SIPA
SMALL INVESTOR PROTECTION ASSOCIATION

A Voice for Small Investors
Seeking Truth and Justice

The Honourable Vic Fedeli, MPP
Minister of Finance
Frost Building South
7 Queen's Park Crescent, 7th floor
Toronto, Ontario M7A 1Y7

October 10, 2018

Dear Minister Fedeli,

For the last two decades SIPA has heard from thousands of victims of financial industry wrongdoing and listened to their tragic stories of how this has negatively impacted their lives. From our many years of experience, we believe you have been given incorrect information that DSC's have been serving Canadians well.

Unlike the UK and Australia, Canada has retained embedded commissions. The CSA is only trying to prohibit the DSC sold mutual fund option with its outsized upfront commission locking investors in for 7 years.

According to Stephen S. Poloz, Governor of the Bank of Canada the amount of debt held by Canadian households has been rising now for about 30 years. Canadian households owe over $2 trillion. The average Canadian owes about $1.68 for every dollar of income he or she earns per year, after taxes.

Advisors dependent on these quick and larger commissions that DSC's provide are put into a terrible conflict of interest with their clients. Seniors as we know can have rapidly changing needs due to changes in their health and care needs. Yet we find seniors are particularly vulnerable to being taken advantage of in this manner since they are often the ones with savings. The penalties to access their own hard-earned savings when needed are heart-breaking.

Instead of locking any Canadian, young or old, into investments with DSC's maybe we need to be encouraging more of them to pay down debt with any extra cash, or to put together a rainy-day fund. Many households do not have enough liquid savings to cover any emergency or unexpected expenses like a new furnace, roof, car repairs, or even if an appliance breaks down. To have their savings locked away is both unwise and unfair.

The DSC is being used by the industry to finance new fund salespersons. It is NOT about investor choice. Real choice for investors would be between retail advisors who are accountable to a fiduciary duty and accept no conflict-based remuneration and the current situation of working with a salesman! The DSC option is advisor choice and industry choice. You are presently siding with the financial institutional elite when the little guy needs those in power to demand accountability for this elite. The DSC is an aggressive remuneration option designed to get sales reps quickly established and the more they are willing to take advantage, the more important the DSC becomes. A new salesperson is not going to come into the business unless they can earn immediate money. Rather than through a DSC it would be better if a dealer paid a salary. If a dealer takes the risk of paying some base salary, logic dictates they would be far more engaged in the quality of the advisor they license. This would a better route.

The DSC poses several problems to the investing public. The DSC significantly increases overall investment management fees. Paying a 5% upfront fee to a sales person plus 0.5% per year leaves mutual fund managers with a large expense to recover prior to making a profit for themselves, this inevitably translates into higher fees borne by the investor. DSCs give the incentive for an advisor to work hard to get their new clients into an investment but leaves little incentive to do any work thereafter. Once they've committed to the investment the advisor has received the lion's share of their compensation and arguably has little direct motivation to continue fostering his or her relationship with the client.

The DSC locks small unsophisticated investors into a mutual fund for up to 7 years. If the investments do not perform as anticipated, or a client has a legitimate need for cash, redeeming out of these funds is a costly move. Small investors have access to a number of other economical choices that would not be impacted if the DSC option were banned.

The financial industry has generated an image of advice and service when in reality it is based upon selling product. We have interviewed many victims and found that most of them knew very little about investing. They simply trusted their Financial Advisor to look after their savings. They truly believed that their advisor would and many believed this person had a fiduciary duty to do so. Sadly, this is not the case here in Canada. SIPA's report "Advisor Title Trickery" indicated 121,932 total registrants in Canada in the investment industry yet only 3% of those are registered in a category where a true fiduciary professional responsibility is legally required. The current suitability regime, loaded with conflict-of-interest, can hardly be called "advice". But now it is being used as a basis to provide what is purported to be ever more fulsome financial advice and its deficiencies are glaringly apparent. Additionally, with an aging client population, fewer defined pensions being offered by employers and more defined contribution plans being part of the future, there is an increasing need for Canadians to have access to impartial professional financial advice that can be trusted is in their best interests.

One small step forward for small investors would be the elimination of Deferred Sales Charges. A larger much more needed step, is for advice givers to be held to the highest standard when handling Canadians hard-earned savings and their trust. Please reconsider your position and stand up for the interests of the little guy, not big corporations.

Sincerely,

Stan I. Buell President