

**December 12, 2018**

**REQUEST FOR COMMENT NI 81-105 - COMMENT LETTER / SUBMISSION**

**The Secretary  
Ontario Securities Commission  
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I am a Certified Financial Planner and a long-time member of the Financial Planners Standards Council (CFP) effective January, 1999. I have been mutual fund licensed since 1994. I am licensed through a high quality National Wealth Management firm and mutual fund dealer and run a large mutual fund focused wealth management business and practice employing currently seven (7) team members.

I have significant investment experience trading the stock market through Stock Brokers in the late 1970's and early 1980's. I purchased my first mutual fund investment over 30 years ago, as a DIY (Do-It-Yourself) investor and did so directly with Dynamic Mutual funds and then a short time later directly with another direct mutual fund investment firm, Altamira investment services. I strongly objected as a small investor paying up front fees to a Financial Advisor to purchase an Industrial Growth Fund or Templeton Growth fund losing my hard earned money to a sales fee. After the launch of Industrial Horizon Fund by Mackenzie Financial in 1987, I quickly sought out a financial advisor to purchase this clone of the Industrial Growth fund as now I did not have to pay an upfront fee or sales commission to invest my money in an excellent professionally managed mutual fund. I have seen the mutual fund industry develop over a very long time period with personal mutual fund investment experience for well over 30 years.

**Executive Summary:**

- This paper presents and details the significant time spent by the investing public and professional financial advisors in initially establishing the reasoning, rationale and relationship to purchase a mutual fund, then finding the correct mutual fund to purchase, including the act and paperwork of establishing investment accounts in the current regulatory environment with the investment dealer, when using an independent professional financial advisor and his administrative team.
- This time spent by the professional financial advisor and his team with the new client justifies up front compensation be paid to the investment dealer and professional financial advisor. This cost can either be paid by the investing public directly deterring the public from using an independent financial advisor as the cost can be significant if the investment dealer and the professional financial advisor are to be reasonably compensated for delivery of professional services by the financial advisor and her Team
- If no method to compensate the investment dealer and professional financial advisor is available with the investment manufacturer or mutual fund company providing payment to the investment dealer, it has been proven in other countries that the investing public will be disintermediated from receiving independent professional financial advice.
- Currently in the market place, the investment dealer and then through the dealer, the professional financial advisor can receive compensation from the mutual fund companies for working with the public. This model, which encompasses currently 4 to 5 different compensation methods has allowed historically broad access by the investing public access professional financial advice. This compensation method most particularly applies to clients with smaller amounts of investment capital

which is typically the younger demographic in the Canadian population, but could also encompass middle aged and older people that are trying to become less reliant on the government social systems by saving and investing prior to retirement. Having the Canadian public more self-sufficient financially through broad access to independent financial advice, must be a goal of all levels of government and the regulatory bodies.

- Allowing the mutual fund companies to compensate investment dealers further gives freedom to the investing public to choose how to compensate the dealers for the professional financial advice that is provided and for services rendered by the licensed financial advisors. It has been proven over the last 30 years that through the use of a compensation method where the client does not directly pay for the professional services rendered, that broad access to dealer licensed independent financial advisors and through them a wide range of mutual funds has been sought out and adopted by the Canadian population. This is seen and witnessed through the proliferation of independent dealers and financial advisors over the last 30 years.
- Independent research has proven that accessing professional financial advice allows the investing public to obtain better personal financial outcomes over the long-term. The discontinuation of methods that allow the investing public choice in how they compensate the independent dealer and financial advisor will surely shrink the desire of the public to seek out professional independent financial advice. This will make access to independent financial advice a **privilege** of those with significant financial assets, rather than a **right** of the Canadian population in accessing professional independent financial advice.
- Lastly in my 24 years of professional practice I have **never** had a client who wishes to invest for the long-term chose to compensate my dealer directly out of their investment capital, lowering their original investment amount when provided the option of having the mutual fund company compensate the dealer and therefore the financial advisor leaving their investment capital 100% intact. Again that is never, as even the most unsophisticated client understands that having their original investment capital used to pay an investment dealer and professional financial advisor is detrimental to their long-term financial success, lowering significantly the amount of wealth that they can accumulate over the long-term in identical mutual fund products.

I have spent over 3 hours this evening (December 12) reading the back ground information on 81-405 and I note that it is a challenge to respond specifically to such a broad reaching and complicated document. I would suggest that few financial advisors will take the time to respond to such a lengthy and detailed paper. I would suggest that tackling smaller issues, more frequently, might allow for more active involvement from the investment community at large, both practicing professional Financial Planners like myself and the investing public.

