Kenmar Associates
Investor education and Protection

VIA email April 11, 2014

Richard J. Corner
Vice President, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, ON M5H 3T9
Sent via e-mail to: rcorner@iiroc.ca

Manager of Market Regulation
Ontario Securities Commission,
19th Floor, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
Sent via e-mail to: marketregulation@osc.gov.on.ca

RE: IIROC Request for Comments re Client Relationship Model – Phase 2, Performance Reporting and Fee/Charge Disclosure
http://www.iiroc.ca/Documents/2013/7ef9baf6-18b2-4a0c-a75b-9c33d30fdd52_en.pdf

Kenmar Associates is an Ontario- based privately-funded organization focused on investment fund investor education via on-line research papers hosted at www.canadianfundwatch.com.Kenmar also publishes ***the Fund OBSERVER*** on a bi-weekly basis discussing investor protection issues primarily for investment fund investors. An affiliate, Kenmar Portfolio Analytics, assists, on a no-charge basis, abused investors and/or their counsel in filing investor complaints and restitution claims.

Kenmar is pleased to offer comments on the Investment Industry Regulatory Organization of Canada's ("**IIROC**") Request for Comments regarding IIROC's proposed amendments to Dealer Member Rules 29, 200 and 3500 and to Dealer Member Form 1 (collectively the "**IIROC CRM2 Amendments**") to implement IIROC rule requirements that are substantially the same as the amendments to National Instrument 31-103 announced by the Canadian Securities Administrators ("**CSA**") on March 28, 2013 relating to annual account performance reporting, pre-trade and trade confirmation disclosures and annual account fee/charge reporting (collectively, the "**CSA CRM2 Amendments**") (together, the "**CRM2 Proposals**").

1. <u>Kenmar Supports Cost Disclosure and Performance Reporting</u>

1.1. Kenmar have been advocating for these reforms for over a decade. We were active participants in the now defunct Fair Dealing Model. We wholeheartedly endorse the proposed cost disclosure and performance reporting requirements contained in the CRM2 Proposals. Kenmar is looking for consistency in application across the regulatory spectrum i.e. regardless of whether they are a member of IIROC or the MFDA or are directly regulated by a CSA member, all are subject to the same requirements without any material differences. It is important that investors can meaningfully compare the reports they may receive from various dealers irrespective of which regulator directly oversees each firm, to the greatest extent possible.

1.2 Kenmar supports the requirement that all financial intermediaries, including IIROC dealer members, provide essential financial information to investors so that they are able to answer three basic questions about their account: (1) What much am I paying in fees? (2) What rate of return am I making? and (c) how does this compare to my financial plan? Currently, most investors do not have visibility on these matters. See also this research paper concluding that investor's perception of their own performance has a small correlation to their actual results.

APPENDIX I lists some of the references and research we used in preparing this Comment letter.

2. Comments on the IIROC CRM2 Amendments

2.1. Our specific comments on the IIROC CRM2 Amendments are as follows.

a) Pre-Trade Disclosure of Charges

2.2. We support a formal requirement that a retail customer be informed of all fees/charges associated with a client instruction to purchase or sell a security in an account before the purchase is effected. This is just plain common sense .Disclosure after the fact is not disclosure at all.

2.3. We recommend that such disclosure, which includes “whether the firm will receive trailing commissions in respect of the security”, should include the dollars and cents amount of such trailing commissions. Experience has shown that investors comprehend dollar and cents amounts much better than amounts expressed in percentage terms.

2.4 Discount brokerages should be required to notify investors who buy investment funds as to whether a trailing commission will be paid to the dealer in respect of the fund purchased. As noted in our submission in respect of CSA Consultation 81-407 Mutual Fund Fees, discount brokerages should offer F class funds without trailing commissions at prevailing brokerage rates to their clients given that no “advice” is permitted to be provided or at least make available a reduced trailer version. A small number of firms now offer D series funds that meet this requirement .[.For over a decade discount brokers have collected fees, without effective disclosure, via trailing commissions for advisory services they could not and did not provide. Conversely, during this period retail investors paid for advisory services they did not receive. Disclosure is not the solution for misappropriation of client assets. IIROC must require dealers to rebate the portion of trailing commissions received for providing advice that they did not provide.]

