



24 May 2017

Sent via email on 24 May, 2017 to comments@osc.gov.on.ca

Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H3S8

ATTENTION: Robert Day

Senior Specialist, Business Planning and Performance Reporting

Re: CARP – Submission to the Canadian Securities Administrators (CSA Consultation Paper 81-408)

Please note that we have compiled additional data to supplement our position on the option of discontinuing embedded commissions, and as such, we would ask that you kindly replace CARP's February 17, 2017 Submission on Consultation Paper 81-408 with the attached.

CARP is a national, non-partisan, non-profit organization that advocates for financial security and improved health care for Canadians as we age. With over 300,000 members and nearly 50 chapters across Canada, CARP works closely with all levels of government and collaborates with other organizations to advocate on health and financial issues. CARP enlists its members' voices to increase its clout to most effectively advocate for its priorities.

Thank you for your kind consideration.

Sincerely,

A handwritten signature in blue ink that reads "Wanda Morris".

Wanda Morris
VP of Advocacy

A handwritten signature in blue ink that reads "Marissa Semkiw".

Marissa Semkiw
Director of Policy

Summary

CARP is pleased to have the opportunity to provide input on CSA Consultation Paper 81-408 regarding the option of discontinuing embedded commissions. We believe in a well-regulated investment industry that allows Canadians to manage their investments more effectively and to plan for their retirement with added confidence. As such, CARP would like to see provincial regulators prioritize the initiatives necessary to make financial markets safer, less costly and more transparent for our members, and by extension, all Canadian investors.

CARP calls for the immediate elimination of embedded commissions (trailer commission) paid to advisors. We believe that there is no compelling argument for permitting embedded fees to continue.

Embedded Commissions

Question 1. Do you agree with the issues described in [Part 2, Section A]? Why or why not?

A recent study calculated the average equity mutual fund fee in Canada to be 2.1% - six times higher than the average pension plan fee.¹ While Canadian regulators recently implemented the second phase of changes to the Client Relationship Model, known as CRM2, reforms didn't go far enough. Financial firms must only disclose the cost of advice; there is no requirement to disclose the cost of products sold.

CARP unequivocally agrees with the findings found in Part 2, Section A of the consultation paper regarding the key investor protection and market efficiency issues raised by mutual fund fees and related evidence. The paper identified conflicts of interest that misalign the interests of investment advisors and investors as a key investor protection issue posed by embedded commissions.

Indeed, the trouble with trailers is threefold. A recent study by York University professor Douglas Cumming found that mutual funds that pay above average commissions attract and retain investment dollars regardless of their performance. That is, the capital invested in these funds does not leave even if it is performing poorly. Meanwhile, when a mutual fund paying a typical commission underperforms, investors take their money elsewhere. This is a significant problem, but it's not the only one.

¹ David Macdonald. (March, 2015). The Feeling's Not Mutual: The High Costs of Canada's Mutual Fund Based Retirement System. Canadian Centre for Policy Alternatives. Located online at [https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2015/02/Feelings_Not_Mutual.pdf]

Second, we are aware that some on-line brokerage services sell funds which include embedded commissions. As these firms are, by definition, selling a do-it-yourself product, charging an embedded commission for advice is tantamount to theft. CARP believes that there is absolutely no merit in allowing companies to collect money for a service that they do not provide. Furthermore, some strong performing mutual funds only sell fund classes which include an embedded commission so investors cannot purchase such funds without also paying a commission for a service they will not receive.

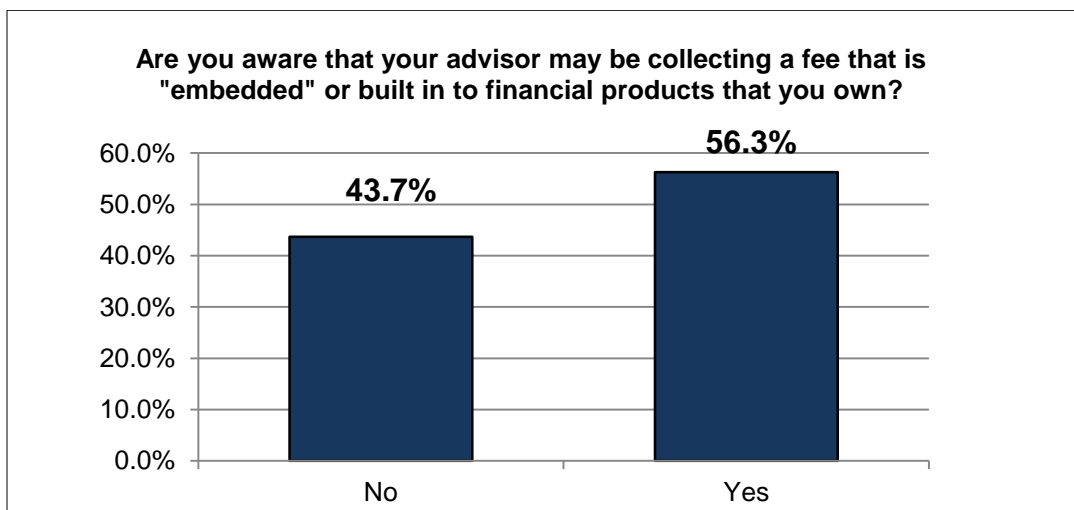
Lastly, we have heard anecdotally from members who were not aware they were paying embedded commissions. This is consistent with our survey results, which found that 44% of our members did not realize that they were paying embedded commissions to their advisors. Moreover, less than half knew when their advisor received a commission from selling a financial product or how much the commission was.

For these reasons, CARP endorses a move to direct pay arrangements and the elimination of embedded commissions, like trailer commissions. This will better align the interests of financial advisors and their clients and provide increased transparency with respect to fund costs. Not only will the elimination of embedded commissions reduce the inherent conflict of interest in the current mutual funds sales model but this will also allow investors to more easily understand and control an important cost component of their investments. CARP believes this heightened transparency and control will encourage fee reductions and improve overall returns to clients.

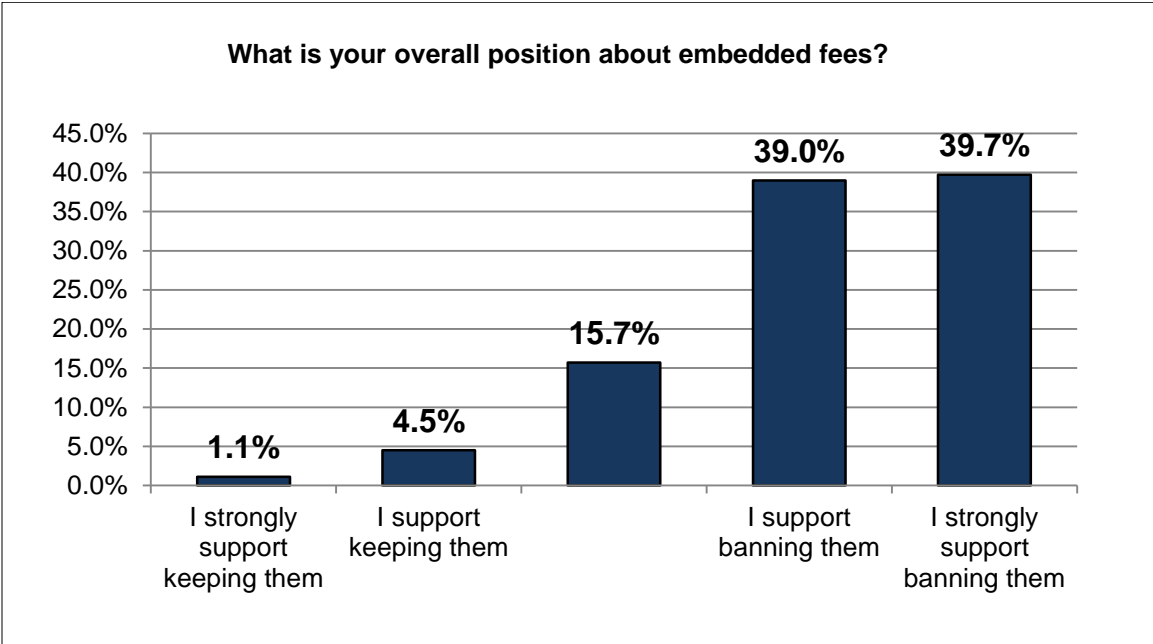
Poll Results

CARP builds its policy positions on the views of our members. @We asked members to rate their level of agreement (or disagreement) with arguments put forth by lobby groups like Advocis, The Financial Advisors Association of. The detailed questions are below. After considering all the arguments for and against embedded commissions, **79%** of CARP members polled supported a ban on embedded fees.

Question #1 Are you aware that your advisor may be collecting a fee that is “embedded” or built in to financial products that you own?

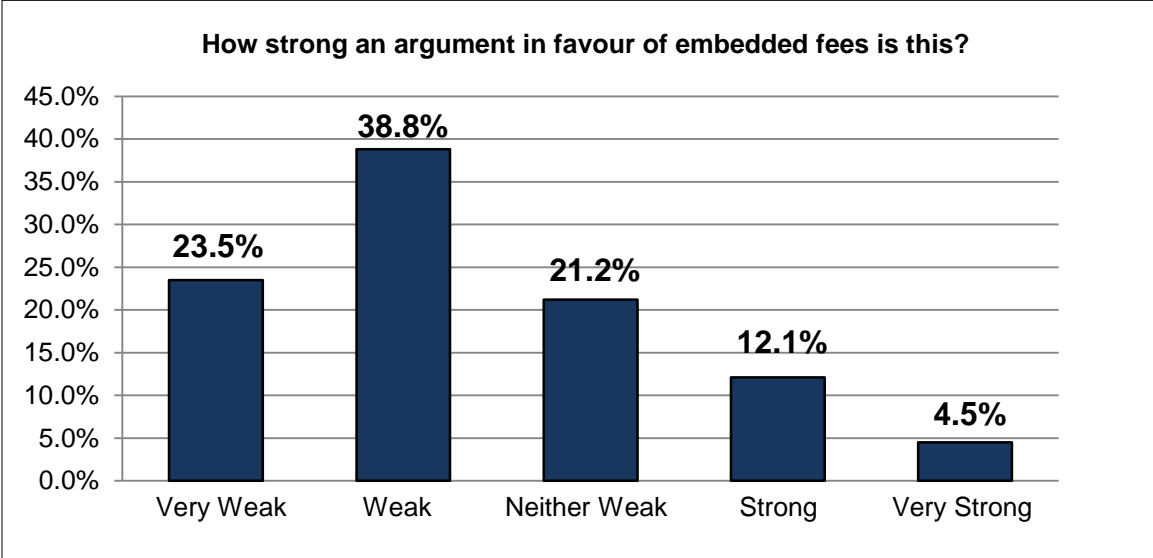


Question #2 What is your overall position about embedded fees?