My Financial Planning and investment practice's objective is to assist the average Canadian in the accumulation of wealth, over the long-term. I have never to date refused to assist a referred client regardless of the amount of assets that they have. The current advisor compensation models with embedded fee mutual funds, which I strongly support using for investor behaviour reasons, have 4 options that allow clients significant choice on how they will compensate an investment dealer and through the dealer the professional financial advisor. The freedom for a client to choose how they pay for delivered services is important in a free and capitalist oriented society, as one of the methods identified below is significantly detrimental to the accumulation of wealth by the investing public. Further with the client free to choose the method on how the investment dealer and then the professional financial advisor is compensated for the professional services and deliverables provided to the client, a win-win relationship can almost always be established. With the current multiple purchase options available, I do not have to restrict access to my professional services by the amount of investable assets that a client has. If 4 of the 5 options are eliminated that allow the investment dealer and financial advisor to be compensated by the product suppliers rather than directly by the client, I project that two things will happen:

1. The investing public, especially those with smaller account balances will choose to not access professional financial advice. Besides this being an intuitive conclusion, it has been proven through the implementation of RDR in the UK, and the fallout from those policy decisions.
2. Financial advisors who do not deny access to their services will institute minimum account balances before accepting to work with the investing public. This will disintermediate the Canadian population because many will not be able to “qualify” based on insufficient investment assets. Those financial advisors who have minimums in place today, will raise those minimums causing further disintermediation of the Canadian population from professional independent financial advice.

Therefore, let’s examine what’s involved when working with a professional financial advisor before the investing public is in a proper position to consider purchase of a mutual fund. There is a significant amount of time spent by the professional Financial Advisor and her Team in properly working with a client or client family and planning for a successful client / advisor relationship over multiple years. This work is very important, as the establishment of a long-term client relationship that has solid chance of investor success over a decade or longer, involves a significant amount of time and effort at the start of the relationship to set the stage for a potential client to start to invest their life savings and have a successful outcome over the long-term. Below are the number of meetings and the amount of time spent approximately in each meeting, which I have not seen presented previously. It is important for everyone to understand that the proper selection and purchase of a mutual fund, or mutual funds, in a professionally developed asset allocation model and portfolio is not a simple “over the counter” transaction taking a few minutes. Below is a breakdown of the approximate time spent in setting up a solid client / advisor relationship with proper client deliverables. Doing this work with written deliverables to the client presented through in person client meetings increases dramatically the probability of the relationship and the client investing cycle lasting multiple years. Most importantly doing this work up front with the prospect / client along with ongoing monitoring over multiple years provides a very high probability of a successful financial outcome for the client / investing public using independent professional financial advisors. **A successful financial outcome for the investing public, our clients, should be a primary driver in setting policy and regulation.**

	<b><u>Total Time Spent</u></b>
1. Prospecting – Finding a potential client and establishing a basis for Setting up a Meeting	1 hour
2. Initial Meeting to determine if the Advisor and potential client can work together	2 hours
3. Meeting the Client to determine Client goals and objectives	2 hours
4. Gathering of Client information	2 hours
5. Analyzing the client data, developing recommendations, and then writing a detailed financial plan. Quality, custom work will likely take more than 4 hours.	4 hours
6. Presenting to the prospective client the financial plan and recommendations	2 hours
7. Developing with the client an Investment policy statement	2 hours
8. Doing the regulatory paperwork and implementing the plan recommendations	2 hours
9. Reviewing the transfer of existing assets and the implementation of the recommendations	3 hours
10. Ongoing Monitoring of the recommendations and subsequent client meetings in year 1, only. Does not show the multiple meetings per year over the coming years	2 hours

To do a complete and thorough job with the client involves approximately 22 hours of work in year 1, with the client. I note that in prospecting I have only put 1 hour, assuming that the potential new client is a referral from another existing client. If this is not the case and an independent advisor is trying to find new clients and successfully enter the business and do a thorough job, we could make point 1 above Prospecting 3 hours and the time spent in year 1 be 24 hours for 1 client family. How does an independent advisor then get compensated for all the time, effort, expertise applied, and presented to the client? This must be thought out and answered and is addressed further below.

I note that an independent financial advisor / advisor team is essentially an entrepreneur and small business owner. The financial advisor is responsible for paying all 100% of her business expenses including office

rent, staff costs, dealer fees, and what is left over after all expenses are paid is her compensation. If she is a Certified Financial Planner she has invested significantly in her education and she has a commitment to continuing education and making sure that she keeps her professional designation. That all being said, **the minimum charge per hour** that she would have to earn to have a business model that would make sense would be \$120 per hour. For a starting advisor approximately 75% of this charge would go to the dealer / business expenses / paying her staff of 1 etc.. The financial breakdown would total 22 hours times \$120 per hour or \$2,640 + tax, or approximately \$2,904 if a blended GST / HST tax rate of 10% is charged and the client was paying directly for the services rendered. I note that the newer Financial Advisor in this case, if she worked 50 weeks of the 52 week year and worked about 50 hours per week at a 90% billable split, she would earn about \$66,000 per year to manage her client's life savings. I would suggest that for all the risk, very solid work week, only 2 weeks off, and expertise involved that \$66,000 per year after all expenses barely makes the grade from a professional financial advisor compensation perspective. But importantly, where does the money come from to pay for her professional services?

