to which you appear to have been oblivious until recently have gone on for too many decades and should be addressed without further delay. Frankly I cannot figure out just what you hope to learn about the fund industry after you have looked at submissions like this, that you don't already know – and have known for many years. Hopefully your paying some attention to what fund owners are continuing to say, coupled with the flak from the media plus the ever-present danger of legal class action will cause you to act soon. However, I note from this Request for Comment that “This discussion paper is the first step in the consultation about the project.” I now envision the last “step” in the “consultation” being taken two/three years from now followed by another two/three years of study, and probable industry intervention, for you to digest again all the stale information you are now re-gathering. And after all that the industry will have to be handled with kid gloves and be given two/three years to adapt to any change/s you might mandate. Meantime the suffering fund owner can be placated by being allowed to continue sucking the hind tit. C'est la vie. Immediately below is a list of our attached documents.

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1. Our submission of eleven years ago (Mar. 09/02) which included our letter of March 05/02 to Mr. Orr of Investors, now with parent Power.
2. My letters of Feb. 22/05 and May 01/12 to Mr. Krystie of OSC.
3. My letter of Sept. 18/09 to then Ontario Finance Minister Dwight Duncan.
4. My memo of Nov. 20/12 to each Regulator with my letter of Oct. 28/12 to Mr. Flaherty.
5. And perhaps most important in support of my main suggestion, a sample Quarterly Statement of Steadyhand Investment Funds Inc.

Recognizing the time limits for reading by you and your support staff I have underlined the portions that I feel are most important.

Outside the investment community much has been written in recent years to support the view that Canadian savers/investors have been victimized for decades by excessive fees extracted by our fund management companies. And sad to say, that victimization continues right up to this day, and largely unnoticed by the victims, until it is too late. For several years before first approaching Regulators in March/2002 I tried in vain to convince two of our large, and then respected fund managers, to spell out in plain dollar/cents amounts their charges in Quarterly Statements. Both of them made it abundantly clear that divulging such information in plain, client-understandable language was not going to happen. And, of course they were simply confirming what their protective union, The Investment Funds Institute of Canada had told me in a letter dated Aug. 02/01 from it's then President, Hon. Thomas Hockin when he wrote as follows: "MUTUAL FUND DEALERS ARE NOT LEGALLY REQUIRED TO REPORT INFORMATION ABOUT FEES IN CLIENT STATEMENTS." And then he added "YOU MIGHT FIND IT OF INTEREST THAT IFIC's MEMBERS MANAGE ASSETS REPRESENTING ALMOST 100% OF ALL OPEN-END MUTUAL FUNDS IN THE COUNTRY." Ah yes, and I might add that for decades the Mutual Fund operators that own IFIC have legally and purposely failed to divulge their charges in client Statements in a way that can be easily understood – in other words, in plain dollar/cents amounts. And to make matters worse for the ordinary worker, who is scrounging every month to save a few dollars for retirement, that disgraceful situation could continue for ever.

It might be a bit late to try to put right the abuses of past years but CSA members are now to be complimented for this effort to try to ensure that a little more fairness and respect will be extended to Canadian savers/investors. Even a reduction of one-half of one per cent in management fees over the long haul would bring substantial increases to monthly pension cheques. That suggestion will, of course, will be fought tooth and nail by fund managers but even that small, more equitable/ethical sharing of fund earnings diverted to clients will be welcome and long-overdue good news for about twelve million Canadians who own mutual fund shares. Also it might make them a little more forgiving of any transgressions over the last three/four decades. And, as already demonstrated by a small handful of our Canadian funds(Phillips, Hager & North is one example) and many funds in the U.S., the owners/managers would still ethically make a decent profit.

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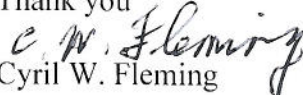
Here are my thoughts for your consideration: First, take a look at the attached Steadyhand Quarterly Report copied from Google. See the right-hand column – nothing hidden here. I wonder if they are the first and perhaps the only Canadian fund manager to make full disclosure in client-meaningful dollar/cents amounts? And, I wonder if any other managers will follow their example of fairness/transparency/honesty? I doubt it. Unless, of course you as Regulators deem it wise to mandate these qualities for the protection of the people you serve. This type Statement clearly debunks the OSC pronouncement referred to in my attached letter of Feb. 22/05 that “the cost of calculating these amounts would be complicated and costly.” And second, at your first get-together after your April 12 deadline tell the industry in no uncertain terms that effective _____ all funds will be required to divulge all charges in dollar/cents in client Quarterly Statements. And third, at the same time announce that CSA is recommending that U.S. funds be encouraged to be more aggressive in the sale of their products in Canada, subject to the same regulations as our own funds.

The fund Establishment will scream like a stuck pig that our Regulators could ever be audacious enough to even think about, much less dare to utter such heresies. That’s fine. Let them scream for a while but don’t let them cow you. They will pull out their big guns. And that’s fine too. Just give them, say sixty days, to allow their PR firms, accountants, lawyers and political cronies some time to concoct excuses why they should be allowed to continue their deliberate hiding of their management charges from millions of Canadians – their clients, your constituents. Then do your thing/s.

In closing I would like to stress my long-held belief that the lack of transparency in client Statements is our most damaging Regulatory weakness. MERs, percentages and “Simplified Prospectus” mean nothing to most fund buyers. Dollar/cents amounts do. It reminds us that nothing is free. It makes us sit up and wonder if we shouldn’t pay more attention and perhaps look for alternatives. It reminds us that we have to be more careful in looking after our own financial affairs. Fund managers are very conscious of all these factors and do/will continue to do, their utmost to ensure that client costs for money management be kept to the lowest possible profile. And so they will scream to keep their fees hidden and profits thereby enhanced by insisting that Statements not be made transparent.

I have no problem with business making a reasonable profit. I admire it and practiced it for many years. But there has to be some ethical balance between the return to clients on client’s investments and the profits flowing to fund operators for their management services. I don’t like government at any level interfering with business and so I suggest that such balance can be achieved by regulating more competition into the distribution system. For as long as funds are allowed to continue hiding their charges there will be no competition, simply because clients will never be allowed to realize just how excessive most management fees really are.

Thank you


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