UNIVERSITY OF TORONTO
FACULTY OF LAW

Investor Protection Clinic

INVESTOR PROTECTION CLINIC
UNIVERSITY OF TORONTO
78 QUEEN'S PARK
TORONTO, ONTARIO
IPC.LAW@UTORONTO.CA
WWW.IPC.LAW.UTORONTO.CA

An IPC Brief - Summer 2021

THE FEES GLOSSARY

COSTS YOU PAY IN INVESTING – WHAT ARE THEY CALLED?

Introduction

It can be very confusing and daunting to understand the many different fees, commissions, charges, or costs that are associated with all of the investment products that are available to you. This IPC brief is intended to help you make sense of some of the more common costs and jargon that you may encounter.

It is important to note that some of these items may be defined or labelled differently by the firm you are dealing with. So you should always check the terms and definitions used on your account statements by your financial institution or investment advisory firm.

Mutual Funds - Charges and Commissions

Front-end loads (Also Known As - initial sales charges)

A front-end load is a commission applied at the time when you initially purchase an investment (usually a mutual fund). This fee generally ranges from 0% to 5% of the amount invested. You can negotiate this fee with your financial advisor, and they are often waived.

Back-end loads (AKA deferred sales charges)

When you purchase a fund with a back-end load, the mutual fund company pays your advisor's firm a fee on your behalf, (typically around 5%). There is no fee charged to you until you withdraw your money. The amount, if any, of this fee paid to the mutual fund company depends on how long you stay invested in the fund. Since most mutual funds are managed to generate performance over the long term, the back-end arrangement encourages investors to stay invested for a set period (usually between 5 and 7 years). If you sell your units before the end of that period, you pay a fee that typically declines each year that you stay invested. If you stay invested for the full schedule, there is no fee when you sell your units.

Trailer commissions

A trailer commission (also known as a trader fee) is paid by a mutual fund manager to a salesperson, who sells the fund to investors and provides them with investment advice and services.

Charges When You Switch, Buy, or Sell

Switch fees

A switch fee is a fee which may be charged by the dealer or fund manager when you switch from one fund to another within the same fund family. **Clients can negotiate switch fees**.

Early redemption fees

A redemption fee is a fee charged to an investor when they redeem or sell their units or shares in an investment or fund. This fee, also known as an exit fee, exit load, market timing fee, or short-term trading fee, is charged by the fund company and then added back to the fund. Typically, it only applies when shares or units are sold within a specified time frame.

Trading commissions

Brokers and investment advisors often charge clients commissions for using their services. These are also called trading fees. They basically pay to execute orders on the sale or purchase of securities including stocks, commodities, options, or ETFs. Commission charges vary from firm to firm, so it's important to verify a brokerage's fee schedule before you decide to use their services.

The Investor Protection Clinic at the University of Toronto is extremely grateful for funding provided by The Law Foundation of Ontario.

UNIVERSITY OF TORONTO
FACULTY OF LAW

Investor Protection Clinic

INVESTOR PROTECTION CLINIC
UNIVERSITY OF TORONTO
78 QUEEN'S PARK
TORONTO, ONTARIO
IPC.LAW@UTORONTO.CA
WWW.IPC.LAW.UTORONTO.CA

An IPC Brief - Summer 2021

THE FEES GLOSSARY

COSTS YOU PAY IN INVESTING - WHAT ARE THEY CALLED?

What are management charges/fees/expenses?

Management expenses occur in the context of a managed fund. In a managed fund, the money invested by many investors is pooled together and an investment manager uses the money to buy a basket of investments.

These expenses are the sum of:

1) Management fees: The management fees cover all direct expenses in managing the investments, such as hiring the portfolio manager and investment team.

2) Operating expenses: This is a catch-all term that covers many different expenses included in the management expense ratio, including:

- bookkeeping and administrative fees
- marketing costs
- filings with the provincial securities commissions
- legal fees
- audit fees
- custodian fees

3) Any taxes payable on the above expenses.

Management Expenses will often be disclosed in the form of the Management Expense Ratio (MER). The MER represents the fees you pay as a percentage of the value of your investment in the fund.

Advisory, Discretionary and Managed Accounts: How do you pay for investment advice?

An advisory account is an investment account that includes advisory services. In addition to providing advice, some investment advisory accounts give the advisor the power or discretion to make investment decisions on your behalf without obtaining your approval each time. Investors pay advisory fees for these services. They are sometimes referred to as management fees.

There are different ways that advisory accounts could charge an investor for the services provided:

- Asset-based fees: A percentage of all assets under management will be charged each year. Advisory accounts typically charge fees in this manner.
- Transaction-based fees: Also known as commissions. Typically a flat fee per transaction.
- Annual charges.
- A combination of the above.

To find out how you are being charged, check the terms of your account. If it's still unclear or you're unsure, ask your advisor!

The Investor Protection Clinic at the University of Toronto is extremely grateful for funding provided by The Law Foundation of Ontario.