Let's examine the 4 compensation methods and **the benefits to the client or the Canadian Public.**

1. A) Charge the client a commission up front, commonly known as a FE #%, where # can be 0% to 5% for the most part in today's world. If we assume that if # = 0% which many comment that this is the way the industry has gone, the client would have to have about \$330,000 invested for an entire year at a 1% service fee for the advisor to collect the money needed to make her business work due to an approximate 20% of the fee being paid to the investment dealer. How does a new independent advisor starting in this industry fund this cash flow requirement and survive? I suggest it is very difficult and few younger people have this kind of money. A new entrant into the industry would have to charge the client perhaps a 1% to 3% up front commission in order to survive. The question then must be asked: Who would want to pay this cost or have it taken from their investments? If the potential client had saved diligently and were 35 years old and had \$100,000, in order for them to access high quality professional financial advice the charge would amount to 3.30% (\$3,300) of their hard earned life savings. Out of this \$3,300 the financial advisor would receive \$2,640 and the investment dealer would receive \$800. I am quite sure that many, or most of the Canadian population would not do this and hence would have to settle for some lessor advice or no advice. This has already been proven in the U.K.. I would also ask yourselves how many times in your life have you not sought out professional services due to up front out of pocket costs? In my case it has been many from lawyers, to accountants, to car mechanics. The high probability prediction of the disintermediation of the Canadian population from high quality financial advice will very impactful over the long-term, as Canadians will not flourish as well financially. These facts have been put forward by many of the professional bodies, with one link here <https://www.ific.ca/en/pg/key-issue-files/key-issue-the-value-of-advice/>
- B) What is the financial impact to the client who starts with less than the \$100,000 that they had to invest due to the upfront charge? The \$100,000 invested and compounded for 25 years at 6% per year becomes \$429,187. In this example, where \$3,300 is lost in upfront fees to the client, their initial, now \$96,700 becomes \$415,024. **This \$14,163 is lost to the client family and cannot be recovered.** As I mentioned above this lost capital is significantly detrimental to the client family. Is there not a better way to have the professional advisor compensated and for the Canadian public to work with independent financial advisors?
- C) One other comment for this compensation model is that at approximately \$66,000 per year in advisor compensation which is far from a guaranteed wage, for all the risk taken is not a significant incentive to become an independent financial advisor. Therefore, high quality individuals might not be attracted to this industry which is detrimental to the Canadian population over the long-term.

2. A) There are 4 methods currently available in the market that allow dealers and advisors to receive upfront compensation for the professional work that the financial advisor and her team does, as described above. This means that the client **does not have to** take their hard earned, after tax, life savings and allocate part of them to the investment dealer and professional financial advisor with the meaningful loss of investment value as described in 1 B) above. I must note that in almost 100% of my client situations over the last 24 years that involve a meaningful discussion and eventual allocation of either future savings, or current available investment capital **to long-term investments**, a client has **always** chosen one of the 4 methods of paying for my professional services unless there are mitigating circumstances when a FE 0% purchase is completed. By any definition, long-term investing encompasses a time-frame greater than 5 years and more likely 8 years and longer would define a reasonable long-term investing time frame. Lastly, in my 24 years of professional practice, which has involved our clients using ALL of the compensation methods that I describe in this paper there are three facts:
1. In using the FE #% method, **I have never charged** a client a numerical percentage. The # has always been ZERO, or 0%. This is because of the detrimental effects to the client's savings and also the negative impact that it has on the client advisor relationship.
  2. In working with clients and using a compensation method (LL or DSC) that is detrimentally described by almost all critics, the client has never paid a deferred charge that permanently reduces their investment values as long as they have worked with us. That is NEVER, so the client's investments always are 100% intact and yet the dealer and myself as a professional financial advisor have been compensated up front for mine and my Team's professional services and deliverables to the client.
  3. Professional investment advisors are mandated to do Time Horizon analysis and have discussions with the client on the length of time that a mutual fund purchase should be in place. If done well, the four (4) dealer / advisor compensation methods described below can be applied to any medium to long-term investment solution using mutual funds without detrimental impact to the client, or a reduction in the client's original and ending investment values and yet the advisor and dealer can be compensated upfront by the mutual fund company. This is truly a win-win situation which is strived for in almost all business dealings regardless of profession. So let's look at the highly criticized models.

