

February 1, 2017

CSA Consultation Paper 81-408

I work in the investment industry but my submission is on behalf of all financial product consumers in Canada. Embedded commissions do create a conflict of interest. I have marketed investment products since 1993 and part of the value proposition to differentiate products was commission.

However, if you ban embedded commissions the issue of consumer choice worsens.

Here's why.

A)

Product Innovation:

Any mutual fund manufacturer that also owns a distribution channel will innovate and launch a suite of new products. These products will not have any commission.

By way of examples:

- Canadian banks will launch products at 2.00% MER and no commission. These products will be sold through the banks retail outlets via salaried employees.
- Investors Group, London Life (Freedom 55), Sun Life career agents etc will create a product at 2.00% MER and no commission. Advisors will be paid a salary and bonus to sell these products

Vertically integrated organizations will utilize a value proposition to Canadians that states "move your account to us since we don't charge any commissions". The consumer may be paying the same cost (MER) but the statement proves compelling.

B)

Fee Based Accounts:

Many of these vertically integrated organizations, especially the IIROC channel currently offer fee based accounts. They will continue to grab market share. However, most aim exclusively at the High Net Worth community not all Canadians.

C)

Independent Advice:

This channel will be decimated. Many advice channels do not offer a fee based accounts. Average Canadians will not pay for advice. Competitive forces drive this channel further into a downward spiral.

D)

Independent Portfolio Management:

Without access to distribution this channel struggles to reach Canadians and continues to shrink.

Summary Outcome:

Canadians are left with vertically integrated manufacturing, distribution and advice controlled by some 20 organizations. These organizations will market that you can purchase any product through their channel but when you leave a CIBC branch you will have purchased a CIBC product. The CIBC product is professionally managed by either employees or owned portfolio management companies. Repeat for Freedom 55 or any other surviving organization.

Independent Portfolio Management organizations who do not have a sub advisory relationship with one of the vertically integrated networks struggle to survive and this channel shrinks. Who works harder for Canadians employees or independent Portfolio Managers who want to earn your investment dollars?

Independent advice is dead

Independent portfolio management is dead

Choice is decimated.

You will own a proprietary product.

Banning of embedded commissions reduces choice and creates more conflict of interest not less.

Thanks and regards
Steve Kunzel

PS If you want to help Canadians create wealth, ask the government to eliminate tax on investment funds and create one regulator for all products, including insurance in Canada.