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Jarrod Smith

Ontario Securities Commission
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October 28, 2024

Re: Comment letter on the Fundserv Fee Proposal

Dear Mr. Smith,

The Federation of Independent Dealers is submitting this comment letter regarding the Fundserv Fee Proposal. We trust you understand our association's longstanding and close working relationship with Fundserv. This letter objecting to Fundserv's Proposed Fee Changes for dealers has been drafted based upon concerns expressed by multiple member firms, without a broad solicitation for input from our entire membership.

We wish to articulate the reasons behind our objection to Fundserv's Proposed Fee Changes¹. Included as Appendix 'A' is a breakdown of the cost changes with percentages².

Disproportionate Impact on Smaller Participants

Fundserv proposes to increase the \$100 monthly minimum fee to a \$200 monthly flat fee. This change alone represents a doubling of costs for the smallest mutual fund market participants, setting aside the other proposed increases.

As you know, advised investment transactions are typically provided with a 1% annual advice fee which is then split between an advisor and the dealership for providing compliance, overhead and infrastructure. In the independent channel this is typically 80% advisor, 20% dealer.

The dealer portion of \$100,000 of (new or existing) fee paying assets would now be exclusively allocated to pay this increased minimum fee monthly, or \$1,200,000 of reserved asset revenues annually. It will be a higher hurdle for small firms, and by extension, small investors.

¹ Fundserv 'Proposed Fee Changes' (<https://www.fundserv.com/proposed-fee-changes/>)

² FID fee breakdown, online version 'Fundserv proposed fee changes' (<https://www.evernote.com/shard/s14/sh/e4c35dc6-97a9-9996-d969-b5b8530c801f/Y630u6w2319RhM429vDORtvqvHFOTy3XkSlqthjl6kR1SmCrod8rLzZG-A>)

Analysis

1. Break-even analysis:

Dealer revenue on \$100,000 = \$1000 total commission; ~\$800 to the advisor and ~\$200 to the dealership.

With 1000 monthly transactions, to meet the minimum fee requirement, each transaction would need to average \$100. Each would result in a \$1 annual commission, with \$0.20 to the dealer. These are the common-sized monthly transactions of small Canadian investors, and *each* dealer will have to process thousands of them to pay this increased minimum fee.

Written another way, each of these 12,000 transactions annually must have an average value of \$100, and a dealer processing these many thousands of transactions would net \$0 in revenue, even setting aside their other servicing and overhead costs for providing the service.

2. Potential consequences:

1. Small firms will continue to struggle to remain profitable against ever increasing costs.
2. Additional fee pressure leads to consolidation in the industry.
3. Dealer fee splits will change, shifting the increased Fundserv cost downward into the incomes of financial advisors in the independent channels.
4. Smaller investors will face reduced access to professional advice (minimum account size) or increased minimums to invest.

Shifting Costs away from usage

Moving away from the historical usage-based cost sharing will further squeeze the revenues of independent firms and deter new entrants. Costs were previously shared fairly based on usage rather than 'equally' through a flat fee. The flat fee model redistributes the Fundservs cost burden of servicing the heaviest users onto the lightest users. In other words, the lightest users will effectively be subsidizing the heaviest users. We disagree with this approach to cost recovery.

Reimbursement Practices

Fundserv continues to reimburse members significant amounts of collected fees annually. We would expect to see a reduction or complete cessation of fee reimbursements prior to an application being submitted for doubling monthly fees.

Importantly, fees are reimbursed to members based on their participation/cost share. Consequently, should fees increase for dealers and small manufacturers the percentage of revenues returned to large manufacturers will not change significantly, and manufacturers should expect to receive the same or larger reimbursements, in part funded by the smallest firms, in addition to the proposed substantial fee reductions on transactions.

Timing and International Considerations

This increase coincides with Fundservs effort to recruit international manufacturers and collect Fund Expense Ratio data for the Total Cost Reporting regulatory initiative. While a reduced-fee affiliate member category may be considered for potential new international members, we do not see how these fee increases will entice participation to collect this necessary data for required disclosure to Canadian investors.

Value-Added Services and Industry Needs

We have not received any recent proposals from Fundserv regarding development of value-added services aimed at dealers. For a few examples of what we would like to see tied to fee increases;

The MFD channel has been significantly disadvantaged due to the absence of an 'ETF Serv' or similar industry-wide solution. As a result, it has largely missed out on the growth opportunity that ETF investing has presented to ID firms over the past decade, an opportunity valued as hundreds of billions of dollars.

