

April 5, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
Ontario Securities Commission
20 Queen Street West, 19th Floor, Box 55
Toronto, Ontario M5H 3S8
E-mail: comments@osc.gov.on.ca

-and-

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees*

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on the CSA's Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees*.

¹The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfasociety.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

We believe that current mutual fund fee structures raise sufficient investor protection concerns such that additional regulatory action is required at this time.

The CAC wishes to respond to the following specific potential topics for consideration:

1. Advisor services to be specified and provided in exchange for trailing commissions

We believe that investors should understand the services for which they are compensating their advisors. However, requiring specific services to be identified in exchange for trailing commissions which are set by product manufacturers presupposes that all investors value services at the same rate. As an example, some investors prefer more frequent in-person meetings with their advisors, while others prefer minimal written communications. As a result, it will be difficult for dealer firms to appropriately identify services that would be applicable to all mutual fund investors. It would also be difficult to enforce such a requirement, as it would require dealer firms to determine that any one particular representative did not deliver the required service to investors.

In addition, we note that many investors misunderstand the use of the term “trailing commission”, and a term such as “service fee” might have more impact with retail investors and help them understand that a fee is in fact being paid for services.

2. A standard class for DIY investors with no or reduced trailing commission

To fully protect investors and ensure cost transparency, we are of the view that the payment of trailing commissions should not be made from the manager to the dealer, but must instead be made directly from the ultimate client. As a result, we would not support, as a stand-alone proposal, a standard class of securities with a low or no trailing commission for investors who do not seek advice from an investment advisor. We believe that trailing commissions should be disaggregated from the management

² CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors’ interests come first, markets function at their best, and economies grow. CFA Institute has more than 113,000 members in 140 countries and territories, including 102,000 CFA charterholders, and 137 member societies. For more information, visit <http://www.cfainstitute.org/>.

fee and negotiated directly between an advisor and his or her client, negating the necessity for a separate class/series of securities within a fund for this purpose.

3. Trailing commission component of management fees to be unbundled and charged/disclosed as a separate asset-based fee

We believe it is essential that investors are provided with timely, accurate, and easy to understand information about investment charges to help them assess the performance of their advisor and their investments. If investors are provided with full transparency with respect to the cost of their investment, a fully functioning market will help to keep those costs at a competitive level. Such a process would have the added advantage of unbundling the cost of the provision of advice and distribution costs.

While unbundling the trailing commission and requiring separate disclosure of the trailing fees is an important first step of an investor protection initiative, it has also been our experience that not all investors absorb fee information, regardless of how prominently such information is displayed in offering materials and other disclosure documents. To that end, simply unbundling the trailer fee commission would not go far enough to ensure that every investor purchasing securities of a mutual fund through a registrant providing investment advice is aware of the relevant fees, and thus utilize such information as part of their decision making process.

4. A separate series or class of funds for each purchase option

We do not believe distribution costs should form part of the management fees of an investment fund, and thus there should be no need to have separate series or classes of securities of each mutual fund to avoid cross-subsidization issues.

5. Cap commissions

The securities regulatory authorities should not prescribe any limit on the amount of permitted trailing commissions, but should instead require full transparency of the cost of advice and permit each client to consciously decide to proceed with their chosen advisor.

6. Implement additional standards or duties for advisors

We note that implementing additional standards and duties for advisors, including a statutory best interest duty, is not inconsistent with the proposal described in #7 below.

7. Discontinue the practice of advisor compensation being set by mutual fund manufacturers

To fully protect investors and ensure cost transparency, we are of the view that the payment of trailing commissions cannot be made from the manager to the dealer, but must instead be made directly from the ultimate client. Requiring each client to sign off on the advisory fee/trailing commission charged for an investment in a mutual fund will also help empower the dealer firms and the dealer representatives to negotiate their own fee, instead of receiving the fees set for all dealer firms by the product manufacturers. Requiring advisors and their clients to be upfront early on in their relationship with respect to services to be rendered and fees to be paid will also help avoid any misunderstandings and help strengthen the advisor/client relationship.

We note that such a change would require adequate advance notice such that advisors would have the opportunity to discuss all the ramifications with their clients. In particular, clients who rely on distributions from their portfolios for income may require some time to adjust to any fee payments which would visibly reduce that stream of income. It will be important to present the fee in dollar terms so that it can be easily understood by all clients.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *Ada Litvinov*

Ada Litvinov, CFA
Chair, Canadian Advocacy Council