



**AUTORITÉ
DES MARCHÉS
FINANCIERS**

**Report on principal findings
of Autorité des marchés
financiers focus groups
with individual investors**



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INTRODUCTION

FOCUS GROUPS WITH INDIVIDUAL INVESTORS

Following the publication, on January 10, 2017, of [CSA Consultation Paper 81-408 — Consultation on the Option of Discontinuing Embedded Commissions](#), given the potential consequences of the option considered on individual investors, the *Autorité des marchés financiers* (“AMF”) organized three focus groups, on October 24, 25 and 26, 2017, with 27 individual investors who had different investor profiles, in order to find out their points of view. We dealt with an independent research firm for investor selection and focus group logistics.

PURPOSE OF FOCUS GROUPS

The purpose of the focus groups was to determine investors’ perceptions regarding:

- › the financial services they receive from the dealers and representatives with whom they do business;
- › the fees they assume directly or indirectly for the financial services provided to them; and
- › three existing dealer compensation options, and their preferences regarding these options.

PARTICIPANT SELECTION CRITERIA

Selected participants had to have varied profiles. However, all of them had to have the following characteristics:

- › have or have had an investment or savings account within the past six months;
- › have or have had at least one investment fund outside an employer pension plan or fully managed account; and
- › be responsible for most of their financial decisions (dealer selection, amount to be invested, etc.).

Furthermore, in order to obtain the viewpoints of participants with different investor profiles, the participant selection process took into account diversity criteria, such as annual household income and the amount of household financial assets, as well as certain demographic information (gender, age, level of education, occupation).

PARTICIPANT PERCEPTION OF FINANCIAL SERVICES RECEIVED

QUESTIONS TO PARTICIPANTS

Participants were asked the following questions about the financial services received from the dealers and representatives with whom they do business:

1. What led you to seek financial services from a dealer or representative? To do business with your dealer or representative?
2. What financial services did you receive from your dealer or representative over the past 12 months?
3. What is your opinion of the financial services you received? Did they suit your needs? If so, explain. If not, why?
4. How do you generally communicate with your dealer or representative?

PRINCIPAL FINDINGS

- 】 The majority of participants stated that they had decided to do business with their dealer or representative for the following reasons:
 - retirement planning; and
 - saving in order to finance the purchase of a home or their children’s education.

- 】 The most common financial services received by participants over the past 12 months were:
 - delivery of numerous financial documents and quarterly and annual statements of account;
 - annual telephone call from their representative to review financial needs;
 - personalized advice over the phone further to a specific request from the participant;
 - in-person meeting to establish a financial plan and receive advice (at the dealer’s office or the participant’s home);
 - opening of a savings or retirement plan;
 - mortgage renewal; and
 - receipt of educational materials on financial topics.

- 】 The extent of services received seemed to vary from one participant to another.
- 】 Preferences regarding financial services varied greatly from one participant to another (e.g., in-person meetings, no in-person meetings, quick phone call questions, access to a Web platform).
- 】 Approximately half of the participants said that they were generally satisfied with the services received from their dealers.
- 】 Participants who had received services at home all said that they were satisfied with the services received.
- 】 Participants who had received financial services through a branch of a financial institution stated that:
 - they had had few in-person meetings with a representative; and
 - the individuals whom they dealt with had changed often, which made it difficult to build a long-term relationship with a representative.

- 】 The majority of participants stated that they received a lot of paper documents.

PARTICIPANT PERCEPTION OF FEES ASSUMED BY THEM DIRECTLY OR INDIRECTLY FOR FINANCIAL SERVICES RECEIVED

QUESTIONS TO PARTICIPANTS

Participants were asked the following questions regarding the fees assumed by them directly or indirectly for the financial services received:

1. Do you know how your dealer is compensated for the financial services offered to you?
2. Are you aware of the annual compensation your dealer receives for the financial services offered to you?
3. Who explained how your dealer is compensated?
4. Have you received or read an annual report on charges and other compensation?
5. Have you ever read a Fund Facts?

PRINCIPAL FINDINGS

In general, the majority of participants had limited knowledge about how their dealer is compensated for services rendered, the amount of compensation the dealer receives and the services for which the dealer receives this compensation.

- 】 A minority of participants were well informed about how their dealer is compensated, the amount of compensation the dealer receives and the services for which the dealer receives this compensation. These participants were familiar with the report on charges and other compensation and the Fund Facts document.
- 】 In addition, these participants:
 - stated that they had a good relationship with their representative or dealer;
 - indicated that they had had at least one in-person meeting with their representative over the past 12 months;
 - mentioned that they were receiving several types of financial services from the representative and the dealer; and
 - reported that they had had at least one in-person discussion with their representative regarding compensation.
- 】 The majority of participants stated that they knew their dealer was compensated for the services rendered, but they could not say how or how much their dealer was compensated for these services.
- 】 The majority of participants had no recollection, or a vague recollection, of having read a document setting out the annual compensation of their dealer. However, most of these participants were familiar with the Fund Facts document.
- 】 A few of these participants:
 - recalled having had a discussion with their representative about dealer compensation and investment fund fees, but could not provide any details;
 - recalled having looked over the “How much does it cost?” section of a Fund Facts with their representative; and
 - recalled having read the first two pages of a Fund Facts, but did not recall having read the third page, which contains the “How much does it cost?” section.