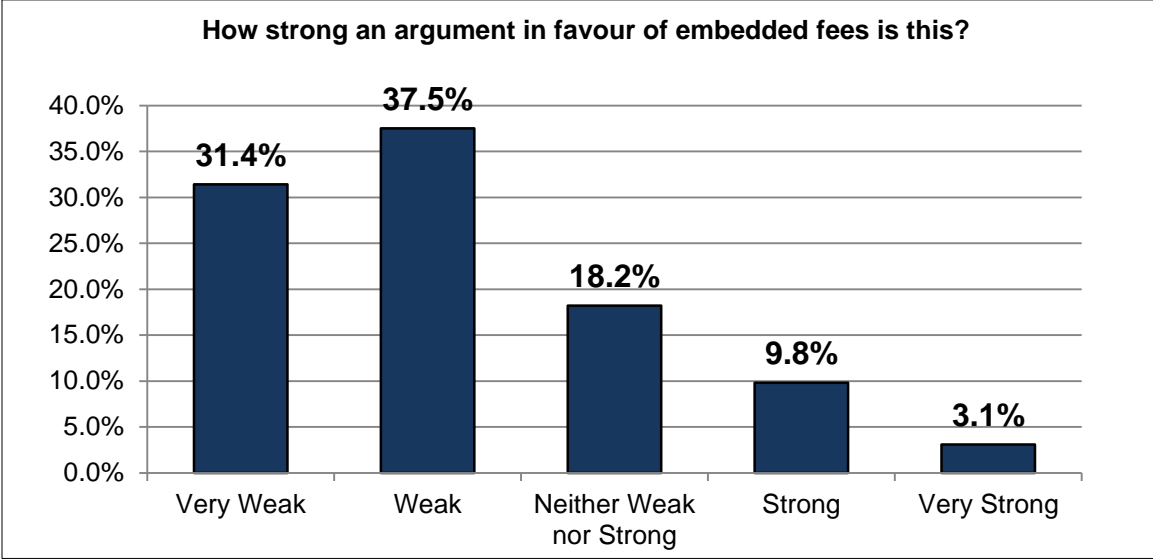


Arguments in Support of Embedded Commissions

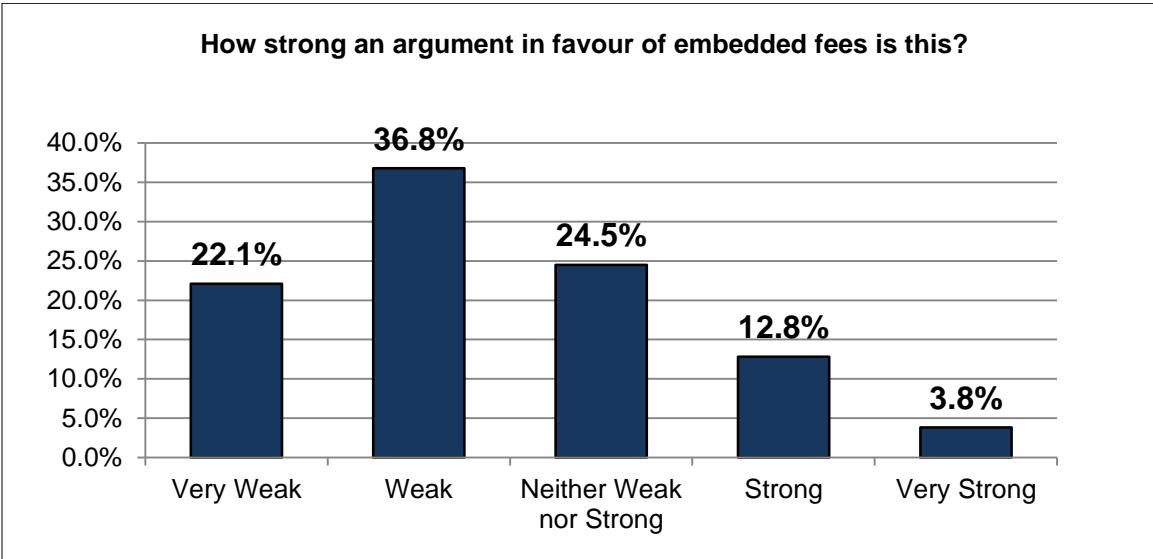
Argument #1 Individuals who have a financial advisor are better prepared for retirement than those who don't. If investors are aware of how much they are paying for advice, they'll stop doing so and will be less financially secure in retirement as a result.



Argument #2 When the UK banned embedded fees, the number of advisors in that country declined from 40,000 to 31,000. Lobby groups are concerned that fewer advisors will mean more people are left without financial advice.

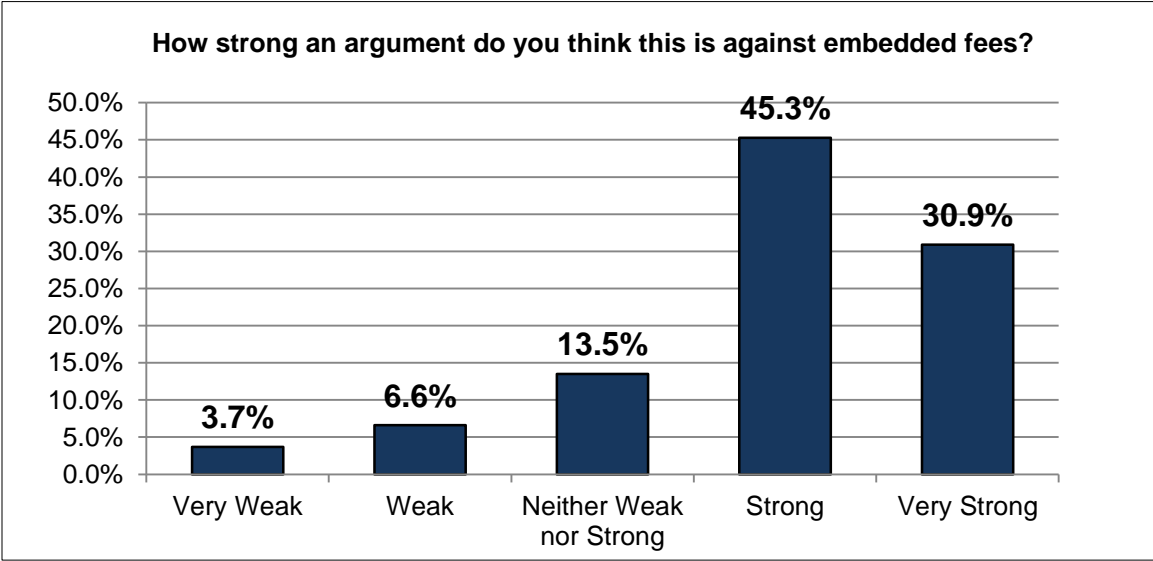


Argument #3 Without the financial incentive of future trailer commissions, advisors may be unwilling to take on clients with less money, so those with assets below, say, \$100,000 will be left without access to financial advice.

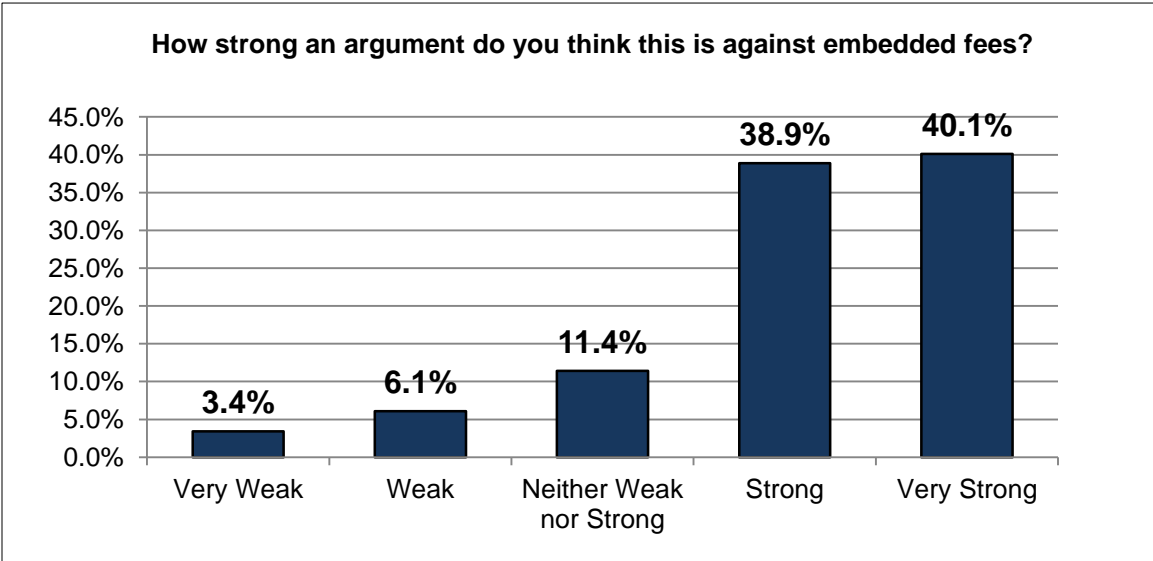


Arguments Against Embedded Commissions

Argument #1 Individuals are often unaware that they are paying these fees and as a result may be paying far more for their investments than they realize.



Argument #2 The payment of an embedded fee can encourage financial advisors to direct clients’ assets to the funds that pay the highest commissions, not those that are the best performers.



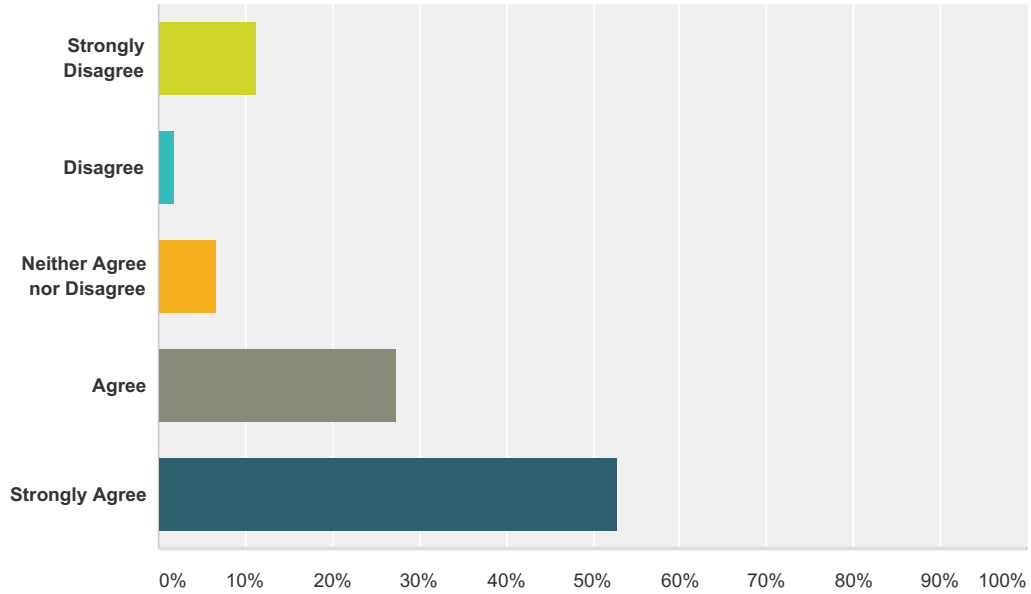
To view CARP’s complete poll results, please see Appendix A.



APPENDIX A

Q1 Please indicate how much you agree with the following statement: I think that CARP should advocate for regulatory changes that will reduce the fees paid by Canadian investors.

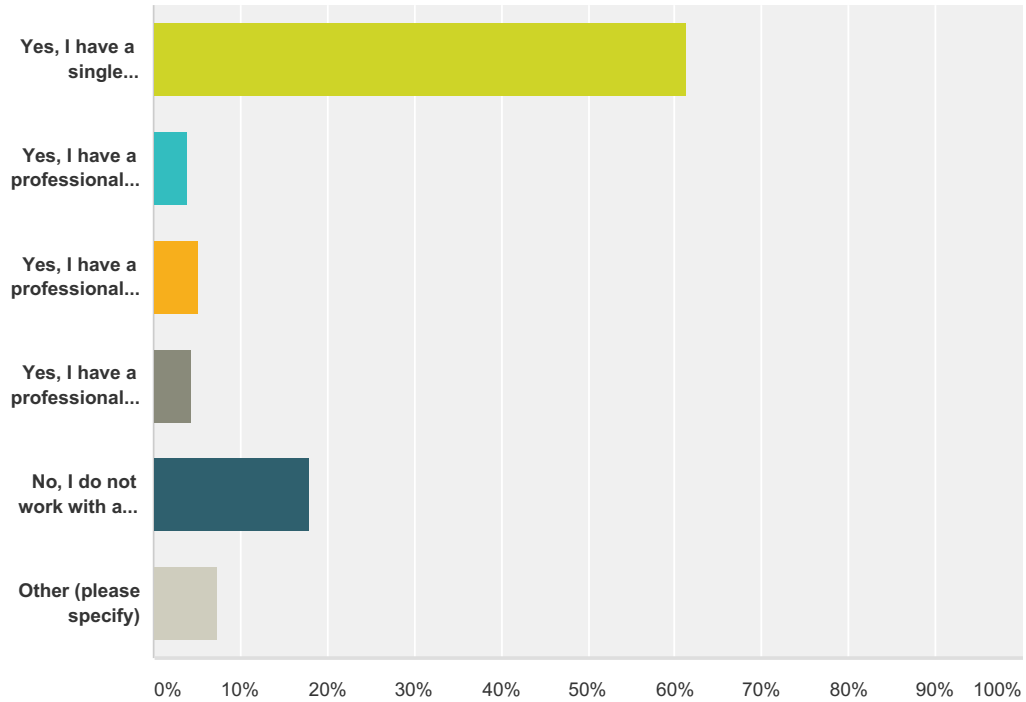
Answered: 2,588 Skipped: 23



Answer Choices	Responses	Count
Strongly Disagree	11.24%	291
Disagree	1.78%	46
Neither Agree nor Disagree	6.76%	175
Agree	27.40%	709
Strongly Agree	52.82%	1,367
Total		2,588

Q2 Before we get into questions about your opinions, we want to ask you some questions about your specific situation. Do you currently have a professional who provides you with financial advice and/or who buys financial products (e.g., mutual funds, ETFs, stocks, bonds, etc.) on your behalf?

