

The Secretary
Ontario Securities Commission
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June 2, 2017

Re: CSA Consultation Paper 81-408 Consultation on the Option of Discontinuing Embedded Commissions

The Emerging Managers' Board is grateful to the CSA for the opportunity to provide comments on Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions.

Executive Summary

The Emerging Managers' Board is strongly supportive of the proposal to discontinue embedded commissions. We believe the measures should be implemented as quickly as possible. However, we strongly object to the 'mitigation measures' proposed by the CSA. We believe these proposed measures are actually worse than the existing embedded commission system. These mitigation measures replace one form of "bank tax" with another "tax" that is less efficient to administer and results in a worse outcome for fund manufacturers and the investing public.

Introduction to the Emerging Managers' Board

Background: The Emerging Managers' Board or EMB is a non-profit organization whose mission is to promote and contribute to the growth of Canadian emerging managers. It strives to educate asset allocators and investors about the benefits of investing with local talent. We have approximately 120 member firms in Quebec and Ontario, who are primarily independent manufacturers of investment funds. The AUM of the majority of our firm members is below \$1 billion.

Confidentiality: All members of the Emerging Manager Board are regulated by a CSA member. As well, their business operations depend critically on broker/dealers for the custodial services, prime brokerage activities and access to their investment platforms for marketing their funds. In order to be able to express our views without fear of repercussions in their businesses, the authors of these comments have requested to remain anonymous.

Responses of the Emerging Managers' Board to Specific Questions

Question 2. *Are there other significant issues or harms related to embedded commissions? Please provide data to support your argument where possible.*

Response of the Emerging Managers' Board: Embedded commissions effectively function as a tax, one that is imposed by brokerages and dealers to pay for access to their platforms. There should be no pretence that the level of embedded fees is justifiable in relation to the amount of due diligence conducted by an Investment Advisor. Fund manufacturers are forced to give up 50% of their management fees (in most cases, their only source of fees) for the privilege of access to a dealer's investment platform. The existence of this *de facto* tax continues to stifle the development of an independent asset management industry and reduce competition, to the detriment of both Canadian investors and firms – particularly newer ones – looking to raise capital. The fact that Canada has one of the highest cost investment fund structures in the world is testament to the negative effects of embedded commissions. The elimination of embedded commissions will promote fair and more efficient operations in Canada's capital markets.

Question 4. *For each of the following investment products, whether sold under a prospectus or in the exempt market under a prospectus exemption: mutual fund, non-redeemable investment fund, or structured note, should the product be subject to the discontinuation of embedded commissions? If not, what would be the policy rationale for excluding it? What would be the risk of regulatory arbitrage occurring in the exempt market if embedded commissions were discontinued for the product only when sold under prospectus?*

Response of the Emerging Managers' Board: To avoid regulatory arbitrage between the Exempt and Prospectus markets or between different types of investment funds, there should be no exclusions from a discontinuation of embedded commissions. Further, all types of embedded fees should be included within this ban.

Question 5. *Are there specific types of mutual funds, non-redeemable investment funds or structured notes that should not be subject to the discontinuation of embedded commissions? Why?*

and

Question 6. *Are there other types of investment products that should be subject to the discontinuation of embedded commissions? Why?*

Response of the Emerging Managers' Board: We are not aware of other investment products that have embedded commissions; however, our conclusions would not change: all investment funds should be subject to discontinuation of embedded commissions.

Question 7. *Do you agree with the discontinuation of all payments made by persons or companies other than the investor in connection with the purchase or continued ownership of an investment fund security or structured note? Why or why not?*

Response of the Emerging Managers' Board: Yes, we agree. Again, all investment funds should be subject to discontinuation of embedded commissions.