B) Low-Load or LL – I reference Fidelity Investments Fund Facts documents in providing this information but most larger mutual fund companies have similar available mutual fund investment options for clients and professional advisors to select when determining how the dealer and advisor will be compensated by the mutual fund company for the professional advisor and her Team's up front work. This schedule allows a 1% up front commission which is paid by Fidelity to the professional advisors dealer who takes part of this money as the dealer's business revenue (typically 15% to 25% of this money) with the professional advisor receiving the rest of the money to run their independent financial planning office. On \$100,000 invested this is \$1,000 paid to the dealer by the mutual fund company and approximately \$800 paid to the financial advisor. In the example above this compensation pays only about 30% of the estimated costs / charges that the financial advisor incurs the client / client family. I note that in year 1 and in subsequent years there is a 1% servicing fee that is paid to the dealer so after 1 year, the financial advisor has received approximately \$1,600 in compensation which equates to about 60% of the estimated costs incurred. Breakeven for the professional financial advisor is somewhere in the 4 to 5 year time frame due to subsequent meetings held with the client and the time value of money. It is likely due to the upfront work put in by the professional financial advisor and ongoing service that the client family will work with the advisor over this period, but I note that this is certainly not "guaranteed". I also note that this approximately assumes that the professional financial advisor is satisfied with \$66,000 per year with \$66,000 per year in pre-tax take home compensation for all the risks taken in this business. **What is detrimental to the client in this**

**mutual fund purchase method?** The client loses NO money from their original investment upfront, which is very positive. With the LL redemption charge schedule or sales charge schedule on redemption there is a 2% charge if money is redeemed inside of 2 years from the purchase date. The investment dealer and professional financial advisor receive none of this money, if a redemption occurs and the client is charged a fee by Fidelity. After 2 years, the charge to the client on redemption is ZERO. Considering this is a long-term investment it is very likely that a client would NOT have to redeem within 2 years. What if the client or professional advisor wishes to change investments within the 2 year period? Fidelity has a very large number of investment choices that can be utilized to satisfy a change of investment requirement. The switch or change in investment can be done at 0% charge to the client, although I note that up to a 2% switch fee is allowed. I note that in my practice switches are done 100% of the time at 0% so the client NEVER pays a fee when switching within the same mutual fund company. What if the client wishes to redeem from Fidelity Investments and go to another fund company like Mackenzie Financial? It is a bit beyond the scope of this paper but there are methods that every professional financial advisor can use so that the redemption cost or part of the redemption cost can be credited back to the client or rebated back to the client when purchasing investments at Mackenzie Financial or the receiving mutual fund company. Therefore the client's investments can again remain 100% intact in working with the professional advisor and dealer. I see NO detrimental impact to the client when the LL mutual fund purchase schedule is used and the available tools and purchase options in the market are used. This is a win-win business relationship. I would recommend two things with the LL purchase option. Firstly, that it be mandated that the mutual fund companies provide for 10% of the original investment amount to be redeemed without charge to the client. This would allow for the professional advisor to free up monies for redemption to the client in a situation where the client would like to receive regular income from their investments, which is common in a retirement scenario. Secondly, that it be mandated that the mutual fund companies not charge a different management fee or management expense ratio to the client for different purchase options. This is seen in some company situations between the different purchase options such as F series, FEL series and LL series.

C) Low-Load 2 or LL2 – This is perhaps the most common coding used. I reference Fidelity Investments Fund Facts documents in providing this information but most mutual fund companies have similar available mutual fund investment options for clients and professional advisors to select when determining how the dealer and advisor will be compensated by the mutual fund company for the professional advisor and her Team's up front work. This schedule allows a 2.5% up front commission which is paid by Fidelity to the professional advisors dealer, who takes part of this money as the dealer's business revenue (typically 15% to 25% of this money) with the professional advisor receiving the rest of the money to run their independent financial planning office. On \$100,000 invested this is \$2,500 paid to the dealer by the mutual fund company and approximately \$2,000 paid to the financial advisor. In the example above this compensation pays only about 76% of the estimated costs / charges that the financial advisor incurs in starting to work with the client / client family. I note that in year 1 and in subsequent years there is a 0.5% servicing fee that is paid to the dealer so after 1 year, the financial advisor has received approximately \$2,400 in compensation which equates to about 92% of the estimated costs incurred by the financial advisor in year 1. Breakeven for the professional financial advisor is somewhere in the 2 to 3 year time frame due to subsequent meetings held with the client and the time value of money and the lower servicing fee received at 0.5% per year. It is likely due to the upfront work put in by the professional financial advisor and ongoing service that the client family will work with the advisor over this period, but I note that this is certainly not "guaranteed". I also note that this approximately assumes that the professional financial advisor is satisfied with \$66,000 per year in pre-tax take home compensation for all the risks taken in this business. **What is detrimental to the client in this mutual fund purchase method?** The client