b) Client Account Statements

2.5. Meaningful account statements are an essential component of increasing the awareness and

knowledge of investors and their ability to make informed personal financial and economic decisions and detect abusive practices such as account churning. Areas where statements can be improved include:
1. Inclusion of security symbols and stock codes
2. Not considering mutual funds an asset class in asset allocation tables
3. An indicator if a security is subject to DSC charges
4. Valuation method for transferred in securities (state if market value used as "original cost")
5. Better clarity re ROC
6. Delivery no more than 10 days after period end

Some firms include Messages with the statement that aid in understanding the information and/or important changes to the fund(s) such as a change in fees or price breakpoints. As a minimum. we recommend that IIROC dealer members be required to send monthly account statements to their clients if the client has requested to receive statements on a monthly basis, as is required by section 14.14(2) of National Instrument 31-103. We believe Rule 200.2(d) should be amended accordingly. There should be no charge for mailing paper copies of these statements or trade confirmation slips. Font size should provide for easy readability. Client statements should avoid industry jargon and acronyms. The appearance of account statements should be uncluttered, with ample separation between different sections.

c) Account Performance Reporting

2.6.Kenmar recommends that IIROC dealers be required to provide annualized percentage return information for the most recent 1-, 3-, 5- and 10-year periods from account inception, unless the dealer member reasonably believes that the annualized total percentage return for the period before July 15, 2015 is not available, in order to be consistent with the CSA CRM2 Amendments. All performance reports should be generated by the firm, and not by the dealer Rep in order to ensure adequate management controls, accuracy and consistency. Since the CSA require security valuations based on Fair Market Value, we recommend dealers have a written pricing policy if not currently available.

d) Fee/Charge Reporting Including Third Party Compensation

2.7. We agree with the FAIR Canada recommendation that the fee/charge report have a heading for "Compensation we received through third parties" as set out in Appendix D of National Instrument 31-103, in accordance with the CSA CRM2 Amendments. This clarity will be of great benefit to retail investors.

(I) Regulatory Definition of Trailing Commissions

2.8. According to our research there is no widely accepted definition of trailing commission in securities law. We believe that the Commissions and SRO's should agree on a common definition given the materiality of the numbers involved. The definition provided in Appendix B to the CSA Notice and Request for Comments on Proposed Amendments to NI 31-103 published on June 14, 2012 was as follows:

"“trailing commission” means any ongoing payment to a registered firm in respect of a security purchased for a client that is paid out of a management fee or other charge to the investment.”

It is good benchmark text. It makes it clear that the money is coming out of the investment which is key. It should also be clearly explained that the dealer received such commissions directly as a result of sales to the investor.

(ii Rationale for Disclosure of the Trailing Commission

2.9. The disclosure of trailing commissions to investors serves two distinct purposes:
(1) lets investors know how much they have paid for any services they receive, and
(2) lets investors know if, and how much, their financial services provider is earning in third party commissions in order to be sensitive to any conflicts- of- interests. As an aside, while fee-based accounts should contain F class funds, we have uncovered cases where full MER funds are in the account, resulting in “double dipping”. Ditto for IPO's.

2.10. Numerous research studies have confirmed that retail investors have a low awareness of trailing commissions and a weak understanding of how trailing commissions influence recommendations made (they also do not appreciate the de-compounding effect trailers have on long term results). In general, investors have very little understanding about how the advisor they have entrusted to provide them with advice is compensated.

2.11. We believe some reference should be made of the fact that trailers reduce returns.

2.12 Reporting should be on an account basis, (related US currency accounts could be converted at a published rate and disclosed if merged with CDN $ accounts).

3. Comments on CSA Staff Notice 31-337 FAQs and Additional Guidance

3.1. CSA Staff Notice 31-337 Cost Disclosure, Performance Reporting and Client Statements – Frequently Asked Questions and Additional Guidance as of February 27, 2014, at Question 2, addresses the client statement and annual report requirements for Exempt Market Dealers (“**EMDs**”). It suggests that EMDs would be required to deliver one account statement with transactional information and would not be required to deliver an annual report on charges and other compensation nor an annual investment performance report where there is only one transaction and there is no “ongoing relationship”. We agree with FAIR Canada that all registrants should be required to provide these reports if the client has incurred charges or costs or if the EMD has received commission payments as a result of the transaction in question.

