

Thomas B.K. Martin

June 9, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autoite des marches financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

C/O The Secretary
Ontario Securities Commission
comment@OSC.gov.on.ca

Comments re CSA consultation paper 81-408

By way of background , I am a 35 year veteran of the industry who has been a partner in a discretionary investment management firm, an investment dealer and a mutual fund dealer. I have worked on the administrative side of the business and have had client responsibilities. My credentials are the CSC, the Partners and Officers exam, C.P.A., C.A., C.F.P. I have sat on a number of industry task forces at the request of regulators over the years.

My comments regarding banning embedded compensation are as follows:

- 1 Conflicts of interest are inherent in professions. The auditor is paid by the company he is auditing; the surgeon is paid to operate, not to not operate; the lawyer is paid to litigate, not to not litigate, etc. That there may be an apparent conflict with embedded commissions is not necessarily reason enough to ban them, particularly when there is now so much required disclosure around fees and performance.
- 2 Embedded commissions are a fact of life in financial products including but not restricted to:
 - mutual funds
 - segregated funds
 - G.I.C.'s

Certain types of bonds

Life insurance

Annuities

Property and casualty insurance

Canadians are used to paying embedded commissions and the issue of embedded commissions in financial products of any sort is not one of overbearing significance in day to day life to me, my family or clients. To ban them in this one financial product would seem an excessive regulatory intervention particularly in light of the next point.

3 Investors can choose to purchase their mutual funds in a variety of ways. They are not forced to pay embedded commissions. Channels currently exist to purchase mutual funds or to purchase a variety of other similar products without embedded commissions.

4 At one time one could purchase most mutual funds only by paying an embedded commission of 9%. Over time, the marketplace has evolved to now provide many different purchase options. Not only has the mandatory 9% commission structure disappeared, but the frequency of the deferred sales charge commission has significantly declined. These things took place without regulatory intervention. Undoubtedly, the marketplace will continue to evolve in response to the desires of consumers.

5 It seems ironic that some years ago the regulators forced the mutual fund manufacturers to pay trailer fees on all assets with no exception/discretion in certain circumstances and now they are considering banning them altogether! The attached trailer fee cheque copy for 1 cent was mandated by regulation all in the name of theoretical purity. Perhaps, it was regulation gone to absurd levels. Certainly, for me, absurd enough that I have kept the cheque for almost 20 years!

6 There are essentially two types of embedded commissions in mutual funds. A sales commission and a trailing fee or commission. Each has their own distinct issues.

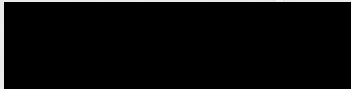
7 It can be forcefully argued that the trailing commission is an extremely efficient way to compensate the industry for their services. To get rid of them, after 20 years of refinement, is akin to throwing the baby out with the bath water. To replace them with mandatory individual billing of clients would create a lot of extra work. One can't assume that all clients will want or that it will be possible to bill all clients automatically and electronically. There is going to be additional computer programming costs, hard costs for paper and postage for clients who want to be billed directly, the need to now keep receivable sub-ledgers for clients with each client having an account, as well as the need to register for HST for many individuals who will now have to collect fees as opposed to receive trailer commissions. As well, for the client, there could be more issues around paying fees manually.

There are bound to be both billing/payment/collection/banking issues which impact both client and service provider. A firm may receive trailer fees from 20 or 30 fund companies but have several thousand clients. The complexity of dealing with fee accounts for thousands of clients is obviously going to be more complex than dealing with trailer fees from 20 companies for which there is a mature and efficient system in place. It is impossible to estimate exactly what the extra costs will be. It is extremely easy to assume these issues away, but they will add substantial cost to the system, which will likely lead

to higher fees with no substantive added benefit to the client, as well as a reluctance to take on smaller accounts. There will be accounting issues, regulatory capital issues, and auditing issues, both statutory and regulatory.

In summary, my experience is that my clients and the public are much more concerned about receiving practical investment advice which integrates with their overall financial planning needs than they are about the transparency and potential conflicts with the fees they pay. The much larger challenge for regulators than the method of fee payments is ensuring that those giving advice are doing so in the best long term interests of their clients. To this end, the regulators must take a much more sophisticated approach to the qualifications of those giving advice and their review of suitability of investments for investors.

respectfully,



Thomas B.K. Martin

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