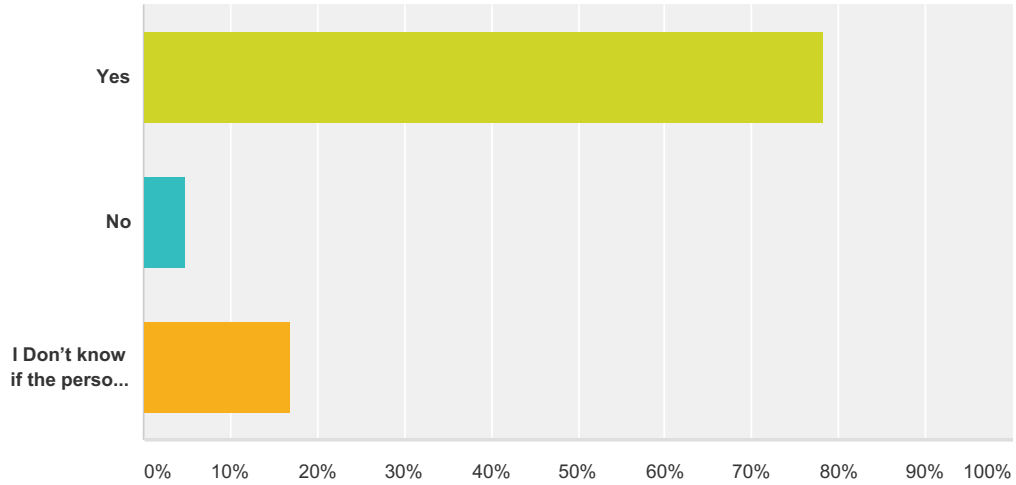
Answered: 2,539 Skipped: 72



Answer Choices	Responses
Yes, I have a single professional who provides me with advice and also buys financial products on my behalf.	61.32% 1,557
Yes, I have a professional who provides me with financial advice, and a separate person who buys financial products on my behalf.	3.98% 101
Yes, I have a professional who provides me with financial advice (but I do not have a professional who buys financial products on my behalf).	5.20% 132
Yes, I have a professional who buys financial products on my behalf (but I do not have a professional who provides me with financial advice).	4.33% 110
No, I do not work with a professional who provides me with either financial advice or who buys financial products on my behalf.	17.88% 454
Other (please specify)	7.29% 185
Total	2,539

Q3 Is the person who provides you with financial advice a Certified Financial Planner (i.e. is someone who has received CFP designation)?

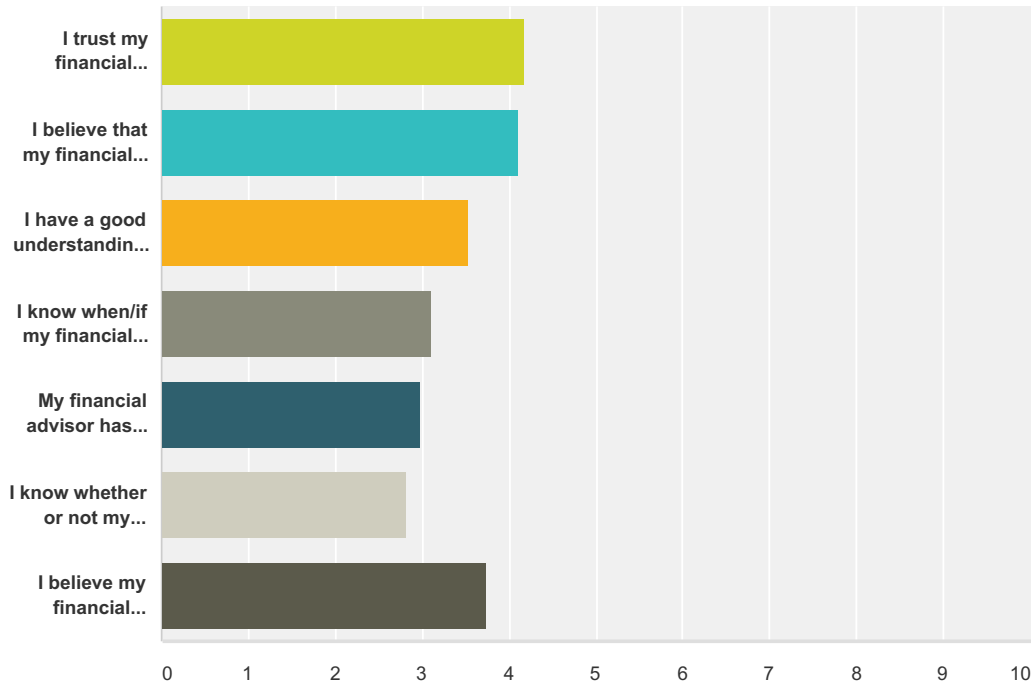
Answered: 1,751 Skipped: 860



Answer Choices	Responses	
Yes	78.30%	1,371
No	4.74%	83
I Don't know if the person has a CFP designation.	16.96%	297
Total		1,751

Q4 Please answer each of the following questions by indicating the extent to which you agree or disagree with each of the statements.

Answered: 1,763 Skipped: 848

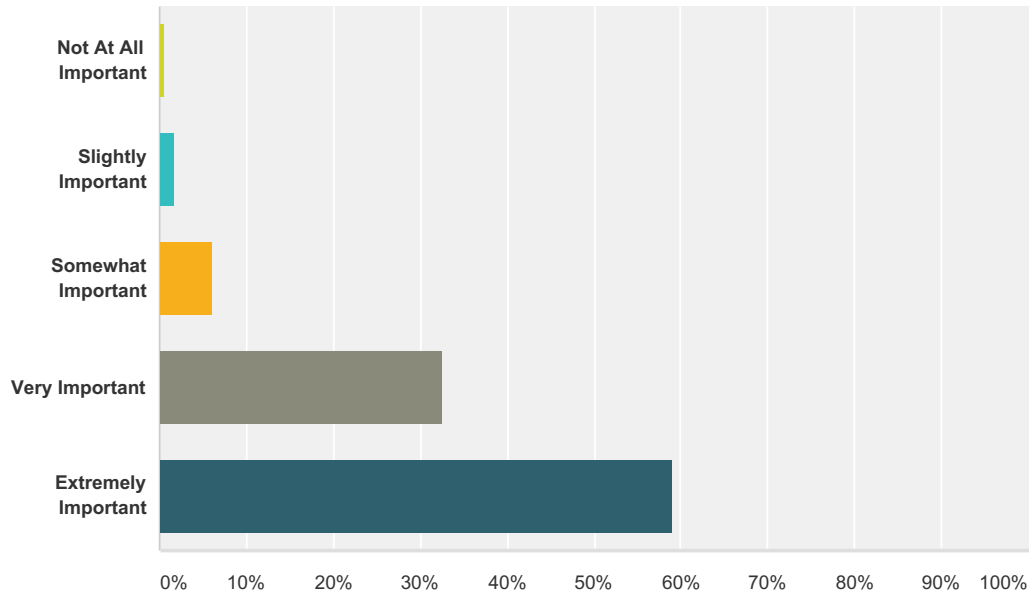


	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total	Weighted Average
I trust my financial advisor.	1.20% 21	1.43% 25	12.09% 211	49.46% 863	35.82% 625	1,745	4.17
I believe that my financial advisor recommends financial products that are in my best interest.	0.92% 16	2.36% 41	14.30% 248	50.00% 867	32.41% 562	1,734	4.11
I have a good understanding of how my financial advisor gets paid.	4.55% 79	15.55% 270	20.33% 353	41.47% 720	18.09% 314	1,736	3.53
I know when/if my financial advisor gets a commission from selling me a financial product and how much it is.	9.91% 171	25.43% 439	21.21% 366	29.43% 508	14.02% 242	1,726	3.12
My financial advisor has talked to me about ways of reducing/minimizing the fees I pay.	16.11% 279	25.17% 436	17.55% 304	26.10% 452	15.07% 261	1,732	2.99
I know whether or not my financial advisor gets a different commission on different products that he/she sells to me.	16.15% 279	30.32% 524	21.24% 367	21.12% 365	11.17% 193	1,728	2.81
I believe my financial advisor is required to recommend products that are in my best interest, not ones that maximize their commission.	4.09% 71	9.22% 160	22.70% 394	37.67% 654	26.32% 457	1,736	3.73

Q5 Recent changes to regulations in Canada have increased the amount of information that must be disclosed about fees paid by mutual fund investors. Under these new regulations (called CRM 2, which stands for Client Relationship Model 2), some, but not all, fees must be displayed clearly to investors on their statements. Specifically, the fund management costs is not disclosed, but the cost of advice must be. The fund management costs are paid to the mutual fund company and covers the cost of hiring the investment professionals who decide which assets (i.e. stocks or bonds) to purchase on behalf of the fund, transaction charges, and overhead costs. Although these costs are not shown on investors' statements, they are provided to investors - as a percentage - with the marketing material provided for each fund. The cost of advice is the money paid to the company the financial advisor works for. Under CRM 2, the cost of advice must be included on client's statements, but investors are still unable to tell how much commission their advisor receives for selling them different products. Please answer each of the following questions by indicating how important you think it is for each piece of additional information to be provided to investors on their statements. How important do you think it is for ALL fees to be shown on investors' statements (i.e. the cost of providing advice AND management expenses)?

Answered: 2,435 Skipped: 176

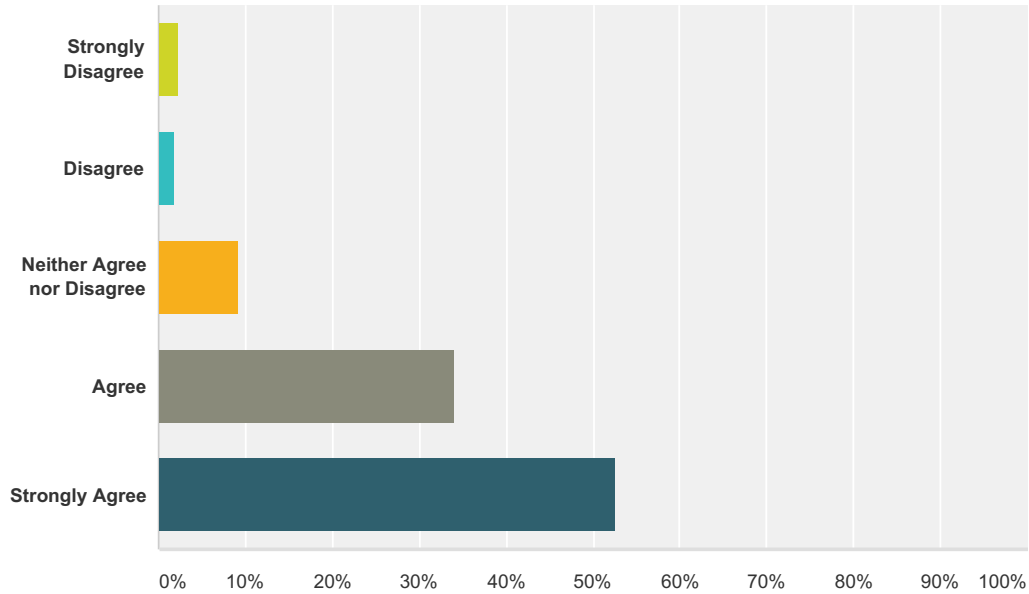
Financial Services Survey - March 2017



Answer Choices	Responses
Not At All Important	0.57% 14
Slightly Important	1.64% 40
Somewhat Important	6.12% 149
Very Important	32.61% 794
Extremely Important	59.06% 1,438
Total	2,435

Q6 How much do you agree or disagree with this statement: I think that providing investors with additional information about all the fees that they pay on each statement (i.e. fees for both advice and for fund management) will improve investors' ability to make sound financial decisions.

