IFB CISF
Independent Financial Brokers of Canada
Courtiers Indépendants en Sécurité Financière du Canada

30 Eglinton Avenue West, Suite 306
Mississauga ON L5R 3E7
Tel: (905) 279-2727
Website: www.ifbc.ca

April 12, 2013

To:
British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, Québec
H4Z 1G3

Submitted by email: comments@osc.gov.on.ca;
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Subject: **Canadian Securities Adminstrators Discussion Paper and Request for Comment 81-407, *Mutual Fund Fees***

Independent Financial Brokers of Canada (IFB) is providing our response to this discussion paper and review of the way mutual fund fees are currently structured in Canada, in response to the CSA request for comment.

At the outset, we would like to express our appreciation that the CSA has published this paper with the intent of encouraging debate and the opportunity for a fulsome discussion of the issues being considered at such an early stage. These are very important issues that have the potential to fundamentally change how mutual funds are made available to the public. We agree that caution should be exercised in any decisions going forward to ensure sound decisions are made that will not undermine the value of these investments to the savings regimes of many Canadians.

Independent Financial Brokers

IFB is a trade association representing approximately 4,000 licensed financial professionals across Canada for 30 years. Our members are entrepreneurs, who have chosen to operate independent financial businesses within their communities. The majority are licensed to sell life and health insurance and/or mutual funds, although a great many offer other financial services, such as securities, deposits, other types of insurance, mortgages, etc. A condition of membership in IFB is adherence to the Association's Code of Ethics and Statement of Principles, which require the broker to place the interests of the client, before his or her own. Our members pride themselves on the personal service they provide to clients – service which often extends beyond a particular transaction, supporting them through various life events to help ensure their long-term financial security.

To support the professionalism of our members, IFB offers membership benefits that include a comprehensive errors and omissions insurance program available for individuals and companies (a valuable contributor to investor protection), continuing education events, compliance support and regular communications which keep members abreast of changes affecting their businesses.

General Comments

The consultation paper provides a comprehensive overview of the various issues raised by investor advocates, research conducted on mutual fund fees and international approaches to dealing with some of these same issues. We accept this research and do not intend to repeat it in our submission. However, we do not believe the triggering events in other jurisdictions are directly comparable to the Canadian situation. Today, many of the IIROC/MFDA policies, guidelines and processes already in place, and their oversight of mutual fund dealers and advisors, provide clients with a robust regulatory regime. These include requirements related to client disclosure, including potential conflicts of interest, and remedies where investment mistakes or unsuitable investments are made.

Moreover, in March 2013 the CSA released phase 2 of the client relationship model (CRM) amendments to National Instrument 31-103. These amendments affect all securities registrants, including MFDA and IIROC members. CRM, phase 2, includes enhanced requirements for disclosure on cost and performance and harmonizes this disclosure across all securities registrants. There are staged implementation dates ending in July 2016.

Compliance with these requirements will require mutual fund companies, investment firms and advisors to undertake technological changes and incur the costs associated with these changes.

Given the extent of these changes and how recently they have been introduced, we feel it is appropriate to allow the industry and clients time to respond to them and for regulators to assess their success at meeting the issues identified in this paper, and its predecessor paper (CSA Consultation Paper 33-403: *The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients*) before considering introducing additional impacts.

Analysis of Fund Fees cannot exclude the influence of HST

The paper discusses the cost of investing in Canadian mutual funds and addresses the criticism that the cost is too high in Canada, relative to the U.S. However, there is contradictory evidence that this is in fact true when certain factors are taken into account. Recently, IFIC[1] retained two independent, highly regarded research firms to investigate this allegation. This research presents a different conclusion, in that, if certain factors like Canadian taxes (i.e. the HST) are adjusted for, that the cost differential is minimal.

