



Canadian Securities
Administrators

Autorités canadiennes
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CSA and CCIR Joint Notice and Request for Comment

Proposed Amendments to

National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

and to

Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

and Proposed

CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance

Total Cost Reporting for Investment Funds and Segregated Funds

April 28, 2022

Introduction

The Canadian Securities Administrators (the **CSA**) and the Canadian Council of Insurance Regulators (the **CCIR**, together, the **Joint Regulators** or **we**), are publishing, for a 90-day comment period, proposed enhanced cost disclosure reporting requirements for investment funds and new cost and performance reporting requirements for individual variable insurance contracts or IVICs (referred to here as **Segregated Fund Contracts**), as described below (collectively, the **Proposals**).

The Proposals have been developed by a joint project committee composed of members from the CSA, CCIR, Canadian Insurance Services Regulatory Organizations (**CISRO**), Investment Industry Regulatory Organization of Canada (**IIROC**) and the Mutual Fund Dealers Association of Canada (**MFDA**) (together referred to as the **SROs**) (the **Project Committee**). The Proposals follow on work securities regulators began after the completion of the Client Relationship Model, Phase 2 (**CRM2**) project in 2016 and recommendations published by the CCIR in a December 2017 position paper on segregated funds, as revised in June 2018 (**CCIR Segregated Funds Position Paper**).

The Proposals for the securities sector (the **Proposed Securities Amendments**) are for amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103** or the **Instrument**) and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**31-103CP** or the **Companion Policy**).

The Proposals for the insurance sector are for an *Individual Variable Insurance Contract Ongoing Disclosure Guidance* (the **Proposed Insurance Guidance**) – an enhanced disclosure framework for Segregated Fund Contracts. The CCIR expects each of its member jurisdictions will adopt the framework by local guidance or, in certain jurisdictions, regulation. In addition to including cost and performance reporting guidance, the Proposed Insurance Guidance also includes additional ongoing performance disclosure guidance designed to bring the insurance sector into closer harmony with the securities sector, as well as guidance with respect to ongoing disclosure with respect to Segregated Fund Contract guarantees.

The Proposed Securities Amendments would apply to all registered dealers, advisers and investment fund managers. The Proposed Insurance Guidance would apply to all insurers offering Segregated Fund Contracts to their policy holders.

This notice contains the following annexes:

- Annex A – Specific questions regarding the Proposed Securities Amendments
- Annex B – Specific questions regarding the Proposed Insurance Guidance
- Annex C – Proposed Amendments to NI 31-103
- Annex D – Proposed changes to 31-103CP
- Annex E – Blackline showing changes to NI 31-103 under the Proposed Amendments
- Annex F – Blackline showing changes to 31-103CP under the Proposed Amendments
- Annex G – Sample prototype statement and report for the securities sector
- Annex H – Sample prototype report for the insurance sector
- Annex I – Local matters
- Annex J – Proposed Insurance Guidance
- Annex K – Segregated funds and investment funds: differences between products, distribution channels and regulation

This notice will be available on the following websites of CSA jurisdictions:

www.lautorite.qc.ca
www.asc.ca
www.bsc.bc.ca
www.fcnb.ca
nssc.novascotia.ca
www.osc.ca
www.fcaa.gov.sk.ca
www.msc.gov.mb.ca

This notice will also be available on the CCIR website: <https://www.ccir-ccra.org>.

Substance and Purpose

The Proposals are part of the Joint Regulators' harmonized response to concerns we have identified relating to current cost disclosure and product performance reporting requirements for investment funds and segregated funds. The Proposed Insurance Guidance also addresses concerns about ongoing disclosure regarding Segregated Fund Contract guarantees. We seek to enhance investor protection by improving investors' and policy holders' awareness of the ongoing embedded fees such as management fund expense ratios (**MER**) and trading expense ratios (**TER**) that form part of the cost of owning investment funds and segregated funds. The Proposed Insurance Guidance also seeks to enhance policy holder protection by improving policy holders' awareness of their rights to guarantees under their Segregated Fund Contracts and how their actions might affect their guarantees.

One important concern is that there are currently no requirements for securities industry registrants or insurers to provide ongoing reporting to investors and policy holders on the amount of such costs after the initial sale of the investment product, in a form which is specific to the individual's holdings and easily understandable. While fund facts and ETF facts documents required to be delivered at the point of sale for some investment funds contain certain disclosure concerning the ongoing costs of ownership of those funds, those documents are not tailored to the individual's holdings or required to be delivered on an ongoing basis and this requirement only applies to a subset of investment funds¹.

Research carried out by the Ontario Securities Commission's (**OSC**) Investor Office and the Behavioural Insights Team)² in connection with the adoption of CRM2 shows that Canadian investors presented with a sample annual charges and compensation report, assumed that it included embedded fees associated with investment funds, when it does not include such fees.³

¹ Other continuous disclosure documents prepared by investment funds, such as annual statements or management reports of fund performance, are not prepared by all investment funds, present information in a form which may be complex for retail investors to understand and do not allow investors to understand their total costs of investing, as they present information which is specific to a single issuer or group of issuers.

² Behavioural Insights Team is a social purpose company part-owned by the U.K. Government.

³ See OSC Staff Notice 11-787 [Improving Fee Disclosure Through Behavioural Insights](#), August 19, 2019, p. 11.

We believe it is important that investors and policyholders be aware of all of the costs associated with the investment funds and segregated funds they hold, as these fees can impact their returns and have a compounding effect over time. Furthermore, transparency about costs may encourage more competition, which would benefit investors and policyholders.

The Proposals would require disclosure of the ongoing costs of owning Segregated Fund Contracts and investment funds, both as a percentage, for each fund or segregated fund, and as an aggregate amount, in dollars, for all investment funds or investments in a Segregated Fund Contract held during the year.

The Proposals are as consistent as possible between the securities and insurance sectors with respect to disclosure of the ongoing costs of owning Segregated Fund Contracts and investment funds, taking into account the material differences among those products and in the ways the two sectors and their regulatory regimes operate. Differences include who provides cost disclosure to clients, how often account statements are typically sent, distribution channels and product features, as indicated in the table in Annex K.

Summary of Proposals

Securities sector

The Proposed Securities Amendments would add the following new elements to client reporting under NI 31-103:

- in the account statement (s.14.14) or additional statement (s.14.14.1) as appropriate, the fund expense ratio, stated as a percentage for each investment fund held by the client; and
- in the annual report on charges and other compensation (s.14.17) for the account as a whole:
 - the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
 - the aggregate amount of any direct investment fund charges (e.g., short-term trading fees or redemption fees), in dollars.

Fund expenses would be calculated by reference to the fund expense ratio, which would be defined as the sum of the MER and the TER. This definition is consistent with how that term is used in the context of a mutual fund's fund facts document and with how the term "ETF expenses" is used in the ETF Facts document.⁴ The methodology for determining the information included in the reports would be prescribed in order to ensure comparability for investors and a level playing field for registrants. Explanatory notes, substantially in a prescribed form tested with investors, would be included as appropriate.

The Proposed Securities Amendments would apply to all registrants to which the requirements to deliver an account statement, additional statement or annual cost and compensation report

⁴ See item 1.3 of Part II of Form 81-101F3 in *National instrument 81-101 Mutual Fund Prospectus Disclosure*.

currently apply,⁵ in respect of all investment funds owned by their clients, including scholarship plans, labour sponsored funds, foreign funds, mutual funds, non-redeemable investment funds, prospectus-exempt investment funds and exchange-traded funds.

Existing exemptions for statements and reports provided to non-individual permitted clients (including, for example, many different institutional investors), pursuant to subsections 14.14.1(6) and 14.17(5) of NI 31-103, would continue to apply. SRO rules would be amended to be uniform in substance with final amendments to NI 31-103.

Registered investment fund managers would be required to provide the registered dealers and registered advisers with certain information that the dealers and advisers would require in order to prepare the enhanced statements and reports for their clients.

The Proposed Securities Amendments would allow investment fund managers to rely on publicly available information disclosed in an investment fund's most recently published fund facts document, ETF facts document, prospectus or management report of fund performance, unless this information is outdated, or the investment fund manager reasonably believes that doing so would cause the information reported in the statement or report to be misleading.

If advisers or dealers are unable to rely on information provided by investment fund managers or believe that doing so would cause the information reported in the statement or report to be misleading, they would be required to rely on the most recent publicly available information in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, and if they cannot do so, would be required to make reasonable efforts to obtain that information by other means.

We believe this approach would adequately balance the need for investors to receive information about the ongoing costs of owning investments funds, while avoiding imposing an undue regulatory burden on registrants.

Insurance sector

The Proposed Insurance Guidance would express the CCIR's expectation that insurers would provide certain information to clients who own Segregated Fund Contracts at least once each year. The full list of these elements of disclosure is found in Annex J.

With respect to costs of holding Segregated Fund Contracts, these elements include:

- the fund expense ratio, stated as a percentage for each segregated fund held by the client within their Segregated Fund Contract during the statement period; and
- for the Segregated Fund Contract as a whole:
 - the aggregate amount of fund expenses, in dollars, for all segregated funds held during the statement period;
 - the aggregate cost of insurance guarantees under the Segregated Fund Contract, in dollars, for the statement period; and

⁵ See sections 14.14, 14.14.1 and 14.17 of NI 31-103.

- the aggregate amount of all other expenses under the Segregated Fund Contract, in dollars, for the statement period.

The statement period would be no more than one year.

The fund expense ratio would be defined as the sum of the MER and the TER. The methodology for determining the information included in the statements would be prescribed in order to ensure comparability for investors and a level playing field for insurers and agents. Explanatory notes, substantially in a prescribed form tested with investors, would be included as appropriate.

The remaining elements of the ongoing disclosure would reflect the expectations set out in the CCIR Segregated Funds Position Paper, except as follows:

- insurers would be expected to report the total deposits, withdrawals and the change in value of segregated funds since the Segregated Fund Contract began and since the start of the previous statement period.
 - In contrast, the CCIR Segregated Funds Position Paper recommended reporting the aggregated dollar value change in net asset value of the Segregated Fund Contract.
- with respect to the amount the client would receive upon redeeming the entire Segregated Fund Contract, insurers would be expected to:
 - include a notice, substantially in a prescribed form, that explains the total net asset value for the contract is not necessarily the amount the client would receive if they ended their contract, and explains how the client could obtain more details about the amount of money they would receive, and
 - if the costs incurred at the redemption would be significant, include a notice, substantially in a prescribed form, that explains these costs.
- insurers would be expected to indicate whether a deferred sales charge may apply to each segregated fund; and
- when a Segregated Fund Contract provides a guaranteed income payment, insurers would be expected to state how long the guaranteed payment would be payable.

Insurance regulators in each jurisdiction will implement this initiative in line with their respective regulatory requirements.

Prior Consultations

In developing the Proposals, the Joint Regulators conducted extensive consultations with investor advocates and market participants, notably at a meeting of the Joint Forum of Financial Market Regulators⁶ held on June 10, 2021, as well as through informal technical consultations with industry associations and service providers.

⁶ <https://www.securities-administrators.ca/news/joint-forum-of-financial-market-regulators-engages-with-industry-and-investor-groups-on-investment-fee-transparency/>

Prior to beginning the joint project, CCIR consulted with stakeholders with respect to disclosure of fees and performance through an Issues Paper released for public consultation in May 2016 and discussion directly with stakeholders. These consultations led to the 2017/2018 CCIR Segregated Funds Position Paper, which set out CCIR's expectations regarding cost disclosure. CCIR continued related research, including through investor focus groups, between the release of the Position Paper and the start of the joint project.

The Project Committee also worked with OSC Investor Office Research and Behavioural Insights Team (**IORBIT**), drawing in part on earlier research commissioned by the MFDA, to design seven prototype disclosure documents for the securities sector, which differed both in terms of substantive content and presentation. Four prototypes were developed for the insurance sector. IORBIT then tested the prototypes to determine which ones would be most effective in maximizing investor or policyholder's comprehension of cost information. The Proposed Amendments reflect the findings from IORBIT's research. The final prototypes are included in Annex G and H as illustrative examples, showing what statements and reports could look like if the Proposed Amendments were adopted, with the new information highlighted.⁷

Transition

We recognize that developing and implementing system enhancements to implement the Proposals will require a significant investment of time and resources by industry stakeholders. However, we firmly believe that providing both investors and policyholders with essential information about the ongoing embedded costs of investment funds and segregated funds at the earliest possible date is a priority. We therefore intend to adopt a short transition period for both the securities sector and the insurance sector.

We are proposing that both sectors move forward in lockstep, with final amendments coming into effect at the same time in September 2024, as further detailed below, assuming that final publication would occur and ministerial approvals be obtained during the second quarter of 2023. This would represent a transition period of approximately 18 months. Registrants and insurers would be required to deliver statements and reports compliant with the Proposals as of the first reporting periods that fall entirely after this date.

