Session 4 – open / diverse group

Introduction

We received 142 comment letters on CSA Paper 81-408 *Consultation on the Option of Discontinuing Embedded Commissions*.

The objectives of the BCSC roundtable sessions are to clarify our understanding of the impact of eliminating embedded commissions and of the alternatives proposed by some commenters.

We will not have time at the roundtable session to summarize the comment letters. Below we list the questions that we would appreciate receiving your input on at the session. Your input will help inform our decision on whether to move forward with discontinuing embedded commissions or to pursue alternatives.

Thank you in advance for participating. We look forward to meeting with you.

Key investor protection and market efficiency issues identified in consultation paper

Based on research and evidence that the CSA reviewed, we are concerned with three key investor protection and market efficiency issues:

1. Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors;
2. Embedded commissions limit investor awareness, understanding and control of dealer compensation costs; and
3. Embedded commissions paid generally do not align with the services provided to investors.

Topic 1: Discontinuing the deferred sales charge (DSC) purchase option

We have evidence strongly suggesting that DSC products harm investors the most, due to investor complaints about suitability and restrictions on redeeming or changing investments. Some comment letters suggested we should eliminate only the DSC purchase option as an alternative to banning all embedded commissions.

- Should we ban DSC products as an alternative to banning all embedded commissions?

Topic 2: Capping or standardizing trailing commissions

Some comment letters suggested that capping or standardizing trailing commissions might sufficiently address the conflicts created by embedded commissions.

- Would capping or standardizing trailing commissions address the key issues identified in the consultation paper?

Topic 3: Tying compensation to advice

We are concerned that the level of advice that investors receive may not correlate with the embedded fees that they pay. We are also concerned that investors may not be clear about what services they are paying for.

- What regulatory changes would align services delivered with fees paid?
- In addition to CRM2 (cost disclosure), what regulatory changes would make investors aware of the fees they are paying for and the services they receive in return?

Topic 4: Option of discontinuing embedded commissions

- Is there a combination of reforms, not including banning embedded commissions, that can alternatively address the key issues identified in the paper?

- Potential unintended consequences of discontinuing embedded commissions include an advice gap for small accounts and market shifts to segregated funds and other products not subject to securities regulatory requirements. What other unintended consequences are possible if we discontinue embedded commissions?