The adverse impact of the HST in Ontario (where many mutual funds are headquartered) was clearly identified before its introduction in 2010. IFB, along with others in the industry, advocated on behalf of investors, that the provincial and federal governments should not penalize Canadians who use mutual funds as savings/retirement vehicles by imposing the HST on investment funds. Despite this, the HST was introduced, which meant Canadian investors went from paying a 5% GST on the management fee and certain operating expenses of investment funds (e.g., mutual funds and segregated funds) to 13% in Ontario (a 160% increase) and to 12% in B.C.(a 140% increase). The tax is levied on each initial investment and charged every year thereafter that the investor holds the fund. The effect is the savings of Canadians are reduced by millions of dollars a year.

Another important consideration is that under the current tax structure, all investment products are not treated equally. While mutual funds, segregated funds and other fund products are subject to the HST other products and services, including brokerage accounts, savings accounts, guaranteed investment certificates (GICs) and government pension plans are not, meaning mutual fund clients pay much more than clients of other financial instruments.

Research by IFIC has shown that this situation is unique to Canada making the HST is an important factor to include in any comparisons with other countries. For example, the European Union, Australia and New Zealand make no distinction between their financial products from a tax perspective, so there are not the same inequities, or complexities brought about by the different tax structures that exist between provinces and federally in Canada.

Clearly, the tax structure and how it's allocated is outside the control of the participants in this consultation. However, it is an important factor in the overall discussion of fees. Perhaps regulators should seek to remedy this by engaging with Finance officials in Ontario and federally to address and lower this cost for retail investors. Certainly, it would be helpful for clients to see enhanced disclosure on their statements specific to how the HST contributes to the cost of the management fees, the actual amount paid and its impact on their investment.

[1] Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios, A Canada – U.S. Perspective

Comments on changing the Fee structure

There is no doubt that some of the approaches presented in this paper have the capacity to not only to change the way the mutual fund industry provides remuneration to those who sell its products, but significantly redefine the industry. This begs the question as to whether wholesale reform is indeed preferable to the approach already underway which has introduced (and continues to do so) improved reporting and disclosure for clients.

To explore this point, we asked our members to respond to a brief opinion survey to give us a better picture of how they perceive that removing embedded compensation would affect them and their clients. While the survey is not intended to be scientific, the results provide a glimpse into what might lie ahead for independent brokers and their clients.

Who responded:

- The majority of respondents are licensed for both mutual funds and life insurance
- Over 75% of these have clients who are invested in mutual funds

Questions about disclosing fees to clients:

- 80% said they discuss mutual fund fees with their clients whenever they discuss a purchase
- 86% said this discussion does not influence which fund the client purchases – most often because the client is focussed on their net return and the performance of the fund(s) being considered

Questions about reliance on fees:

- 94% said their financial business was commission only
- 83% said receipt of trailer fees was vital to their ongoing financial stability

Questions about fee for service versus embedded compensation:

- 91% said their clients would not want to pay a fee for service - mostly because they couldn't afford what the advisor would have to charge to open and maintain an account

Questions about potential impact of banned embedded fees:

- 35% would be forced to close their business if embedded fees were banned or would stop selling mutual funds
- 40% would no longer service small investment accounts or would have to charge small clients a disproportionately higher fee than clients with larger accounts
- **only 24% would move to a fee based practice**

Our members strongly disagree with removing embedded fees and commissions because this structure makes investing more affordable for the smaller investor – many of whom are their clients. High net worth investors have many other options and would not be deterred by paying on a fee for service basis. However, overwhelming, our members caution that it is the small client that will pay the price in reduced access to personalized service by independent brokers like them - the industry in effect would be abandoning the small client and their access to personal advice. Especially at risk will be services provided by brokers in rural communities where the cost per client can be especially high.

Another important point is that this discussion focuses on only one piece of the equation – fees. It ignores the value added aspects of the broker-client relationship. Independent brokers provide clients with much more than services related to transactions. They spend a great deal of time with clients in instances where they receive no direct remuneration, for example helping them through life events or planning for the future.