3.2 Question 3 provides that if the security held by the firm is not a security as defined in securities legislation, then the registered firm will not be subject to any requirement in NI 31-103 for reporting on that investment. This would eliminate GIC's, index linked GIC's, PPN's and segregated funds. Like

FAIR, Kenmar does not agree with this narrow, legalistic interpretation of an advisory firm's obligations especially firms that claim to be wealth managers. If the investment has been recommended by the registrant/dealer, we question why the registrant/dealer would not be required to provide reporting on its performance and provide annual charge/fee reporting on the investment. This is what we understand to act honestly, fairly and in good faith means.

3.4. Question 4 provides that short-term trading fees paid to an investment fund must be disclosed in a trade confirmation slip but are not included in the requirements for the annual report on charges and other compensation. However, National Instrument 31-103 lists short-term trading fees as an example of a transaction charge viz:

"Transaction charges" is also defined broadly in section 1.1 and examples include (but are not exclusive to) commissions, transaction fees, switch or change fees, performance fees, <u>short-term trading fees</u>, and sales charges or redemption fees that are paid to the registrant. Although we do not consider "foreign exchange spreads" to be a transaction charge, we encourage firms to include a general notification in trade confirmations and reports on charges and other compensation that the firm may have incurred a gain or loss from a foreign exchange transaction as a best practice.

3.5 We agree with FAIR Canada that since such charges decrease account performance they should be included. Kenmar also believe currency conversion fees in registered plans, wrap fees, asset allocation fees, margin interest, and fees for transferring assets out of an account are reportable costs. Where a commission on a bond transaction is articulated, it should be a reportable cost.

3.6. Question 27 regarding reporting of mutual fund related charges provides that if a security sold by a client triggers a DSC early redemption charge, but no commission or other payment goes to the registered dealer or adviser, there is no requirement to include it in the annual charge report. Since it was the dealer /Rep that recommended a DSC security and/or agreed to its suitability, it makes sense to report such early redemption charges. These charges can be material and increase client costs and reduce portfolio returns.

4. <u>Further Reforms Beyond CRM2 Needed to Adequately Protect Retail Investors</u>

4.1. Kenmar believe that other regulatory changes are needed to make CRM2 successful. These include but are not limited to pre-sale delivery of Fund Facts for mutual and other investment funds, removal of embedded commissions in investment funds, misleading titles and introducing the Best interests standard. Kenmar have also requested that the known NAAF/KYC regime deficiencies be corrected. As a recent IIAC report on seniors has indicated, there are numerous actions required from dealers to adequately protect the elderly. Ensuring that Canadians have adequate savings for their retirement is in the Public interest. Securities regulators are mandated to foster fair and efficient capital markets and protect investors. Regulators need to react with a sense of urgency.

4.2 ***<u>Benchmark information reporting</u>***

The Brondesbury finding (Reference 28) that only 4 out of 10 understood the notion of a 'benchmark of comparable funds' or the 'S&P/TSX composite index' suggesting that people are better at understanding the simpler forms of performance reporting rather than those relying on a comparison to some mix of investments implies that regulators and dealers have an important educational opportunity. Including a benchmark will prompt investors to ask questions and over a relatively short time, the concept of benchmarking will be understood by a majority of retail investors. We concur with the Brondesbury finding on benchmarking that a simple understandable but imperfect benchmark will help investors more than a complex perfect benchmark that they don't understand. In the extreme, just including the CPI or a 5-year GIC rate would be better than no benchmark at all.

Without a benchmark an investor has no context in evaluating performance. We urge regulators to require benchmarks. Ideally, the expectation should be that dealers would provide their clients with a meaningful and relevant benchmark against which the performance of the client's account can be compared. While benchmark returns closely matching the nature of the portfolio and/or the client's stated investment objectives is ideal, even a simple benchmark will provide some context. It would at least make it possible for the investor to determine whether the fees paid are worth it for the risks being taken. Thus, we believe that requiring investment dealers to provide each client with a general description of benchmarks, the factors that should be considered when using them and whether the firm offers any options for benchmark reporting to clients is an inadequate response to the information needs of investors in a non-fiduciary relationship.