In practical terms, this means that

- for the securities sector, investors would receive the first quarterly account statements containing the newly required information for the reporting period ending in December 2024, and the first annual reports containing the newly required information for the reporting period ending in December 2025; and
- for the insurance sector, policyholders would receive an annual report containing the newly required information for the reporting period ending in December 2025, and a half-yearly statement containing the newly required information for the reporting period ending in June 2025, in the case where such statements are delivered.

⁷ The final prototype cost and compensation report developed for the securities sector will also be included as an appendix to 31-103CP.

We are proposing this approach considering the importance of this initiative for investors and policyholders and the fact that pre-consultations with industry stakeholders and investor advocacy groups have taken place and will continue. We strongly encourage registrants and insurers to begin reviewing their systems and conduct advanced planning as soon as possible in order to have all of the resources necessary for implementation in place on time, following the final publication and ministerial approvals. If you have comments on this transition period proposal, please provide detailed discussion of the comments in your submission.

Request for Comments

We welcome your comments on the Proposals and questions in Annexes A and B.

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. All comments with respect to the Proposed Securities Amendments will be posted on the websites of each of the OSC at www.osc.ca, the Alberta Securities Commission at www.albertasecurities.com and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in comments to be published. It is important you state on whose behalf you are making the submissions.

Similarly, all comments with respect to the CCIR Guidance may be posted on the CCIR website.

Deadline for Comments

Please submit your comments in writing on or before July 27, 2022. If you are not sending your comments by email, please send a CD containing the submissions in Microsoft Word format.

Comments on Proposed Securities Amendments:

Address your submission to the CSA jurisdictions as follows:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Deliver your comments only to the addresses listed below. Your comments will be distributed to the remaining CSA jurisdictions.

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318
comment@osc.gov.on.ca

Comments on Proposed Insurance Guidance:

Address and deliver your comments to:

Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
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Your comments will be delivered to member jurisdictions of the CCIR.

Questions

If you have any questions, please contact the staff members listed below.

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ANNEX A

SPECIFIC QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,
 - (a) exchange-traded funds,
 - (b) prospectus-exempt investment funds,
 - (c) scholarship plans,
 - (d) labour-sponsored funds,
 - (e) foreign investment funds?
2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?
3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?
4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?
5. Do you anticipate any issues specifically related to the proposed transition period?

ANNEX B

SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

Please see the website of the Canadian Council of Insurance Regulators National Regulatory Coordination Branch <https://www.ccir-ccrra.org>

ANNEX C

PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

1. *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is amended by this Instrument.*

2. *Section 1.1 is amended by adding the following definitions:*

““direct investment fund charge” means an amount charged, by an investment fund or an investment fund manager, to a client if the client buys, holds, sells or switches units or shares of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses;

“ETF facts document” has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

“fund expense ratio” means the sum of an investment fund’s management expense ratio and trading expense ratio, expressed as a percentage;

“fund facts document” has the same meaning as in section 1.1 of National Instrument 81-101 *Mutual Fund Prospectus Disclosure*;

“management expense ratio” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“management report of fund performance” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“trading expense ratio” means the ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 Financial Highlights of Part B of Form 81-106F1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

3. *Section 14.1.1 is replaced with the following:*

“14.1.1. Duty to provide information – investment fund managers

(1) A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or a registered adviser that has a client that owns securities of the investment fund with the information that is required by the dealer or adviser, in order for the dealer or adviser to comply with paragraph 14.12(1)(c), subsections 14.14(4) and (5), 14.14.1(2) and 14.14.2(1) and

paragraphs 14.17(1)(h) and (i) and (j), or with a reasonable approximation of such information.

(2) For the purpose of subsection (1), with respect to the information required in respect of paragraph 14.17(1)(i), the registered investment fund manager must provide the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars, determined using the following formula:

$$\frac{A}{365} \times B = C, \text{ where}$$

A = fund expense ratio of the applicable class or series of the investment fund;

B = the net asset value of a share or unit of the applicable class or series of the investment fund for the day;

C = the daily dollar cost per unit for the investment fund class or series.

(3) For the purpose of subsection (1), and paragraph 14.14(5)(c.1) or 14.14.1(2)(c.1), if a registered investment fund manager provides an approximation, the approximation must be determined based on information disclosed in an investment fund's most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, making any reasonable assumptions, unless

(a) the information was disclosed more than 12 months before the end of the period covered by the statement or report which is required to be delivered by the registered dealer or registered adviser under subsection 14.14(1), 14.14.1(1) or 14.17(1), or

(b) the investment fund manager reasonably believes that doing so would cause the information disclosed in the statement or report to be misleading."

4. Subsection 5 of section 14.14 is amended by adding the following, after paragraph (c):

"(c.1) the fund expense ratio of each class or series of each investment fund in the account;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;"

5. Subsection 5 of section 14.14 is amended by adding the following, after paragraph (g):

"(h) if there are investment funds in the account, the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee, operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.””

6. Subsection 2 of section 14.14.1 is amended by adding the following after paragraph (c):

“(c.1) the fund expense ratio of each class or series of each investment fund;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;”

7. Subsection 2 of section 14.14.1 is amended by adding the following after paragraph (h):

“(i) if the statement includes information under paragraph (c.1), the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee, operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.””

8. Subsection 1 of section 14.17 is amended by adding the following, after paragraph (h):

“(i) the total amount of fund expenses, in relation to securities of investment funds owned by the client during the period covered by the report, either:

(a) charged to the client by an investment fund, its investment fund manager or any other party, or;

(b) charged to an investment fund by its investment fund manager or any other party;

(j) the total amount of direct investment fund charges charged to the client by an investment fund, investment fund manager or any other party, in relation to securities of investment funds owned by the client during the period covered by the report, excluding any charges included in the amounts under paragraph (c) or (f);

(k) the total amount of the fund expenses reported under paragraph (i) and the direct investment fund charges reported under paragraph (j);

(l) the total amount of the registered firm's charges reported under paragraph (d) and the investment fund fees reported under paragraph (k);

(m) if the client owned investment fund securities during the period covered by the report, the following notification or a notification that is substantially similar:

"Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold."

(n) if the client owned investment fund securities during the period covered by the report and any deferred sales charges were paid by the client, the following notification or a notification that is substantially similar:

"You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received."

(o) if the client owned investment fund securities during the period covered by the report and direct investment fund charges, other than redemption fees, were charged to the client, a short explanation of the type of fees which were charged;

(p) if the information reported under paragraph (i) or (j) is based on an approximation or any other assumption, a description of the assumption or approximation.”

9. Section 14.17 of the Instrument is amended by adding the following subsection:

“(6) For the purposes of determining the total amount of fund expenses under paragraph (1)(i), the fund expenses for each class or series of each investment fund owned by the client during the reporting period must be added together after using the following formula to calculate the fund expenses for each fund for each day that the client owned it,

(A x B) where

A = the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars using the formula in subsection 14.1.1(2), and

B = the number of shares or units owned by the client for the day.”

10. The Instrument is amended by adding the following section, after section 14.17:

“14.17.1 Reporting of fund expenses and direct investment fund charges

- (1) Subject to subsection (2), for the purposes of paragraphs 14.14(5)(c.1), 14.14.1(2)(c.1), and 14.17(1)(i) and (j), the information required to be delivered to clients by a registered dealer or registered adviser must be based on the information provided under section 14.1.1.
- (2) Subject to subsection (3), if no information is provided under section 14.1.1, or the registered firm reasonably believes that any part of the information provided pursuant to section 14.1.1 is incomplete or that relying on it would cause information required to be delivered to a client to be misleading, the registered firm must rely on the most recent information disclosed in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, as applicable;
- (3) If there is no publicly available information or if the information referred to in subsection (2) was disclosed more than 12 months before the end of the period covered by the statement or report required to be delivered to the client, or the registered firm reasonably believes that relying on the publicly available information would cause information required to be delivered to the

client to be misleading, the registered firm must not rely on the publicly available information and must

(a) make reasonable efforts to obtain the information referred to in subsection (1) by other means, and

(b) subject to subsection (4), rely on the information obtained under paragraph (a).

- (4) If the registered firm reasonably believes it cannot obtain information under paragraph (3) that is not misleading, the registered firm must exclude the information from the calculation of the amount of fund expenses or of the direct investment fund charges reported to the client, as the case may be, or, in the case of a fund expense ratio, must not report the fund expense ratio, and must disclose the fact that the information is excluded or not reported in the relevant statement or report.”

11. This Instrument comes into force on [●].

ANNEX D

**CHANGES TO COMPANION POLICY 31-103 REGISTRATION REQUIREMENTS,
EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS**

1. *Companion Policy 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations is changed by this Instrument.*
2. *Division 1 Investment fund managers is replaced with the following:*

“Section 14.1 sets out the limited application of Part 14 to investment fund managers. The sections of Part 14 that apply to investment fund managers when performing their investment fund manager activities include section 14.1.1, section 14.5.2, section 14.5.3, section 14.6, section 14.6.1, section 14.6.2, subsection 14.12(5) and section 14.15. An investment fund manager that is also registered as a dealer or adviser (or both) is subject to all relevant sections of Part 14 in respect of that firm’s dealer or adviser activities.

Section 14.1.1 requires investment fund managers to provide information that is known to them or which is required to be calculated by them concerning position cost, fund expense ratio, fund expenses, deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers who have clients that own the investment fund manager’s funds. This information must be provided within a reasonable period of time, in order that the dealers and advisers may comply with their client reporting obligations. This is a principles-based requirement.

When relying on information disclosed in an investment fund’s previous disclosure documents, we would expect investment fund managers to inform the advisers or dealers of any assumptions or approximations in the information reported to the advisers or dealers.

An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from the investment fund manager in order to satisfy their client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems.”

3. *Section 14.14. Account statements is changed by adding the following immediately after “any fee or charge, and any other account activity.”:*

“The fund expense ratio of each series of each investment fund in the account and a description of any assumptions or approximations used to calculate this ratio must also be disclosed.”

4. *Section 14.17. Report on charges and other compensation is changed by adding the following paragraph after the fifth paragraph:*

“Registered firms should not include in the total amount of direct investment fund charges required to be reported under paragraph 14.17(1)(j), the amount of a charge,

including a sales commission, which is required to be reported by the registered firm to the client under paragraph 14.17(1)(c), concerning transaction charges, or (f), specific to scholarship plan dealers, in order to avoid any potential double counting of such charge in the total cost amount required to be reported under paragraph 14.17(1)(l).”

5. *Part 14 is changed by adding section 14.17.1 Reporting of fund expenses and direct investment fund charges after section 14.17:*

“14.17.1 Reporting of fund expenses and direct investment fund charges

Dealers and advisers are required to rely on information provided by registered investment fund managers pursuant to section 14.1.1. However, they may be unable to rely on such information in certain circumstances, including if:

- there is no registered investment fund manager
- such information is not required to be provided for a fund (for example, as in the case of certain non-Canadian investment funds)
- an investment fund manager does not comply with section 14.1.1 for any reason, or
- the dealer or adviser reasonably believes that relying on this information would cause the information delivered to a client to be misleading.

In cases where paragraph 14.17.1(3)(a) applies, the registered firm must make reasonable efforts to obtain information about the investment fund’s fund expenses, fund expense ratio or direct investment fund charges by other means. Those other means may include:

- relying on information disclosed in disclosure documents of the investment fund other than those referred to in paragraph 14.17.1(2), including documents prepared according to the reporting requirements applicable in a foreign jurisdiction
- requesting that the information be provided in writing by the investment fund or investment fund manager, or
- relying on information reported by a reliable third-party service provider.

We expect registered firms to use their professional judgement in determining what other means of obtaining the information would be appropriate, notably taking into account that doing so must not cause the information reported to clients to be misleading. ”

6. *Appendix D - Annual Charges and Compensation Report is replaced with the following:*

Appendix D: Account Statement or Additional Statement and Annual Charges and Compensation Report

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account

On December 31, 2020

Portfolio Assets

<u>Description</u>	<u>Share s Owne d</u>	<u>Book Cost</u>	<u>Market Value</u>	<u>Current gain or loss</u>	<u>Fund Expense s¹</u>	<u>% of your holdings</u>
<u>Investment Funds</u>						
ABC Management Monthly Income Fund, Series A FE	250.00	\$17,000.00	\$19,500.00	\$2,500.00	1.00%	41.49%
ABC Management Canadian Equity, Series A FE	450.00	\$19,500.00	\$22,500.00	\$3,000.00	2.00%	47.87%
<u>Equities</u>						
Company A N/A	100.00	\$2,000.00	\$3,000.00	\$1,000.00		6.88%
Company B N/A	50.00	\$1,500.00	\$2,000.00	\$500.00		4.26%
Totals		\$40,000.00	\$47,000.00			100.00%

1. Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.
-

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2021

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was \$815 last year

What you paid

Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.

Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
Total you paid to us	\$120.00

Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.