Dealers, advisors, and investors are all substantially burdened by the lack of a cost-viable many-to-many platform to facilitate transfers. Our experience is that CDS/ATON has declined implementing discounts for bulk-purchasing, or base-fee reductions for the minimal usage required by small firms. At this point in time, we have been advised that CDS/ATON is refusing to onboard new firms completely.

In this environment, Fundserv's decision to discontinue the development of TransferServ—a platform designed to streamline and standardize transfers for MFD and ID firms underpinned by ATON —has left a significant gap. The absence of an efficient and cost-effective transfer solution continues to hinder operational efficiency across the sector.

Conclusion and Recommendations

While we acknowledge the importance of maintaining high availability, security, and redundancy on the Fundserv network, along with the need for skilled staff and potential need for associated cost increases, we do not have knowledge of any substantial development proposals that would both exceed the amount of fees currently being reimbursed to members annually and beyond that, also requires an influx of new recurring capital.

We continue to respect and value Fundserv's crucial role in the industry and agree that modest fee adjustments may be necessary. At this time, we recommend that this proposal not be approved as-is, and any needed funding increases be deducted from the ongoing substantial member reimbursements.

We appreciate the opportunity to provide comments. We hope to see Fundserv work in partnership with the OSC to align its future fee proposals & software development goals with the efficiency and strategic needs of the entire ecosystem, even beyond regulator mandated projects such as TCR. Such initiatives could bring significant network-wide benefits to all parties involved in the investment industry.

Sincerely,

Matthew T. Latimer, Executive Director
Federation of Independent Dealers
Fédération des Courtiers Indépendants

Appendix 'A'
Percentage changes of Fundserv Fee Change proposal

<u>Type of Fee</u>	<u>Current</u>	<u>Proposed</u>	<u>Percent change</u>
<u>Distributor network fixed fee</u>	<u>\$100 minimum</u>	<u>\$200/month</u>	100%
<u>Distributor file size fee per 1,000 bytes</u>	<u>\$ 0.0100</u>	<u>\$ 0.0117</u>	17%
<u>Manufacturer and Intermediary network fixed fee</u>	<u>\$ 1,500</u>	<u>\$ 1,750</u>	16.7%
<u>Manufacturer and Intermediary file size fee per 1,000 bytes</u>	<u>\$ 0.0075</u>	<u>\$ 0.0077</u>	2.7%
<u>Transfer fee per file (all members)</u>	<u>\$ 0.25</u>	<u>\$ 0.30</u>	20%

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		<u>Current</u>		<u>Proposed</u>		<u>Percent change</u>
<u>Old Tiers</u>	<u>New Tiers</u>	<u>Transactions</u>	<u>Current price</u>	<u>Transactions</u>	<u>New price</u>	
<u>1</u>	<u>1</u>	<u>0 - 500</u>	<u>-</u>	<u>0 - 500</u>	<u>\$1.10</u>	<u>100%</u>
<u>2</u>	<u>2</u>	<u>501 - 2,000</u>	<u>\$1.25</u>	<u>501-2,000</u>	<u>\$1.00</u>	<u>-20%</u>
<u>3</u>	<u>2</u>	<u>2,001 - 7,500</u>	<u>\$1.10</u>	<u>2001-5,000</u>	<u>\$1.00</u>	<u>-10%</u>
	<u>3</u>			<u>5,001-7,500</u>	<u>\$0.75</u>	<u>-31.82%</u>
<u>4</u>	<u>3</u>	<u>7,501 - 15,000</u>	<u>\$0.75</u>	<u>7,501-15,000</u>	<u>\$0.75</u>	<u>0%</u>
<u>5</u>	<u>3</u>	<u>15,001 - 25,000</u>	<u>\$0.45</u>	<u>15,001-20,000</u>	<u>\$0.75</u>	<u>66.67%</u>
	<u>4</u>			<u>20,001-25,000</u>	<u>\$0.22</u>	<u>-51.11%</u>
<u>6</u>	<u>4</u>	<u>25,001 - 50,000</u>	<u>\$0.20</u>	<u>25,001-50,000</u>	<u>\$0.22</u>	<u>10%</u>
<u>7</u>	<u>4</u>	<u>50,001+</u>	<u>\$0.10</u>	<u>50,001-100,000</u>	<u>\$0.22</u>	<u>120%</u>
	<u>5</u>			<u>100,001- 1,000,000</u>	<u>\$0.10</u>	<u>0%</u>
	<u>6</u>			<u>1,000,001- 2,000,000</u>	<u>\$0.05</u>	<u>-50%</u>
	<u>7</u>			<u>2,000,000+</u>	<u>\$0.01</u>	<u>-90%</u>