4.3 ***Trade confirmation slips***

Although it has not been customary to regard them as such, confirmation slips are effectively a "point-of-sale" disclosure document. The legal importance of these slips are not clear to investors. Many terms on the slip are not understood by retail investors e.g. Agent, Unsolicited. Inadequate attention to confirmation slips could be to their detriment. We urge the IIROC to prepare a short brochure explaining the importance of trade confirmation slips and associated terminology.

4.4 ***Disclosure of available investor protection funds***

There should be a disclosure that the securities held by a party other than the dealer on which the dealer receives continuing compensation are covered/not covered by the CIPF; and if these are covered under any investor protection fund and name the fund/website.

4.5 ***Investor education***

Once CRM2 is introduced most investors will be presented with a set of information that they have never seen before .Many will not have the foggiest idea why the information is important or how to use it. It is vital that regulators provide educational materials to investors on how to use the cost and return information. Without this education, many of the potential benefits of CRM2 will be lost. As the costs may not be insignificant, plans should include budget funds for a comprehensive investor education initiative. This would include website, brochures, APPS, Videos/DVD's, community appearances and TV/cable.

4.6 ***IIROC Membership Disclosure***

We think IIROC Membership Disclosure would add to investor protection. We recommend that Dealers

be required to include the IIROC Official Logo on the front of each trade confirmation slip and account statement sent to clients .IIROC may also want to have dealers :
(1) display the IIROC Official Decal at each physical Dealer Member business location to which retail clients have access;
(2) prominently display the IIROC Official Logo on their website

One further point. We have stated on numerous occasions that consultations such as this one are fundamentally deficient in that the number of industry respondents far outnumbers those from the investor side. This imbalance can mislead IIROC. We therefore repeat our request that IIROC establish a funded Investor Advisory Panel to ensure the voice of Main Street is heard.

Kenmar Associates agree to public posting of this Comment Letter.

We would be pleased to discuss our comments and recommendations with you in more detail at your convenience.

Sincerely,

Ken Kivenko P.Eng.
President, Kenmar Associates
kenkiv@sympatico.ca

APPENDIX I: Selected References

1. Mutual Fund Fees: The High Cost Of Canadian Funds http://www.boomerandecho.com/mutual-fund-fees-the-high-cost-of-canadian-funds/

2. How Mutual Fund Sales Are Compensated In Canada http://wheredoesallmymoneygo.com/how-mutual-fund-sales-are-compensated-in-canada/

3. **Morningstar Research report Global Fund Investor Experience 2011**
http://corporate.morningstar.com/us/documents/researchpapers/globalfundinvestorexperience2011.pdf
“Canada is the only country in the survey with TERs in the highest grouping for each of the three broad categories.”

4. **CSA93/01 Mutual Fund Sales Incentives [CSA Notice - Rescinded]**
http://www.bcsc.bc.ca/histpolicy.aspx?id=4148&cat= (January 20, 1993)

5. **Out of Sight, Out of Mind: The Effects of Expenses on Mutual Fund Flows**, Barber, Brad, Terrance Odean, and Lu Zheng, 2005, Journal *of Business*
782095−2120.http://papers.ssrn.com/sol3/papers.cfm?abstract_id=496315 ABSTRACT: We argue that the purchase decisions of mutual fund investors are influenced by salient, attention-grabbing

information. Investors are more sensitive to salient in-your-face fees, like front-end loads and commissions, than operating expenses; they are likely to buy funds that attract their attention through exceptional performance, marketing, or advertising. Our empirical analysis of mutual fund flows over the last 30 years yields strong support for our contention. We find consistently negative relations between fund flows and front-end load fees. We also document a negative relation between fund flows and commissions charged by brokerage firms. In contrast, we find no relation (or a perverse positive relation) between operating expenses and fund flows. Additional analyses indicate that mutual fund marketing and advertising, the costs of which are often embedded in a fund's operating expenses, account for this surprising result.