Fund Expenses - See the fund expenses % shown in the holdings section of your account statement ¹	\$645.00
Redemption fees on deferred sales charge (DSC) investments ²	\$50.00
Amount you paid to investment fund companies	\$695.00
Your total cost of investing	\$815.00

Our Compensation

What we received

Total you paid us, as indicated above	\$120.00
---------------------------------------	----------

Trailing commissions ³ paid to us by investment fund companies	\$342.00
<i>Total we received for advice and services we provided to you</i>	\$462.00

1. **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

2. **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.
3. **Trailing commissions.** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

7. This Instrument comes into force on [●].

ANNEX E

**BLACKLINE SHOWING PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT
31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING
REGISTRANT OBLIGATIONS**

1.1 Definitions of terms used throughout this Regulation

In this Instrument (...)

“direct investment fund charge” means an amount charged, by an investment fund or an investment fund manager, to a client if the client buys, holds, sells or switches units or shares of an investment fund, including any federal, provincial or territorial sales taxes paid on that amount, other than, for greater certainty, an amount included in the investment fund’s fund expenses;

“ETF facts document” has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

“fund expense ratio” means the sum of an investment fund’s management expense ratio and trading expense ratio, expressed as a percentage;

“fund facts document” has the same meaning as in section 1.1 of National Instrument 81-101 *Mutual Fund Prospectus Disclosure*;

“management expense ratio” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“management report of fund performance” has the same meaning as in section 1.1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

“trading expense ratio” means the ratio, expressed as a percentage, of the total commissions and other portfolio transaction costs incurred by an investment fund to its average net asset value, calculated in accordance with paragraph 12 of item 3 Financial Highlights of Part B of Form 81-106F1 of National Instrument 81-106 *Investment Fund Continuous Disclosure*;

(...)

14.1.1 Duty to provide information – investment fund managers

(1) A registered investment fund manager of an investment fund must, within a reasonable period of time, provide a registered dealer or a registered adviser that has a client that owns securities of the investment fund with the information that is required by the dealer or adviser, in order for the dealer or adviser to comply with paragraph 14.12(1)(c), subsections 14.14(4) and (5), 14.14.1(2) and 14.14.2(1) and paragraphs 14.17(1)(h) and (i) and (j), or with a reasonable approximation of such information.

(2) For the purpose of subsection (1), with respect to the information required in respect of paragraph 14.17(1)(i), the registered investment fund manager must provide the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars, determined using the following formula:

$$\frac{A}{365} \times B = C, \text{ where}$$

A = fund expense ratio of the applicable class or series of the investment fund;

B = the net asset value of a share or unit of the applicable class or series of the investment fund for the day;

C = the daily dollar cost per unit for the investment fund class or series.

(3) For the purpose of subsection (1), and paragraph 14.14(5)(c.1) or 14.14.1(2)(c.1), if a registered investment fund manager provides an approximation, the approximation must be determined based on information disclosed in an investment fund's most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, making any reasonable assumptions, unless

(a) the information was disclosed more than 12 months before the end of the period covered by the statement or report which is required to be delivered by the registered dealer or registered adviser under subsection 14.14(1), 14.14.1(1) or 14.17(1), or

(b) the investment fund manager reasonably believes that doing so would cause the information disclosed in the statement or report to be misleading.

(...)

14.14. Account statements

(1) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5)

(a) at least once every 3 months, or

(b) if the client has requested to receive statements on a monthly basis, for each one-month period.

(2) A registered dealer must deliver to a client a statement that includes the information referred to in subsections (4) and (5) after the end of any month in which a transaction was effected in securities held by the dealer in the client's account, other than a transaction made under an automatic withdrawal plan or an automatic payment plan, including a dividend reinvestment plan.

(2.1) Paragraph 1(b) and subsection (2) do not apply to a mutual fund dealer in connection with its activities as a dealer in respect of the securities listed in paragraph 7.1(2)(b).

(3) A registered adviser must deliver to a client a statement that includes the information referred to in subsections (4) and (5) at least once every 3 months, except that if the client has requested to receive statements on a monthly basis, the adviser must deliver a statement to the client for each one-month period.

(3.1) (paragraph revoked).

(4) If a registered dealer or registered adviser made a transaction for a client during the period covered by a statement delivered under subsection (1), (2) or (3), the statement must include the following:

- (a) the date of the transaction;
- (b) whether the transaction was a purchase, sale or transfer;
- (c) the name of the security;
- (d) the number of securities purchased, sold or transferred;
- (e) the price per security if the transaction was a purchase or sale;
- (f) the total value of the transaction if it was a purchase or sale.

(5) If a registered dealer or registered adviser holds securities owned by a client in an account of the client, a statement delivered under subsection (1), (2) or (3) must indicate that the securities are held for the client by the registered firm and must include the following information about the client's account determined as at the end of the period for which the statement is made:

- (a) the name and quantity of each security in the account;
- (b) the market value of each security in the account and, if applicable, the notification in subsection 14.11.1(2);
- (c) the total market value of each security position in the account;
- (c.1) the fund expense ratio of each class or series of each investment fund in the account;
- (c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;
- (d) any cash balance in the account;
- (e) the total market value of all cash and securities in the account;

(f) whether the account is eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority and, if it is, the name of the investor protection fund;

(g) which securities in the account might be subject to a deferred sales charge if they are sold;

(h) if there are investment funds in the account, the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.”;

(6) (paragraph revoked).

(7) For the purposes of this section, a security is considered to be held by a registered firm for a client if

- (a) the firm is the registered owner of the security as nominee on behalf of the client, or
- (b) the firm has physical possession of a certificate evidencing ownership of the security.

14.14.1. Additional statements

(1) A registered dealer or registered adviser must deliver a statement that includes the information referred to in subsection (2) to a client if any of the following apply in respect of a security owned by the client that is held or controlled by a party other than the dealer or adviser:

- (a) the dealer or adviser has trading authority over the security or the client's account in which the security is held or was transacted;
- (b) the dealer or adviser receives continuing payments related to the client's ownership of the security from the issuer of the security, the investment fund manager of the issuer or any other party;

(c) the security is issued by a scholarship plan, a mutual fund or an investment fund that is a labour-sponsored investment fund corporation, or labour-sponsored venture capital corporation, under legislation of a jurisdiction of Canada and the dealer or adviser is the dealer or adviser of record for the client on the records of the issuer of the security or the records of the issuer's investment fund manager.

(2) A statement delivered under subsection (1) must include the following in respect of the securities or the account referred to in subsection (1), determined as at the end of the period for which the statement is made:

(a) the name and quantity of each security;

(b) the market value of each security and, if applicable, the notification in subsection 14.11.1(2);

(c) the total market value of each security position;

(c.1) the fund expense ratio of each class or series of each investment fund;

(c.2) if information reported under paragraph (c.1) is based on an approximation or any other assumption, a description of the assumption or approximation;

(d) any cash balance in the account;

(e) the total market value of all of the cash and securities;

(f) disclosure in respect of the party that holds or controls each security and a description of the way it is held;

(g) whether the securities are, or the account is, eligible for coverage under an investor protection fund approved or recognized by the securities regulatory authority;

(h) which of the securities might be subject to a deferred sales charge if they are sold;

(i) if the statement includes information under paragraph (c.1), the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.”

(...)

14.17. Report on charges and other compensation

(1) For each 12-month period, a registered firm must deliver to a client a report on charges and other compensation containing the following information, except that the first report delivered after a client has opened an account may cover a period of less than 12 months:

- (a) the registered firm's current operating charges which might be applicable to the client's account;
- (b) the total amount of each type of operating charge related to the client's account paid by the client during the period covered by the report, and the total amount of those charges;
- (c) the total amount of each type of transaction charge related to the purchase or sale of securities paid by the client during the period covered by the report, and the total amount of those charges;
- (d) the total amount of the operating charges reported under paragraph (b) and the transaction charges reported under paragraph (c);
- (e) if the registered firm purchased or sold debt securities for the client during the period covered by the report, either of the following:
 - (i) the total amount of any mark-ups, mark-downs, commissions or other service charges the firm applied on the purchases or sales of debt securities;
 - (ii) the total amount of any commissions charged to the client by the firm on the purchases or sales of debt securities and, if the firm applied mark-ups, mark-downs or any service charges other than commissions on the purchases or sales of debt securities, the following notification or a notification that is substantially similar:

“ For debt securities purchased or sold for you during the period covered by this report, dealer firm remuneration was added to the price you paid (in the case of a purchase) or deducted from the price you received (in the case of a sale). This amount was in addition to any commissions you were charged.”;
- (f) if the registered firm is a scholarship plan dealer, the unpaid amount of any enrolment fee or other charge that is payable by the client;
- (g) the total amount of each type of payment, other than a trailing commission, that is made to the registered firm or any of its registered individuals by a securities issuer or another registrant in relation to registerable services to the client during the period covered by the report, accompanied by an explanation of each type of payment;

(h) if the registered firm received trailing commissions related to securities owned by the client during the period covered by the report, the following notification or a notification that is substantially similar:

“We received \$[amount] in trailing commissions in respect of securities you owned during the 12-month period covered by this report.

Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund’s return to you. Information about management fees and other charges to your investment funds is included in the prospectus, fund facts document or ETF Facts document for each fund.”;

(i) the total amount of fund expenses, in relation to securities of investment funds owned by the client during the period covered by the report, either:

(a) charged to the client by an investment fund, its investment fund manager or any other party, or;

(b) charged to an investment fund by its investment fund manager or any other party;

(j) the total amount of direct investment fund charges charged to the client by an investment fund, investment fund manager or any other party, in relation to securities of investment funds owned by the client during the period covered by the report, excluding any charges included in the amounts under paragraph (c) or (f);

(k) the total amount of the fund expenses reported under paragraph (i) and the direct investment fund charges reported under paragraph (j);

(l) the total amount of the registered firm’s charges reported under paragraph (d) and the investment fund fees reported under paragraph (k);

(m) if the client owned investment fund securities during the period covered by the report, the following notification or a notification that is substantially similar:

“Fund expenses are made up of the management fee, operating expenses and trading costs. You don’t pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund’s returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond

to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold."

(n) if the client owned investment fund securities during the period covered by the report and any deferred sales charges were paid by the client, the following notification or a notification that is substantially similar:

"You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received."

(o) if the client owned investment fund securities during the period covered by the report and direct investment fund charges, other than redemption fees, were charged to the client, a short explanation of the type of fees which were charged;

(p) if the information reported under paragraph (i) or (j) is based on an approximation or any other assumption, a description of the assumption or approximation.

(2) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14(5) must be delivered in a separate report on charges and other compensation for each of the client's accounts.

(3) For the purposes of this section, the information in respect of securities of a client required to be reported under subsection 14.14.1(1) must be delivered in a report on charges and other compensation for the client's account through which the securities were transacted.

(4) Subsections (2) and (3) do not apply if the registered firm provides a report on charges and other compensation that consolidates, into a single report, the required information for more than one of a client's accounts and any securities of the client required to be reported under subsection 14.14(5) or 14.14.1(1) and if the following apply

(a) the client has consented in writing to the form of disclosure referred to in this subsection;

(b) the consolidated report specifies the accounts and securities with respect to which information is required to be reported under subsection 14.14.1(1).

(5) This section does not apply to a registered firm in respect of a permitted client that is not an individual.

(6) For the purposes of determining the total amount of fund expenses under paragraph (1)(i), the fund expenses for each class or series of each investment fund owned by the client during the reporting period must be added together after using the following formula to calculate the fund expenses for each fund for each day that the client owned it,

(A x B) where

A = the daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars using the formula in subsection 14.1.1(2), and

B = the number of shares or units owned by the client for the day.

14.17.1 Reporting of fund expenses and direct investment fund charges

(1) Subject to subsection (2), for the purposes of paragraphs 14.14(5)(c.1), 14.14.1(2)(c.1), and 14.17(1)(i) and (j), the information required to be delivered to clients by a registered dealer or registered adviser must be based on the information provided under section 14.1.1.

(2) Subject to subsection (3), if no information is provided under section 14.1.1, or the registered firm reasonably believes that any part of the information provided pursuant to section 14.1.1 is incomplete or that relying on it would cause information required to be delivered to a client to be misleading, the registered firm must rely on the most recent information disclosed in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, as applicable;

(3) If there is no publicly available information or if the information referred to in subsection (2) was disclosed more than 12 months before the end of the period covered by the statement or report required to be delivered to the client, or the registered firm reasonably believes that relying on the publicly available information would cause information required to be delivered to the client to be misleading, the registered firm must not rely on the publicly available information and must

(a) make reasonable efforts to obtain the information referred to in subsection (1) by other means, and

(b) subject to subsection (4), rely on the information obtained under paragraph (a).

(4) If the registered firm reasonably believes it cannot obtain information under paragraph (3) that is not misleading, the registered firm must exclude the information, from the calculation of the amount of fund expenses or of the direct investment fund charges reported to the client, as the case may be, or, in the case of a fund expense ratio, must not report the fund expense ratio, and must disclose the fact that the information is excluded or not reported in the relevant statement or report.

