CSA CONSULTATION PAPER 81-408 – CONSULTATION ON THE OPTION OF DISCONTINUING EMBEDDED COMMISSIONS http://www.osc.gov.on.ca/documents/en/Securities-Category8/sn_20170110_81-408_consultation-discontinuing-embedded-commissions.pdf

The Secretary June 8, 2017
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Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Your consultation paper is thorough, lengthy and complex. Much thought and work obviously went into it and for this you should be commended. Most small investors though, do not even know about your deliberations. Real effort must be extended to actually reach out and hear the voice of the public.

Time after time these consultations are put forward and you are flooded with industry response. A few faithful investor advocates do their best to represent the voice of the public, and to whom small investors owe a great deal of gratitude. But you have a responsibility to engage the public in these important discussions and deliberations. In the future, may I suggest, you consider a different document and questionnaire that is geared to the general public and issued simultaneously. Most Canadians will not find themselves comfortable addressing such a large daunting document such as this one, but it is unfair to deliberate and make such important decisions without their voices being properly heard and given equal time and weight. Their voices must not continue to be drowned out by the industry, for they too have a stake in the game, often their life savings and future retirement!

It seems that whenever the industry doesn't like what the research and data demonstrate they just repeat that things are not clear.

"The Investment Funds Institute of Canada (IFIC) is calling on the Canadian Securities Administrators (CSA) to consider whether there's sufficient evidence of market failure to justify prohibiting embedded commissions and recommends that the CSA review other options."

http://www.investmentexecutive.com/-/ific-calls-on-the-csa-to-reconsider-potential-embedded-commissions-ban?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-All-afternoon

"What is not at all clear is the extent to which Canada's dominant model of embedded compensation is harmful." https://www.ific.ca/en/news/ific-ceo-responds-to-release-of-csa-consultation-paper-on-embedded-commissions/

I think Professor Cumming's research answers quite clearly that this compensation model *is* harmful to investors.

"In the buildup to the regulatory review of trailer fees in Canada, the mutual fund industry is trying to wage an ill-advised battle of misinformation. And one of the key tactics in this battle is to dispute facts and studies, including one I co-authored, ***that have proven beyond a doubt the detrimental effect of these fees.*** *At the risk of making an analogy to the cigarette industry and early denial of the harm caused by cigarettes,* ***I hope we stop blowing smoke and make use of the information and data provided by the mutual fund industry that clearly show trailer fees harm Canadian investors...***

"We appreciate that the industry has a substantial financial interest in keeping trailer fees in Canada, ***with over $5 billion per year charged to Canadian investors****. My co-authors and I have no financial stake one way or the other. We simply report what the data indicate."*
http://www.moneysense.ca/save/investing/blowing-smoke-on-trailer-fees/

If the research had gone the other way and shown that there was no harm to investors, the industry would have been sounding the trumpets and beating the drums over and over about that! But apparently the industry wants to shoot the messenger, since they have $5 billion per year at stake here.

I really like what Portfolio Manager, John De Goey says, "Making compensation transparent does not do anything to change pricing. Four quarters does not cost more than a dollar; not liking having to pay separately, does nothing to change the quantum of payment."
http://www.wealthprofessional.ca/news/a-portfolio-managers-view-on-the-ban-on-embedded-fees-223144.aspx

But I wonder in the financial industry, does it change the quantum of payment somehow? I can't help but feel they so desperately want to hang on to embedded commissions because they have ways of presenting it on reports that still keep things hidden and obscure from clients eyes. Since four quarters equals a dollar and since the client ultimately has to pay, lets just agree to make it plain, upfront with no blinders.

People should be informed. Informed consent should be a primary right for all clients. Why the CSA and provincial regulators allowed years for CRM2 to unfold and for fees to be hidden from clients sight is shameful. The industry fails to demonstrate why any client would be opposed to paying the same amount for advice and the same amount or less for investment products, once they actually truly understand. Why would transparent advice be less accessible to investors of any account size? It just doesn't make sense, except if they fear that when one sees what they are paying, they may not believe it is worth paying. Is there demonstrable value or not? People have a right to clearly know and decide for themselves.