6 **Bridging the Trust Divide: The Financial Advisor-Client Relationship**
http://knowledge.wharton.upenn.edu/papers/download/ssga_advisor_trust_Report.pdf'

7. Bridging the Advice Gap :Delivering Financial products in a post RDR world [UK]
http://knowledge.wharton.upenn.edu/papers/download/ssga_advisor_trust_Report.pdf' Full report at http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Financial%20Services/uk-fs-bridging-the-advice-gap.pdf

8. **Implications of the Commission Grid for Investors**
http://blog.getsmarteraboutmoney.ca/preet-banerjee-commission-grid-for-investors#.UE3rddZlSco
"These complex grid structures are designed to influence behaviours of investment advisers. For example, we can see that an investment adviser whose production is less than $100,000 per year is heavily penalized no matter what size the individual transactions are. (Rookie advisers are not subject to the full grid during their first few years.) As another example, an adviser who has a book of client assets totaling $10 million and charges them an average of 1% in commissions per year will generate $100,000 in commissions overall, but keeps as little as $10,000 while the firm takes $90,000. This adviser will either be forced to quit due to lack of income or he/she will have to change the way they do business in order to hit higher production levels.""The grid is the enemy of savings-it creates an incredible amount of pressure to generate volume."

9. Assessing the costs and benefits of brokers in the mutual fund industry http://www.cfr-cologne.de/download/researchseminar/WS0607/CostsAndBenefitsOfBrokers.pdf
"Many investors purchase mutual funds through intermediated channels, engaging and paying brokers or financial advisors for fund selection and advice. This paper attempts to quantify the benefits that investors enjoy in exchange for the higher costs they pay in order to purchase funds through the broker channel. We focus on five measurable potential benefits to consumers of brokered fund distribution: (a) Assistance selecting funds that are harder to find or harder to evaluate; (b) Access to funds with lower costs *excluding* distribution costs; (c) Access to funds with better performance; (d) Superior asset allocation, and (e) Attenuation of behavioral investor biases. Exploring these dimensions, we do not find that brokers deliver substantial tangible benefits. In short, while brokerage customers are directed toward funds that are harder to find and evaluate, brokerage customers pay substantially higher fees and buy funds that have lower risk-adjusted returns than directly-placed funds. Further, brokered funds

exhibit no better skill at aggregate-level asset allocation than funds sold through the direct channel. This analysis implies that any benefits that exist must be found along less tangible dimensions. "

10. **Why-A-Fiduciary-Standard**
http://faircanada.ca/wp-content/uploads/2012/06/Why-A-Fiduciary-Standard_-Kivenko.pdf

11. **Intermediary Commissions and Kickbacks**
http://www.cepr.org/meets/wkcn/5/5567/papers/OttavianiFinal.pdf

12 . Understanding the Incentives of Commissions Motivated Agents: Theory and Evidence from Indian Life Insurance http://www.centre-for-microfinance.org/wp-content/uploads/attachments/csy/1918/Life%20Insurance%20Agents.pdf

13. **Financial Advisors Encourage Bad Behavior**
http://www.forbes.com/sites/rickferri/2012/03/30/financial-advisors-encourage-bad-behavior/
The Market for Financial Advice: An Audit Study This working paper by Sendhil Mullainathan (Harvard), Markus Noeth (University of Hamburg), and Antoinette Schoar (MIT), was recently published by the National Bureau of Economic Research (NBER), a private, non-profit, non-partisan research organization. Most individual investors consult a financial advisor before purchasing investments. Given the central role of advisors in the investment process, Mullainathan, Noeth and Schoar tested whether financial advice serves to de- bias individual investors and thus correct mistakes they might make without these inputs, or whether advisors encourage the same bad behavior. The study defines 'good advice' as recommendations that move investors toward a low-cost, diversified index fund approach, which textbook analyses on mutual fund investing suggests. Overall, their findings suggest that the market for financial advice does not alter individual investor biases, and if anything may exaggerate existing biases. They also found that advisor self- interest plays an important role in generating recommendations that are not in the best interest of the clients. They are unwilling to lean against these biases even when they know they exist because not doing so helps them further their own economic interest.

14. **What is the Impact of Financial Advisors on Retirement Portfolio Choices and Outcomes?**http://www.smeal.psu.edu/csfm/PERS3_201110.pdf "Although we cannot conclude that those investing through a broker would have been better off investing on their own, our findings suggest that brokers are a costly and imperfect substitute for financial literacy..."