ANNEX F

BLACKLINE SHOWING PROPOSED CHANGES TO COMPANION POLICY 31-103CP NATIONAL INSTRUMENT 31-103 *REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS*

Division 1 Investment fund managers

Section 14.1 sets out the limited application of Part 14 to investment fund managers. The sections of Part 14 that apply to investment fund managers when performing their investment fund manager activities include section 14.1.1, section 14.5.2, section 14.5.3, section 14.6, section 14.6.1, section 14.6.2, subsection 14.12(5) and section 14.15. An investment fund manager that is also registered as a dealer or adviser (or both) is subject to all relevant sections of Part 14 in respect of that firm's dealer or adviser activities.

Section 14.1.1 requires investment fund managers to provide information that is known to them or which is required to be calculated by them concerning position cost, fund expense ratio, fund expenses, deferred sales charges and any other charges deducted from the net asset value of the securities, and trailing commissions to dealers and advisers who have clients that own the investment fund manager's funds. This information must be provided within a reasonable period of time, in order that the dealers and advisers may comply with their client reporting obligations. This is a principles-based requirement.

When relying on information disclosed in an investment fund's previous disclosure documents, we would expect investment fund managers to inform the advisers or dealers of any assumptions or approximations in the information reported to the advisers or dealers.

An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from the investment fund manager in order to satisfy their client reporting obligations. The information and arrangements for its delivery may vary, reflecting different operating models and information systems. The information and arrangements for its delivery may vary, reflecting different operating models and information systems.

(...)

14.14. Account statements

Section 14.14 requires registered dealers and advisers to deliver statements to clients at least once every 3 months. There is no prescribed form for these statements but they must contain the information referred to in subsections 14.14(4) and (5). The types of transactions that must be disclosed in an account statement include any purchase, sale or transfer of securities, dividend or interest payment received or reinvested, any fee or charge, and any other account activity. The fund expense ratio of each series of each investment fund in the account and a description of any assumptions or approximations used to calculate this ratio must also be disclosed. A firm must deliver an account statement with the information referred to in subsection (4) if any transaction was made for the client in the reporting period. A firm is only required to provide the account

position information referred to in subsection (5) if it holds securities owned by a client in an account of the client.

There is no provision for consolidated statements in section 14.14 (or 14.14.1), so a registered firm must provide every client with an applicable statement for each of their accounts. Firms may provide supplementary reporting that they think a client might find useful. For example, a firm might provide a consolidated year-end statement where a client has requested a consolidated performance report under subsection 14.18(4).

14.14.1. Additional statements

A firm is required to deliver additional statements if the circumstances described in subsection 14.14.1(1) apply. The additional statements must be delivered once every 3 months, except that an adviser must deliver the statements on a monthly basis if requested by the client as provided in subsection 14.14.1(3). The requirements set out for the frequency of delivering account statements and additional statements are minimum standards. Firms may choose to provide the statements more frequently.

Paragraph 14.14.1(2)(g) requires disclosure about applicable investor protection funds. However, subsection 14.14.1(2.1) exempts a firm from this requirement where a client's securities are held or controlled by an IIROC or MFDA member. SRO rules require members to be participants in specified investor protection funds and prescribe client disclosures about them. To avoid the potential that clients may be confused or misinformed, registrants that are not participants in an investor protection fund should refrain from discussing its terms and conditions with clients.

Firms may choose to include securities that must be reported under the additional statement requirement in a document that it refers to as an account statement, consistent with their clients' expectations that their accounts are not limited to securities held by the firm, provided it satisfies the requirements for content of statements set out in sections 14.14 and 14.14.1.

(...)

14.17. Report on charges and other compensation

Registered firms must provide clients with an annual report on the firm's charges and other compensation received by the firm in connection with their investments. Examples of operating charges and transaction charges are provided in the discussion of the disclosure of charges and other compensation in section 14.2 of this Policy Statement. The annual report must include information about all of the firm's current operating charges that might be applicable to a client's account. A firm is only required to include the charges for those of its services that it would reasonably expect the particular client to utilize in the coming 12 months.

The discussion of debt security disclosure requirements in section 14.12 of this Policy Statement is also relevant with respect to paragraph 14.17(1)(e).

Scholarship plans often have enrolment fees payable in instalments in the first few years of a client's investment in the plan. Paragraph 14.17(1)(f) requires that scholarship plan dealers include

a reminder of the unpaid amount of any such fees in their annual reports on charges and other compensation.

Payments that a registered firm or its registered representatives receive from issuers of securities or other registrants in relation to registerable services to a client must be reported under paragraph 14.17(1)(g). This disclosure requirement includes any form of payment to the firm or a representative of the firm linked to sales or other registerable services to the client receiving the report. Examples of payments that would be included in this part of the report on charges and other compensation include some referral fees, success fees on the completion of a transaction, or finder's fees. This part of the report does not include trailing commissions, as they are specifically addressed in paragraph 14.17(1)(h).

Registered firms must disclose the amount of trailing commissions they received related to a client's holdings. The disclosure of trailing commissions received in respect of a client's investments must be included with a notification prescribed in paragraph 14.17(1)(h). The notification must be in substantially the form prescribed, so a registered firm may modify it to be consistent with the actual arrangements. For example, a firm that receives a payment that falls within the definition of "trailing commission" in section 1.1 in respect of securities that are not investment funds can modify the notification accordingly. The notification set out is the required minimum and firms can provide further explanation if they believe it will be helpful to their clients.

Registered firms should not include in the total amount of direct investment fund charges required to be reported under paragraph 14.17(1)(j), the amount of a charge, including a sales commission, which is required to be reported by the registered firm to the client under paragraph 14.17(1)(c), concerning transaction charges, or (f), specific to scholarship plan dealers, in order to avoid any potential double counting of such charge in the total cost amount required to be reported under paragraph 14.17(1)(l).

Registered firms may want to organize the annual report on charges and other compensation with separate sections showing the charges paid by the client to the firm, and the other compensation received by the firm in respect of the client's account.

Appendix D of this Policy Statement includes a sample Report on Charges and Other Compensation, which registered firms are encouraged to use as guidance.

14.17.1 Reporting of fund expenses and direct investment fund charges

Dealers and advisers are required to rely on information provided by registered investment fund managers pursuant to section 14.1.1. However, they may be unable to rely on such information in certain circumstances, including if:

- there is no registered investment fund manager
- such information is not required to be provided for a fund (for example, as in the case of certain non-Canadian investment funds)

- an investment fund manager does not comply with section 14.1.1 for any reason, or
- the dealer or adviser reasonably believes that relying on this information would cause the information delivered to a client to be misleading.

In cases where paragraph 14.17.1(3)(a) applies, the registered firm must make reasonable efforts to obtain information about the investment fund's fund expenses, fund expense ratio or direct investment fund charges by other means. Those other means may include:

- relying on information disclosed in disclosure documents of the investment fund other than those referred to in paragraph 14.17.1(2), including documents prepared according to the reporting requirements applicable in a foreign jurisdiction
- requesting that the information be provided in writing by the investment fund or investment fund manager, or
- relying on information reported by a reliable third-party service provider.

We expect registered firms to use their professional judgement in determining what other means of obtaining the information would be appropriate, notably taking into account that doing so must not cause the information reported to clients to be misleading.

(...)

Appendix D Annual Charges and Compensation Report is replaced by [TCR sample account statement and cost report]

ANNEX G

SAMPLE PROTOTYPE STATEMENT AND REPORT FOR THE SECURITIES
SECTOR

Highlighting shows new information

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account
On December 31, 2020**Portfolio Assets**

<u>Description</u>	Share s Owne d	Book Cost	Market Value	Current gain or loss	Fund Expense s ¹	% of your holdings
<u>Investment Funds</u>						
ABC Management Monthly Income Fund, Series A FE	250.00	\$17,000.00	\$19,500.00	\$2,500.00	1.00%	41.49%
ABC Management Canadian Equity, Series A FE	450.00	\$19,500.00	\$22,500.00	\$3,000.00	2.00%	47.87%
<u>Equities</u>						
Company A N/A	100.00	\$2,000.00	\$3,000.00	\$1,000.00		6.88%
Company B N/A	50.00	\$1,500.00	\$2,000.00	\$500.00		4.26%

Totals	\$40,000.00	\$47,000.00		100.00%
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1. Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2021

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was \$815 last year

What you paid

Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.

Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
Total you paid to us	\$120.00
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.	
Fund Expenses - See the fund expenses % shown in the holdings section of your account statement ¹	\$645.00
Redemption fees on deferred sales charge (DSC) investments ²	\$50.00
Amount you paid to investment fund companies	\$695.00
Your total cost of investing	\$815.00

Our Compensation

What we received

Total you paid us, as indicated above	\$120.00
Trailing commissions ³ paid to us by investment fund companies	\$342.00

Total we received for advice and services we provided to you

\$462.00

1. **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

2. **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.

3. **Trailing commissions.** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

ANNEX H

SAMPLE PROTOTYPE REPORT FOR THE INSURANCE SECTOR

Please see the website of the Canadian Council of Insurance Regulators National Regulatory Coordination Branch <https://www.ccir-ccra.org>

ANNEX I

LOCAL MATTERS

There are no local matters in Alberta to consider at this time.

ANNEX J
PROPOSED INSURANCE GUIDANCE

Please see the website of the Canadian Council of Insurance Regulators National Regulatory Coordination Branch <https://www.ccir-ccira.org>

ANNEX K

SEGREGATED FUNDS AND INVESTMENT FUNDS: DIFFERENCES BETWEEN PRODUCTS, DISTRIBUTION CHANNELS AND REGULATION

The role of registrants/insurers in cost disclosure

Investment funds	Segregated funds
A registered dealer or adviser (i.e., an intermediary) provides disclosures to clients.	Cost and performance disclosure is provided by the insurer (i.e., the manufacturer) directly to the policy holder, typically on an annual basis.

Account statement frequency

Investment funds	Segregated funds
Clients receive monthly/quarterly account statements, an annual report on charges and other compensation and an annual investment performance report.	There is a single statement provided annually, although some insurers choose to provide statements more frequently.

Distribution channel

Investment funds	Segregated funds
The registered dealer or adviser has an ongoing relationship with the client.	There is no intermediary equivalent to the registered dealer in the insurance sector in most jurisdictions. Insurance advisers are not required to carry on an ongoing relationship with clients in the same way as advisor on securities side.

Product features

Investment funds	Segregated funds
No guarantees are provided.	Segregated funds are insurance contracts that provide guarantees.

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June 27, 2022

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

[CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds](#) | OSC

Kenmar appreciate the opportunity to comment on the proposals to enhance total investment cost reporting. We are delighted to see that regulators are turning their attention to this critical issue and are determined to make it happen. The MFDA has been the pioneer on total cost reporting since at least 2015 and it is wonderful to see their vision now being realized.

It is encouraging to see securities and insurance regulators coordinating on this initiative to avoid big gaps in standards across segments that look/sound the same to end consumers (i.e., regulatory arbitrage). We welcome the proposals that would provide periodic reporting to clients showing the ongoing costs of owning segregated funds and investment funds. For retail investors, account statements would be expanded to include the fund expense ratio for each of the investment funds that the client owns, expressed as a percentage.

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Our comments will focus on investment side reporting but most are relevant to segregated funds as well.

Kenmar Associates is an Ontario-based privately-funded volunteer organization focused on investor advocacy (www.canadianfundwatch.com). Kenmar also publishes **the Fund OBSERVER** on a monthly basis discussing investor protection issues primarily for retail investors. An affiliate, Kenmar Portfolio Analytics, assists, on a no-charge basis, investors and/or their counsel in filing investor complaints and restitution claims.

Introduction

Mutual funds are the foundation of Canadian investors' saving and retirement plans. Their dependency on these products gives rise to concerns about retail investor vulnerability. There is an asymmetry in knowledge, information and experience between retail investors and their financial advisor; in fact, many investors do not know how their advisors are paid. In some cases, investors have been told advice is "free"! Moreover, there is a loose correlation between the fees charged and the advice or services provided. Mutual funds are Canadians' most commonly held investment product with their investment portfolios totalling about \$2 trillion. Mutual funds are thus particularly important to Canadians for their retirement income security.

Canadian mutual funds are among the most expensive in the world according to Morningstar research. On March 30, Morningstar published its Global Investor Experience report around fees and expenses. **In that report, Canada received an overall grade of Below Average when compared with 26 other jurisdictions.** Source: **Canadian Fund Fee Trends and the Cost of Advice in Canada**
<https://www.morningstar.ca/ca/news/220120/canadian-fund-fee-trends-and-the-cost-of-advice-in-canada.aspx>

In July 2019, the OSC IAP disclosed investor survey results that raised significant questions about whether most small and mass-market investors actually have access to advice that is comprehensive and timely enough to effectively meet their needs, even though they pay for it (especially those with actively-managed mutual funds with conflict creating embedded trailer commissions). In some cases, it is unclear if any advice was provided at all. Such research supports the argument that total cost reporting is a high priority investor protection imperative. Source: OSC's **Investor Advisory Panel Releases Survey Findings on How Much Advice Investors Receive**
<https://www.osc.ca/en/news-events/news/oscs-investor-advisory-panel-releases-survey-findings-how-much-advice-investors-receive>

One failing of CRM2 is that the presentations appear to be intended to fulfill a regulatory requirement – not to leave clients more informed. With CRM3, there needs to be a focus on making people more aware of what they are actually paying for the advice/services they receive and nudge them into action. Separating costs is a particularly important in the context of an embedded commission product like a mutual fund where service /advice and product costs are bundled together.

