

May 30, 2017

The Honourable Charles Sousa
Minister of Finance
7 Queen's Park Crescent, 7th Floor
Toronto, ON
M7A 1Y7



Re: Protect Freedom of Choice for Ontarian Canadian Investors

Dear Minister Sousa,

On January 10th 2017, the Canadian Securities Administrators along with the Ontario Securities Commission launched Consultation Paper 81-408: Consultation on the Option of Discontinuing Embedded Commission.

While the Ontario Chamber of Commerce (OCC) applauds efforts to make fees in the financial industry more transparent, such transparency must not be at the expense of millions of Canadians losing access to advice and potentially not being able to amass adequate savings for retirement - which we believe would happen should embedded commissions be banned.

Since the crux of the embedded commission debate is about consumer protection, the Canadian Securities Administrators must avoid actions that will ultimately do more harm to consumers than good. Within this letter, the OCC presents several recommendations to protect consumer interests while ensuring they have the option to work with a commission based financial advisor should they so choose.

Currently, investors can choose to work with an advisor compensated by commission, a fee based on a percentage of financial assets under management, or a fee-for-service model. Completely banning embedded commissions will remove that choice and will result in many unintended consequences, including:

- Some independent fund dealers may choose to no longer service mass-market households.
- The creation of an "advice gap". Many investors may not be able to obtain the amount of advice they desire at the price they are willing to pay.
- Brick-and-mortar advice is likely to decline for mass-market investors.
- Independent dealers may have trouble maintaining their assets under administration.
- It is possible that the discontinuation of embedded commissions may disadvantage small-to-medium sized independent mutual fund dealers relative to full-service Investment Industry Regulatory Organization of Canada (IIROC) dealers as they rely more heavily on embedded commissions than do IIROC dealers.

At present, Canadian investors have three options when it comes to investing in mutual funds. They may forgo professional advice and choose investments themselves through a discount brokerage; they may seek the advice of a licensed Financial Security Advisor and pay a flat fee; or they may seek this same advice and pay a small percentage in commission. High net worth investors typically find a flat fee to be a better value, however 80% of Canadian investors pay their advisors through a commission system. The majority of these investors would not be able to pay their advisors the \$100-\$300 dollars per hour that high net worth investors pay.

Those who work with advisors enjoy considerable positive benefits, including greater use of tax-advantaged savings vehicles, improved asset allocation, more portfolio diversification and less speculative trading. In addition to receiving investment advice, those who work with an advisor also receive guidance on insurance products that offer protection to them and their families. A study conducted by the Cirano Centre for Interuniversity Research and Analysis of Organizations found that working with a financial advisor increases the value of assets by almost four times more than those who do not use an advisor.¹

The argument for banning embedded commissions hinges on the presumption that consumers do not understand the fees they are currently paying. In 2017, however, the Client Relationship Model Phase 2 (CRM2) was rolled out, under which fees on mutual funds were disclosed in client statements.

Removing commissions completely for financial advisors would be similar to what has taken place in the United Kingdom and Australia. In both jurisdictions, early results indicate these fundamental changes resulted in a major advice gap, wherein comprehensive financial advice is increasingly unaffordable for those who need it most. Additionally, in the United Kingdom, over 25% of financial advisors left the industry after these reforms. In Ontario, this would translate to over 20,000 job losses.

Furthermore, also in the UK, the change has resulted in fewer lower- to middle-income earners investing for their future with an alarming 50% fewer new investment accounts under £100,000 (\$176,456 CAD) being opened. Should similar changes take place in Canada, the result could be the majority of Canadians losing access to professional financial advice.

During the ramp-up to the proposed advent of the Ontario Retirement Pension Plan (ORPP), Premier Kathleen Wynne was committed to strengthening retirement income security for two-thirds of Ontario workers without a secure workplace pension plan. Discontinuing embedded commissions will only serve to exacerbate this concern.

1 <https://cirano.qc.ca/files/publications/2016s-35.pdf>

It is for these reasons that the Ontario Chamber of Commerce urges the Government of Ontario to:

1. Immediately suspend all efforts by the Ontario Securities Commission to ban embedded commissions on mutual funds.
2. Continue with fee disclosure on mutual funds using the Client Relationship Model Phase 2 (CRM2).
3. Collaborate with the Ontario and Canadian Securities Commissions, Advocis (Financial Advisors Association of Canada) and the Investment Funds Institute of Canada to develop a standardized fee disclosure process for Financial Security Advisors.
4. Require that all Ontario financial institutions offer investors a choice of a commission or fee for service model on each new account.
5. Collaborate with the Ontario Securities Commission, Advocis and the Investment Funds Institute of Canada to create a mandatory professional association for financial advisors under which advisors would gain legal recognition and be required to adhere to a common code of ethics and standards.
6. Collaborate with the Ontario Securities Commission, Advocis and the Investment Funds Institute of Canada to develop a program that will help improve the level of financial literacy for Ontarians.

Sincerely,



Richard Koroscil
Interim President & CEO
Ontario Chamber of Commerce