Maureen Jensen in her speech at the Toronto Board of Trade in 2016 cited important research from the National Bureau of Economic Research. She said, *"research suggests* ***a combination of embedded fees and unsuitable portfolio construction has caused the investment returns of advised clients to lag passive market benchmarks by two to three per cent a year."The impact of these fees on investor returns is significant,"*** she said. ***"Investors experiencing this kind of outcome on a consistent basis would never break even and would, in fact, be worse off."***
http://business.financialpost.com/news/fpstreet/canadas-market-watchdogs-look-at-fundamentally-flawed-embedded-fees-on-investment-funds

With more and more employers no longer offering defined pensions, this research and its indicated outcome where investors lag benchmarks and may even be worse off, spells disaster for untold numbers of Canadians struggling to save for retirement.

Yet *"The industry is disappointed that the CSA has chosen not to consult on less disruptive alternatives and have limited the consultation to one option – a complete prohibition,"* said Bourque.

Less disruptive for whom? We are talking about Canadian citizens futures.

Maureen Jensen's comment addresses this *"The current compensation model consists of fees set by the fund manager* ***to incent sales. This does not put the investor's interest first, and that's a fundamental flaw that needs to be addressed."***
http://business.financialpost.com/news/fpstreet/canadas-market-watchdogs-look-at-fundamentally-flawed-embedded-fees-on-investment-funds

Deferred Sales Charge (DSC) sold funds are particularly harmful to clients.The 5% upfront payment to dealers and salesperson a.k.a. " advisors" appears to be irresistible to them despite the disadvantages to clients. The constraint on liquidity is not in an advised clients best interests. Note that DSC early redemption penalties cannot be offset against capital gains in registered accounts. Such irrecoverable penalties impair account returns for retirees and pensioners. It is especially egregious for this group whose health may change and access to their funds is crucial. I believe the CSA should act immediately to phase out the DSC option.

What about fee based accounts? There apparently are risks associated with fee-based accounts as well. One of the larger risks is reverse churning. In order for such a payment method to be acceptable,it must be in a clients best interest and be backed up by robust IIROC and MFDA enforcement ,which is sadly lacking at this point. I urge the CSA to make a renewed commitment to dramatically enhance, regulatory protective measures with a client first focus.

At the present time there is also approximately $18 billion in class A funds with discount brokers, paying trailer fees This shouldend and clients should be reimbursed those fees, since they have been charged for advice they did not even receive.

I continue to be concerned that the underlying structure is flawed and regulators are ignoring the real issue. This is no longer a transaction based sales industry, it is an advice based industry. Continually working from a wrong premise will not bring about the desired results for the industry or clients. If the foundation of a building is poor, it does not matter what you build on top of it, or how nicely you decorate the rooms in it. The foundation issue has to be dealt with first.

Ron Rhoades sums up quite nicely what is really needed when clients seek investment advice.

"We have fiduciary standards because disclosures are largely ineffective. A huge body of academic research supports this conclusion.
Say what you do. Do what you say. A fiduciary steps into the shoes of the client, and acts - with all of the expertise required of a professional adviser - with total loyalty to the client's interests." Ron A. Rhoades
http://scholarfp.blogspot.ca/

Look at the evidence. The way forward is abundantly clear. Embedded commissions must go.

Canadians deserve advisers who acknowledge the high level of duty we are entrusting them with. Advice givers need to understand their role and have the requisite skill, training and supportive regulatory and industry culture going forward. Canadians need real professionals who are willing to embrace the true role of a fiduciary professional adviser.

It is time to do the right thing for average Canadians, who are depending on you to protect them.

I agree to the public posting of this letter.

Debra McFadden
Retail Investor