In Canada, the mutual fund industry is heavily vertically integrated with many of the largest Firms also restricting the product shelf to proprietary products. This situation makes the value of total cost reporting especially important for Main Street. It should also be noted that one key finding of the CSA sponsored Cumming Report on embedded fund commissions was that affiliated dealer flows showed no flow-performance sensitivity at all, which was found to be relatively more detrimental to investors relative to all trailing commission paying purchase options for non-affiliated dealer flows See **A Dissection of Mutual Fund Fees, Flows and Performance** <https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-407/dissection-mutual-fund-fees-flows-and-performance> .

It seems particularly appropriate to cite the words of former OSC Commissioner Glorianne Stromberg who has been a trailblazer over the past two decades in identifying the need for reform of Canadian mutual funds. In her classic 1998 report she stated, *"Permitting these capital-eroding fees will impact the need for social support systems that we simply don't have and probably won't be able to afford given the erosion of the tax base as the population ages"*. With the decline of DB pension plans, more Canadians than ever now depend on their own investments for their retirement .Increased longevity makes retirement income security especially important.

Because investing costs reduce client returns, Total cost reporting is therefore a socio-economic issue. This regulatory initiative should help reduce the chances of retirement portfolio erosion due to excessive investing costs.

The importance of total costs

The MFDA has been the driving force behind total cost reporting. We respectfully acknowledge their major contribution to this initiative.

Morningstar's Director of Mutual Fund Research has observed, *"If there's anything in the whole world of mutual funds that you can take to the bank, it's that expense ratios help you make a better decision."* In order to make a truly informed investment decision, investors need another piece of information – details of the services and investment advice that they will be provided for the fees paid. The product may be fine but the advice provided may not be. That discussion will have to wait for another day.

Total cost reporting provides a good basis for investors to compare costs. Together with the performance report, the investor would be empowered to start asking informed questions. With a better informed client population, the industry will have to take actions to remain competitive. Total cost reporting is a WIN-Win for all stakeholders.

It should be noted that CRM2, while imperfect, is credited by some with causing IIROC dealers to come clean on double billing and overcharging for a decade or more. Similarly, it is quite possible that expanded cost reporting, and the visibility it provides clients, will inspire Dealers and fund salespersons to recommend lower cost funds and products and account types for their clients.

One of the challenges in evaluating investor responses to cost/fee information is to understand why investors so frequently overlook fee information, and what kinds of interventions might make fees more salient. In our experience we have found that retail investors downplay the importance of investing costs because (a) they do not know them because some costs are embedded in the product cost (b) fees in percentage terms appear to be inconsequential; (c) they assume their “advisor” is a fiduciary; (d) they lack the financial literacy and numeracy to assess the impact of fees on annual and especially long-term returns and (e) they are not aware of competitive products or account types.

Hopefully, enhanced cost/performance reporting, the CFR regime (which now makes costs a suitability determination parameter), coupled with enhanced CSA investor education, will lead to better financial outcomes for Main Street Canadians.

Commentary

Our main comments are:

Transition period: The consultation document is proposing that both sectors move forward in lockstep, with final amendments coming into effect at the same time in September 2024. [That is about 2 years away.](#) This transition period is extraordinarily long given the length of time the industry has spent studying the issue. We can trace the timeline back to the FDM proposals of 2004.

It is our understanding that a number of forward looking Dealers already provide fulsome cost reporting to their clients.

[Given the strategic importance of this initiative, we urge the industry and the CSA to go into a room to identify the impediments to meeting the proposed timelines and not exit until the barriers are resolved.](#)

While we agree in principle that the insurance and securities sector should work in lockstep, we are concerned that if a delay occurs in one sector, it would slow down implementation in the other sector. We are willing to experience a short period of potential regulatory arbitrage in order to meet the greater objective. We already have significant arbitrage in that the insurance industry has not banned DSC funds while the securities sector has.

Regulatory exemptions, burden reduction initiatives and the millions of dollars in savings expected with New SRO should provide the wealth management industry plenty of cash to expedite the transition to investor-centric cost reporting.

[Closed-shelf Firms should have no difficulty implementing the proposals, so the transition time is likely measured in months not years.](#)

Investment fund scope: For the purposes of the Discussion Paper, “Investment Funds” would include mutual funds, exchange traded funds, labour-sponsored funds and

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commodity pools.

"Cost": Total cost reporting would capture all direct and indirect costs incurred by a client in their account. This includes, but is not limited to, product costs, advice and service fees, account fees, fund trading costs, DSC early redemption penalty fees, NSF charges, switch fees, transaction commissions, RRSP account fees, front loads, embedded trailing commissions, short term trading fees, cost of borrowing, sales commissions embedded in IPO offerings and the like.

Inclusion of TER: The TER is a cost of product manufacturing and should be considered in total cost disclosure. In some cases the TER can actually exceed the MER depending on the trading strategy of the portfolio manager. The more active, the higher the trading costs. **For funds with less than one year of operation no TER (or MER) will be available so the CSA should prescribe the process to be followed in such a case.**

GST/ HST breakout: Many professional advisors quote fees pre-tax. We note that in other industries these goods and services taxes are explicitly revealed on transaction slips. Not so in the case of mutual funds. These taxes are not immaterial and nearly always exceed the TER impact on returns.

Consumer/investor testing Report: The consultation does not reveal the investor testing that led to the cost table formats being proposed. The test results report should be provided to commenters. In the case of Fund Facts, extensive investor testing was carried out and the report publicly disclosed. https://www.osc.ca/sites/default/files/2021-05/pos_201209_fund-facts-doc-testing.pdf The testing proved to be invaluable, resulting in numerous changes to the proposed presentation format and content. The OSC asserts that it is an evidence based regulator. It should therefore not disrespect investors by refusing to reveal the research underlying the proposed presentation formats. **It is unreasonable, unfair and improper that the OSC is relying upon research to formulate laws but will not share it with the Public and commenters.**

Calculation oddities: There are no doubt a few issues such as *management fee rebates* and the like that impact reporting. **We urge stakeholders to identify them quickly and agree how their impact will be factored into the calculations and reporting. The CSA should prescribe the calculation methodology to ensure that cost disclosures are comparable between Firms.**

Product range: Must also include GIC's, PPN's, U.S. ETF's and other investments held in the account.

Attention getting: **The report should be prefaced with a short intro and key numbers of most interest to clients.** A short preamble to the report(s) could help draw attention to the importance of costs viz

These documents provide more information about your account holdings, performance, and costs. You can use this information to take actions that will help you achieve your objectives. Consider setting up a meeting with your

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advisor to discuss your account type, investments and related account costs and whether or not they are still right for you especially if your personal circumstances or financial goals have changed or you are dissatisfied with results.

Using simple language and eliminating industry jargon would improve clients' comprehension.

Personalized Context: We recommend that the following text be added to the Annual fee report to provide context:

"Based on the current value of your account (\$47K) your total investment costs are approximately \$815 per year – equal to about 1.73% per year .Lowering investment costs for comparable performance would yield higher long-term returns for you. Talk to your advisor about alternatives" [We appreciate that proprietary only fund Dealers will not be able to offer suitable alternatives.]

We believe this language will encourage clients to put the cost of investing in perspective. That in turn should help in getting investors more engaged with value-for-money considerations.

If a client has opened an account after having been given clear disclosure that a dealer or advisor will be using proprietary products exclusively, the CSA believe it is reasonable to assume that the client has agreed to a client-registrant relationship on that basis. The CSA thus implicitly assume that the average retail mutual fund investor understands the potential long-term impact on returns related to a restricted product shelf. We question this assumption. **Accordingly, Kenmar recommend that the CSA test that assumption and if it is not confirmed, amend CFR accordingly so as to better support the regulatory intent of Total cost reporting. Relationship disclosures should inform clients of the limitations of a prop –only Dealer and the potential adverse impact on fund/account performance]**

Account type: The type of account can be a big factor in long term returns. Regulators should provide more guidance and enhance enforcement to prevent consumer harm. Although a fee-based account may have benefits in select cases, such accounts are not appropriate for all clients. See **The trouble with fee-based accounts** <http://www.canadianfundwatch.com/2014/12/alert-trouble-with-fee-based-accounts.html>

Foreign exchange: The cost of currency conversion from/to Canadian dollars is a cost incurred by investors whose portfolio holdings are denominated in non-Canadian currency. Its disclosure is opaque in the sense that the conversion is subsumed in the exchange rate charged.

"Intelligent" reports: Regulators should encourage Firms to use more advanced disclosure documents. For example, hyperlinks could be used to expand reporting detail, define terminology or link to tools/calculators .A layered approach to disclosure is the modern way to provide disclosure.

Delivery of Annual report on costs: Consumers should have the option of electronic delivery. This could reduce printing and postage costs while satisfying certain clients delivery preferences. The savings can be passed on to clients in the form of lower fees and/or better reporting systems. There should be no charge for those clients requesting paper delivery.

Performance Fees: **The Report should also include performance fees related to investment funds that pay such fees.**

Bonds: Until there is more transparency, the true costs of transacting in bonds will be unknown to consumers.

Nomenclature : The table heading on fees should be Shares/units as mutual funds owned are quantified by units rather than shares owned.

Standardization of terminology: To reduce investor confusion, the CSA should provide a glossary of commonly used terms to be utilized by all Firms. This glossary should be available online for consumer lookup. [When assessing CRM2 disclosure, the MFDA Bulletin 0740-C <http://mfda.ca/bulletin/bulletin0740-c/> found some Firms used different terms for trailer commissions, which impedes clients' ability to make comparisons between firms]. **The legal definition of Trailing Commission should be used albeit expressed in plain language.**

DSC sold funds: We note that DSC early redemption penalty fees are to be included in investor costs which is a great reminder to investors of the toxic nature of such funds. **While new sales of such mutual funds are banned in the securities sector, insurance regulators need to take similar action on segregated funds - the faster the better.**

Borrowing cost: Interest costs should be included if an investor uses leveraging or has borrowed stock on margin. If the figure is not known, the report should state that the investor should add the interest expense to his/her total investing cost. If regulators decide not to include interest charges, the report should explicitly state that any costs incurred for leveraging are not included in the report.

Font: Printed material should have a defined font style and minimum size to ensure client readability.

Educational materials: Financial confidence plays a greater role than financial knowledge when it comes to developing healthy financial behaviour, according to a Financial Consumer Agency of Canada (FCAC) report. FCAC's [Progress Report on Canada's National Research Plan on Financial Literacy 2016-2018](https://www.canada.ca/en/financial-consumer-agency/programs/research/progress-report-national-research-plan-2016-2018.html) was developed to share important findings with financial literacy practitioners and researchers in order to improve the financial well-being of Canadians. <https://www.canada.ca/en/financial-consumer-agency/programs/research/progress-report-national-research-plan-2016-2018.html> The CSA can play a key role in building financial confidence among Canadians. **Kenmar**

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recommend that the CSA partner with the FCAC on such investor education programs and their promotion.

Quality control: We recommend adding this provision "To ensure the accuracy and integrity of the reported costs, Firms should have policies and procedures in place to ensure that (a) the reported costs are accurate; (b) the reported costs are appropriate for the client. "

We are suggesting this because we have found that Firms do not have adequate supervisory controls to prevent mischarges such as (a) double billing, (b) using the wrong fund series/class for the type of account: (c) charging trading commissions in fee-based accounts or (d) charging for the wrong series/class of fund applicable to the client (not credited with price breakpoints).

Referral fees: We do not have adequate information on referral fees received by dealers. We leave it to regulators to decide whether such fees should appear on annual client cost reports.

Enforcement: Robust Regulatory enforcement of Firm cost disclosure and application will reinforce the regulatory emphasis on costs and their impact on consumer savings. The \$350 million double billing fiasco could have been prevented if regulators had taken timely action. Similarly, the discount broker overcharging scandal caused investor harm in excess of \$1 billion over the period securities regulators allowed it to prevail. The sanctions and fines imposed should be impactful for industry participants. **Enhanced cost-related enforcement could inspire Firms to move more swiftly with CRM3.**

Better cost/ fee disclosure: The CSA should consider an audit of Canadian industry practices relevant to cost disclosure. See UK FCA Report MiFID II costs and charges disclosures review findings - <https://www.fca.org.uk/publications/multi-firm-reviews/mifid-ii-costs-and-charges-disclosures-review-findings> . If disclosure is not confusing, misleading or missing, the benefits of better cost reporting will be increased. The consultation did not address any initiatives with respect to the improving the robustness of cost/ fee disclosure.

