

December 11-2024

The Secretary
Ontario Securities Commission
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CSA Consultation on Principal Distributors (“PD”)

To ensure transparent consultation of all views I agree to sharing my “unedited” communication and posting on the OSC website on an “as received basis” to allow any other contributors the opportunity to review my input on the issues before they comment, if desired. Should the OSC decide not to make this communication “public” I respectfully request that no material or references to my communication be made in any public releases by the OSC.

At the outset I am an individual investor not representing any consumer interest group. I can not help but wonder who the stakeholders are with respect to this proposal as quite frankly I estimate that very few main street investors will offer comments on this consultation as it is a very complex document written most probably for Bay Street.

The Proposed Amendments clarify that PDs may only distribute mutual fund securities of the same mutual fund family. Case in point, PDs working in the financial industry specifically banks already offer financial consumers banking services that everyone requires and hence have an edge of other financial industry participants in addition to additional ancillary services such as mortgages, loans, credit cards, GICs and investment products that include mutual funds and even to a lesser extent ETFs. My understanding is that financial institutions are far larger in the mutual fund market and that they do not have as much access, for whatever reasons, to ETFs as the non financial institution industry participants have. Most probably because mutual funds have higher MERs is my conclusion.

As a response to the above powers that financial institutions possess the CSA should:

- Audit the PDs for aggressive sales practices and tied selling situations such as discounting on complementary products if a customer moves their investment accounts to the financial institutions. These cross-selling opportunities represent unique opportunities for financial institutions to further dominate the market which is not in the best interests of customers / investors.
- Explain why it rejected or ignored the Ontario Taskforce report restricted shelf recommendations on securities market modernization and provide reasons why the OSC refused to publicly disclose its analysis to the Ontario Finance Minister’s letter of direction.

All main street investors should know by now that ETFs are the best for main street investors as the MERs are very minimal compared to mutual funds MERs. The fact that ETFs are still lagging mutual funds points to a knowledge gap that requires additional investor education programs being implemented, at a minimum by regulators. I do not see any proposed in this consultation, per se. Any wonder why mutual funds are a far larger segment at financial institutions.

Financial institutions have tremendous power due to the suite of financial products they offer while operating within a somewhat captive customer / investor market as branded funds are easier to move around in one financial institution. Consequently, why would financial institutions ever consider selling

ETFs or for that matter advise their customers that they can go to a financial dealer / broker and purchase competing mutual funds / ETFs with potentially the same risk profile at far lower MERs. On the contrary, most probably there will be a lot of pressure on financial representatives to sell the financial institutions mutual fund branded products that has been confirmed has been going on for many years.

There are many initiatives underway that may help consumers / investors such as but not limited to open banking that is coming hopefully sooner than later, yet my assessment is later. Unfortunately, what I have sadly learned over the years is that Canadian / Provincial financial industry regulation moves at a **glacial speed** incorporating study after study being commissioned, for whatever reasons unbeknownst to me, with very little meaningful change benefiting investors being implemented. My assessment is that the study results are not providing what the study initiators really want to hear so the decision is made to defer and study again. While all these studies/proposals are going on I have observed that financial regulation geared to consumer / investor protection moves faster in many other jurisdictions worldwide. Without adequate investor protection do you really think that our capital markets will continue to grow as one thing that is known for sure is that investment capital will move to the safest markets.

Given the glacial timeframes involved with these consultations, coupled with the complexity of the issues, it is no surprise that the contributors to these requests for consultations are primarily industry participants, that are the main beneficiaries as main street investors, me included, are watching these glacial movements and realizing that they are helpless to effect change. For example, look how long and how many millions / billions of dollars were paid by retail investors in compensation related to Deferred Sales Charges (DSC), that were finally banned.

Financial institutions selling their own products could potentially result in consumers / investors being sold more expensive and/or inferior performing funds than competitor products as the most obvious case would be selling mutual funds as opposed to ETFs that potentially carry the same risk profile but have quite different MERs.

A recent article in the [Investment Executive](#) by Harvey Naglie stated as follows *"this is not the first time that concerns have been raised about sales practices in Canada's major banks. As far back as the mid-2000s, banks began adopting exclusive proprietary shelves for mutual funds — prioritizing their own products over independent options. This strategy, aimed at maximizing internal profits, created an inherent conflict of interest. It incentivized bank employees to recommend products that aligned with the institution's bottom line rather than the best interests of their clients."* which highlights banks selling their own funds is clearly not benefiting customers / investors.

I fully appreciate the fact that it is very difficult to identify/ regulate high pressure sales tactics as maybe even if financial institutions were required to sell competing products at lower MERs potentially many consumers / investors would want to purchase financial institution branded mutual funds as they may be of the opinion that they are safer. Maybe the next generation of investors will be more financially astute and will look to non-financial institution (bank) offerings but the statistics show that financial institutions are growing their share of investment funds over the years so if this growth continues maybe only financial institutions will remain selling investment products. If that eventually comes to fruition, and I hope it never does, that will potentially have a major impact on Canadian capital markets, that by the way the OSC is trying to grow, most probably as Ontario needs capital for illiquid investments.