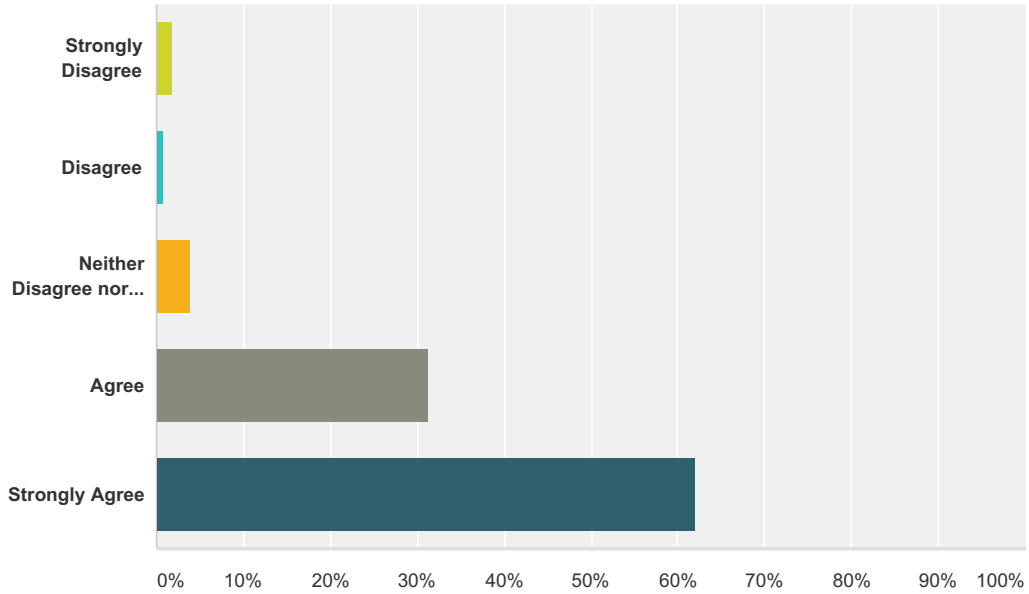
Answered: 2,437 Skipped: 174



Answer Choices	Responses
Strongly Disagree	2.26% 55
Disagree	1.97% 48
Neither Agree nor Disagree	9.27% 226
Agree	33.98% 828
Strongly Agree	52.52% 1,280
Total	2,437

Q7 I think it is important to know how much commission a financial advisor receives from the different funds they sell to clients.

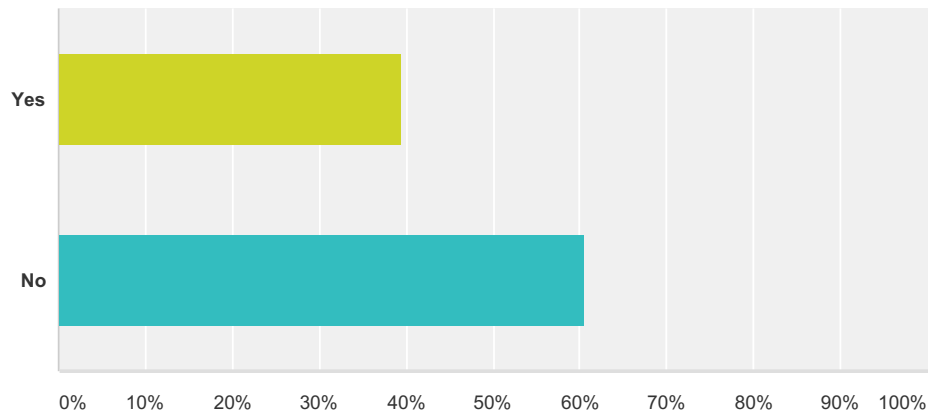
Answered: 2,433 Skipped: 178



Answer Choices	Responses	
Strongly Disagree	1.81%	44
Disagree	0.82%	20
Neither Disagree nor Agree	4.07%	99
Agree	31.36%	763
Strongly Agree	61.94%	1,507
Total		2,433

Q8 In Canada, only certain designated professionals are required to resolve compensation-related conflicts of interest in favour of their clients. The majority of financial advisors are free to recommend financial products to their clients that provide higher sales commissions, rather than better financial returns. The cost of such conflicts of interest are substantial. For example, in the US, investment-related conflicts of interest are estimated to cost investors \$17 billion per year. Were you previously aware that many investment advisors are not required to recommend products that prioritize your returns over their commissions?

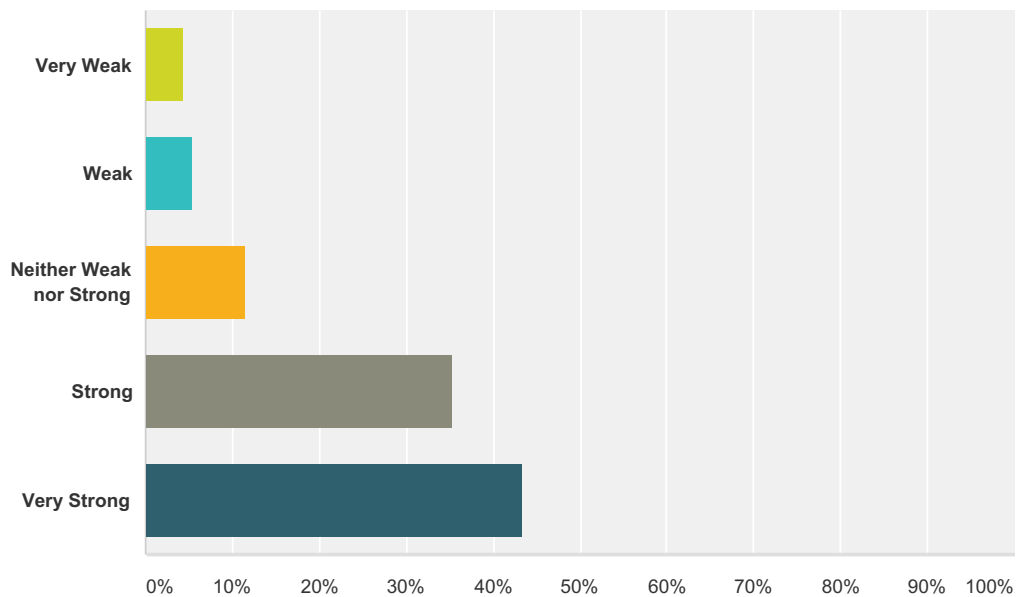
Answered: 2,208 Skipped: 403



Answer Choices	Responses	
Yes	39.40%	870
No	60.60%	1,338
Total		2,208

Q9 First Argument in Support of a Best Interest Standard Under the current system, investment advisors frequently face conflicts of interest. This occurs when the financial product that is best suited for the client does not provide as large a commission for the financial advisor as some other, equally suitable alternative (for example a mutual fund vs. an index fund). Research clearly indicates that this conflict of interest causes investment advisors to sell products that are not in the clients' best interest, increasing the fees paid by clients, and reducing the clients' investment returns. How strong an argument do you think this is for a best interest standard?

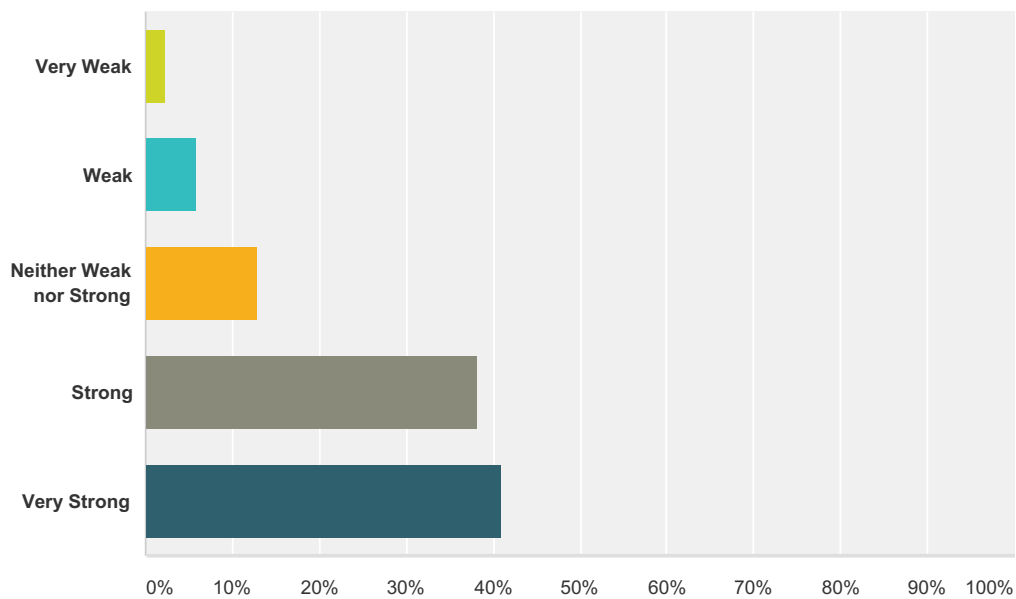
Answered: 2,199 Skipped: 412



Answer Choices	Responses	
Very Weak	4.41%	97
Weak	5.41%	119
Neither Weak nor Strong	11.46%	252
Strong	35.29%	776
Very Strong	43.43%	955
Total		2,199

Q10 Second Argument in Favour of Best Interest Standard Financial advisors have far more information and expertise than the average investor. This gives them considerable power within the client-advisor relationship. The difference between advisor and client in knowledge and expertise makes it very difficult for investors to monitor and protect themselves from the conflicts of interest that investment advisors face under the current system. How strong an argument do you think this is in favour of a best interest standard?

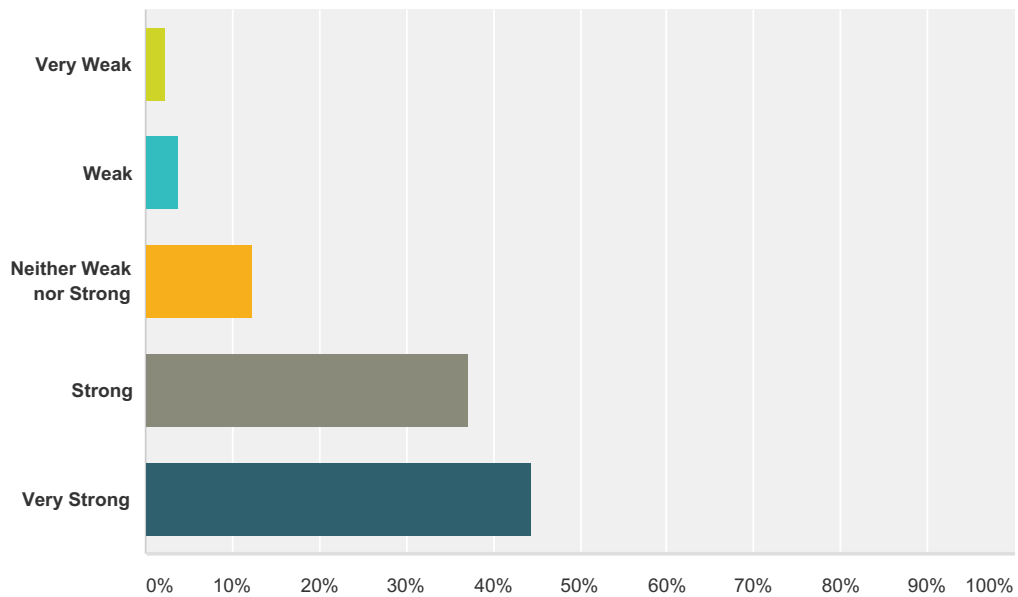
Answered: 2,195 Skipped: 416



Answer Choices	Responses
Very Weak	2.23% 49
Weak	5.88% 129
Neither Weak nor Strong	12.85% 282
Strong	38.22% 839
Very Strong	40.82% 896
Total	2,195

Q11 Third Argument in Favour of a Best Interest Standard Many people who use investment advisors already assume that their advisor is required to act in their best interest. (A previous CARP poll suggested that over 90% of people thought that their advisor was required to act in their best interest.) This suggests that the majority of clients are not aware they need to question their advisor's recommendations carefully to protect themselves against the advisor's potential conflicts of interest. How strong an argument do you think this is in favour of a best interest standard?