Back-up plan. If the industry is unwilling or unable to step up to the challenge, the CSA should consider extreme measures to protect Canadians from high costs. One possibility is for the CSA to permit Canadians to purchase competitive U.S mutual funds.

Summary and Conclusion

Kenmar strongly recommend that industry and the CSA (with investor input) step on the accelerator and work together to find ways to meet or exceed the planned timelines. Based on what we see, the wealth management industry is dragging its heels. The CSA will therefore need to assertively nudge industry to match their stated good intentions with actions. While there some issues that need to be worked, the project is not leading edge software development. The key to success is for industry leadership to invest the resources necessary and demonstrate a real sense of urgency. This project has gone on

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for far too long with the retail investor paying the price.

The CSA should prescribe the reporting format and cost calculation methodology to ensure consistency across the industry.

We urge regulators to provide a summary page highlighting some key numbers with similar text to Fund Facts that will motivate investors to take action. In our experience, most retail investors are not aware that fees can be negotiated and that equivalent lower cost products and service arrangements are available.

One of the hoped for benefits of the New SRO, CFR and Total cost reporting initiatives is greater investor access to low cost , high quality products such as ETF's and Index funds . Therefore, one indicator of total cost reporting success will be a material rise in the percentage of lower -cost products held in retail investor accounts.

We fully expect that after implementation of these proposals, the reduced performance drag of excessive fees will result in better financial outcomes for Canadians and a more competitive financial services industry. The investing cost to earn 1% of return will be lower, all else being equal.

Overall, the proposed reporting format appears to provide a good plain language explanation of the total investing costs incurred. We have made a number of suggested improvements/changes .As we were not provided a copy of the investor testing/ research we cannot be confident the format has been adequately validated from a behavioural finance perspective. Kenmar believe the key question to ask is: **Will the enhanced reporting prompt the average retail investor to ask questions and take actions such that the investing costs (advice, product and transactional) incurred will result in better value for money?**

We have identified a number of issues but we clearly support the initiative of more fulsome disclosure of total investing costs on monthly (or quarterly) client statements and particularly annual cost reports . The ability to match total investing costs to account performance empowers the investor to ask why they have been sold a DSC fund, why the fees they pay approximate their returns or why lower cost alternatives, such as Index funds or ETF's , are not being recommended. **We strongly recommend that the reports include a short summary paragraph containing language nudging investors to ask questions and take action.**

A plain language Guide should be produced providing consumers information on how to use the cost information for better decision making. The Guide should contain links to applicable online cost impact calculators. Some cost benchmarking would not be inappropriate. The long term impact of fees on portfolio performance appears to be a blind spot for many Consumers.

We also recommend that the CSA provide a tool or link to a tool(s) that would help retail investors better understand the long term impact of fees. The one provided here allows for adding periodic payments rather than just a lump sum at the beginning. See

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<http://saviifinancial.com/seg-funds/m-e-r-fee-calculator/> Also, ***How Fees and Expenses Affect Your Investment Portfolio***

https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf There is also the OSC cost impact calculator.

While the design of Fund Facts (FF) is not part of this consultation, we feel obligated to once again articulate that the trailing commission should be an isolable cost in the FF fund fee table. The increased cost spotlight could cause investors to be more aware and sensitive to these embedded sales commissions at the outset. The SEC requires the Fund Summary document to break out the 12(b) 1 fee in the fee table – they refer to it as a distribution fee, not as a fee for advice and services. See SEC Bulletin *Mutual fund fees and expenses* https://www.sec.gov/oiea/investor-alerts-bulletins/ib_mutualfundfees.html

Based on the experience of CRM2, we recommend that regulators err on the side of more prescriptive language/format standards, than less.

Kenmar hope this feedback is useful to you.

Kenmar Associates agree to public posting of this Comment Letter.

We would be pleased to discuss our comments and recommendations with you in more detail at your convenience.

Respectfully,

Ken Kivenko P.Eng.
President, Kenmar Associates

REFERENCES

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<https://www.steadyhand.com/asset/2014/12/04/sample%20statement%202017.pdf>

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Kenmare Associates
Investor Education and Protection

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by Jill E. Fisch, Tess Wilkinson-Ryan: SSRN

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2086766

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How do Investing Costs Hurt Returns? Let me Count the (19) ways- John Heinzl

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G&M <http://www.theglobeandmail.com/globe-investor/investor-education/how-do-investing-costs-hurtreturns-let-us-count-the-ways/article4389453/>

Investing in Mutual Funds: Desjardins

We like the Desjardins brochure on mutual fund investing. It uses charts and plain language to good effect. With minor modifications it could be an excellent educational tool.

https://www.fondsdesjardins.com/information/Brochure-Fonds-Placement_EN_ACC_FINAL.pdf

Good Practice for Fees and Expenses of Collective Investment Schemes: IOSCO

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Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds

<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2872995> ABSTRACT: We conduct an experiment to evaluate why individuals invest in high-fee index funds. In our experiments, subjects allocate \$10,000 across four S&P 500 index funds and are rewarded for their portfolio's subsequent return. Subjects overwhelmingly fail to minimize fees. Search costs for fees matter, but even when we eliminate these costs, fees are not minimized. Instead, subjects place high weight on annualized returns since inception. Fees paid decrease with financial literacy. Interestingly, subjects who choose high-fee funds sense they are making a mistake.[The composition of their subject pool , college staff/MBA students made it more likely that they would find support for rational theories; given the dismal results it is thus no surprise that ordinary Canadians have trouble figuring out fund fees]

EXHIBITS

EXHIBIT 1 Why investing costs are not top of mind for retail investors

Notwithstanding any regulator mandated disclosure there are other powerful influencers on investor decision making. These include trust-inducing "advisor" titles , creative , glitzy brochures with images of a happy retirement, attention grabbing websites, biased investment calculators," free lunch " seminars , controversial industry financed investor polls , mind -capturing celebrity speakers , portfolio manager's appearances on television expounding their smarts (but not the fees) and of course an advice-skewing distribution system addicted to opaquely disclosed (and poorly understood by retail investors) sales incentives and trailers. These have the undesirable effect of diverting investor attention from the regulated disclosures and incentivizing advisers more toward sales volume, than the investors' best interests.

We add parenthetically, that most Canadian mutual fund advisers do not have a fiduciary duty to clients, yet trust in the advice provided by advisors is generally very high especially among the elderly .Even when a disclosure is available, regulator finds significant deficiencies and non-compliance yet does nothing more than issue a Staff Notice detailing the shortcomings and suggesting how improvements can be made. This cycle goes on, year after year, with little sign of progress. One need only look at the

double dipping scandal involving all of Canada's leading investment dealers as evidence. Better regulatory enforcement is required to support an expanded cost reporting initiative.

Exhibit 2 The BCSC study

https://bcsc.bc.ca/News/News_Releases/2017/76_Significant_improvements_in_investor_knowledge_following_new_fee_disclosure_documents_BCSC_study_finds/

The British Columbia Securities Commission (BCSC) published a report that outlined the results of an survey that examined the impact of the new annual investment reports had on those individuals working with a salesperson. In addition, the BCSC rolled out an educational online tool to help investors navigate and understand the new reports, including a short video and an improved fee calculator. In the report, it stated that 52 % of investors who had expressed less confidence and investment knowledge at the outset of the study increased their general understanding of fees after receiving CRM2 reports.

Other findings included:

- Half of all respondents always read statements
- Nearly all respondents confident in their understanding of their statements and bills
- Slight majority feel they know how to compare investment advisors, products
- 57% are familiar with the two types of fee they pay.

The report also showed that while there was an overall increase in fee knowledge among less-confident investors, that knowledge was short-lived. The report states that while "many" of those investors surveyed in March and then again in June saw their knowledge level increase upon receiving their CRM2 reports, that knowledge later declined during a follow up study several months later. "Clearly, knowledge fades," the BCSC says in the note.

Of 400 respondents who answered questions on specific fees, such as the total amount of fees paid, investor knowledge improved among 34 % of survey participants, but 35 % saw no change. Curiously, 31 % said it actually worsened.

The research shows that there is an overall positive effect on investor knowledge and behaviour; but what we would also want to see is whether the fee reports will cause investors to have a conversation with their Reps about the fees they pay, is there a different mix of products that could work for them, or would they consider changing their Firm or advisor. . And while that 52 % learned more – which is great – they didn't do anything with that knowledge. The CSA initiative should aim to greatly improve on that.

Exhibit 3 OSC behavioural insights study

A 2019 the OSC Investor Officer released [**OSC Staff Notice 11-787, Improving fee disclosure through behavioural insights**](#), identified behaviourally-informed tactics for designing more effective investment fee disclosures. The research report focused on the annual reports on charges and other compensation investors receive from their registered dealer or advisor, and identified 24 concrete tactics for making these reports

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more engaging and easier to understand and act on. This behavioural insights research study demonstrated how plain language and attention to disclosure design can place retail investors in a better position to make informed decisions about their Advisory relationship and portfolio construction.

Tactics identified in the research included using electronic alerts or notifications that attract investors' attention or, if the report is being provided by mail, including attention-grabbing language or visuals on the envelope; testing and employing simpler terms to describe key concepts and different types of fees; and listing actions investors can take to reduce their investment fees or increase the quality of service they receive for those fees.

<https://www.osc.ca/en/news-events/news/osc-behavioural-insights-study-highlights-pathways-better-fee-disclosure>



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July 10, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

c/o

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Mr. Tony Toy
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
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Toronto, Ontario
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ccir-ccrra@fsrco.ca

Dear Friends:

Re: Total Cost Reporting for Investment Funds and Segregated Funds

Thank you for this opportunity to provide our input on this important matter.

We applaud the regulatory establishment for their efforts to ensure investors are provided with the information necessary to make informed choices about their investments.

Fund Expenses Disclosure

Fund expenses are a necessary outgrowth of managed and passive investments. There are costs associated with investment activity. The message underlying the proposed prescribed notifications is that all fund expenses reduce a fund's returns. We respectfully submit that this is not the case. Some costs may generate incremental returns that more than offset the cost incurred.

The concern with respect to fund expenses can be more correctly stated as fund costs are relevant to the extent that the costs do not generate additional return. We suggest that the Notifications be amended as follows, "They affect you because, to the extent that the increased costs do not generate additional return, they reduce the fund's returns."

Proposed Insurance Guidance

In addition to acting as Portfolio Managers, we provide financial planning services to our clients. We have found it challenging to make projections for some insurance products because of a lack of information in client insurance statements and a general lack of understanding by selling agents of the product. Specifically, the client statements for GMWB products often do not provide information about the Guaranteed Withdrawal Base, the original investment amount, current market value, the costs of the insurance riders – the guarantee fees, fund fees, market value step ups and how they are calculated – is it based on an annual high or a lifetime high - and the current value of those stepped-up amounts. Additional information will be very helpful to those in the planning community.

Thank you.

Sincerely,

PACIFIC SPIRIT INVESTMENT MANAGEMENT INC.

John S Clark

John S. Clark
President

July 11th, 2022

Attn:

Me. Philippe Lebel - Corporate Secretary and Executive Director, Legal Affairs - AMF

The Secretary - Ontario Securities Commission

Mr. Tony Toy - Policy Manager Canadian Council of Insurance Regulators

CC:

Alberta Securities Commission

Autorité des marchés financiers

British Columbia Securities Commission

Financial and Consumer Services Commission (New Brunswick)

Financial and Consumer Affairs Authority of Saskatchewan

Manitoba Securities Commission

Nova Scotia Securities Commission

Nunavut Securities Office

Office of the Superintendent of Securities, Newfoundland and Labrador

Ontario Securities Commission

Office of the Superintendent of Securities, Northwest Territories

Office of the Yukon Superintendent of Securities

Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Re: Commentary on Total Cost Reporting for Investment Funds and Segregated Funds

Dear Me. Lapel, Toy, and Secretary of the OSC:

Please accept the following commentary paper put forth by the Financial Planning Association of Canada in regards to the proposed Total Cost Reporting Framework. We would like to thank you for the opportunity to formally submit to you our views on the subject matter.

If anyone should have any additional questions regarding our submission, we would be happy to discuss the matter further and would welcome any other future opportunities to be of assistance.

Regards,



Jason Pereira
President

INCLUDES COMMENT LETTERS RECEIVED

The Financial Planning Association of Canada

Official Commentary Submitted to the

Canadian Securities Administrators

and the

Canadian Council of Insurance Regulators

Regarding

Total Cost Reporting for Investment Funds and
Segregated Funds

July 2022

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About this Submission

This commentary is submitted to the Canadian Securities Administrators and the Canadian Council of Insurance Regulators in response to their request for commentary on proposed guidance in regards to Total Cost Reporting For Investment Funds And Segregated Funds.

At the Financial Planning Association of Canada, we welcome the opportunity to participate in this process and lend our perspective on this important change within the Canadian financial industry regulatory landscape.

