

From: larry elford
Sent: May 27, 2011 12:40 PM
To: Publicaffairs@obsi.ca/Affairespubliques@obsi.ca
Subject: comments on suitability for OBSI consultation paper

Thank you for the well reasoned and well written consultation paper on investment suitability. I would like to add a comment or two which I hope might add to the discussion.

Each of my comments may be difficult for the industry to swallow or to agree with, as each one I feel addresses issues of honesty and fair play in providing an investment service:

As nearly each person in Canada is representing him or herself as an "advisor", and each company is advertising and promising a similar service to the public, honesty and fair play is a fair expectation by members of the public.

In this regard, it is unsuitable when choosing a mutual fund to recommend to a client, to choose the one which pays the highest commission possible, and may include a higher management fee (and lower investment performance) as a result. Unfortunately the vast majority of mutual fund choices are sold with the DSc option, which is arguably the "most suitable" choice for the compensation of the seller, and not for the customer. So, in this regard, I might suggest that something like "four out of five" persons who call themselves "advisor" are failing in their duty to advise fairly and honestly and instead are choosing the most suitable product for commission earning purposes instead of for customer benefit. This is an industry wide failure with sales statistics (mutual fund sales) to back it up. Some source info found at www.investoradvocates.ca

Secondly, a long term investment rule or principle that has always held, but I have never seen it actually enforced, is the rule of "best execution". It refers to order execution, and it requires customer orders to receive the best price they possibly can receive. I again, point out that more than 80% of mutual fund "advice" is contrary to this rule, and if it were to be enforced, customers would be owed a refund for any mutual fund purchased with a high commission choice (DSC for example), when there are identical but cheaper (or less restrictive) alternatives available for the customer. The practice of selling the highest commission choice has become "standard industry practice, but again, fails in the honesty and fairness testing.

Third, is the written principle or rule of providing the client with true, clear, plain disclosure. When I was witness to several hundred million dollars of sales of mutual funds while I worked in the industry for two decades, I noticed a great deal of time and effort dedicated to NOT informing the customer of his or her investment choices, but rather an extreme dedication to hiding these choices, while informing the customer that the highest commission generating choice was the best for him or her. It was a classic case of a hundred million dollar "bait, and switch" operation, whereby the customer is led to believe that their best interest and best advice would be provided, while actually providing them with information that only supported the highest commission and or fee generation choices. see <http://www.examiner.com/crime-in-calgary/larry-elford>

Unfortunately the sale of investments is, and was done by commission salespeople, without disclosure to the public that this has always been the case. It is a constant reminder of the

principle of DECEPTIVE MARKETING PRACTICES, as outlined in the criminal provision of the Competition Act of Canada. It is supported by false and misleading representations by the industry as to the roles, titles, and compensation of those they employ as "advisors", and this may be another violation of the criminal code of Canada. Fortunately the industry has self regulating privileges, which give it the powers to "decriminalize" any behaviours that are advantageous to the industry. InvestorAdvocates has considerable information available to the public about this at <http://www.investoradvocates.ca/viewtopic.php?f=1&t=173&sid=5bda266aa4c375a5d2bf52a0ba50e04f>

It is expected that one day, the privilege of self regulation, which allows decriminalization and willful blindness of rules and laws, will be eased out in favour of client first principles which are actually enforced, and not just written down for appearance. I would like to thank OBSI for it's efforts in this regard.

Further information regarding the misrepresentative marketing practices that are considered standard operating procedure by the industry can be found at www.investorvoice.ca with particular attention to the MARKARIAN vs CIBC WORLD MARKETS discussion of false and misleading sales practices by a Quebec Superior Court Judge. http://investorvoice.ca/Cases/Investor/Markarian/Markarian_index.htm

Larry Elford, former CFP, CIM, FCSI, Associate Portfolio Manager, retired
Lethbridge Alberta