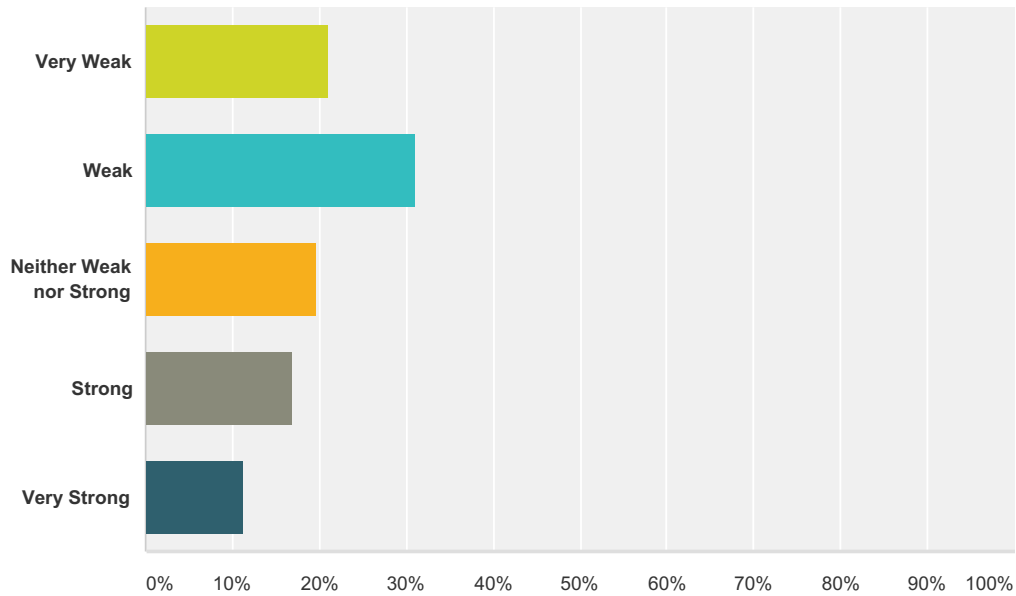
Answered: 2,197 Skipped: 414



Answer Choices	Responses	
Very Weak	2.32%	51
Weak	3.73%	82
Neither Weak nor Strong	12.24%	269
Strong	37.14%	816
Very Strong	44.56%	979
Total		2,197

Q12 First Argument Against a Best Interest Standard
 Some investment advisors only sell a narrow range of proprietary financial products and therefore could not meet a best interest standard. If a best interest standard were put in place, these advisors would be unable to continue operating as they do now because they do not currently offer the low-cost options that are in the best interest of many investors. As a result, if a best-interest standard were implemented, these advisors would either need to make substantial and costly changes to their business models, or go out of business. How strong an argument do you think this is against a best interest standard?

Answered: 2,177 Skipped: 434



Answer Choices	Responses
Very Weak	21.13% 460
Weak	31.10% 677
Neither Weak nor Strong	19.52% 425
Strong	16.90% 368
Very Strong	11.35% 247

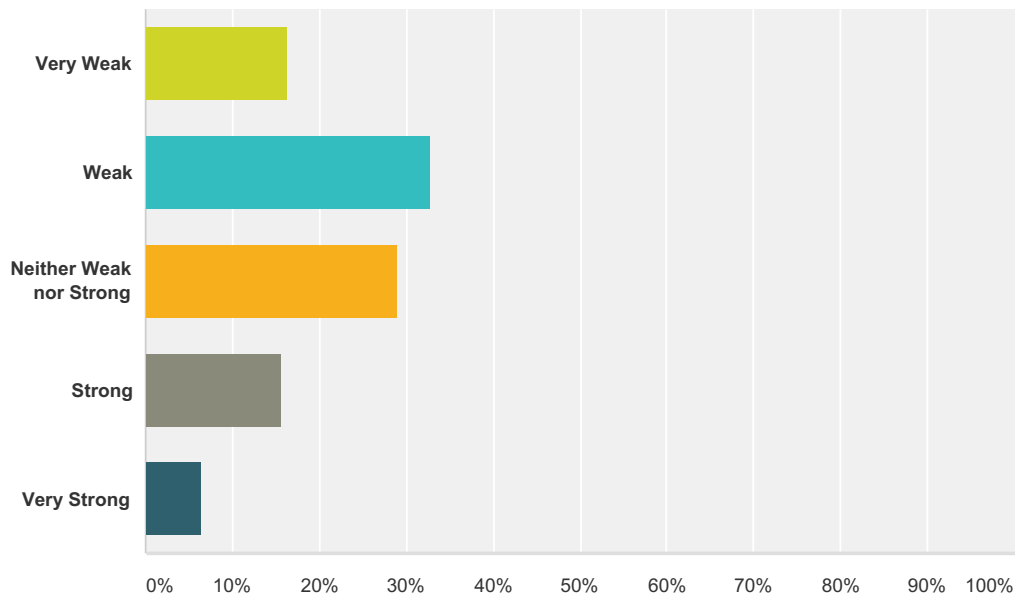
Financial Services Survey - March 2017

Total

2,177

Q13 Second Argument Against a Best Interest Standard
 The cost to investment advisory firms of meeting a best interest standard is higher than the cost of meeting the current standards. These additional costs would likely be passed on to investors in the form of higher fees. Although the overall fees paid by average investors would be reduced by implementing a best interest standard (because investors would no longer be influenced to purchase financial products that have high fees and are not in their best interest), there is a chance that a small percentage of investors would end up paying slightly higher fees. How strong an argument do you think this is against a best interest standard?

Answered: 2,175 Skipped: 436



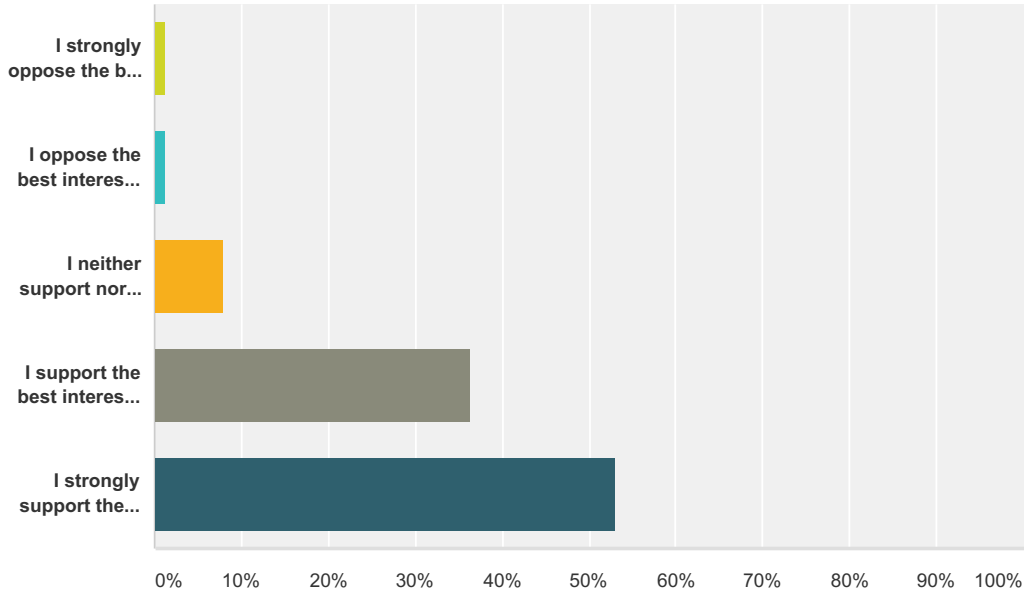
Answer Choices	Responses	Count
Very Weak	16.18%	352
Weak	32.74%	712
Neither Weak nor Strong	29.01%	631
Strong	15.59%	339

Financial Services Survey - March 2017

Very Strong	6.48%	141
Total		2,175

Q14 After reading the arguments for and against implementing a best interest standard for all financial advisors in Canada, do you support or oppose the best interest standard?

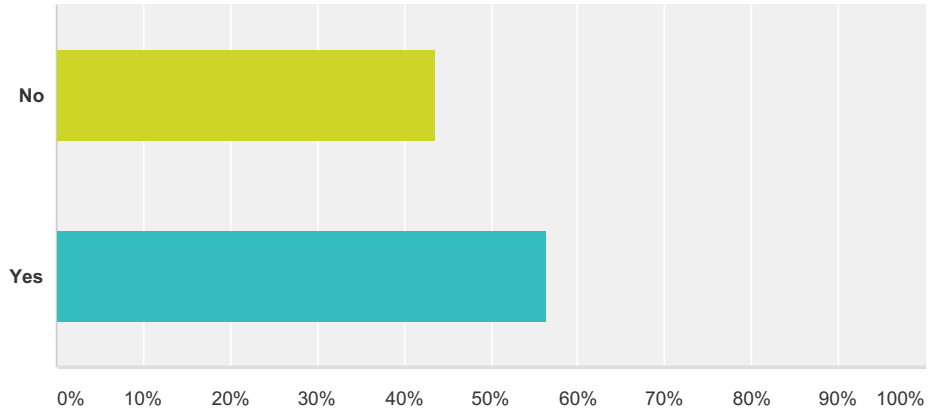
Answered: 2,186 Skipped: 425



Answer Choices	Responses
I strongly oppose the best interest standard	1.33% 29
I oppose the best interest standard	1.24% 27
I neither support nor oppose the best interest standard	8.01% 175
I support the best interest standard	36.41% 796
I strongly support the best interest standard	53.02% 1,159
Total	2,186

Q15 Are you aware that your advisor may be collecting a fee that is "embedded" or built in to financial products that you own?

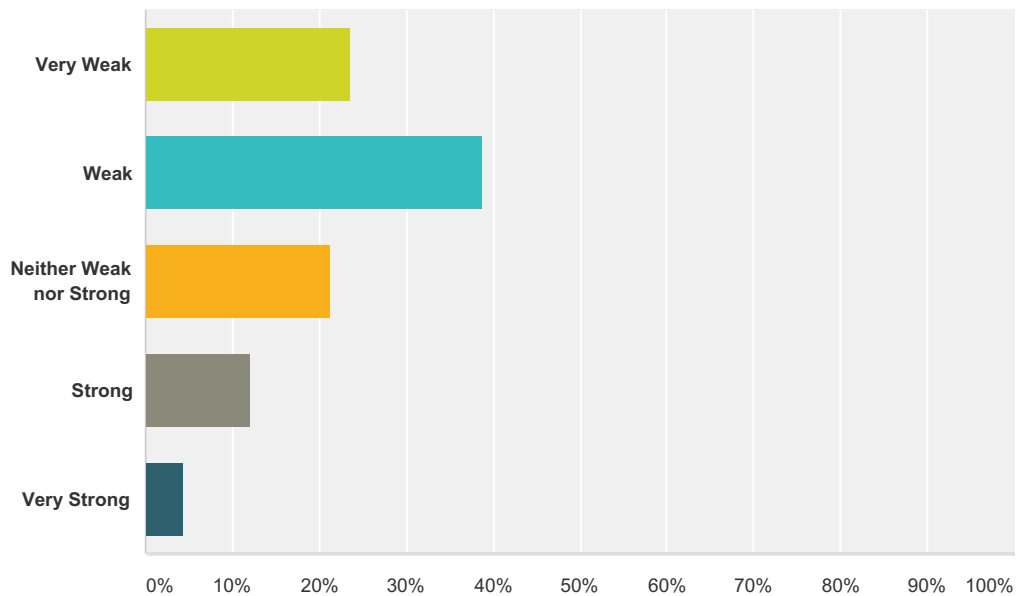
Answered: 2,037 Skipped: 574



Answer Choices	Responses
No	43.69% 890
Yes	56.31% 1,147
Total	2,037

Q16 First Argument for Embedded Fees Individuals who receive financial advice are generally better prepared for retirement than those who do not. Yet individuals are not keen to pay for financial advice. By eliminating embedded fees, clients will see how much they are actually paying for advice. This may result in fewer people getting financial advice and consequently more people being unprepared for retirement. How strong an argument do you think this is in favour of embedded fees?