- 】 Certain participants seemed to generally:
 - confuse dealer compensation with other charges, such as fund or banking fees;
 - confuse the report on charges and other compensation with other types of reports, such as a statement of account or a Fund Facts document; and
 - mistakenly think that if the performance of an investment fund was negative, their dealer would not receive any compensation.

PARTICIPANT PERCEPTION OF THREE EXISTING DEALER COMPENSATION OPTIONS AND PREFERENCES REGARDING THESE OPTIONS

THE THREE DEALER COMPENSATION OPTIONS DISCUSSED

The following three dealer compensation options were discussed with participants:

- I. fee-based compensation;
- II. trailing commissions (initial sales charge or no-load options); and
- III. deferred sales charge (DSC).

QUESTIONS TO PARTICIPANTS

For each of the three dealer compensation options discussed, participants were asked the following questions:

1. Are you familiar with this compensation option? Have you heard about it?
2. What is your opinion of this compensation option? Would you like to use it? Do you find it interesting? Why?

METHODOLOGY

For each compensation option discussed, there was a first round of questions. During the first round, participants had to answer both questions without having been given any information about the options. After the first round, the moderators described the principal characteristics of the option discussed. During the second round of questions, participants had to answer the same questions again.

FEE-BASED COMPENSATION

PRINCIPAL FINDINGS

During the first round of questions

The majority of participants did not seem to know about this option or did not remember having used it.

During the second round of questions

- › Several participants seemed to be in favour of using this option and found it interesting.
- › A majority of participants said that this option was a transparent form of compensation that allowed them to discuss with their representative the compensation received in exchange for the services provided.
- › Several participants stated that:
 - without any reference points or benchmarks, this option could make it difficult to negotiate with a dealer or representative; and
 - with this option, they did not appreciate having to do a cash transaction to pay their dealer and pay taxes directly.
- › A few participants mentioned that a small investor would have little or no negotiating power with the dealer.

TRAILING COMMISSIONS

PRINCIPAL FINDINGS

During the first round of questions

- › One third of participants had heard of this option or recalled having used it.
- › A minority of participants seemed able to identify the main characteristics of this option.

During the second round of questions

- › Several participants seemed to be in favour of using this option and found it interesting.
- › The majority of participants stated that they appreciated the fact that this option did not require them to negotiate with their dealer or pay fees directly to the dealer.
- › The majority of participants stated that they appreciated the fact that this option did not require them to pay taxes directly.
- › The majority of participants saw this option as less transparent than the fee-based compensation option.
- › Several participants indicated that they appreciated the simplicity and “all-inclusive” nature of this option.
- › A few participants stated that there was the potential for a conflict of interest by the dealer, because the rate of trailing commissions can vary from one investment fund to another (e.g., equity fund versus bond fund).
- › A few participants pointed out that the payment of ongoing trailing commissions by an investment fund manager could encourage dealers to provide fewer services.

DEFERRED SALES CHARGE (DSC)

PRINCIPAL FINDINGS

During the first round of questions

- › The majority of participants seemed to know little about this option or did not remember having used it.
- › A few participants had heard about this option, but were unable to identify its main characteristics.
- › Certain participants believed that this option gives them access to the top performing portfolio managers or that it provides a better return on investment.

During the second round of questions

- › The majority of participants stated that:
 - the characteristics of this option seem overly complex;
 - they would not want to pay a redemption fee if the redemption were necessary as a result of a major unforeseen change in their financial situation;
 - there is a lack of transparency regarding the fees to be paid;
 - the redemption fee may limit the option to change from one family of funds to another; and
 - this option avoids the direct payment of taxes.

GENERAL PARTICIPANT COMMENTS ON THE THREE COMPENSATION OPTIONS DISCUSSED

QUESTIONS TO PARTICIPANTS

Following the discussion on the three dealer compensation options, participants were asked for their views of these compensation options and to indicate which ones they would prefer to use when compensating their dealer.

FINDINGS

A large majority of the participants indicated that they would like to be able to choose between the trailing commissions option and the fee-based compensation option at the beginning of their relationship with a dealer.

If given the opportunity to choose between the trailing commissions option and the fee-based compensation option at the beginning of the relationship, participants were generally of the opinion that their choice would depend on the relationship they had with their dealer or representative, their ability to negotiate and the financial services provided.

A majority of participants expressed a preference for the trailing commissions option over the fee-based compensation option.

Almost all participants stated that they would not choose the deferred sales charge option.



SUMMARY

- › Discussions with individual investors were constructive and relevant. Their viewpoints complement the other consultations held by the AMF in 2017.
- › In general, participants had limited knowledge about how their dealer is compensated for services rendered, the amount of compensation the dealer receives and the services for which the dealer receives this compensation.
- › After receiving an explanation, participants were generally able to discern the major advantages and disadvantages of the fee-based compensation option and the trailing commissions option.
- › A majority of participants expressed a preference for the trailing commissions option, but most indicated that they would like to be able to choose between this option and the fee-based compensation option.
- › All participants expressed a preference for a compensation option that is easy to understand and is the most economical for the investor.
- › Participants were keenly interested in the subjects discussed during the meetings.