Why do clients work with an independent financial advisor? First and foremost, to help plan the client's financial future, including planning for adversity. The next most critical step is to put the plan into place. Few people are equipped to do either of these alone - whether from lack of time or knowledge - or be rigorous about their saving strategy. Wealthy clients have lots of choice, but it concerns us deeply that reducing the number of independent advisors will create a significant gap in the advice market for the small client.

In our view, there is no question that simply banning embedded compensation is not in every client's best interest. Many clients will not want to pay, or cannot afford to pay, hundreds of dollars up front. It will drive them away from retaining professional, personalized advice that is critical to many people's financial stability. As this paper points out, the mutual fund industry moved to an embedded fee structure, having formerly charged fees up front, to respond to investor concerns that 100% of their funds were not being invested and to reduce churning as a means for advisors and dealers to increase fees. Today, investors can choose amongst various types of fee schedules, choosing the one which suits their circumstances the best.

Furthermore, removing embedded fees and commissions will impact the availability of independent advisors. If they cannot make a living then they will be forced to leave the business and new recruits will not be attracted. Under today's model, clients have choices between purchasing funds directly, from financial institutions or through independent dealers and advisors. However, under the changes being contemplated, this competitive market will become unbalanced as the number of advisors declines and clients will be forced to pay a fee for service or use a financial institution. So, less competition and fewer advisors providing personalized advice. How is this better for clients? Specifically, for small clients? How will clients who can only afford to save $25 per month invest and why should they not have the privilege of a personalized savings plan?

We submit that these policy decisions may well create more harm than good for clients. Already, we are seeing evidence of new fees being applied to small investment accounts at major brokerages. BMO Nesbit Burns has introduced a $500 annual fee (plus taxes) for accounts under $100,000. Similarly, CIBC Wood Gundy is introducing a $250 annual fee (plus taxes), effective May 1st for accounts under $100,000. There is no doubt that small investors are under pressure. Removing embedded fees will only speed up this process and disadvantage even more clients.

Concluding remarks

IFB, and its members, support a fair and transparent industry that enables clients to make informed decisions. All clients should have access to informed, professional financial advice.

Our conclusions are:

1. Improvements to the point of sale disclosure and CRM initiatives provide – and continue to provide - critical decision making information for clients. This process should be allowed to be fully implemented, operational and assessed as to its success before additional, substantial change is introduced.
2. We support financial literacy initiatives and transparent disclosure as critical keys to improving client protection.
3. We do not support changes which will reduce access to advice by creating inequities amongst clients based on the dollars they can invest.
4. We do not support regulatory changes which will disadvantage one business model over another in an otherwise competitive marketplace.

We appreciate the opportunity to identify our members' concerns and look forward to commenting further in any future discussions. Please contact the undersigned should you have any questions.

Yours truly,

John Whaley
Executive Director
Email: jaw@ifbc.ca

Attach: CIBC Wood Gundy "Household Administrative Fee" brochure

CIBC Wood Gundy

Household Administration Fee

Effective May 1, 2013, CIBC Wood Gundy will update its Fee Schedule to include a Household Administration Fee in the amount of up to $250, plus applicable taxes. Please contact your Investment Advisor if you have any questions about this Fee.

1 What Households will be charged:

A "Household" is comprised of all account(s) with the same mailing address. The Household Administration Fee will be charged annually to all Households that meet the following criteria during the previous 12-month billing period:

(1) the Household had aggregate assets of less than $100,000 at the end of the billing period; and

(2) the Household was charged fees and commissions of less than $600 in aggregate.

2 The Fee and when it will be charged:

The Household Administration Fee will be charged each October to all Households meeting the above-mentioned criteria during the previous 12-month billing period of September 1 to August 31.

The amount of the Fee will vary to account for the annual registered account administration fee paid by any registered accounts in the Household. If one registered account has paid the annual registered account administration fee, the Fee will be reduced to $125 for the Household. If two or more registered accounts have paid registered account fees, no Household Administration Fee will be owed.