loses NO money from their original investment upfront, which is very positive. With LL2 redemptions there is a declining charge to the client when redeeming based on the amount of time that the client has been invested in the mutual fund(s). The redemption charge schedule, or sales charge schedule on redemption, in year 1 from the purchase date is 3% of the original invested capital that is redeemed. Therefore if \$10,000 is redeemed and there has been no increase in the investment value, then the charge to the client is \$300. If there has been an increase in investment value, the charge to the client is likely less than \$300 for the redemption. The investment dealer and professional financial advisor receive none of this money. In year 2 and up until the 3<sup>rd</sup> anniversary, the redemption charge is 2% of the original investment amount if all of the money is redeemed. After 3 years, the charge to the client on redemption is ZERO. Considering this is a long-term investment it is very likely that a client would NOT have to redeem within 3 years. What if the client or professional advisor wishes to change investments within the 3 year period? Fidelity has a very large number of investment choices that can be utilized to satisfy a change of investment requirement. The switch or change in investment can be done at 0% charge to the client, although I note that up to a 2% switch fee is allowed. I note that in my practice switches are done 100% of the time at 0% so the client NEVER pays a fee when switching within the same mutual fund company. What if the client wishes to redeem from Fidelity Investments and go to another fund company like Mackenzie Financial? It is a bit beyond the scope of this paper but there are methods that every professional financial advisor can use so that the redemption cost or part of the redemption cost can be credited back to the client, or rebated back to the client when purchasing investments at Mackenzie Financial, or the receiving mutual fund company. Therefore the client's investments can again remain 100% in tact in working with the professional advisor and dealer. I see NO detrimental impact to the client when the LL2 mutual fund purchase schedule is used and the available tools and purchase options in the market are used. This is a win-win business relationship. I would recommend two things with LL2 purchase options. Firstly, that it be mandated that the mutual fund companies provide for 10% of the original investment amount to be redeemed without charge to the client. This would allow for the professional advisor to free up monies for redemption to the client in a situation where the client would like to receive regular income from their investments, which is common in a retirement scenario. Secondly, that it be mandated that the mutual fund companies not charge a different management fee or management expense ratio to the client for different purchase options. This is seen in some company situations between the different purchase options such as F series, FEL series and LL series.

- D) Low-Load 4, or LL4 or Deferred Service Charge, or DSC – I will reserve comment on the innovative LL4 structure until later in this paper. The DSC is the purchase option that is most controversial, with the Bank of Nova Scotia (Dynamic Mutual Funds) and Bank of Montreal (BMO) discontinuing purchases of mutual funds using a DSC purchase code. I believe this is due to bad publicity and their collective views of “where the industry is headed”. That does not mean that this is “right” or correct. It is just their view. I reference Fidelity Investments Fund Facts documents in providing this information but most mutual fund companies have similar available mutual fund investment options for clients and professional advisors to select when determining how the dealer and advisor will be compensated by the mutual fund company for the professional advisor and her Team's up front work. This schedule allows a 4.9% up front commission which is paid by Fidelity to the professional advisors dealer, who takes part of this money as the dealer's business revenue (typically 15% to 25% of this money) with the professional advisor receiving the rest of the money to run their independent financial planning office. On \$100,000 invested this is \$4,900 paid to the dealer by the mutual fund company and approximately \$3,920 paid to the financial advisor. In the example above this compensation pays about 148% of the estimated costs / charges that the financial advisor incurs in starting to work with the client / client family. I note that in year 1 and in subsequent years there is a 0.5%