15. **Risks to Customers from Financial Incentives** http://www.fsa.gov.uk/static/pubs/guidance/gc12-11.pdf [UK FSA] This is an excellent document demonstrating how incentives distort advice. The FSA found that:
• Most firms did not properly identify how their incentive schemes might encourage staff to mis-sell. This suggests they had not sufficiently thought about the risks to their customers or had turned a blind eye to them.
• Many firms did not understand their own incentive schemes because they were so complex, making it harder to control them.
• Firms did not have enough information about their incentive schemes to understand and manage the risks.
• Most firms relied too much on routine monitoring, rather than risk-based monitoring, such as performing more

checks on staff with high sales volumes.
• Some firms had sales managers with a clear conflict of interest that was not properly managed.
• Many firms had links to sales quality1 built into their incentive schemes that were ineffective.
• Some firms had not done enough to control the risk of potential mis-selling in face-to-face situations.
Such results have caused the FSA to essentially ban commissions.

16. **Financial Advisor or financial salesperson?**
http://retirehappyblog.ca/financial-advisor-or-salesperson/ "One of the big challenges of the financial industry is that most compensation and profits are driven by the sale of financial products like mutual funds and RRSPs. Unfortunately for Canadians, most financial advisors do not get paid to do financial or retirement plans. In fact most financial advisors are not paid for advice. All of their plans and advice are "FREE"." The article lists some of the scare tactics used to get clients to invest more.

17. **Conflicts of interest in the financial industry** http://balancejunkie.com/conflicts-of-interest-financial-industry/ The author provides some examples of questionable advice coming from the financial industry because of conflicts of interest. Example: "Pay off debt or invest?: "Why won't my advisor sell Exchange Traded Funds? Jon and Irene have some friends that have decided to move out of their mutual funds and into Exchange Traded Funds (ETFs). ETFs are appealing because they are low cost investment products. Their friends showed them some compelling research showing how higher fees puts investors at a disadvantage. Why didn't their advisor suggest ETFs? Most ETFs are lower cost because they either have lower compensation or in most cases, NO compensation built in for the advisor. As a result advisors must either charge a transaction fee to get compensated or they have to charge a discretionary fee directly to the client. What's best for Jon and Irene really depends on the value provided by the advisor."

18. **90% SALES 10% ADVICE :A SNAPSHOT OF THE FINANCIAL PLANNING INDUSTRY** http://www.industrysupernetwork.com/wp-content/uploads/2011/10/A-snapshot-of-the-financial-planning-industry-110930-1010version.pdf **"**The facts set forth in the report support the position long held by ISN that ongoing commissions and asset-based fees for advice enable planners and dealer groups to earn 'passive' income at the expense of consumers and should be banned, along with all other forms of conflicted remuneration. If ongoing asset-based fees are permitted to continue, credible reform requires that these fees be subject to a regular 'opt-in' mechanism. The ASIC [Australian Securities Commission] report has pulled back the curtain to reveal the extent to which the structure of the financial planning industry impedes planners from being able to act in the best interests of their client. The *Future of Financial Advice* reforms are essential to restructure this industry to serve the interests of clients, who are relying on advisers to help them save for retirement, build wealth, and otherwise manage their financial lives. However, the financial planning industry has stridently opposed the key aspects of reform legislation that would clean up their industry. The ASIC report makes this opposition easy to understand: this is an industry built around conflicted remuneration and passive income charged to millions of unwary clients (often from their compulsory super) who receive no ongoing services. "

19. **What renders financial advisors less treacherous? – On commissions and reciprocity**
https://papers.econ.mpg.de/esi/discussionpapers/2010-036.pdf "An advisor is supposed to recommend a financial product in the best interest of her client. However, the best product for the client may not always be the product yielding the highest commission (paid by product providers) to the advisor. Do advisors nevertheless provide truthful advice? If not, will a voluntary or obligatory payment by a client induce more truthful advice?

According to the results, only the voluntary payment reduces the conflict of interest faced by advisors.