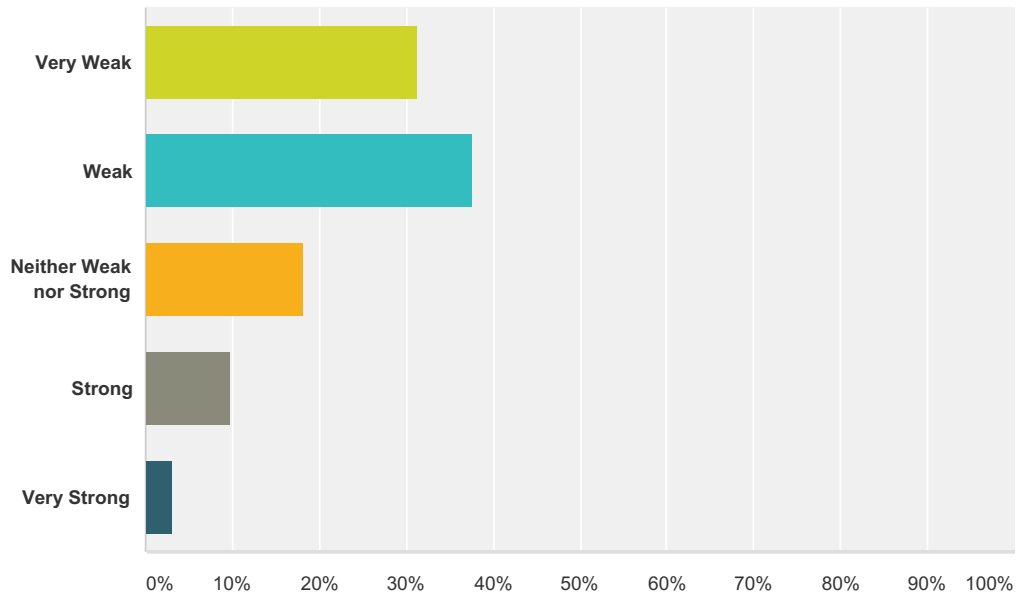
Answered: 2,018 Skipped: 593



Answer Choices	Responses	Count
Very Weak	23.49%	474
Weak	38.75%	782
Neither Weak nor Strong	21.21%	428
Strong	12.09%	244
Very Strong	4.46%	90
Total		2,018

Q17 Second Argument for Embedded Fees
When embedded fees were eliminated in England, the number of financial advisors dropped from 40,000 to 31,000. The cost of advice also went up (though many clients saved money because their advisors moved them from mutual funds to lower cost products like ETFs, resulting in overall savings to investors). Embedded fees are therefore necessary to keep advisors employed, and keep the cost of advice lower. How strong an argument do you think this is in favour of embedded fees?

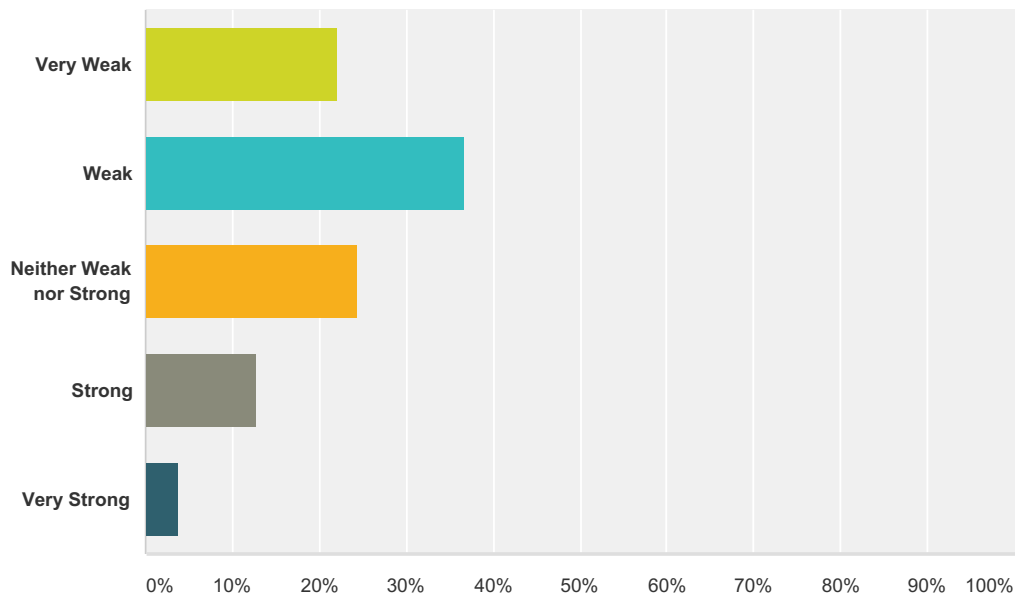
Answered: 2,012 Skipped: 599



Answer Choices	Responses	Count
Very Weak	31.36%	631
Weak	37.52%	755
Neither Weak nor Strong	18.24%	367
Strong	9.79%	197
Very Strong	3.08%	62
Total		2,012

Q18 Third Argument for Embedded Fees
Eliminating embedded fees may result in clients with lower wealth (e.g. those with less than \$100,000 in investments) being unable to find an advisor. This is known as the advice gap argument. Therefore, regulators should not eliminate embedded fees to ensure that these clients still have access to advisors. How strong an argument do you think this is in favour of embedded fees?

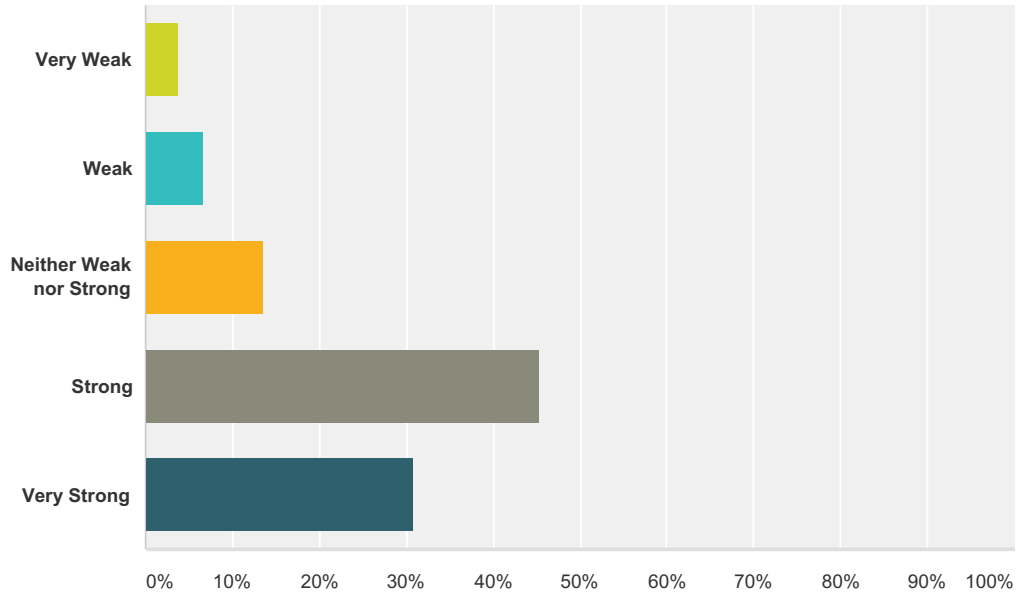
Answered: 2,014 Skipped: 597



Answer Choices	Responses	Count
Very Weak	22.14%	446
Weak	36.79%	741
Neither Weak nor Strong	24.53%	494
Strong	12.76%	257
Very Strong	3.77%	76
Total		2,014

Q19 First Argument Against Embedded Fees
Individuals are often unaware that they are paying these fees and as a result may be paying far more for their investments than they realize. How strong an argument do you think this is against embedded fees?

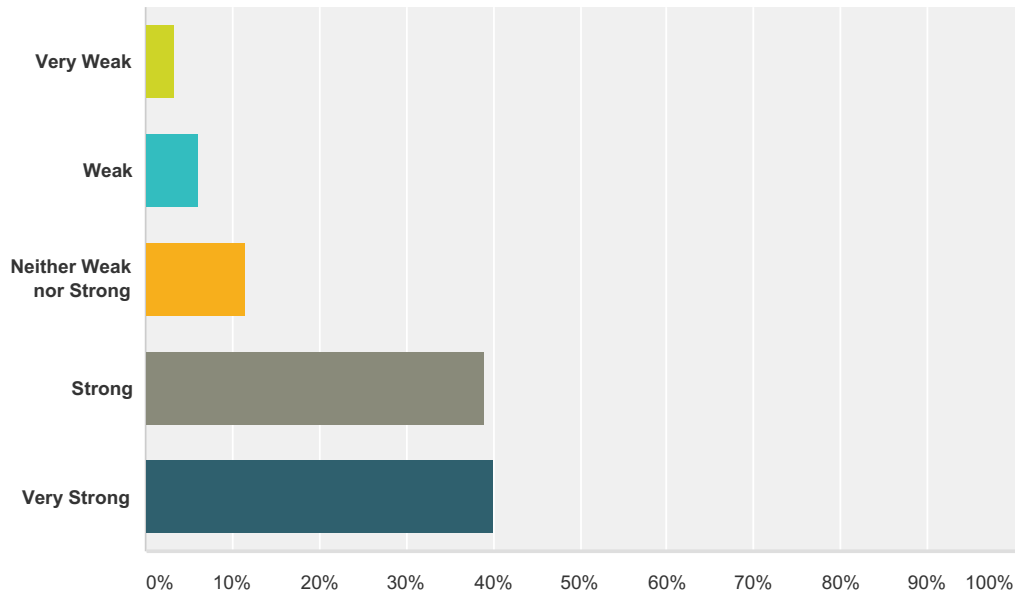
Answered: 2,008 Skipped: 603



Answer Choices	Responses
Very Weak	3.69% 74
Weak	6.62% 133
Neither Weak nor Strong	13.55% 272
Strong	45.27% 909
Very Strong	30.88% 620
Total	2,008

Q20 Second Argument Against Embedded Fees
The payment of an embedded fee can encourage financial advisors to direct clients' assets to the funds that pay the highest commissions, not those that are the best performers.
How strong an argument do you think this is against embedded fees?

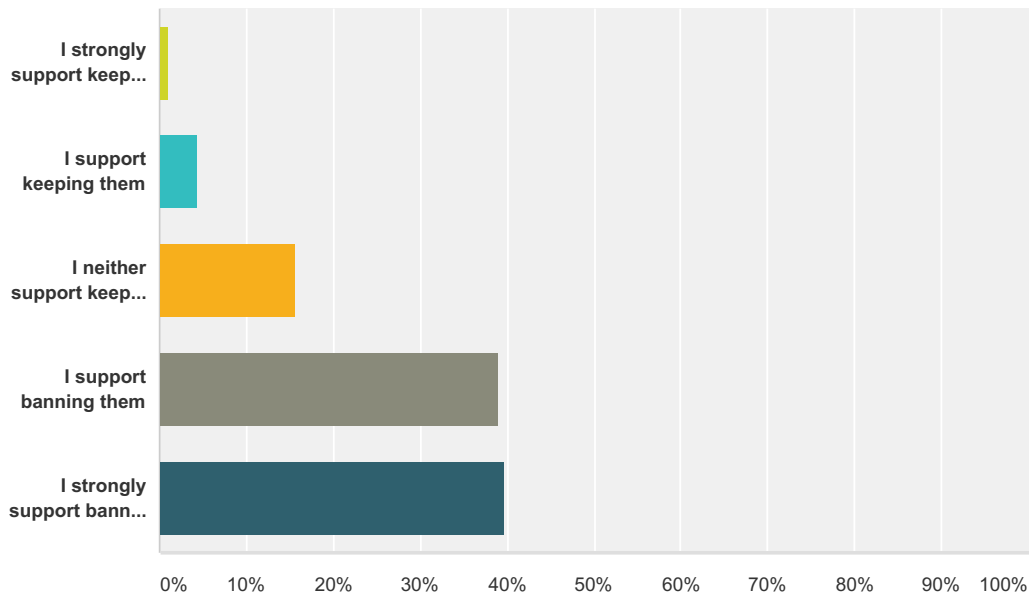
Answered: 2,011 Skipped: 600



Answer Choices	Responses	
Very Weak	3.43%	69
Weak	6.12%	123
Neither Weak nor Strong	11.44%	230
Strong	38.94%	783
Very Strong	40.08%	806
Total		2,011

Q21 What is your overall position about embedded fees?