servicing fee that is paid to the dealer so after 1 year, the financial advisor has received approximately \$4,320 in compensation which equates to about 164% of the estimated costs incurred by the financial advisor in year 1, assuming that the professional financial advisor is earning \$66,000 per year pre-tax. Breakeven for the professional financial advisor is less than 1 year in this situation and likely breakeven or less than breakeven in year two, based on year 2's revenue of \$400 to the advisor, if two meetings are prepared for and held in year two. If one smoothes out the revenue stream from year 1 to subsequent years this can be a solid win-win business arrangement. It is likely due to the upfront work put in by the professional financial advisor and ongoing service that the client family will work with the advisor over the long-term period, but I note that this is certainly not "guaranteed". It is my experience that even with the significant upfront work done that if things do not go well for the client's investments that after 4 to 5 years, clients will consider changing investment advisors. **What is detrimental to the client in this mutual fund purchase method?** The client loses NO money from their original investment upfront, which is very positive. With DSC redemptions there is a declining charge to the client when redeeming based on the amount of time that the client has been invested in the mutual fund(s). The redemption charge schedule, or sales charge schedule on redemption, in year 1 from the purchase date at Fidelity is 6% of the original invested capital that is redeemed. Therefore if \$10,000 is redeemed and there has been no increase in the investment value, then the charge to the client is \$600. If there has been an increase in investment value, the charge to the client is likely less than \$600 for the redemption. The investment dealer and professional financial advisor receive none of this money. There is a declining percentage charge applied with the percentage reducing each year. In year 4 the redemption charge is 4.5% of the original investment amount if all of the money is redeemed, and in year 6 it is 1.5%. After 6 years, the charge to the client on redemption is ZERO. Considering this is a long-term investment it is very likely that a client would NOT have to redeem within 6 years, if the client's investments are doing well. If they are not doing well, then it is possible that after 4 to 5 years, the client might want redeem fully. The client would then be subject to a redemption charge levied by Fidelity which is covered a bit further below. What if the client or professional advisor wishes to change investments within the 3 year period? Fidelity has a very large number of investment choices that can be utilized to satisfy a change of investment requirement. The switch or change in investment can be done at 0% charge to the client, although I note that up to a 2% switch fee is allowed. I note that in my practice switches are done 100% of the time at 0% so the client NEVER pays a fee when switching within the same mutual fund company. What if the client wishes to redeem from Fidelity Investments and go to another fund company like Mackenzie Financial prior to the end of the 6<sup>th</sup> year? It is a bit beyond the scope of this paper but there are methods that every professional financial advisor can use so that the redemption cost or part of the redemption cost can be credited back to the client, or rebated back to the client when purchasing investments at Mackenzie Financial, or the receiving mutual fund company. Therefore the client's investments can potentially remain 100% in tact in working with the professional advisor and dealer. There is a possible detrimental impact to the client when the DSC mutual fund purchase schedule is used and the available tools and purchase options in the market are used which has been significantly written about by others and I acknowledge although do not fully agree with. There are other positives that help the client and advisor when using this purchase method. Every mutual fund company provides for 10% of the original investment amount to be redeemed without charge to the client each calendar year. This allows for the professional advisor to free up monies for redemption to the client in a situation where the client would like to receive regular income from their investments, which is common in a retirement scenario. The conversion from the DSC structure to a FE 0% purchase option each calendar year is a manual process and should be automated by the mutual fund companies which some do, but most do not. This would ensure more client protections and lower charges on a full or partial redemption. Secondly, that it be mandated that the mutual fund companies not charge



a different management fee or management expense ratio to the client for different purchase options. This is seen in some company situations between the different purchase options such as F series, FEL series, LL series, and DSC series.

**Is there an alternative sales option to the 6 year DSC schedule that provides for independent dealer and advisor compensation that is adequate, so that clients with smaller amounts of investment capital can access the high quality professional financial planning and investment advice that is available in this channel? Does this sales option provide adequate flexibility and a shorter investment period so that clients are not “locked in” for 6 years which might be too long? Also is there a sales option that provides enough revenue to the investment dealer so that over the long-term the independent financial advisory channel can attract and retain high quality professional financial advisors?**

**Yes there is.**

**Invesco Canada Ltd. has for many years provided a Low Load 4, or LL4, purchase option. I believe that this purchase option can be prudently used where appropriate by clients and financial advisors where it is deemed appropriate that the financial advisor be compensated up front for their professional work. Overall, I feel that if more companies offered this purchase option there would not be as much controversy around compensation paid to financial advisors. Further the investment holding period is much shorter with the LL4 sales option which is very attractive and suitable when reasonable time horizon planning is done. Please consider the LL4 purchase option and consider recommending that ALL mutual fund companies institute it.**

**The details are below:**

- E) **Low-Load 4, or LL4 – LL4** is a solid purchase option and seems to be a solid bridge or addition that could be considered, satisfying many of the issues presented above. I reference Invesco Canada Ltd. Fund Facts documents in providing this information. No other mutual fund company offers a purchase option like this, to my knowledge. This mutual fund investment purchase option provides additional choice for clients and professional advisors to select when determining how the dealer and advisor will be compensated by the mutual fund company for the professional advisor and her Team’s up front work, allowing an investor or client’s original investment capital to stay 100% intact. This schedule allows a 4.0% up front commission which is paid by Invesco to the professional advisors dealer, who takes part of this money as the dealer’s business revenue (typically 15% to 25% of this money) with the professional advisor receiving the rest of the money to run their independent financial planning office. On \$100,000 invested this is \$4,000 paid to the dealer by the Invesco and approximately \$3,200 paid to the professional financial advisor. This compensation amount pays about 121% of the estimated costs / charges that the financial advisor incurs in starting to work with the client / client family. I note that in year 1 and in subsequent years there is a 0.5% servicing fee that is paid to the dealer so after 1 year, the financial advisor has received approximately \$3,600 in compensation which equates to about 136% of the estimated costs incurred by the financial advisor in year 1, assuming that the professional financial advisor is earning \$66,000 per year pre-tax. Breakeven for the professional financial advisor is less than 1 year in this situation and likely breakeven or less than breakeven in year two, based on year 2’s revenue of \$400 to the advisor, if two meetings are prepared for and held in year two. If one smoothes out the revenue stream from year 1 to subsequent years this can be a solid win-win business arrangement. It is very likely due to the significant upfront work put in by the professional financial advisor and ongoing service that the client family will work with the advisor over the long-term period, but I note that this is certainly not “guaranteed”. It is my experience that even with the significant upfront work done that if things do not go well for the client’s investments that after 4 to 5 years, clients will consider changing investment advisors. **What is detrimental to the client in the LL4 mutual fund purchase method?** The client loses NO money from their original investment upfront,