20. **What Do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives** by SUSAN E. K. CHRISTOFFERSEN, RICHARD EVANS, and DAVID K. MUSTO. **ABSTRACT** We ask whether mutual funds' flows reflect the incentives of the brokers intermediating them. The incentives we address are those revealed in statutory filings: the brokers' shares of sales loads and other revenue, and their affiliation with the fund family. We find significant effects of these payments to brokers on funds' inflows, particularly when the brokers are not affiliated. http://onlinelibrary.wiley.com/store/10.1111/j.1540-6261.2012.01798.x/asset/j.1540-6261.2012.01798.x.pdf?v=1&t=hckxeghx&s=3bcea6c51c751e62a4f9b8a974adf03762dd1e61 February 2013.

21. **The Pension Fund Advantage: Are Canadians Overpaying Their Mutual Funds?** By Rob Bauer Maastricht University and Luc Kicken ,October 1, 2008
Rotman International Journal of Pension Management, Vol. 1, No. 1, Fall 2008
Abstract: The institutional structure through which individuals accumulate retirement savings is an important issue. Ideally, it is expert and low-cost. This article compares the cost-effectiveness of the pension fund structure with the mutual fund structure. The authors hypothesize that the pension fund structure provides investment management services at lower cost because most mutual funds are conflicted between providing good financial results for their clients and good financial results for their shareholders. Specifically, they compare the investment performance of a sample of domestic fixed income portfolios of Canadian pension funds with those of a sample of Canadian fixed income mutual funds. They find an average performance differential of 1.8 percent per annum in favor of pension funds. This performance gap is approximately equal to the average cost differential between the two approaches. They conclude that high mutual fund fees significantly reduce the net returns of mutual fund investors. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1290645

22 **The Marketing of Closed-end Fund IPOs** This study investigates a well-documented puzzle in finance literature: the anomalous aftermarket behavior of closed-end fund initial public offerings (IPOs)... While industrial IPOs have an average initial day return of approximately 16 percent, closed-end fund IPOs show zero first-day returns. Furthermore, while the short-term price of industrial IPOs increases, the short-term price of closed end funds decreases. After five months of trading, industrial IPOs provide a cumulative market adjusted return of 18.5 percent (Ritter (1987)), compared to a -12.6 percent return for closed-end funds (Weiss (1989)).http://fic.wharton.upenn.edu/fic/papers/94/9421.pdf

23. **Financial Advisors: A Case of Babysitters?**
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1360440&rec=1&srcabs=1009196&alg=1&pos=2
(2011) **Abstract:** We use two data sets, one from a large brokerage and another from a major bank, to ask: (i) whether financial advisors are more likely to be matched with poorer, uninformed investors or with richer and experienced investors; (ii) how advised accounts actually perform relative to self-managed accounts; (iii) whether the contribution of independent and bank advisors is similar. We find that advised accounts offer on average lower net returns and inferior risk-return tradeoffs (Sharpe ratios). Trading costs contribute to outcomes, as advised accounts feature higher turnover, consistent with commissions being the main source of advisor income. Results are robust to controlling for investor and local area characteristics. The results apply with stronger force to bank advisors than to

independent financial advisors, consistent with greater limitations on bank advisory services.

24 **The Marketing of Closed-end Fund IPOs**

This study investigates a well-documented puzzle in finance literature: the anomalous aftermarket behavior of closed-end fund initial public offerings (IPOs)... While industrial IPOs have an average initial day return of approximately 16 percent, closed-end fund IPOs show zero first-day returns. Furthermore, while the short-term price of industrial IPOs increases, the short-term price of closed-end funds decreases. After five months of trading, industrial IPOs provide a cumulative market-adjusted return of 18.5 percent (Ritter (1987)), compared to a -12.6 percent return for closed-end funds (Weiss (1989)).http://fic.wharton.upenn.edu/fic/papers/94/9421.pdf

25 **The $25 billion annual mutual fund rip-off**
http://cupe.ca/pensions/The_25_billion_annua
A comprehensive study by Canadian pension fund expert Keith Ambachsheer has found that defined benefit pension plans in Canada achieved annual average returns at least 3.8% higher than mutual funds with comparable investments. Defined Benefit pension funds outperformed the market by 1.23% per year, while mutual funds had average returns that were 2.6% below the market during the 1996 to 2004 period. Returns for most mutual investors were even less than this, as a result of sales fees and consistently poor selection of mutual funds by misinformed investors: buying high and selling low. This means that those with savings in mutual funds lost a total of about $25 billion a year from the higher management fees and lower returns compared to workplace pension funds. Higher management fees are responsible for about $15 billion of this.

