



November 6, 2015

by e-mail to: csa-acvm-secretariat@acvm-csa.ca

M. Louis Morisset
CSA Chair

Re: SIPA welcomes Cummings report on fund fees and performance

Dear Mr. Morisset,

The Small Investor Protection Association (SIPA) welcomes the report A Dissection of Mutual Fund Fees, Flows, and Performance from the Canadian Securities Administrators (CSA). The report confirms research elsewhere that mutual fund commissions influence mutual fund sales and adversely impacts investors' returns. The CSA report details the results of independent research carried out by a trio of academics on 10 years of data from 43 mutual fund companies. Research leader Professor Doug Cumming finds that:

- Mutual funds that perform better attract more sales.
- However, the influence of past performance on fund sales is considerably reduced when fund manufacturers pay sales and trailing commissions.
- As past performance becomes less influential on fund sales, so too is there a reduction in future fund performance.
- For mutual fund sales through fund distributors that are affiliates of the fund manufacturer, past performance has little to no influence on sales and this also negatively impacts future fund performance.
- For mutual fund sales through fee-based purchase options, fund sales are highly influenced by past performance, and this positively impacts future fund performance.

Report is available at http://www.osc.gov.on.ca/documents/en/Securities-Category5/rp_20151022_81-407_dissection-mutual-fund-fees.pdf The bottom line is: Retail investors are harmed by skewed advisor recommendations that erode returns and retirement income security.

The truth is that the investment advice is currently delivered under a suitability standard where there is no requirement to provide advice that is in the best interests of clients.

Another report (See Retail Financial Advice: Does One Size Fit All? This is available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2522934) this report estimated the degree of harm to investors. Using unique data on Canadian households, independent researchers assessed the impact of financial advisors on their clients' portfolios. They found that advisors induce their clients to take more risk, thereby raising expected returns. On the other hand, they found limited evidence of customization: advisors direct clients into similar portfolios independent of their clients' risk preferences and stage in the life cycle. An advisor's own portfolio is a good predictor of the client's portfolio even after controlling for the client's



characteristics. This one-size-fits-all advice does not come cheap. The average client pays more than 2.7% each year in fees and thus gives up the entire equity premium gained through increased risk-taking.

There is also research that shows that conflicted advisors tend to recommend leveraging rather than reduced spending or debt reduction. This provides far greater Assets Under Management on which to generate commissions, but is seldom in investors' best interests. All in all, we have a sales and marketing culture focused on the transaction under a suitability standard.

The Cummings report builds on a mountain of evidence that financial incentives impair investor returns. Prohibiting these incentives would be a step forward but it would not be a solution.

We believe the fundamental issue that is the root cause of so many Canadians losing their hard earned savings is the deception practiced by the industry into leading Canadians to believe that Financial Advisors will look after their best interests. Studies show that 95% of investors trust their so-called "Financial Advisor".

While that may be true, it is also true that most Canadians are not aware that "Financial Advisors" are either a fraudster or a regulated "Dealing Representative – A sales person" who has no legal obligation to look after their best interests.

It is time for the regulators to address this issue.

SIPA has promoted the fiduciary standard for advice providers for over a decade. A fiduciary standard is the most effective regulatory reform that would make putting investor best interests first. Such a reform is too important to leave solely in the hands of the fragmented assemblage of disparate provincial securities regulators.

We continue to believe that the investment industry aided by its regulators is misleading Canadians by deceiving them with the use of misleading titles for registered sales persons. As a result most Canadians place their trust and their savings in the hands of a sales person believing the title "Financial Advisor" implies they have a fiduciary duty. They are not aware that Financial Advisor is considered by the regulators as an "unregulated business title" commonly used by the industry.

There is no doubt that this deceptive practice is the fundamental reason that so many Canadians place complete trust in a commission driven sales person that often will place the client in leverage which amplifies the risk and too often results in substantial loss when markets are not rising strongly.

Accordingly, we have initiated a petition to our elected representatives that would inspire them to take decisive action to provide investor protection for all Canadians since the provincial regulators generally are unable or unwilling to do so. The petition "Elected Officials: Canadians Deceived by Investment industry calling sales persons Financial Advisors" can be found at: <https://www.change.org/p/elected-officials-canadians-deceived-by-investment-industry-calling-sales-persons-financial-advisors>



In support of Financial Literacy Month, SIPA has undertaken a Video Contest to help raise awareness of the deception currently practiced by the industry with regulatory knowledge. The contest closed October 31st and winners will be announced during Financial Literacy Month and will be published on the internet.

It is time for regulators to address this egregious deception and take positive action before Government is forced to intervene to protect the public from this insidious deception.

SIPA supports the use of the fiduciary standard for advice to match the needs of hard-working Canadians.

Yours truly

Stan I. Buell
President

Copy: Neil Gross (FAIR)
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SMALL INVESTOR PROTECTION ASSOCIATION

A Voice for Small Investors
Seeking Truth and Justice