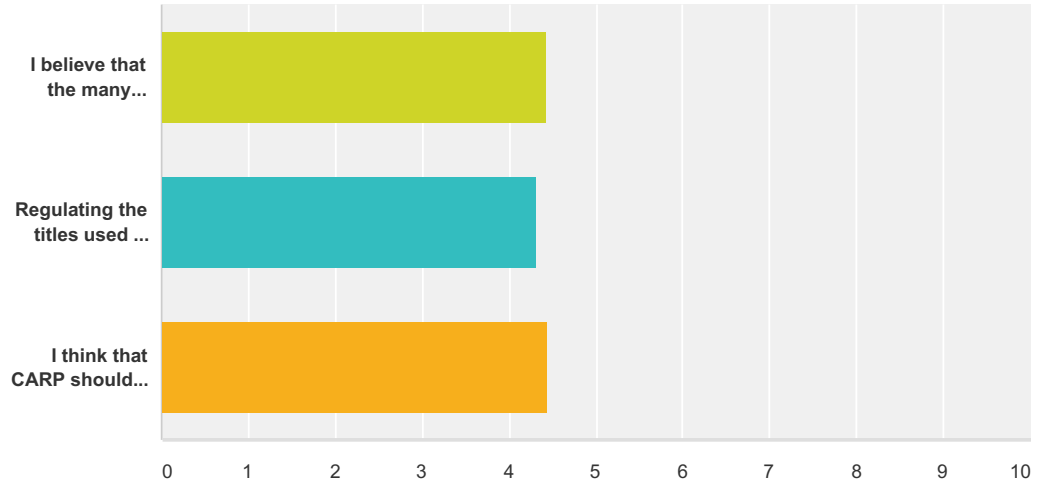
Answered: 2,016 Skipped: 595



Answer Choices	Responses
I strongly support keeping them	1.14% 23
I support keeping them	4.46% 90
I neither support keeping them, or banning them	15.72% 317
I support banning them	38.99% 786
I strongly support banning them	39.68% 800
Total	2,016

Q22 Please indicate whether you agree or disagree with each of the following statements:

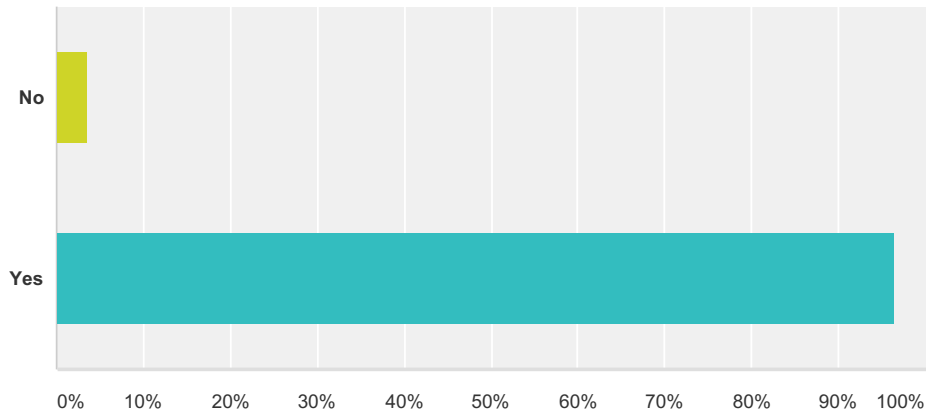
Answered: 1,976 Skipped: 635



	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total	Weighted Average
I believe that the many different titles used by people who sell financial products to the public causes confusion, and creates the potential for the public to be misled.	1.64% 32	1.38% 27	5.58% 109	36.11% 706	55.29% 1,081	1,955	4.42
Regulating the titles used by people selling investments to the public would help people make more informed investment decisions.	1.87% 36	2.18% 42	6.80% 131	39.54% 762	49.61% 956	1,927	4.33
I think that CARP should advocate for the regulation of titles used by people who sell investment products to the public.	2.15% 42	1.38% 27	5.07% 99	31.98% 624	59.41% 1,159	1,951	4.45

Q23 Do you currently have financial investments?

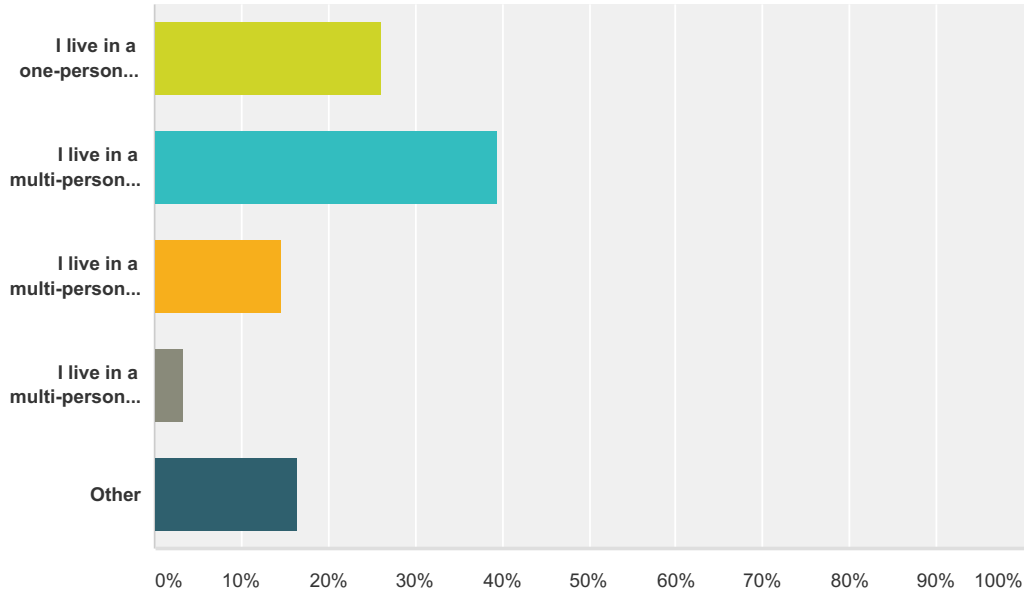
Answered: 1,956 Skipped: 655



Answer Choices	Responses
No	3.48% 68
Yes	96.52% 1,888
Total	1,956

Q24 Within some households, one person manages all the finances; in other households, each person manages their own finances. Which of the following best describes your situation?

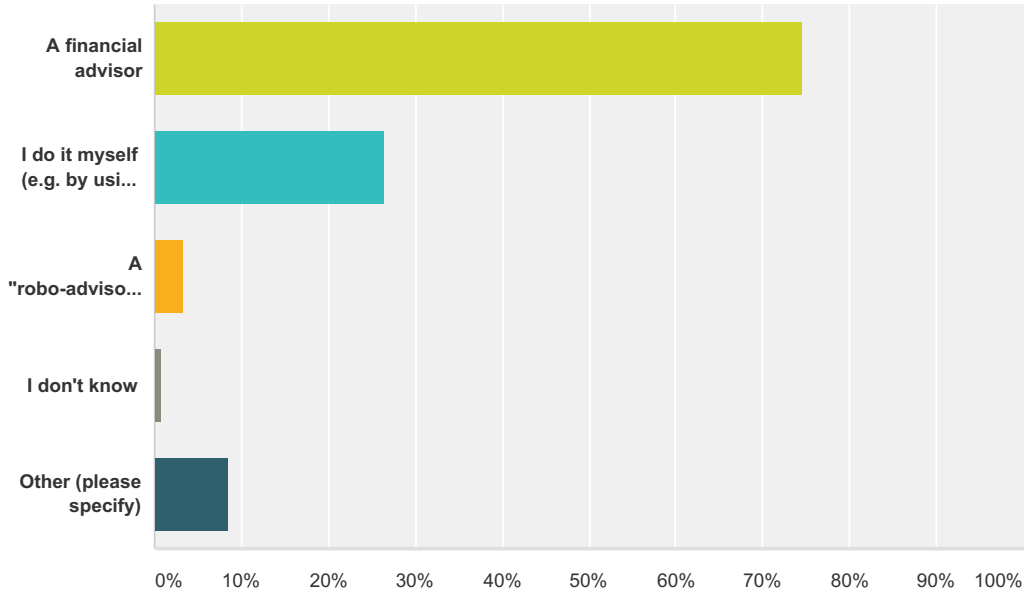
Answered: 1,873 Skipped: 738



Answer Choices	Responses
I live in a one-person household, and manage my own finances.	26.05% 488
I live in a multi-person household and take care of the whole household's finances.	39.51% 740
I live in a multi-person household and take care of my own finances but no one else's.	14.58% 273
I live in a multi-person household, and another member of the household takes care of my finances.	3.36% 63
Other	16.50% 309
Total	1,873

Q25 Who manages (i.e. buys/sells) your financial investments? Please tick all that apply.

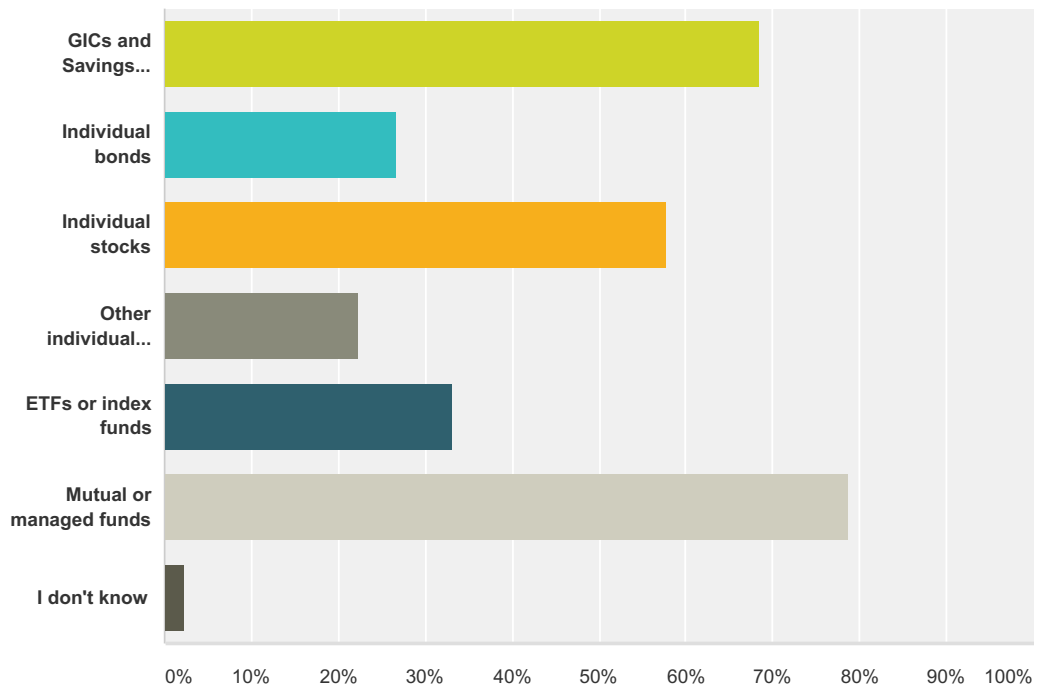
Answered: 1,529 Skipped: 1,082



Answer Choices	Responses	
A financial advisor	74.62%	1,141
I do it myself (e.g. by using an online service)	26.49%	405
A "robo-advisor" (i.e. a portfolio that you were involved in setting up, but is now managed automatically)	3.34%	51
I don't know	0.78%	12
Other (please specify)	8.57%	131
Total Respondents: 1,529		

Q26 Which of the following financial products do you own? (Tick all that apply.)

