MFDA Investor *Bulletin*

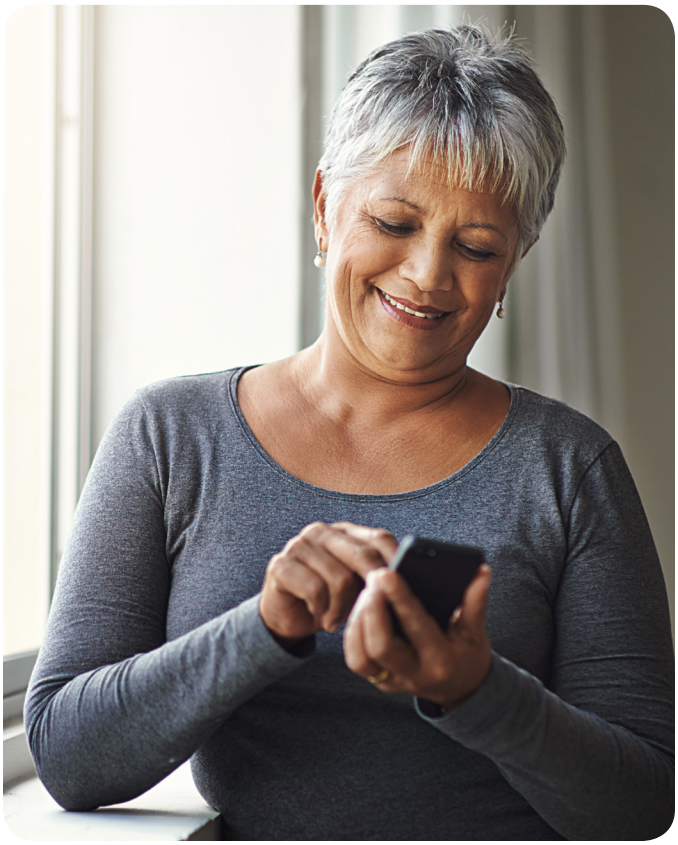
JUNE 2019 **SENIORS MONTH**

IN THIS ISSUE:

June is Seniors' Month and to mark the occasion the MFDA is issuing an Investor Bulletin with a focus on protecting seniors and seniors' issues.

Protecting Seniors

The protection of seniors from financial harm is a priority for the MFDA. As part of its initiative to protect seniors, the MFDA places an emphasis on cases involving senior investors, and provides assistance to seniors in documenting and filing their complaints with the MFDA. In addition to the assistance seniors receive in documenting their complaint, all complainants receive a phone call from MFDA case assessment staff to explain the MFDA's complaint process and the services offered by the Ombudsman for Banking Services and Investments.



MFDA™

Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

World Elder Abuse Awareness Day

The United Nations has designated June 15 as World Elder Abuse Awareness Day. The World Health Organization estimates that 15.7% of people 60 years and older are subject to abuse. Contrary to what may be assumed, the abuser is rarely a stranger and is often a person who is close to the victim such as a family member, a care giver or a companion. Elder abuse can be physical, psychological and financial.

Financial abuse of seniors is a particular form of elder abuse that often involves the stealing or unauthorized use by the abuser of the senior's money or property. Examples of financial abuse include:

- Pressuring a senior into giving the abuser money (can be through physical threat, emotional manipulation, or neglect of care)
- The misuse of a power of attorney by the abuser to obtain the senior's money or property
- Unauthorized purchases using the senior's money for the abuser's own benefit
- Forcing or tricking a senior into signing legal or financial documents (e.g. wills, trade forms)

The MFDA is working to protect senior investors in Canada by offering training and guidance to MFDA Members and advisors on how to identify financial abuse and actions that can be taken to protect the financial assets of seniors and other vulnerable clients who may be victims.

WORLD ELDER ABUSE AWARENESS DAY
Building Strong Support for Elders

Suitability and Know-Your-Client Requirements

MFDA rules require that dealers and advisors make investment recommendations that are suitable for each client account. This is called the suitability requirement. The proper application of the suitability requirement by an advisor should result in an investment portfolio that is in alignment with a client's risk tolerance, investment objectives time horizon and financial means. Additionally, dealers must supervise their advisors' activities for compliance with the suitability obligation.

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In order to make suitable investment recommendations, your advisor needs to understand your financial situation, investment needs and objectives, tolerance for risk and investment time horizon. This should be done through a discussion with your advisor about your investment goals, capacity to withstand losses and attitude towards risk, among other factors. This information about you, which is called know-your-client or "KYC" information is used by your advisor when making investment recommendations.

When you first open an account your KYC information may be recorded on the new account application form (which may be paper based or electronic). It is important to make sure that the KYC information recorded on the form is accurate and complete so that your advisor can provide you with advice that is suitable for you and your needs. Make sure you receive a copy of your recorded KYC information and keep it in a safe place in case you need to reference it at a later time. If you do not have a copy of your KYC information you can ask your advisor or dealer to provide it to you.