I wonder if the long-term implications of financial institutions being permitted to sell only their own branded products will impact consumers / investors retirement savings as even if mutual funds and ETFs have the same risk profile depending on the investing timeframe coupled with the financial quantum invested the difference in the MERs between the two investments could result in massive differences in projected valuations. In that regard financial institutions should be mandated to:

- In addition to my understanding the [OSC Mutual Fund Fee Calculator](#), financial institutions should provide similar investment calculation portals as part of their marketing information that will allow customers / investors to access and to compare the same variables so that customers / investors can isolate the effects of the MER on invested funds and most importantly be required to sign off that they reviewed the portal. This sign off can be built within the portal application itself. At a minimum customers / investor must be provided with the aforementioned link as part of marketing materials.
- All financial institution marketing material should clearly note in larger bolded font that potentially competing products can be purchased from other non-financial institution (bank) providers with fund facts provided as marketing materials to customers / investors that have a comparison of the fund to the index so that customers / investors can assess the proprietary fund's LTD performance.
- Warn customers / investors that the proprietary funds may not be able to be moved to other financial institutions / dealers without potentially exiting the fund(s) and realizing immediate tax consequences.
- Ensure that the proposed PD disclosure statements explicitly warn customers / investors of the potential material conflict of interests that exists between PD and their customers / investors.
- Educate or at an absolute minimum make investors aware of the potential pitfalls of investing in branded products that could have very similar risk profiles of competing non-branded products but the potential returns could be lower in the branded products due to significantly higher MERs, especially when considering ETFs.
- Provide access to either branded / unbranded ETFs that mirror all branded mutual fund products that they sell as my understanding is that many ETFs do currently exist that essentially mirror branded products.
- Given that many customers / investors could most probably mention fund names to the financial institution staff representatives, I do not want to use the term financial advisors as there is a lot of confusion around what that term really means, financial representatives should be clear and forthcoming why they can not sell non-branded funds.
- Prove to customers / investors that they have their customers best interests in mind with their recommendations. Personally, I do not know how that will be attained, measured, or even regulated given the seven bullets above except by many more plain language customer / investor sign offs being required as noted above.

With respect to the [OSC Mutual Fund Fee Calculator](#), please refer to [APPENDIX1](#) wherein I provided the variables that I used to compare branded mutual fund investments against the EFT investments using very conservative factors. Over the 10-year time frame the savings in fees using an ETF were \$13,044.06. Consequently, if customers / investors were aware of and used this tool or similar tools I would be surprised if branded mutual funds would be used for investing.

With respect to competition in the financial sector I direct your attention to [Fair Canada - Strengthening Competition in the Financial Sector](#) sent to the Department of Finance on **February 28-2024** which discussed the lack of competition and restricting access to third party mutual funds.

Given that PD compensation must be disclosed hopefully the disclosure will capture all potential compensation currently known or potentially going to be created going forward. Case in point, I noted the word “**compensation**” noted **thirty – four (34)** times in your consultation yet I still am unclear as to the actual meaning of compensation. The term “**compensation**” **must** be clearly defined so that all customers / investors understand all compensation sources with compensation calculations presented as a percentage which is the easiest for customers / investors to understand and get orders of magnitude to compare to their respective portfolios.

With respect to “**chargebacks**” all I can think about is the DSC process as the characteristics are effectively the same whereby the compensation structure encourages investors to stay in funds for a long time, or at least until the qualifying period for no chargebacks ends. There is no doubt that chargebacks will incentivize financial representatives to keep their customers / investors in their branded fund holdings until the chargeback period expires. By the way, an important consideration is that this is in direct conflict with a financial institution’s / dealers’ obligations to recommend and evaluate investment recommendations in the best interests of the customer / investor.

Personally, I can not envision why any financial representative would sell a branded fund utilizing a chargeback compensation model, unless of course that the branded funds have a high commission and / or MER structure. Given that all funds have potential performance risks that in and of itself would hopefully reduce the likelihood that an unsuitable or underperforming fund will be recommended to customers / investors.

I wonder why financial institutions would promote / carry any funds with chargeback compensation models is a valid concern as these funds have a high probability to cause potential downstream problems. In that regard, I am assuming that the compensation involved to all the participants selling the funds would potentially be higher to incent the financial representative to sell these funds and as such assume the risk of potentially being required to pay back commissions. With that said maybe the financial representatives, when selling the funds planned on leaving the respective financial institutions.

Given the above, if you do not ban chargebacks, I envision another DSC nightmare for retail investors.

In conclusion, this consultation, if enacted, will increase bank domination of the mutual fund industry resulting in retail investors retirement savings potentially being impaired by a portfolio of proprietary (branded) funds that are not best in class.

Please feel free to reach out to me if you require any clarification or have any questions.

Rick Price

APPENDIX1

To assess the effects of the MER on a branded fund versus a comparable branded / unbranded ETF, I used the following criteria in the comparison calculations:

Criteria	Branded Fund	Branded / Unbranded ETF
Initial Investment Amount	50,000.00	50,000.00
Holding Period (Years)	10	10
Quarterly Contributions	1,000.00	1,000.00
MER Percentage	2.00	0.50
MER Fees	17,413.51	4,369.48
Average Annual Costs (Percentage)	2.09	0.52