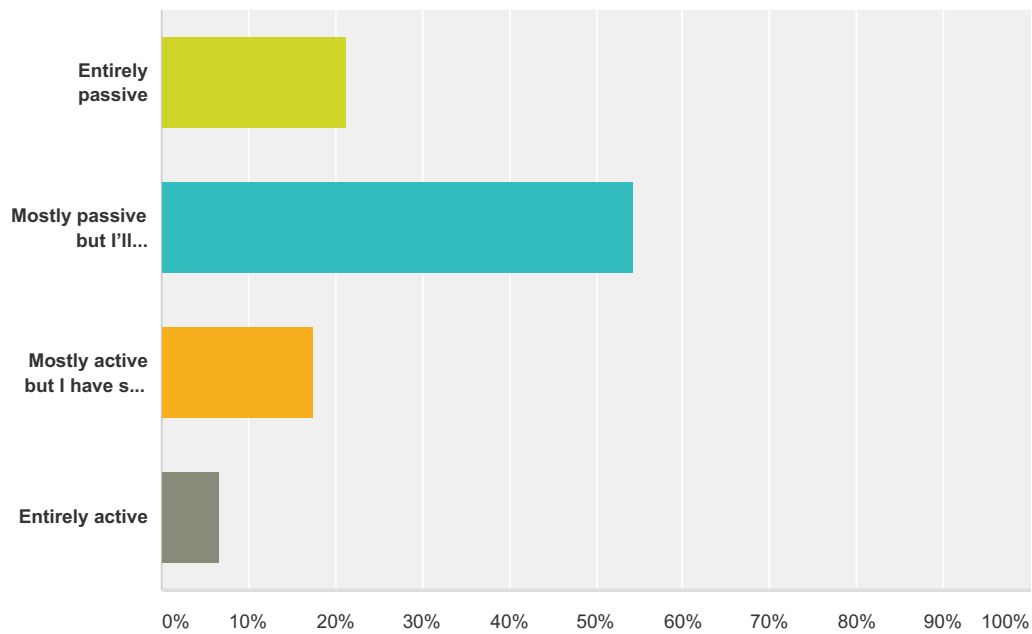
Answered: 1,514 Skipped: 1,097



Answer Choices	Responses	Count
GICs and Savings Accounts	68.49%	1,037
Individual bonds	26.82%	406
Individual stocks	57.79%	875
Other individual securities	22.32%	338
ETFs or index funds	33.16%	502
Mutual or managed funds	78.73%	1,192
I don't know	2.25%	34
Total Respondents: 1,514		

Q27 Active investors believe they (or their advisors) can outperform the market. They buy and sell stocks or funds based on their predictions about future market movements. Passive investors believe they will earn the best returns by following the market. They buy into market indexes or mutual funds that are recommended for them and ride out the ups and downs. Would you describe yourself as an active or passive investor?

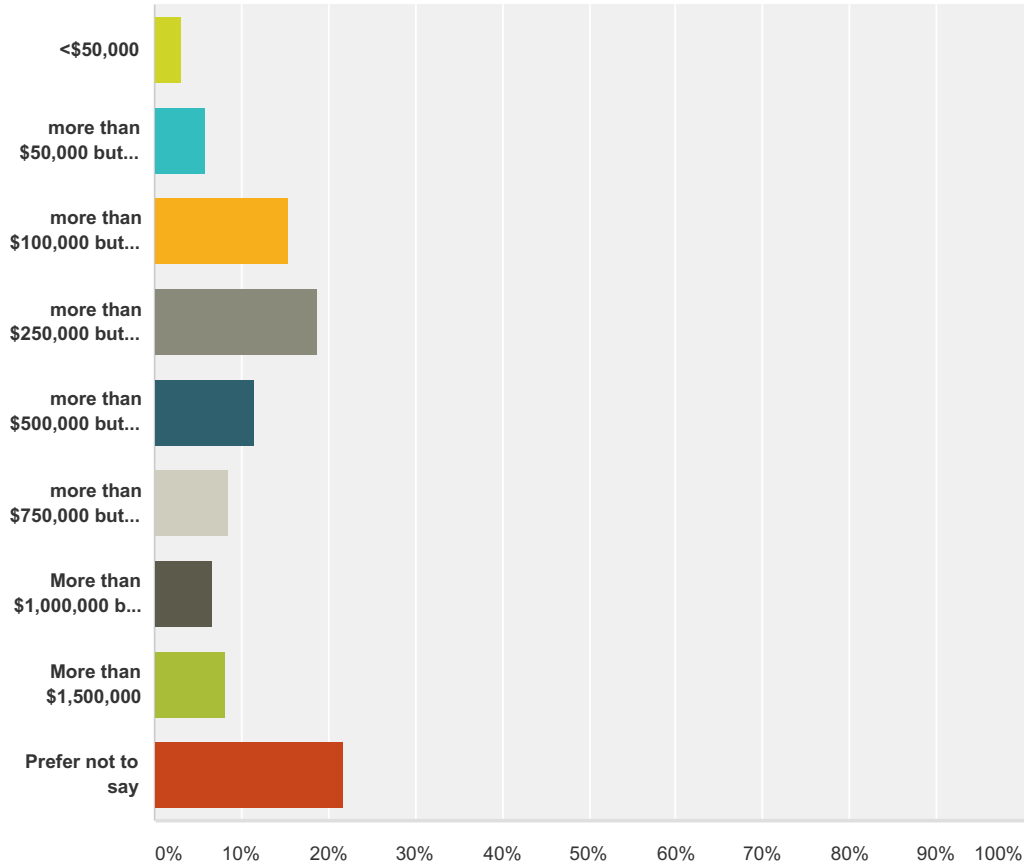
Answered: 1,523 Skipped: 1,088



Answer Choices	Responses
Entirely passive	21.34% 325
Mostly passive but I'll occasionally intervene	54.37% 828
Mostly active but I have some market based investments	17.60% 268
Entirely active	6.70% 102
Total	1,523

**Q28 What is the total value of household assets that you have in financial products?
(Do not include the value of your home or any other real estate.)**

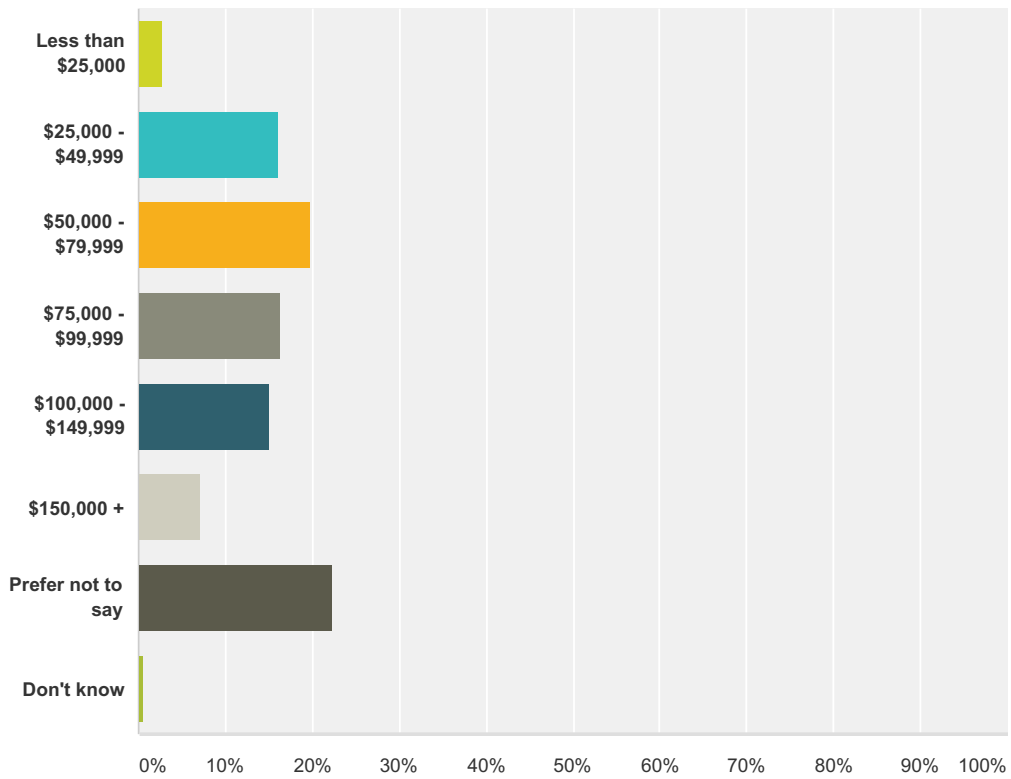
Answered: 1,530 Skipped: 1,081



Answer Choices	Responses
<\$50,000	3.20% 49
more than \$50,000 but less than \$100,000	5.95% 91
more than \$100,000 but less than \$250,000	15.42% 236
more than \$250,000 but less than \$500,000	18.89% 289
more than \$500,000 but less than \$750,000	11.50% 176
more than \$750,000 but less than \$1,000,000	8.56% 131
More than \$1,000,000 but less than \$1,500,000	6.67% 102
More than \$1,500,000	8.04% 123
Prefer not to say	21.76% 333
Total	1,530

Q29 What is your current household yearly income?

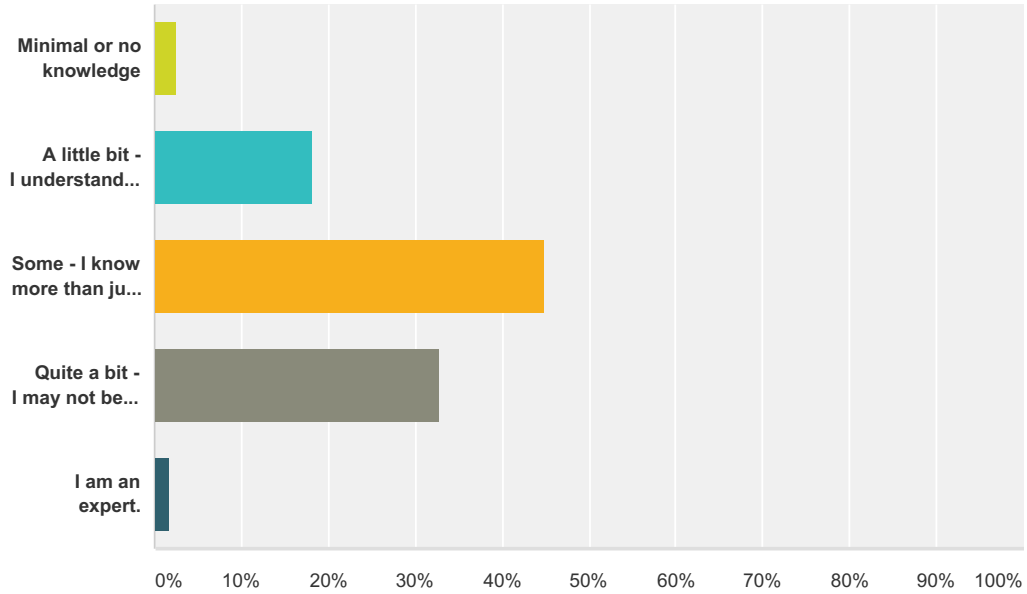
Answered: 1,962 Skipped: 649



Answer Choices	Responses
Less than \$25,000	2.80% 55
\$25,000 - \$49,999	16.16% 317
\$50,000 - \$79,999	19.93% 391
\$75,000 - \$99,999	16.21% 318
\$100,000 - \$149,999	14.93% 293
\$150,000 +	7.03% 138
Prefer not to say	22.32% 438
Don't know	0.61% 12
Total	1,962

Q30 How knowledgeable are you about financial products, investing, and retirement planning?

Answered: 1,967 Skipped: 644



Answer Choices	Responses	
Minimal or no knowledge	2.44%	48
A little bit - I understand the very basics	18.25%	359
Some - I know more than just the basics, but am far from being an expert	44.84%	882
Quite a bit - I may not be an expert, but I have a fairly sophisticated understanding of how things work	32.74%	644
I am an expert.	1.73%	34
Total		1,967