About the Financial Planning Association of Canada

The Financial Planning Association of Canada (FPAC) is a new professional association founded in 2019, dedicated to the professionalization of the Financial Planning industry.

Our goal is to make financial planning a profession with the highest standards of fiduciary responsibility, competency, and practice standards possible. We believe that Financial Planners are uniquely positioned to help improve the lives of Canadians through comprehensive financial planning – and that only when Financial Planners are held to the highest standards, which would, in turn, lead to greater consumer confidence and trust, will FPAC be able to fully achieve its mission of professionalization of the financial planning industry.

Our Position on the Proposed Total Cost Reporting For Investment Funds And Segregated Funds

The success of a nation's financial industry depends on consumer trust in its financial institutions. At FPAC, we believe that transparency is a core tenet required to build trust with the public, especially regarding the core issue of what consumers are paying on investment products and for investment services. Our members feel so strongly about the need for the full and complete disclosure of all costs associated with the financial products and services they offer that the goal of ensuring all costs are reflected – in both percentages and dollars – on client statements is embedded in our founding Charter.

As such the Financial Planning Association of Canada lends its full support to the efforts being undertaken by the CSA and CCIR to ensure clients have full and complete disclosure of costs in both dollars and percentages on their statements, and we thank you for the opportunity to comment.

Response to the Specific Questions Regarding the Proposed Securities Amendments

1. *Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,*
 - a) *exchange-traded funds,*
 - b) *prospectus-exempt investment funds,*
 - c) *scholarship plans,*
 - d) *labour-sponsored funds,*
 - e) *foreign investment funds?*

We are unable to provide specific guidance or commentary on technical issues regarding implementation. However, we will provide the following two comments in regarding to this topic:

- The lack of full and complete disclosure of costs on client statements, in our view, is nothing short of injustice to investors. The current regime of partial disclosure leads many investors to believe that they already have full disclosure, which is far from the truth. As such we encourage the CSA and CCIR to accept no delay tactics or excuses from the industry and instead to ensure that these changes happen as soon as possible.
 - The comments made to date by the IIAC, IFIC, and Fundserv, namely that they cannot begin work on the technological infrastructure required to fulfill the change in reporting until the reporting guidelines are finalized, should not be accepted. While the guidelines have not been finalized, certain aspects of this proposal, like the inclusion of MERs, and the fact that additional data will have to be transmitted from vendors to dealers via Fundserv are not in question and should be actioned without any further delay.
2. *Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?*

The reporting of MERs and not TERs would not be acceptable to FPAC and its membership. The name of this initiative says it all: TOTAL COST REPORTING. While trading adds no material cost for many funds, others have material fees that are larger than the MER. For example, Horizons Morningstar Hedge Fund Index ETF (HHF) ETF has an MER of 1.26% plus a TER of 2.48% for a total of 3.74%¹. Failure to disclose

¹ https://www.horizonsetfs.com/horizons/media/pdfs/fundsummary/en/HHF_FundSummary.pdf

trading costs as part of a Total Cost Reporting initiative would constitute, in our view, a material failure to deliver on this promised initiative to investors.

We also believe that both MERs and trading costs should be itemized separately. Trading cost is largely depending on the investment strategy and can vary wildly from year to year, while MERs are more stable and typically only change when funds mandate fee reductions. Given these realities, these items should each be reflected as their own line items. This practice would help ensure that investors do not falsely conclude that fees (and not trading costs) are changing from year to year, but instead would be able to properly attribute cost changes to the underlying strategy, market conditions, or other factors.

3. *For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?*

We are unable to comment as to any specific reasoning why different inputs would be required for different types of funds. Instead we will simply state that all values should reflect actual market values.

4. *Do you anticipate any other implementation issues related to the Proposed Securities Amendments?*

We have no knowledge of anything that should delay the implementation of these proposals.

5. *Do you anticipate any issues specifically related to the proposed transition period?*

The only issues we see in the implementation are those of industry players' willingness to take action in short order. As already stated, the IIAC, IFIC, and Fundserv have, by their own admission, not even begun to start to work on the technology infrastructure changes required to make total cost reporting a reality within the proposed timeline.

We encourage both the finalization of these changes and strong encouragement of industry players to meet the target deadline.

Response to the Specific Questions Regarding the Proposed Insurance Guidance

1. *Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,*
 - a) *Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;*
 - b) *Segregated Fund Contracts which are no longer available for sale and to which customers can no longer make deposits;*
 - c) *Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);*
 - d) *Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the client holds units)?*

We have one concern about scenario (d) and the issue of indirect payment. To our understanding, in cases where fees are paid indirectly, this scenario would result in fees being detailed on two or more statements. If this is the case, we are concerned that this practice would lead to investor confusion as not all fees would be detailed on one statement.

2. *The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract. Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the client holds each day as follows (not included in this submission).*

We believe that the fee return calculation for seg funds should be identical to that of other investments. As such we support the use of option A.

3. *Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses? Please comment on the advantages and disadvantages of:*
 - *Requiring all insurers to use the same calculation; or*
 - *Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.*

We hold that all insurers and product issuers should be using the same default methodology to calculate expenses, and that the most accurate method of doing so should be utilized. We also hold that no issuer should be given the discretion to pick their own methodology for calculating fees unless they can empirically prove the methodology is more accurate than the default method.

4. *For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e. MER + TER):*
- *MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis*
 - *MER and TER calculated for the year in question after the year ends; or*
 - *Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?*

We recognize that there is a challenge in accurately reporting MERs and TERs on statements given that reporting periods for these numbers do not necessarily correspond to the standard for statements.

We favor whatever approach results in the most accurate approximation of total cost. We favour an approach that utilizes the most recently disclosed costs as per the Fund Facts document, along with some form of methodology for mid-period reporting of any material change in cost.

For example, if a Fund Facts document for a certain fund is updated in June and the issuer announces fee reductions in September, there should be some method for pushing through this updated information for reporting purposes.

5. *For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using:*
- *365 days;*
 - *The actual number of days in the calendar year in question; or*
 - *Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?*

When considering annual expenditures, it is clear that people see a year as 365 days, with the exception of leap years. Using any other metric as a basis risks confusing the public – and unless a very good reason can be given and articulated to the public, in our view the CCIR should not deviate from a 365-day calculation. This would also establish

the calculation on the same basis as the securities calculation.

6. *Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:*

- *disclosed in annual statements for each fund; and*
- *used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?*

What are the costs, benefits and risks of using (MER + TER) versus only using MER?

We do not consider MER reporting alone acceptable. As per our statements to the CSA, TOTAL COST REPORTING needs to include All COSTS. Failing to do so could lead to a failure to disclose material costs to the client.

The cost to this is simple: telling clients "this is what you are paying" but then denoting elsewhere that the industry did not count all costs and the client needs to reference another document to get an accurate and complete picture does nothing but erode confidence in the industry.

There is no legitimate reason to consider excluding the TER.

7. *Might Segregated Fund Contract customers incur significant costs, other than for deferred sales charges, if they withdraw all funds from their Segregated Fund Contracts? If so, what are those costs?*

We know of no cost for withdrawal other than deferred sales charges.

8. *The guidance describes annual statements. Do you anticipate any issues in connection with the guidance as drafted in cases where an insurer provides semi-annual statements to customers?*

Ideally, this initiative should seek to include all relevant data to be pushed to custodians by way of Fundserv, including any relevant data surrounding seg fund costs. This will help ensure that in cases where a client holds both forms of investment, consolidated reporting can clearly summarize all costs to clients.

9. *Do you anticipate any other implementation issues related to the Proposed Insurance Guidance?*

INCLUDES COMMENT LETTERS RECEIVED

We have no knowledge of anything that should delay the implementation of these proposals.

10. Do you anticipate any issues specifically related to the proposed transition period?

As stated earlier, the only issues we see in the implementation are those of industry players' willingness to implement these initiatives in short order. As already stated, the IIAC, IFIC, and Fundserv have, by their own admission, not even begun to start to work on the technology infrastructure changes required to make full total cost reporting a reality within the proposed timeline.

We encourage both the finalization of these changes and strong encouragement of industry players to meet the target deadline.

Additional Considerations: Proposed Statements

In addition to the questions posed to participants, we have several other concerns that we wish to address as part of this submission.

Arguably the most important aspect of these reforms will be the guidance for client statements. In the end, it is the statements that will communicate cost information to clients. As such we have concerns about the current sample statements provided in the request for comment. These concerns are as follows:

Structure

We find the tables in the sample statements hard to follow. While we appreciate the desire to group costs by recipient, at the same time we feel the current attempt does not effectively do so without confusing the reader.

We recommend that the proposed format be revisited and that an approach more similar to what was proposed by the MFDA be taken. We find the simple, straight forward approach taken by the MFDA proposal is far easier to understand than the table currently presented.

Cost In Dollars

We are aware that other parties have publicly stated that they believe that costs need only be presented in percentages. We vehemently disagree with that stance. Agreeing to provide costs in percentages and not in dollars only inconveniences the client by requiring them to "do the math themselves" as to what they paid, and does nothing but erode trust with the industry.

We urge all regulators to take a hard line on this and ensure total cost reporting appears in dollars, as well as percentages.

Location of Percentage Reporting

In the sample statement provided, we note that MERs are being reported next to the applicable security. We commend this approach but would add that TERs may be a better fit here as they are a better reflection of the total cost of that position.

In addition, we believe that next to each section of the total cost reporting table that details the cost in dollars, the cost should also be stated as a percentage of the total portfolio. This will give investors a better understanding of the portion of their total cost that is attributable to each line item, as well as their total weighted average cost.

Sales Tax

Missing from this discussion entirely has been the disclosure of sales taxes. While these taxes are already included in the MER, we feel that this cost is better broken out individually, given that it is beyond the control of the product provider, and because not separating the tax cost leads investors to believe that providers are charging more than they actually do for their products.

Tax Deductibility

The sample statements would, in our opinion, create a substantial problem for investors. The issue is that the reporting identifies both embedded costs, which cannot be deducted on an investor's tax return, and unembedded costs, which can be deducted for funds held in taxable accounts.

While the table breaks down the individual contributors' cost, in its current iteration clients would have a hard time determining what can be claimed as a deductible fee on their tax returns, which would, in turn, result in incorrect tax filings and a potential epidemic of audits and reassessments.

It is of paramount importance that we do not create any issues for clients and their tax filings as an unforeseen consequence of this initiative. We therefore recommend that a separate line item be added below the total cost disclosure that provides the tax-deductible portion of the disclosed fees.

Explanation of Value

Of equal importance to cost disclosure is the need to provide an understanding of the value provided in exchange for said cost. To date all commentary that we have been exposed to has confused value with investment return, however this completely ignores the value provided by countless registrants who provide comprehensive or modular financial planning services to their clients.

We recognize that not all advisors provide these services and that no one statement would be able to define the value provided by a very diverse set of service offerings. That said we also feel this can be addressed with a statement that encourages the investor to consider what it is their advisor is providing them beyond investing services. The following is a sample of a disclosure that could be added to accomplish this.

“Fees paid to your advisor are in consideration for services provided by them, to you, the client. These services vary from advisor to advisor and could include, in addition to investing services: financial planning, insurance, tax, and estate planning services. Be sure to speak with your advisor as to how they can be of service to you.”

We highly recommend that a note to the effect of the above be included in all statements.

Closing Summary

As noted in our opening statement of this submission, we at the Financial Planning Association of Canada see this initiative as nothing short of the correction of an injustice and disservice to investors. We also recognize that opportunities to fix issues like this do not come about often, and as such we encourage all members of the CSA and CCIR to stand true to the promise of this initiative and ensure that costs are reported at TOTAL COSTS. No one in the industry should ever have to point to another document to explain where other costs that do not appear on the statement are, and no investor should ever have to question how much they are paying.

In closing, we thank you for the opportunity to provide commentary regarding this important issue. We hope that you have found our submission to be in keeping with the intended spirit of consumer protection and with our goal of the professionalization of the financial planning industry. It is our hope that you will see fit to implement our recommendations as outlined. We will also continue to make ourselves available for further input and support for this initiative.

July 20, 2022

Subject: Commentary on CSA consultation on Total cost

I am delighted to see regulators tackling this important topic. As things stand , investors face opaque cost disclosure and the annual report on costs and expenses paints an incomplete picture. Investors really have no easy way of figuring out if they are getting value for the fees they pay .The industry appears to resist transparent disclosure likely because fees are not congruent with services and benefits derived. This initiative will allow top performing Firms to shine and others to fall by the wayside. Competition will be increased and investor outcomes enhanced.

My specific comments are:

The Transaction expense ratio should be included as it is not insignificant in a number of cases. Even small fees impair long term returns.

For the new Alternate funds, performance fees should be included as they subtract from returns

Information on fees should be in % and dollars and cents terms

Fund Facts should break out the trailing commission for greater visibility.

Regulators should prepare basic investor materials (videos, brochures, online) that explain fees and how to use the enhanced reporting to make better decisions.

Whatever format and language is used in the reporting should be validated by real life testing with retail investors .

