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WEALTH MANAGEMENT AND FINANCIAL ADVISORY

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

Dear Sirs,

I appreciate the opportunity to address the Canadian Securities Administrator's (CSA) recently released consultation paper on the potential elimination of embedded commission. While I understand the stated potential for conflicts of interest, there is something that is not being discussed in the paper, or in the comments on the report that I have read from the various interest group and regulatory bodies that have addressed this issue so far.

Before I get into that, let me state for the record that I strongly agree with complete transparency. Not only on TOTAL fees paid by investors, but also inherent conflicts of interest and advisor qualifications. Having been an advisor for the past 37 years, I have seen a lot of regulatory change, (especially in the last few years) and most of it for the betterment of investor protection, but none of it makes investors better investors. And there in-lies the disconnect.

I have no dog in this fight. My business is predominantly fee based, with the total fees fully transparent, and it has been that way for a number of years. So, the banning of embedded commission is not something that would affect me personally. However, I have been around long enough to know that it will have a significant impact, not only on the financial advice industry, but also for the individual investor in a less than positive way. I'm sure you have all heard that this type of a ban would produce an "advice gap" as experienced in the U.K., therefore I defer that very valid argument to others. But I think an even more significant impact and far more devastating to investors, and the Canadian economy, will be the "apathy gap" that will be created. Banning any form of advice compensation option for consumers, will not help in any way increase the number of investors that will seek out the advice they desperately need. You can't regulate consumer apathy for action, inaction, or a disciplined approach to personal financial management. This has been proven time, and time again, in the massive under use of RRSP's and TFSA's by average Canadians.

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There is a reason investors save 45% more when they have an advisor (as stated in a report from the University of Calgary's School of Public Policy). It's because they have an advisor calling on them to put money into things; to save for their future; to save for their kids' education; to save for their retirement. Is this in the advisor's best interest?...Yes of course it is...more money under management means more compensation. Is it in the investor's best interest?....Yes, of course it is...because the average Canadian simply does not go out and do financial things that are in their best interest. There is a huge "apathy gap" with the average Canadian in all things financial.

Look at the statistics; Canadians are spending and borrowing more and saving less. The latest RBC poll shows nearly half of all Canadians over 55 say they are not saving enough for retirement. And in fact, people are withdrawing money from their RRSP's before retirement at an alarming rate. People need more options to obtain financial advice....certainly not less. This is what is missing in this debate. In the end, what are we as an industry (CSA included here) hoping to do? I would trust that we are trying to make the Canadian public better, more informed, investors. As such we should be looking at more options to engage advisors, not less.

The consultation paper outlines six benefits to eliminating embedded compensation. Three of those six are basically the same thing, lowering costs. Two of the benefits are related to reducing the number of funds (series types and managers) and one is product distribution and "advice improvement", with the assumption that more advisors would become discretionary managers.

Let's talk about this latter "benefit" first. Discretionary managers don't create anymore "savings discipline" or "simplify an investor's life", any more than a good advisor that receives embedded compensation does. And, I would argue that, turning more advisors into discretionary money managers is a mistake. This would create an environment ripe for client abuse and fraud. Clients need planning services and education, they do not need more "stock, ETF and fund" pickers. After almost 4 decades in this business I can easily name a half dozen ways to really rip off a client and none of them are related to embedded commission. But every way to do it is made that much easier if you are a discretionary manger. The CSA would be acting truly in the consumer's best interest if it focused on those aspects and strongly enforced existing rules before proposing a ban on something that will have questionable results.

Now let's talk about lower fees. (Which, as I mentioned above, are three of the six "benefits" of an embedded ban as outlined in the report.) I think we are seeing the movement to lower fees begin already. Advisors and dealers are moving fees downward in the wake of CRM2 disclosure and the pressure is now on the manufacturers to do the same. However, CRM2 does not go far enough. The full and complete disclosure of all fees and taxes needs to be mandated and the CSA has a responsibility and major role in getting that done. CRM2 is a start, but it creates more investor confusion and little more than a "shell game" between some captive advisors and their product manufacturers. This one rule, the complete, full disclosure of all fees and taxes on

investment funds will be good for the investor and will undoubtedly drive down total investor fees. It will allow the consumer to have all the relevant fee data to truly "shop around".

