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Delivered By Email: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

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

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

c/o Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec, H4Z1G3

Dear Sirs/Mesdames:

Re: Canadian Securities Administrators Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees* (the “Discussion Paper”)

We are writing in response to your request for comments on the Discussion Paper. We appreciate the opportunity to submit the following comments on behalf of GCIC Ltd. (“GCICL”, “we” or “us”).

Introduction

GCICL, a subsidiary of DundeeWealth Inc. and the manager of the Dynamic Funds and the Marquis Investment Program, is a leading Canadian asset management company tracing its roots back more than fifty years. We offer a wide range of wealth management solutions through financial advisors. These include the mutual funds and hedge funds of Dynamic Funds, the portfolio solutions of the Marquis Investment Program and the high net worth

investment counsel of DundeeWealth Investment Counsel. DundeeWealth Inc. is a wholly-owned subsidiary of Scotiabank.

We are active members of The Investment Funds Institute of Canada (“IFIC”) and assisted with the preparation of its comment letter with respect to the Discussion Paper. As such and in addition to the comments below, we support the comments provided by IFIC on behalf of its members.

The Value of Advice

At GCICL, we emphasize the importance of reliable financial advice. Independent financial advisors help investors manage their investment goals and assist them in developing processes for their unique circumstances. As such, we believe the best way for an investor to purchase a mutual fund is through a financial advisor who can assess the investor’s needs, recommend appropriate funds, and provide ongoing investment advice and assistance.

Research has demonstrated that the vast majority of Canadians rely on advisors for the purchase of mutual funds.¹ Advice allows investors a better chance of (i) accumulating greater wealth through better savings behaviour, (ii) building assets for a more comfortable retirement, (iii) selecting tax-efficient investment vehicles, (iv) maintaining a long-term investment strategy, (v) protecting against poor financial decisions, and (vi) avoiding emotional investing habits. These benefits reveal themselves in a number of ways, including having a greater sense of control of one’s finances, and the peace of mind that comes from greater confidence in the future.² We regret that the Discussion Paper’s focus on the cost of ownership appears at times to under-value the importance of investment advice. The financial services industry is a business, and as such dealers and advisors should have a reasonable expectation to be compensated for the services they provide.

As will be discussed, we believe that some of the options considered in the Discussion Paper could have unintended consequences, including limiting investor access to financial advice, which is of great concern to us.

Moving Forward with Caution – Options for Consideration

We are pleased that the CSA has chosen to initiate this review in the form of a Discussion Paper, which permits us to participate in this important consultation. We also commend the CSA for committing to host roundtable discussions with investors and other industry participants to help determine what, if any, regulatory change might be appropriate beyond the existing regulatory regime.

We believe that before the CSA considers adopting the changes outlined in the Discussion Paper, it is critical that the CSA closely monitor and analyze global regulatory reforms in countries such as the United Kingdom and Australia to better understand the practical effects of similar regulatory changes on investors and industry participants in those jurisdictions. In addition, we strongly believe that the CSA should permit other regulatory initiatives, like the

¹ Investor Education Fund, *Investor behaviour and beliefs: Advisor relationships and investor decision-making study*. (The Brondesbury Group, 2012).

² Value of Advice Report 2012, Claude and Nathalie Viennnot-Briot, *Econometric Models on the Value of Advice of a Financial Advisor*, CIRANO Institute, July 2012.

Client Relationship Model and Point of Sale projects, to further mature in order to view and understand the cumulative impact of these initiatives. Accordingly, because of the very early stages of fee initiatives adopted in foreign jurisdictions and the state of other overlapping regulatory initiatives in the Canadian marketplace, it may be premature to consider the seven options presented in the Discussion Paper. Instead, the Discussion Paper should consider an eighth option: to take no immediate action.

Level Playing Field

Issuing a discussion paper that focuses solely on mutual funds may incorrectly imply that issues raised in the Discussion Paper are unique to *only* mutual funds. In the Discussion Paper, the CSA anticipates that any regulatory initiative ultimately undertaken for mutual funds would include an assessment of whether the same initiative should apply to comparable products. Should the CSA implement any of the options considered in the Discussion Paper without regard for other investment products, the CSA would potentially be implementing requirements that make mutual funds more difficult to sell than comparable products, creating an unlevel playing field that could subsequently lead to market or product 'dislocations.'