After you open your account your dealer will remind you to review your KYC information annually and to update it if necessary. You should also contact your advisor to update your KYC information if there has been a significant event that has changed your financial status such as retirement, changes in marital status or the diagnosis of a serious illness.

Good to Know

You should never sign a blank form. When a blank form is signed it affects the integrity and reliability of documents and destroys necessary audit trails. Signing a blank form poses similar risks to signing a blank cheque, which is something most Canadians would never do. The MFDA has prosecuted cases where blank signed forms were used by advisors to commit fraud.

Investors who travel frequently or reside out-of-country for large portions of the year may be concerned about processing trades while away, but signing a blank form is not the solution. If you are concerned about processing trades while you are away, speak to your advisor about the proper procedure that can be used so that your advisor can accept your verbal instructions.

Know How You Pay Your Fees

It is important to have a fulsome discussion about fees with your advisor so that you fully understand the amount of fees you pay and how you pay the fees.

There are two primary ways investors can pay fees for investment advice when investing with a mutual fund dealer:

1) Sales Charges and Trailing Commissions

You may pay fees through a combination of sales charges and trailing commission which are paid to your dealer indirectly through the fund's Management Expense Ratio or MER. For more information on the MER, sales charges and trailing commissions, please see the **Fees and Charges Glossary** at the end of this bulletin.

2) A Fee Based Account

In a fee based account you pay an annual fee based on a percentage of the amount you have invested in the account. For example, an investor with $100,000 invested may be charged an annual fee of 1% or $1000 by the dealer directly. This fee is paid directly by you to the dealer generally by withdrawing money from your account. Your dealer will not receive a trailing commission and you will not be charged any sales commissions on fee based assets.

Speak to your advisor about how you are charged fees and which fee options are best for you given the value of your account and the services you receive. Don't be afraid to ask whether fees are negotiable.

Every year you will receive a Charges and Compensation report from your dealer which provides important information on the amount of fees you paid to the dealer in the year. Make sure you review and understand this report and discuss any questions or concerns you may have with your advisor. For more information on the Charges and Compensation Report please visit: **www.mfda.ca/wp-content/uploads/CRM2-InvestorsGuide.pdf**.

Make sure you understand how much you pay in fees as well as how these fees are paid by you.

Fees and Charges Glossary

Deferred Sales Charge or Low Load Fee

With a deferred sales charge fund you do not pay a fee when purchasing a mutual fund. A deferred sales charge is paid when you sell or redeem your mutual funds. However, the longer you hold a deferred sales charge fund the lower the fee becomes. Here is an example of a deferred sales charge fee schedule:

	You Pay:	
When you sell units of your mutual fund	In percent	For every $1,000 you sell
Within 2 years	5.5%	$55
During the 3rd year	5%	$50
During the 4th year	4.5%	$45
During the 5th year	4%	$40
During the 6th year	3%	$30
During the 7th year	1.5%	$15
More than 7 years after buying	0%	$0

The example above is a seven year schedule. Some funds have a shorter fee schedule such as three years which is sometimes referred to as a **low load fee**.

Using the schedule above as an example if you held the mutual fund for three years and at that time it was worth $5000 you would pay a deferred sales charge fee of 5% of $5000 which is $250. $250 would be subtracted from your $5000 redemption and you would receive $4750 from the proceeds of the sale.

Many fund companies allow you to withdraw a certain amount, usually 10% annually, out of deferred sales charge funds without a charge.

Front-end Sales Commission

This is paid from your initial purchase before your money is sent to the fund manager. For example if you have $2500 to invest into a mutual fund with a front-end sales commission of 1% then $25 will go to the dealer and $2,475 will be invested into the mutual fund.

Management Expense Ratio or MER

The management expense ratio or MER is paid directly to the fund manager **as a percentage** of the value of assets in the fund. The amount calculated from the MER goes towards paying: 1) Fund Management and Operating Expenses of the fund, and 2) Trailing Commissions.

1) Fund Management and Operating Expenses:
The fund manager receives a fee for the management and administrative costs of operating the fund from the amounts calculated through the MER. These amounts are not set out in the Charges and Compensation Report.

2) Trailing Commission:
The fund manager pays a portion of the amounts calculated through the MER to the dealer for ongoing service to you for as long as you own the fund. Part of the trailing commission may be paid to your advisor by the dealer to monitor your account and provide you with on-going advice. The total trailing commissions paid to your dealer in a year for the investments you own is set out in the Charges and Compensation Report.

While you do not pay the MER directly, it reduces a fund's return. Two mutual funds that are exactly the same other than their MER will produce different returns equal to the difference in their MER. For example, a mutual fund with an MER of 2.5% will produce a return for an investor of 1% less than the exact same fund with an MER of 1.5%.

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