26 **CSA 2012 Investor Index**
Key findings show that almost 30 %t of Canadians surveyed believe they have been approached with an investment fraud at some point in their life. Over half agreed they were just as likely to be a victim of investment fraud as anyone else. However, just 29 % of those who believe they have been approached with a fraudulent investment said they reported the most recent occurrence to the authorities. The *Investor Index* also shows that the overall investment knowledge of Canadians is low, with 40 per cent of Canadians failing a general investment knowledge test. According to the findings, 57 % of Canadians say they are confident when it comes to making investment decisions. Yet most Canadians have unrealistic expectations of market returns. When asked what they think the annual rate of return on the average investment portfolio is today, only 12 % of Canadians gave a realistic estimate, while 29 % provided an unrealistic estimate and 59 % explicitly chose not to hazard a guess. Nearly half of Canadians (49 per cent) say they have a financial advisor, up from 46 % in 2009 and 42 per cent in 2006. However, 60 % of those with a financial advisor have not ever completed any form of background check on their advisor. Thirty-one per cent of Canadians say they have a formal written financial plan, up from 25 % in 2009. Although more Canadians have a financial plan, they are reviewing it less frequently (78 % say they reviewed their plan in the past 12 months, down from 83 % in 2009). http://www.securities-administrators.ca/investortools.aspx?id=1011

27. **A 2010 DALBAR study *Trends and Best Practices in Mutual Fund Statements* report** observed:" … A telling sign that mutual fund statements are not meeting basic client expectations can be found in the area of performance reporting. According to a consumer preference study that

DALBAR conducted, the most important statement feature valued by investors is overall rate of return information on their portfolio. A disappointing 68% of mutual fund providers are omitting this crucial piece of information on their statements." The majority of firms in the study did not earn a DALBAR Designation because its mutual fund statement scored less than 60 points out of a possible 100 points. http://www.dalbarcanada.com/content/view/114/66/

28. The Brondesbury Group *Report: Performance Reporting and Cost Disclosure*
http://www.osc.gov.on.ca/en/SecuritiesLaw_rpt_20110622_31-103_perfomance-rpt-cost-disclosure.htm , confirms these findings as well - most retail investors do not have the information they need to make informed decisions.

29 **Duties of Disclosure**
http://www.lawgazette.com.sg/2003-6/June03-feature.htm

30. **A GOOD YEAR** :"...You may have read in the media that some firms are resisting these regulatory changes [cost/performance disclosure] as it takes a major investment to comply with them.However as Canada's leading wealth management firm , we support these changes and are making the necessary investments. We believe better disclosure and transparency will result in a more positive experience for you"- David Agnew, CEO of RBC Wealth Management Canada. Source: Wealth Management Review, April, 2014 Doc # 94938 (RBC Bank was the first bank to resign from OBSI and RBC investments made numerous attempts to be exempted from using OBSI)

31. SEC Charges Transamerica Financial Advisors With Improperly Calculating Advisory Fees and Overcharging Clients
http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370541392449#.U0hduye9KSN

31. Trailer Fees Payment Market Practice ISITC
http://www.isitc.org/publish/showDoc.cfm?contentId=0000005513_001_20100105.pdf

32. **U.K. FCA review shows too many advisory firms are not yet clear enough with their customers on their charges and services** - Financial Conduct Authority (UK)
http://www.fca.org.uk/news/fca-review-shows-too-many-advisory-firms-are-not-yet-clear-enough The FCA surveyed 113 firms - including banks, small and large financial advisers, and wealth management firms - to see how they had implemented these so-called disclosure rules, and said it had found that "too many" were not being clear with consumers. The FCA found 73% of firms had failed to provide the required information on the cost of advice. For example, 58% failed to give customers clear, upfront general information on how much their advice might cost, while more than a third either failed to provide a clear explanation of the service they offer in return for an ongoing fee, or failed to properly outline the customer's cancellation rights.

33. **CRM2 and Investor Behaviour Feb**. 27, 2014 Smarten Up Institute
http://iiac.ca/wp-content/uploads/SESSION_6_CRM2.pdf (54 pages)