As mentioned in IFIC's comment letter, another unfortunate consequence of the Discussion Paper's sole focus on mutual funds is that it implies that the current regulatory regime presents a singularly high level of conflicts and risks for mutual fund investors.

Higher Costs for Investors

Some of the options considered in the Discussion Paper may result in a fee-for-advice compensation model. This model could potentially result in higher costs for mutual fund investors. The November 2012 Investor Economic and Strategic Insight paper "Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios, A Canada-U.S. Perspective" indicates that most financial advisors in the United States are compensated under a fee-for-advice model and that fees for advice typically range from 1.00 to 1.50% of assets invested. When added to a fund's management fee, the total cost is comparable to mutual funds sold in Canada. With the fee-for-advice model, the *total cost* is reported separately to each investor individually, and so the ability to compare total investor costs across different organizations is significantly reduced, which in turn results in less transparency in the industry.

The above-referenced paper also states that under the fee-for-advice model it is typical for the total cost to rise as an investor account size decreases. This is due to the lack of economies of scale in servicing small accounts, which may result in many low and medium-income investors to lose access to affordable investment advice.

The Advice Gap – Limited Access to Investment Advice

There have been a number of studies conducted in the United Kingdom to assess the impact of their recently implemented fee initiative reforms. These studies indicate that (i) small investors are potentially losing access to advisory services because they cannot or will not pay for advice, and (ii) pricing structures are becoming more complex and less transparent.

Allianz Global Investors reported in February 2013 that there is evidence of an emerging 'Advice Gap' or mismatch between what investors are willing to pay and what advisors charge under a fee-based model³. More specifically, the report notes the following:

- roughly one in four investors (27%) would be willing to pay up to £50 per hour for advice, whereas only 7% of advisors would work for this rate;
- most advisors (86%) plan to charge between £100 and £200 per hour, but only 7% of investors would be willing to pay this; and
- 32% of investors would not be willing to pay separately and directly for advice.

In addition, in November 2012, Deloitte⁴ reported that many investors will be reluctant to pay advisor charges under a fee-based model, as represented by the following figures:

- some 33% of United Kingdom adults with less than £50,000 in savings, and 32 percent of those with more than £50,000, indicate that they would cease using advisors for all products if they were charged directly; and
- some 56% suggested they are likely to reduce the number of times they use advisors if charged a fee of £400-£600 or 3 percent of their investment.

Commissions and Fee-for-Advice Compensation Structures can Co-Exist

Many of the options mentioned in the Discussion Paper appear to push the industry towards a fee-for-advice model. However, we believe that the commission *and* fee-for-advice model can and should co-exist. At the time of assessing suitability during the account opening process, it should also be decided whether the investor's account should be commission-based or fee-based. The commission-based model is suitable for some investors while the fee-based model is suitable for others. The CSA should not dictate that only one option is available.

We agree with IFIC when they state that the Investment Industry Regulatory Organization of Canada ("IIROC") has appropriately dealt with the issue. In August 2012, IIROC issued draft guidance on compensation structures for retail investment products. The draft notice examines and takes into consideration some of the same international developments referenced in the Discussion Paper. The notice takes the view that the promotion of transparency and investor protection with respect to compensation structures in the Canadian market can be achieved within the framework of IIROC rules, and identifies specific considerations that should be taken into account by IIROC dealer members and approved persons when they are designing, recommending or supervising the various compensation structures available in the market. We agree with IIROC's assessment and regulatory approach.

³ Allianz Global Investors, February 2013

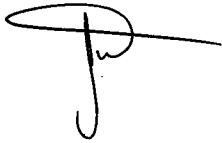
⁴ Deloitte, Bridging the Advice Gap: Delivering investment products in a post-RDR world. November 2012.

Conclusion

We urge the CSA to facilitate further consultation opportunities. We do not believe that the CSA has clearly presented evidence of a systemic issue or regulatory gap that warrants the scope of regulatory changes being considered in the Discussion Paper.

We appreciate the opportunity to comment on the Discussion Paper, and look forward to future discussions regarding this topic. Please contact me directly with any questions or to further discuss our comments. I can be reached by telephone at (416) 365-5344 or by email at jchilcott@dynamic.ca.

Yours truly,

A handwritten signature in black ink, appearing to be 'Jordy Chilcott', with a large loop at the top and a long horizontal stroke extending to the right.

Jordy Chilcott
Chairman, President and Chief Executive Officer
GCIC Ltd. (Dynamic Funds)