

January 17, 2017

I would like to share my views from over 25 years working in the financial advisory business, about the proposed move away from embedded trailer fees. On the surface I have no objection as most of my advisory practice is based on the 1% service fee I receive from the fund companies I deal with. I do not now charge up front commissions at all, nor do I use DSC funds. There are trends I have seen however, that worry me.

I will first preface by saying that I originally got into this business to help people. It didn't matter to me whether they had a lot of money, just that they wanted to do the best with their money, and become as financially independent as they could, given their personal gifts. Of course back then it was quite acceptable to put many people saving for long term into DSC funds. The increased income to my business from DSC funds allowed me to keep those smaller clients and give them the help that they needed. The DSC fees also served to deter them from dipping into their retirement savings for short term needs such as vacations. Since I no longer use DSC funds, I have had to send some clients away. I simply can't afford to keep them due to the rising costs of doing business.

Today, my practice focuses on higher net worth clients because I am running my practice on just service fees. Fee disclosure is not the issue. My clients know the fees they pay. I know my clients value the advice I give them, and will pay for what I do for them (I already have some clients in fee for service model).

I think that ensuring the service fees are the same across all investment funds would be beneficial for all clients, and ensure that there is no alternative reason for advisors to choose a specific investment for clients. By ensuring that clients know how MERs and service fees work, through the CRM2 initiative has gone a long way to full disclosure to clients. Flat service fees would ensure advisors are not choosing funds so that they get a higher commission rate. The amount of embedded service fees I receive are based on the performance of the investments I choose for my clients. It is in both my and my client's best interest to choose the best portfolio managers I can find. Remember that those service fees have to pay for my all of my own office expenses, my staff salaries and leave something for me for compensation for the work I do.

And those fees pay for a lot of services for my clients. I work with their other professionals such as accountants and lawyers for tax planning and estate planning. I do retirement projections, put together family protection plans, and work with small business owners to make the best financial decisions for them, their businesses and their families. Ongoing research goes without saying. But most of all, I keep my client's emotions from blowing up their financial plans. So many times people have reacted to either market or life events that could have totally derailed them financially. I have clearly explained the possible outcomes, thereby helping them realize that an alternate decision is a much sounder one. My level of knowledge over 25 years ensures that my clients are way ahead financially, than if they didn't have an advisor. Keep in mind that the majority of people have no education in finances, so they desperately need good advice.

There is more of a conflict of interest at the banks than at any independent dealer. The banks have a vested interest to encourage people to borrow money and use credit when it is not in their best interests to do so. I have heard some really terrible advice coming from that quarter. I am really sick and tired of seeing the banks get away with the lies they tell people. The rules don't seem to apply to them or the insurance companies. There is no level playing field when it comes to these two other streams of business.

I am at the end of my career, but it doesn't mean I don't care about the people I serve, and the future of Canadians as a whole. The end result of banning service fees will be that only the wealthy will get good and thorough financial advice and planning, because they are the only ones who will be able to afford it. Remember that most people have no understanding of the true value of getting professional advice. (most high net worth people on the other hand do know) All that the average person will see is the upfront fee they pay, with no real understanding of the value they are getting. So, like so many aspects of our country, the rich will get richer, the poor will get poorer. Not the kind of country that most Canadians want, I am sure. I can't see how banning embedded service fees, which are fully disclosed to clients now on their statements, in dollar terms, will help them in the long run.

If you as regulators would spend your time and resources to educate all potential investors about how the whole system actually works, so that they can make truly informed decisions, the country would be so much further ahead. By educating people you protect them from abuse so that things like banning service fees, become irrelevant. These fees are being fully disclosed on client statements now anyway.

I urge you to listen to those of us on the ground who are independent advisors, with our client's best interests at heart. I want you to really understand what sitting in my chair means. Thank you for receiving my submission and my point of view.

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