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Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
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CSA Notice and Request for Comment
Proposed Amendments to National Instrument 81-105 Mutual Fund Sales Practices and Related Consequential Amendments
http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_20180913_81-105_mutual-fund-sales.pdf

I appreciate the opportunity to provide commentary on mutual fund sales practices. Based on personal experience, I can unequivocally state that the DSC sold mutual fund (or any financial product) is not a product that should be sold to Canadians saving for retirement or other life goal. The CSA provides more than enough good reasons in the Consultation paper for banning the DSC.

Defenders of the DSC argue that investors should have “choice” in how they pay for mutual funds. More choice is not necessarily better choice. Adding an inferior choice to a pre-existing menu that is entirely adequate is not adding utility (and has clear disutility) to those being sold the fund. I can see no benefit as an investor in buying a DSC fund that locks me in for 7 years or requires a penalty payment if I am unhappy with the fund and want out. With today's economy ,job security is more risky, interest rates could increase , an emergency could arise, a better product becomes available or a person might just want to reduce credit card debt.(and save 18% p.a.). Ready access to cash is a primary feature of any sound investment program.

The only benefits that I see for the DSC is (a) a cheap way for dealers to pay fund sellers ; (b) increased dealer profits and (c) higher assets for the fund company on which to charge a management fee. There is also some profit to be made by the dealer by charging switch fees of up to 2%. It should be noted that under CRM2 cost reporting any early redemption penalty fees paid do not show up on the annual summary report. The only loser is the investor.

I also note that the Fidelity Canadian Growth Company Fund A series carries a MER of 2.45% while the FE version has a lower MER (2.27%). This is because the A series carries the overhead to recover the 5% upfront payment while the FE series does not have that burden. So, in principle, if the DSC is eliminated mutual funds in Canada would be cheaper and therefore client returns would be improved.

I disagree that a fund salesperson even needs DSC. Any salesperson can put smaller clients into FE 0%. Obviously when a new, small client starts a $100 a month plan, it won't be profitable for several years, but that's life. There will be enough salespersons who will take these smaller investors or they can go to the local bank / credit union and get no load or 0% FE. Robo-Advisors are also ideal for smaller accounts. There is absolutely NO reason why clients need to be locked into investments for 6-7 years. Plus, the DSC commissions on a $100 month investment is next to nothing so that won't help keep new Reps in the business while they build their books. If they put lump sums of $50-100K in DSC, that may help them stay in business until they can grow and no longer need DSC, BUT that would be harmful to the investor. Further , new Reps are the least experienced so they should not get a premium pay package (upfront pre-payment for services).

It has been reported that many salespersons become 'addicted' to DSC because getting a $4000 (from a $100K DSC sale) bump on a payday can help to pay some bills or pay for a vacation. That practice is entirely the opposite of acting in a client's best interests which is the aim of the CSA's proposed Client -focussed initiative.

I believe stakeholders are best served by eliminating the DSC altogether. It will also help stop fund churning, improper leveraging and other negative sales practices which the CSA is well aware of. This will lead to reduced compliance costs, less client complaints and reduced regulatory actions.

Eliminating the DSC is a critical step in professionalizing the wealth management industry and repairing its reputation.

The discount broker situation seems to me to be a no-brainer. How can it possibly be a fair, efficient and high integrity marketplace if discount brokers are allowed to sell mutual funds that contain a built-in commission for advice and services related to a purchase and then not provide that advice and service? It seems to me that all the CSA has to do is to tell these firms to stop overcharging or face enforcement action. Surely , the CSA knows what must be done to protect investors without this time consuming consultation. All it requires is the backbone to make the obvious call.

That 1 % extra trailer charge really hurts returns especially in a relatively low return environment with de-compounding over time further eroding client returns. My recommendation: Hold these dealers accountable and insist they return all their ill-gotten gains to victims. The CSA should also be asking some tough questions of fund managers - why are they giving fund assets to the discounters and how does that benefit unitholders? If the fund Manager and discount broker are related parties (e.g. affiliates of a bank) the stench gets even worse.

I hope this commentary is helpful to the CSA in supporting a ban on DSC and holding discount brokers and fund managers accountable for overcharging.

I am delighted that this letter will be publicly posted on the internet so that others can see what is going on.

Sincerely,
David Fieldstone