It seems very obvious in the report that the CSA favors ETF and index fund investing for Canadian consumers over anything else, simply because of the "perceived" lower fees. I say "perceived" because I've read for a number of years now how these types of investments are so much cheaper compared to a mutual fund. Yet many times the cost of advice, or trading fees, or extra tax preparation cost and so forth are never mentioned. Why is that? It truly reminds me of the airline industry advertising cheep fares only to discover when you go to book the flight, that when you add all the other fees and taxes on top, that it's not any cheaper than another advertised fare that includes everything you want. Yes, I'm sure that some investors would benefit from a cheap "do-it-yourself" approach. That option already exists. I'm also sure it's far less expensive for my clients to change the oil in their cars also, rather than take it to a car dealership to do it. But they don't. Therefore, while I also have my thoughts on whether an investing world made up of only ETF's or index funds would lead to market chaos, or at the very least rampant market inefficiencies, those comments are beyond the scope of this discussion and are saved for future debate. Currently, what does concern me is the CSA's obvious endorsement of one type of investment for seeming all clients over another. That, I would suspect, ironically flies in the face of the fundamental mantra of "Knowing your Client". Does the CSA believes the perceived cheapest is always best? I have my doubts.

I would also like to touch on the aspect of Robo-advisors and fin-tech firms filling in the "advice gaps" and providing increased competition to again...bring down investor costs. I think this is inevitable given the advancement in technology. I also think it is a good idea. Smaller clients can use these services to design portfolios for themselves and save costs. However, this is nothing really that new. In fact, the insurance industry has been doing this for decades in the employee pension area. The advantage the pension industry has is that, 1) the employees are for the most part forced to make a choice and, 2) employees are forced (mandated in most cases) to save the money. Yet, even with these two massive advantages to combat the "apathy gap" there are still many concerns regarding robo-advice that can be learned from the pension industry. First being that, people are still reluctant do anything if it's not top of mind and forced upon them (they will sit in cash accounts forever sometimes). Secondly, if they do choose a portfolio, they rarely ever change their portfolios when their life situations change. And third, (and this only comes with years of advisor experience), investors assume they are larger risk takers than they actually are. A simple risk profile that is done without complete knowledge of the client is a formula for disaster. The next big market down turn (and I've seen a lot of them) will shake the robo-advice industry to it's very core.

I see reports now that at least one robo-advisor firm wants to have no human contact at all to onboard clients. This will be another interesting decision that the regulators will have to make. Robo advice is here and it will grow, but it's yet to be determined if this will make for better investors. Sometimes the best advice an advisor can give a client is not to invest in the latest

investment that looks "to good to be true". The adviser, regardless of their compensation is many times the only thing standing in between an investor and a life altering really bad investment decision.

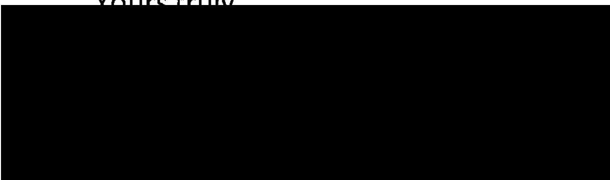
The other one benefit the CSA paper outlines is that the aspect that the banning of embedded commission will reduce the number of fund series. Halleluiah! Here is something I can really get on board with. I think the CSA can solve a number of different issues at one time here with a very simple step. A complete ban on all DSC and Low-Load funds. Period. Get rid of them all.

On the numerous industry boards I have sat on over the years, I have been told that the number one consumer complaint, which number twice as many as all other investor complaints combined has to do with DSC fees. There is a simple solution...get rid of them. In addition to reducing complaints, by banning the use of DSC funds will also purge the industry of many of the conflicts of interest, and bad actors we all desire to get rid of. Plus, the abolishing of both DSC and Low-load funds will bring about an automatic substantial reduction in the number of fund series.

In summary, I do not believe that embedded compensation is THE issue. Far from it in fact. Investor apathy and financial education are far bigger issues. Consumers need to be left with that option of embedded compensation to engage with an advisor and have that advisor combat that "apathy gap." However, at the same time, advisors, and the industry, need to be totally transparent on fees. Embedded compensation does not, and should not, mean hidden fees. All the fees and taxes need to be transparent not just the current CRM2 mandated dealer fees. And finally, I recommend the banning of DSC and low-load fund options for the reasons I have stated above. Those three items and the implementation of the existing rules will have a much greater impact in assisting investors be better investors.

Don't carpet bomb and risk a lot of collateral damage when a surgical strike will yield you far better results.

Yours truly



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