

## Trailing Fees Class Action Commenced

April 10, 2018

On April 9, 2018, a prominent plaintiff-side class action law firm in Toronto issued a proposed class action against TD Asset Management Inc. ("TD") claiming over \$200,000,000 in damages. The representative plaintiff, Gary Stenzler, is a unitholder of mutual funds for which TD is the trustee (the "TD Funds"). Mr. Stenzler holds the relevant units in the TD Funds through a discount broker. The proposed class includes all persons who held or hold units in TD Funds through a discount broker.

The claim alleges that, according to the TD Funds' Fund Facts documents, TD pays trailing commission fees from the assets of the TD Funds to brokers as compensation for "services and advice" provided to unitholders. The claim further alleges that since discount brokers are precluded by IIROC rules from providing any advice to unitholders, and since discount brokers provide effectively no service to unitholders, there is no basis for TD, as trustee, to pay the discount brokers any commissions on this basis.

The claim pleads two primary causes of action. First, the claim alleges that by paying trailing fees to discount brokers who did nothing to earn them, TD as the trustee of the TD Funds breached the fiduciary duties that the plaintiff alleges TD owes to the unitholders of the TD Funds. The plaintiff alleges TD owes these fiduciary duties pursuant to the TD Funds' declarations of trust (the claim alleges that all of the relevant **funds are organized as trusts**), and pursuant to **section 116 of the Ontario Securities Act**. In both cases, the plaintiff alleges that TD owes a duty to the unitholders to act honestly, in good faith, and in the unitholders' best interest. The allegation is that by paying the trailing fees even though the plaintiff alleges there was no basis to do so, TD impermissibly dissipated the trust property, in breach of trust. The claim further alleges that because some of the impugned trailing fees were paid to TD's own discount brokerage, TD Direct Investing, TD was in a conflict of interest and further breached its fiduciary duties by paying those fees.

Second, the claim alleges an actionable misrepresentation in the TD Funds' Fund Facts documents, which are incorporated in the TD Funds' Simplified Prospectuses. The plaintiff alleges that the documents represent that trailing commissions would be paid to brokers in respect of "services and advice". The plaintiff alleges that the discount brokers were not actually paid in respect of "services and advice" (as it alleges that the discount brokers provided neither) and, therefore, the Simplified Prospectus and Fund Facts contained a misrepresentation. The plaintiff claims this constitutes an actionable misrepresentation pursuant to **section 130 of the Ontario Securities Act**.

Finally, the plaintiff alleges that since certain TD funds offer Series D units, designed with no trailing fees related to service or advice and meant to be sold through discount brokers, TD breached its duties to the unitholders of units in other series by allowing them to hold those units through discount brokers. The plaintiff alleges that TD should have only allowed Series D units to be held through discount brokers.

By

[David Di Paolo](#), [Graham Splawski](#)

Expertise

[Securities Disputes](#), [Class Actions](#)

---

## **BLG | Canada's Law Firm**

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

[blg.com](http://blg.com)

## **BLG Offices**

### **Calgary**

Centennial Place, East Tower  
520 3rd Avenue S.W.  
Calgary, AB, Canada  
T2P 0R3

T 403.232.9500  
F 403.266.1395

### **Ottawa**

World Exchange Plaza  
100 Queen Street  
Ottawa, ON, Canada  
K1P 1J9

T 613.237.5160  
F 613.230.8842

### **Vancouver**

1200 Waterfront Centre  
200 Burrard Street  
Vancouver, BC, Canada  
V7X 1T2

T 604.687.5744  
F 604.687.1415

### **Montréal**

1000 De La Gauchetière Street West  
Suite 900  
Montréal, QC, Canada  
H3B 5H4

T 514.954.2555  
F 514.879.9015

### **Toronto**

Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada  
M5H 4E3

T 416.367.6000  
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing [unsubscribe@blg.com](mailto:unsubscribe@blg.com) or manage your subscription preferences at [blg.com/MyPreferences](http://blg.com/MyPreferences). If you feel you have received this message in error please contact [communications@blg.com](mailto:communications@blg.com). BLG's privacy policy for publications may be found at [blg.com/en/privacy](http://blg.com/en/privacy).

© 2024 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.