3 Special circumstances in 2013:

Because the Household Administration Fee is being introduced this year, CIBC Wood Gundy will only charge those Households that meet the criteria during the period of May 1, 2013 to August 31, 2013. **For the 2013 Fee only**, a Household must have:

(1) aggregate assets of less than $100,000 at the end of the billing period; and

(2) been charged fees and commissions of less than $200 in aggregate.

Households that are charged the Household Administration Fee in 2013 will only be charged a pro-rated fee representing one-third of what they would have paid for the full year (for example, a Household that would have paid $250 will be charged $83.33).

4 How the Fee will be charged:

The Household Administration Fee will be charged to one non-registered account in the Household. Please speak with your Investment Advisor for details, or to specify which account you wish to have charged. Where there are only registered accounts in the Household, the Fee will be pro-rated across all registered accounts.

There may be tax implications associated with the payment of the Household Administration Fee. Please consult your tax advisor if you require further information regarding your particular circumstances.

A copy of our updated Fee Schedule is enclosed for your reference.

CB 813807

CIBC Wood Gundy

Frais d'administration du ménage

À partir du 1er mai 2013, CIBC Wood Gundy mettra à jour son barème des frais pour y inclure des « frais d'administration du ménage » au montant de 250 $, plus les taxes applicables. Veuillez communiquer avec votre conseiller en placement pour toute question sur ces frais.

1 Ménages auxquels les frais seront imputés :

Un « ménage » est composé de tous les comptes partageant une même adresse postale. Les frais d'administration du ménage seront imputés annuellement à tous les ménages qui auront répondu aux critères suivants pendant la période de facturation de 12 mois précédente :

(1) le ménage détenait des actifs totaux de moins de 100 000 $ à la fin de la période de facturation; et

(2) le ménage s'est vu facturer globalement pour moins de 600 $ de commissions.

2 Les frais et leur date de facturation :

Les frais d'administration du ménage seront facturés en octobre à tous les ménages qui répondront aux critères mentionnés ci-dessus pendant la période de facturation de 12 mois précédente, allant du 1er septembre au 31 août.

Le montant des frais variera pour tenir compte des frais d'administration annuels de compte enregistré payés pour un ou plusieurs comptes enregistrés du ménage. Si les frais d'administration de compte enregistré annuels ont été payés pour un compte, les frais d'administration du ménage seront réduits à 125 $. Si les frais de deux comptes enregistrés ou plus ont été payés, les frais d'administration du ménage sont annulés.

3 Circonstances particulières en 2013 :

Comme les frais d'administration du ménage sont mis en place cette année, CIBC Wood Gundy ne les facturera qu'aux ménages qui répondront aux critères pendant la période allant du 1er mai 2013 au 31 août 2013. **Pour les frais de 2013 seulement**, un ménage doit avoir :

(1) des actifs totaux de moins de 100 000 $ à la fin de la période de facturation; et

(2) payé moins de 200 $ de commissions en tout.

Les ménages tenus de payer des frais d'administration du ménage en 2013 n'auront à acquitter que des frais représentant un tiers de ce qu'ils auraient dû payer pour l'année complète (par exemple, un ménage qui aurait dû payer 250 $ se verra imputer des frais de 83,33 $).

4 Comment les frais seront-ils facturés :

Les frais d'administration du ménage seront imputés à un compte non enregistré du ménage. Veuillez parler à votre conseiller en placement pour plus de détails ou pour préciser à quel compte vous voulez que ces frais soient imputés. Si le ménage ne détient que des comptes enregistrés, les frais seront répartis proportionnellement entre les comptes enregistrés.

Le paiement de frais d'administration du ménage peut avoir des incidences fiscales. Veuillez consulter votre conseiller fiscal s'il vous faut de plus amples renseignements pour votre situation particulière.

À titre indicatif, nous avons joint une copie de notre barème des frais mis à jour.

CB 813807