

March 21, 2013

COMMENT LETTER /SUBMISSION MUTUAL FUND FEES

**CANADIAN SECURITIES ADMINISTRATORS
DISCUSSION PAPER AND REQUEST FOR COMMENT 81-407
MUTUAL FUND FEES
December 13, 2012**

http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_2012123_81-407_rfc-mutual-fund-fees.pdf

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I welcome the opportunity to comment on Mutual Fund Fees.

Fees are very important especially under conditions of slow economic growth. "...Malcolm Hamilton, actuary and pension consultant with Mercer Human Resource Consulting, has devised The Rule of 40. Dividing the number 40 by the annual management expense ratio that your mutual fund charges will tell you how long it takes for fees to eat up one-third of your initial investment. With the average Canadian mutual fund charging an annual MER of 2.06 per cent, an investment of \$300,000 would be reduced \$100,000 by fees in 19.4 years." Source: Canadian mutual fund investors weighed down by high management fees

<http://www.edmontonjournal.com/business/money/Turchansky+Canadian+mutual+fund+investors+weighed+down/7803210/story.html>

Morningstar gave Canada's fund industry an F grade in a 2011 global ranking for having the highest fees among the 22 ranked countries. It was the only country on the list to receive an F.

<http://faircanada.ca/top-news/morningstar-global-report-gives-canadian-mutual-fund-fees-f-grade/>

This is quite frankly both disturbing and shocking!

I have the following recommendations based on hard-earned experience:

- (a). Allow investors to decide on their own if they want to pay for advice and let them decide the nature of the advice they want. Mutual fund companies get away with the fees they charge only because the average investor does not understand what he/she is paying for and many don't even know they are even paying one.
- (b). Canadian fund firms should lower price breakpoints so that families can actually save something for their retirement. They are way too high.
- (c). Prohibit DSC funds from being sold to the elderly. At the age of 86 a relative of mine was placed in a ten year time horizon and sold a DSC fund even though the advisor was aware his monthly income consisted solely of OAS \$516.96 and CPP \$208.97 and therefore his savings were required for his care in a retirement home. He began incurring monthly sales charges of \$315.21 to withdraw his own money to pay for the care he needed! When we tried to withdraw his money completely, we were told he would face \$19, 937 in sales charges! More than two years of this man's wages! This is abusive and amounted to financial assault on an elderly and infirm man.
- (d). Update websites to include some of the information revealed in the Consultation paper. I would focus on trailers as a starting point.
- (e). Allow Canadians to buy competitive American based funds so that Canadian firms can access lower fee alternatives. This type of competition will force Canadian companies to lower their fees.
- (f). Too often the only straightforward discussion that takes place about costs and fees happens when you are trying to withdraw funds! A written description of all fund fees and how they impact a client's account needs to be given to a client prior to the signing of any documents and well in advance of the initial transaction. For an informed consent to occur, any ongoing annual costs, redemption costs, commissions to be paid now and in the future, need to be made plain. Burying them in pages and pages of legal mumbo jumbo is unfair to the consumer.

It is also worthy to note that even though the investor does not directly pay the sales commission to the advisor at the time of purchase, the advisor typically receives a commission from the mutual fund manufacturer equivalent to 5% of the amount purchased. I believe the average investor would be outraged to learn that, when they invested their \$200,000 at the end of an hour meeting, their financial advisor made a \$10,000 commission instantly.

Feel free to contact me if additional information is required. I greatly appreciate the chance to provide comments to the CSA and hope you find them useful in enhancing consumer protection.

Sincerely,

Debra McFadden