which is very positive. With LL4 redemptions there is a declining charge to the client when redeeming based on the amount of time that the client has been invested in the mutual fund(s). The redemption charge schedule, or sales charge schedule on redemption, in year 1 from the purchase date at Invesco is 4.5% of the original invested capital that is redeemed. Therefore if \$10,000 is redeemed and there has been no increase in the investment value, then the charge to the client is \$450. If there has been an increase in investment value, the charge to the client is likely less than \$450 for the redemption. The investment dealer and professional financial advisor receive none of this money. There is a declining percentage charge applied with the percentage reducing each year. In year 4 the redemption charge is 3.0% of the original investment amount if all of the money is redeemed. After 4 years, the charge to the client on redemption is ZERO. Considering this is a long-term investment it is very likely that a client would NOT have to redeem within 4 years. Based on my observation of clients behaviour indicates that even if the client's investments are not doing well it is quite possible that they will stick with an investment and mutual fund company and professional financial advisor for 4 years or longer as stated above. With the redemption charge going to ZERO after 4 years this redemption schedule satisfies this possible issue. If the client wishes to redeem prior to the end of a 4 year period then they would be subject to a redemption charge levied by Invesco which is covered a bit further below. What if the client or professional advisor wishes to change investments within the 4 year period? Invesco has significant choice in its mutual fund offerings that can be utilized to satisfy a change of investment requirement. The switch or change in investment can be done at 0% charge to the client, although I note that up to a 2% switch fee is allowed. I note that in my practice switches are done 100% of the time at 0% so the client NEVER pays a fee when switching within the same mutual fund company. What if the client wishes to redeem from Invesco Canada Ltd. and go to another fund company like Mackenzie Financial prior to the end of the 4<sup>th</sup> year? It is a bit beyond the scope of this paper but there are methods that every professional financial advisor can use so that the redemption cost or part of the redemption cost can be credited back to the client, or rebated back to the client when purchasing investments at Mackenzie Financial, or the receiving mutual fund company. Therefore the client's investments can potentially remain 100% in tact in working with the professional advisor and dealer. As the original purchase of investments was discussed fully with the client and was determined to be long-term in nature, the 4 year redemption schedule seems to more than satisfy the potential time frame issue negating the frequency of "early redemption" by the investing public. There are other positives that help the client and advisor when using this purchase method. **Invesco provides for 10% of the original investment amount to be redeemed without charge to the client each calendar year, which is excellent.** This allows for the professional advisor to free up monies for redemption to the client in a situation where the client would like to receive regular income from their investments, which is common in a retirement scenario. The conversion from the LL4 structure to a FE 0% purchase option each calendar year is a manual process and should be automated by the mutual fund companies which some do, but most do not. This would ensure more client protections and lower charges on a full or partial redemption. Secondly, please consider mandating that the mutual fund companies not charge a different management fee or management expense ratio to the client for different purchase options. This is seen in some mutual fund company situations between the different purchase options such as F series, FEL series, LL series, and LL4 series. Currently, many mutual fund companies are providing much lower pricing for F series mutual funds versus the same mutual fund in another series. This allows financial advisors who use F series mutual funds with their clients to offer lower pricing than those advisors that use A series mutual funds in a FEL 0% purchase method. Therefore the F Series investment advisor can charge the client a higher fee than the A series advisor creating a non level playing field. Alternatively the F Series financial advisor could charge the same fee as what the A series financial advisor charges and provide the F Series client with a lower cost mutual fund option or

solution providing a cost differential in the market. In my view this should not be allowed. Clients using essentially the same mutual fund with the same amount of money invested should be charged the same amount by the mutual fund providers. A few manufacturers offer lower pricing for A series FEL funds, as compared to A Series funds with LL pricing. This also is not correct as the determination of redemption schedule in LL pricing should offset the mutual fund company cost of funding the LL payment to the investment dealer, rather than affect the management cost of the running of the mutual fund. Invesco does this pricing very well also through its 'P' series mutual fund offerings.

