

## **Trailer fees represent “exceptional value” for smaller investors, says De Laurentiis**

Original article by James Langton | April 12, 2013 17:05 - *Reader's comments on content are in italics*

► ► **Companies cited in this article - Investment Funds Institute of Canada** ◀ ◀

### **IFIC study offers surprising facts on fees** - *Ubetcha, they are surprising facts !*

In an extensive submission to securities regulators, the Investment Funds Institute of Canada (IFIC) defends the current industry fee structure, particularly the use of embedded trailer fees.

Friday was the deadline for submissions on a discussion paper released last year by the Canadian Securities Administrators (CSA) that examines the current fee structure in the funds industry, sets out a variety of regulatory concerns with that structure, and proposes numerous possible solutions, including capping, or even banning, embedded trailer commissions.

#### **Fixing fund fees**

The CSA isn't yet proposing to introduce any of these measures, its paper just lays out the issues and a range of possible regulatory responses, without favouring any particular course of action.

In its submission, IFIC, the mutual fund industry lobby group, defends the status quo. While it allows that the embedded fee structure represents a potential conflict of interest for fund dealers, it says that it doesn't require further regulation. It argues that trailers are generally uniform within asset classes, mitigating the conflict to sell a particular fund; and, it says that existing obligations on advisors mitigate the conflict between asset classes.

Moreover, it argues that many different financial products utilize embedded fees, and that it's unfair to single out mutual funds. And, it says that trailer fees aren't just compensation for advice, they also compensate dealers for a variety of functions they fulfill.

► **Q1.** Ms De Laurentiis, please disclose what other "variety of functions" Dealers perform that are included in Trailer Commissions ? Please do not ignore this question, I need to know what I have been missing !

Here is what Ms De Laurentiis has to say -

IFIC also argues that the use of embedded trailers favours small investors. "The embedded fee model is of particular benefit to small and first time investors," said IFIC president and CEO, Joanne De Laurentiis. "Most first time investors in Canada start with less than \$25,000, which translates into an annual fee for investment advice of about \$100. Compare that to hourly fees of \$150 to \$300 per hour, and it's clear that the trailer fee represents exceptional value for smaller investors." It also points to recent U.S. research that, it says, demonstrates that investor costs have risen as the U.S. market has evolved away from embedded fees.

► **Q2.** Ms De Laurentiis, please name some of the investments that only cost \$100. annually in Trailer Commissions when I invest \$25,000. That is a Trailer Commission of only 0.004% ???  
Please do not ignore this question, I need to know what I have been missing !

The above paragraph reasoning is absolute misleading nonsense I would not want Ms De Laurentiis acting as my Investment Advisor. I guess she would be looking for me as an uninformed first-time investor who trusted an Investment Advisor to recommend the most (risk free) annual return on a \$25,000. or less investment, I wonder if Ms DeLaurentiis would tell me, as a first-time investor, that there would be a \$50. to \$125.00 annual Dealer service fee in addition to the 1 1/4% (\$312.50) trailer commission for the Advisor for a total of over \$400.00. Sure the investor does not have to pay the Trailer Commission directly to the Advisor. That Trailer Commission paid to the Investment Advisor by the mutual fund company has to come from somewhere and that somewhere is my \$25,000. mutual fund investment.

► **Q3.** Ms De Laurentiis, please give us the names of Dealers Advisors who will provide the same level of useful investment advice priced at \$150. to \$300. per hour for just \$100. per year !

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The true cost of advice after the investment is made is not \$100. as claimed by Ms DeLaurentiis.

► **Q4.** Please Ms De Laurentiis, tell us how you arrive at the \$100. figure.

So much for the "advice" BEFORE investing.

How about the "advice" that is supposed to be prepaid with Trailer Commissions ? What advice ? The Investment Advisor has no contractual obligation to provide advice after the investments are made ! So why does the Dealer Advisor get a guaranteed Trailer Commission ?

This is not the view of one soured small investor, the facts stated are indigenous to the process of built-in Trailer Commissions. Did you know that one day after your Investment Advisor has made your mutual fund investment (with trailer commissions), your Advisor can sell your accounts to another Advisor for the value they represent for future trailer commissions ! ! ! This means that Trailer Commissions become real assets acquired by your Investment Advisor, with no guarantee that you will receive any meaningful "advice" in return for you providing the Advisor with the guaranteed additional Trailer Commissions. Under commercial law you can get sued if prepaid goods are not delivered !

The cost comparisons and the statement by Ms DeLaurentiis, "it's clear that the trailer fee (commission) represents exceptional value for smaller investors" are very disturbing and deceptive attempts to influence and skew the public understanding of the TRUE purpose of Advisors receiving Trailer Commissions. It is not incidental that the longer the Mutual Fund Company can retain the investor's cash, without necessarily earning the investors loyalty with satisfactory performance, the more management fees can be extracted. In order to incentivize this process, the Mutual Fund Company agree to pay Trailer Commissions to the Investment Advisors to hold on to investors.

**Ms De Laurentiis goes on to say -**

Additionally, IFIC argues that Canada doesn't have the same sorts of problems that have driven recent regulatory reforms in other countries, including bans on certain commissions in the UK and Australia.

"The options put forward in the discussion paper are being driven, in part, by changes in other jurisdictions," said De Laurentiis. "We see no evidence in Canada of the regulatory gaps that drove changes in the U.K. and Australia, and we should be very wary of adopting their approaches without understanding the consequences for investors."

**Ms DeLaurentiis**, in your position as President and CEO of IFIC, it is surprising that you are obviously unaware of the present Canadian regulatory gaps that permit Investment Dealers and their Representatives to recommend and sell investments for RRSPs and RRIFs, without disclosing investment information that is in the investor's best interests. Are you aware that the Investment Dealer and their Representatives have no regulatory obligation to provide the investor with a Prospectus BEFORE investing. For that matter, the Dealer and its Representative have no obligation to provide any information contained in the Prospectus that could influence an investment decision. This includes such important facts such as fees and commissions and other vital considerations for the investor. Action on these and other factors that are detrimental to investor interests are needed immediately before any more lobbying delays as indicated below.

Instead, IFIC suggests that forthcoming enhancements to the disclosure regime in Canada (such as the latest CSA reforms dealing with cost and performance reporting, known as the client relationship model (CRM) reforms) should be allowed to take effect to determine whether they ease regulators' concerns about investor awareness of fees.

► **Q5.** How many mutual funds paying trailer Commissions does Ms De Laurentiis have in her RRSP portfolio ?