### **Comments on Business modeling with reference to Sales Options and Advisor Compensation.**

Given the risks taken by the independent financial advisor in establishing and maintaining their own business, and further the possibilities and likelihood for much better client outcomes due to the fact that the independent advisor has a much broader suite of investment products to choose from as compared to captive financial advisors that can only use products from their employer to satisfy client needs, it is likely fair that over the long-term that compensation to the independent financial advisor be higher than a professional financial advisor who is an employee of a firm. Considering that employee financial advisors who are established and successful and who mostly have earned the Certified Financial Planner (CFP) designation and or Bank sponsored Personal Financial Planner (PFP) designation make approximately \$60,000 - \$120,000 per year, the examples given above provide for lower compensation to the independent financial advisor, except for in the LL4 or DSC purchase options. Therefore, I project that a small number of new entrants will enter the independent financial planner channel, unless the LL4 or DSC purchase options are maintained. As commented on above the LL4 purchase option seems to be a very solid consideration. If the regulatory bodies view the 6 year DSC schedule as being too long and potentially punitive to the Canadian public, the mandated establishment of the LL4 schedule is an excellent compromise that likely allows the independent financial planning channel to survive and possibly flourish. This is very important a flourishing independent financial advisory channel will then continue to serve the Canadian population very well. Therefore no disintermediation of a large segment of the Canadian population with smaller amounts of investment capital will occur. All Canadians will then have right to receive high quality financial planning and investment advice from multiple channels and this service will not become a privilege to just those with high investment or disposable income to spend in hiring or paying for high quality financial services.

I note that the Brokerage financial channel has put high minimums for the public to become clients and to receive professional financial advice from a stock broker / financial advisor, therefore essentially prohibiting, or disallowing access for a large part of the Canadian population being those with less than \$250,000 of investable assets and in some cases this "minimum" is \$500,000 of investable assets. A large part of the Canadian population does not have this amount of investment capital and therefore are being denied access to this channel of professional investment advisors.

**Closing Comments on this Topic:** Please continue to allow mutual fund purchase choices to the investing public that do not require the client to use their own capital. Therefore, these consumers can remunerate financial advisors for the professional financial services delivered without having to use their own investment capital.

Please remember that we are dealing with the life savings of Canadians which is paramount in importance, especially as a large part of the population approaches retirement age. This is not the time to implement significant new policy and regulation which will reduce access to professional financial advice. It is important that the CSA study and totally understand the implications to all investors of regulatory changes in the UK and Australia and answer the question: "Is every investor better off by the introduction of these type of policies in these countries? Is each investor creating more wealth, with high levels of investor satisfaction in these countries?" Have any investors or segments of the population in these countries been

disintermediated from easily and inexpensively accessing professional financial advice? My understanding is that this is certainly not true today and is likely to worsen in the future as these policies take further hold over time. The length of study by the CSA should be over a complete market cycle, as it is during a Bear Market or declining stock market that lasts 1 to 2 years or longer, such as in the 2000 to 2003 period that the damage to investors who do not receive prudent financial advice will be done. Again please reference work done on investor behaviour that is produced by Dalbar. The research shows poor investor behaviour overall and with less access to professional financial advice, this behaviour is very likely to become worse.

Lastly, in working with clients in a professional capacity for a very long time, it is apparent and a part of human nature not to want to pay for anything if possible, or to pay as little as possible for something, especially when the money is coming directly out of your own pocket or in this case out of the public's hard earned life savings. My observation over a long period of time is that "you get what you pay for". As I have pointed out above, if the amount that a professional financial advisor earns after all her costs is inappropriate or too low for the amount of risk taken, effort expended, and expertise provided then quality financial planners will exit the market place and substandard participants will join. The end result is dissatisfaction as now the quality of financial and investment advice will be lower. There is a reason why people buy Mercedes Benz automobiles and hold on to them for 15 years. It is because through a high purchase price, they receive one of the highest quality vehicles available and they are very happy over the long-term with this decision. The LL, LL2, LL4 and perhaps even a streamlined DSC purchase option would allow solid compensation to be paid to the investment dealer and subsequently to the professional financial advisor allowing high quality individuals to be attracted to this field over the long-term. Please ask yourself the following. If you needed a life saving operation would you opt for the best surgeon and surgical team with the most sophisticated tools and operation room, if you could afford it, or would you opt for the cheapest surgeon and the tools that they could bring to the table. This is akin to the Canadian Medical system that allows easy access for all Canadians to high quality medical care. In the USA this is not the case and one must have money to access high quality medical care. For Financial Services: I would prefer to see the continuation of the entire Canadian population being able to access independent, high quality professional financial advice with this being a right for each Canadian rather than a privilege.

In regards to the life savings of Canadians, it is important and the responsibility of the regulatory environment to provide the opportunity for financial consumers and the Canadian public to be informed. In order to meet that goal, Canadians must have as many options as possible to purchase mutual funds and therefore pay for independent high quality professional financial advice, so they can chose the correct path for themselves to best move forward and accumulate wealth, becoming more financially independent and less reliant on Government services to live with a solid standard of living.

### **Comments on Payments of Trailing Commissions, or Service Fees:**

- I fully support the CSA in **the elimination** of the payment by mutual fund companies of trailing commissions, or service fees to Discount Brokers who provide little to no financial advice to their clients.
- I fully support the CSA in **the elimination** of the payment by investment companies of fees to non-licensed individuals.
- I fully support the CSA in **the elimination** of the payment of referral fees made by Investment Council firms to other entities.

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