The DSC early redemption fee should be labelled as a "penalty " to open investor eyes to the toxic nature of such mutual funds/ segregated funds.

Investors need to be educated on the downside of dealing with Firms such as banks that only sell their own products and on Firms that charge accounts on a fee basis but also collect under the table trailing commissions from Fund companies. Any fees that are opaque such as currency conversion or bond pricing should be explained.

Plain language , font size and style should make for easy reading by the expected readership.

Not sure how HST/ GST should be disclosed but note that such taxes are not immaterial.

Regulators need to impactfully enforce fee and conflict of interest disclosure rules

Delivery of reports should be available in paper (delivered free of charge by surface mail) or pdf format (delivered by email) solely dependent on client preferences.

This initiative is very important especially given volatile markets and lower expected market returns going forward. I urge the regulators to proceed expeditiously and disregard typical industry foot dragging on regulatory reforms. The faster the reporting is implemented, the faster retirement savings will be protected against fee erosion.

I am OK with publicly posting this Comment letter.

Thank you for the opportunity to provide comments.

Sincerely,
Arthur Ross



Via email

July 22, 2022

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
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and

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor, Box 55
Toronto, Ontario M5H 3S8
comment@osc.gov.on.ca

Dear Sirs/Mesdames,

Re: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103") and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("31-103CP") and Proposed CCIR *Individual Variable Insurance Contract Ongoing Disclosure Guidance* Total Cost Reporting for Investment Funds and Segregated Funds (the "Proposed Amendments, or CRM3")

We are pleased to submit this comment letter regarding the Proposed Amendments on behalf of the following affiliates of Royal Bank of Canada (RBC): RBC Dominion Securities Inc., RBC Direct Investing Inc., Royal Mutual Funds Inc., RBC Global Asset Management Inc., RBC Phillips, Hager & North Investment Counsel Inc., RBC InvestEase Inc. and Phillips, Hager & North Investment Funds Ltd.

RBC is committed to providing products and services that will meet the needs of a broad, diverse and evolving investing population. This commitment is evidenced by the continuum of service offerings that RBC has adopted over the years to support varying client needs and preferences, ranging from the self-directed investor, to the investor seeking accessible investment advice, to the investor requiring more personal advisory services, to the investor seeking holistic, discretionary services. Further, RBC offers an extensive variety of investment products, including access to both Canadian-based and international products, to meet our clients' investment objectives. The range, scale and diversity of RBC's wealth and asset management businesses well-positions RBC to assess the potential impact of CRM3 on a wide range of investors and on the businesses who serve those investors – and importantly from an investment fund manager and dealer/advisor perspective.

RBC supports the goals articulated in the Proposed Amendments to improve investors' awareness of ongoing embedded fees that form part of the cost of owning investment funds and segregated funds, and

RBC is committed to working with its industry partners and regulatory authorities to achieve these goals. In furtherance of these goals, RBC would like to bring to the attention of the Canadian Securities Administrators ("CSA") and the Canadian Council of Insurance Regulators ("CCIR") certain aspects of the Proposed Amendments that raise a number of questions and potential challenges which must be addressed in order to achieve a solution that is helpful to investors and that can be effectively implemented by industry participants. We urge the CSA and CCIR, once they have assessed feedback from industry participants regarding the significant challenges associated with implementing the Proposed Amendments, to revisit their cost-benefit analysis of the Proposed Amendments and to consider whether there are alternative means of achieving their goals.

Should the CSA and CCIR wish to continue consideration of the Proposed Amendments, we strongly urge the CSA and CCIR to establish a pre-implementation committee to facilitate detailed comments on operational considerations from industry experts shared with CSA and CCIR membership prior to publishing the final amendments. A pre-implementation committee would seek to minimize unintended consequences of the Proposed Amendments by carefully reviewing each requirement in detail. We anticipate that the committee may also reduce the need for post-implementation exemptive relief and/or FAQs by addressing key matters in advance of final rule publication. RBC would be an enthusiastic participant in such a pre-implementation committee, drawing on our deep knowledge and experience gained from serving Canadian investors across multiple securities registrants and through multiple platforms.

We would also urge the CSA and the CCIR to proceed with a phased approach to implementation of CRM3 to minimize the risks of inaccurate and/or misleading disclosures and to manage the regulatory burden associated with compliance. Such an approach would be consistent with prior regulatory proposals such as CRM2 and Client Focused Reforms.

Summary of Key Comments:

Our comments are focused on the following key items:

- The annual report on charges and other compensation is the appropriate disclosure document to include information regarding fund expenses to help improve investor education while seeking to minimize regulatory burden. It is not appropriate to include Fund Expense Ratios in quarterly or monthly account statements. Without context of fund performance, the additional disclosure is likely to cause investor confusion and possibly drive investor decision-making that focuses solely on cost minimization.
- Based on our review of the implementation experience of similar total cost reporting in the United Kingdom and consideration of same in the United States, we believe that these jurisdictions provide lessons that can be applied to the Canadian landscape, particularly in the areas of regulatory burden and investor education.
- The Proposed Amendments introduce a high degree of complexity and extensive systems and process changes, impacting investment fund managers, dealers/advisors, intermediaries, and investors. We urge the CSA and CCIR to establish a pre-implementation committee prior to publishing the final amendments to facilitate a detailed operational review from industry participants.

Specific Comments:

The Proposed Amendments would add two new, key elements to client reporting under NI 31-103: (1) the inclusion of Fund Expense Ratios (refers collectively to the Management Expense Ratio and the Trading Expense Ratio), stated as a percentage for each investment fund held by a client, in quarterly or monthly account statements and (2) the inclusion of an all-in dollar amount of fund expenses and direct investment fund charges, for all investment funds held by a client during the year, in the client's annual report on charges and other compensation.

I. Fund Expense Ratios are more appropriately disclosed in the Annual Report on Charges and Other Compensation

We do not believe that it is appropriate to list Fund Expense Ratios in quarterly or monthly account statements. These statements fulfill a specific requirement to inform clients of their transaction activity during the period, as well as period end security positions and cash balances. Providing fund expense related information on such statements which do not otherwise contain any expense related information would be confusing to investors. Providing clients with itemized Fund Expense Ratios on a monthly or quarterly basis – without the full context of corresponding costs (e.g. transaction or account charges) or performance information – could lead investors to pursue investment decisions that are driven solely by cost minimization, as opposed to longer-term strategic investment objectives.

There is particular concern that retail investors when presented with Fund Expense Ratios in account statements could act in a manner contrary to their investment needs and objectives, time horizon and risk profile. For example, during a period of declining investment returns, a client's costs could remain consistent while investment returns decline. In the *Know Your Product* guidance set out in the Companion Policy to NI 31-103, the ongoing costs of owning a security are one element (among several) to be considered by a registrant. An over-emphasis on costs introduced by quarterly or monthly Fund Expense Ratio disclosures could motivate an investor to sell their positions in the short-term to minimize costs. Ultimately, vulnerable investors could be negatively impacted by the over-rotation to information regarding costs. For further insights on these concerns, please refer to the submission by the Investment Funds Institute of Canada. Further, repeating Fund Expense Ratios for every investment fund held by clients on these reports, which can be received by some clients as frequently as monthly, would be unnecessarily duplicative, and in our view would not provide meaningful information for investors. Fund Expense Ratios generally are materially consistent from quarter-to-quarter, or from month-to-month.

From an operational perspective, we have concerns that the process of gathering accurate Fund Expense Ratios and incorporating them into quarterly or monthly statements could impact dealers' ability to deliver these statements quickly and may prevent clients from receiving the other time-sensitive information they need and rely on. Further, there is currently no process in place for the dissemination of MER and TER information from fund manufacturers to dealers on an ongoing basis. A process would need to be built which requires coordination amongst all industry participants (fund manufacturers, dealers/advisors, and intermediaries such as Fundserv for the transmission of data). Also, requiring the reporting of Fund Expense Ratios on quarterly or monthly account statements would require the reporting of this information more frequently than MERs and TERs are required to be reported under current regulation.

We believe that the annual report on charges and other compensation is the appropriate report to include information regarding fund expenses, if this can be achieved in a feasible manner. These reports are used to facilitate conversations with clients regarding the costs associated with their accounts and investments, and we believe that an annual consideration of these charges and costs is appropriate.

II. Important Lessons from Total Cost Reporting Initiatives in the U.K and U.S.

United Kingdom

We are cognizant of some of the challenges faced when similar costs and charges disclosure requirements were introduced in the United Kingdom in 2018. In the UK, firms were in particular challenged in disclosing third-party costs and charges. The Financial Conduct Authority ("FCA"), in a post-rule implementation review, found evidence that firms were not sharing their costs and charges with each other to meet their obligations to provide aggregated figures to clients. The FCA further found that firms were not interpreting the rules consistently, and firms that did not demonstrate compliance with the rules often said it was because it was difficult to get all of the required data from third parties. In the UK experience, the FCA found that firms had been seeking to comply with the new requirements, but that their efforts were hampered by

required data not being available. Firms' difficulties were compounded when they tried to apply disclosure to non-MiFID products in their efforts to deliver greater transparency to customers.¹

United States

The U.S. Securities and Exchange Commission ("SEC") had considered adopting rules similar to the Proposed Amendments; namely, to provide fund shareholders with account statements that would include the dollar amount of fund fees that investors indirectly paid. However, the SEC ultimately concluded that providing fund shareholders with personalized information would impose undue costs to industry and, ultimately, to investors and rejected introducing such rules:

As the Commission considers how to best disclose to investors the fees and expenses that they incur with investment in a fund, including whether it would be appropriate for fund account statements to include personalized information about expenses or other fund-related data, it will need to consider the advantages and disadvantages of each alternative. For example, providing fund shareholders with personalized information, expressed as a dollar amount, about the fees and expenses that they paid indirectly during the year might increase shareholder awareness of fund fees and expenses. On the other hand, fees and expenses would need to be presented on a standardized basis - i.e., as a percentage of fund assets, for a defined time period, calculated in a manner that is uniform for all funds. Finally, as indicated in the GAO report, the compliance cost associated with a new personalized expense disclosure requirement, which ultimately would be borne by fund shareholders, may be considerable. Computer programs that perform shareholder accounting functions would have to be revised and other costs would be incurred. Administrative difficulties would present an additional obstacle. Shareholder accounting often is performed not by the fund, but by a broker-dealer who, in many cases, has no affiliation with the fund. Moreover, many investors hold their shares in omnibus accounts with broker-dealers. These broker-dealers do not have the information that would be needed to calculate the dollar amount of fees attributable to individual fund shareholders and would have to develop interfaces with the record owners of these accounts.²

The SEC identified precisely the same challenges that would arise should Canadian market participants attempt to implement the Proposed Amendments. The SEC ultimately proceeded with an alternative approach requiring fund-level disclosure of costs in dollars associated with a standardized amount, akin to what already exists in Canada³. The SEC also noted that there are other methods of enhancing investor awareness regarding fund expenses, and the SEC recognized that it has an important role to play in improving the financial literacy of investors with respect to mutual funds and their costs. The SEC has developed educational materials that help investors understand mutual fund fees. Canadian industry participants, together with Canadian regulatory authorities, could potentially develop similar materials. See, for example, the Investor Bulletin created by the SEC's Office of Investor Education and Advocacy: https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf

III. Proposal to Include Aggregate Fund Expenses in Annual Report on Charges and Other Compensation Raises Challenges and Requires a Refreshed Cost-Benefit Analysis

As noted above, while we believe that it would be more appropriate to include information regarding fund expenses in clients' annual report on charges and compensation (as opposed to itemizing Fund Expense Ratios in quarterly or monthly statements), the Proposed Amendments raise significant questions and concerns as to how this can be implemented.

RBC stands ready to coordinate in good faith with other industry participants, service providers and regulatory authorities to achieve a workable solution to provide investors with a better appreciation of fund expenses. However, the recent experience of the order-execution-only (OEO) trailer ban, and the time, effort and complication associated with achieving an industry solution to implement the ban is instructive.

¹ <https://www.fca.org.uk/publications/multi-firm-reviews/mifid-ii-costs-and-charges-disclosures-review-findings>

² <https://www.sec.gov/news/studies/feestudy.htm> (the "Fee Study")

³ In declining to require individualized fee disclosures, the SEC recognized that "[e]stimates of the costs of these changes are substantial." Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004) [69 Fed. Reg. 11244 (Mar. 9, 2004)], <https://www.sec.gov/rules/final/33-8393.htm>, at paragraph accompanying n.36.

The OEO trailer ban applied principally to discount dealers and investment fund managers whose funds they distribute. CRM3 will apply to all categories of dealers/advisors and to a much broader group of investment fund managers. We anticipate that the level of complexity will be several factors greater than that which was involved in implementing the OEO trailer ban. We also anticipate challenges insofar as some of the industry participants, such as foreign fund managers, who would need to come to the table are outside of the CSA's jurisdiction and therefore may not feel compelled from a regulatory perspective to provide the required level of cooperation.

RBC's CRM2 implementation expenditure was significant and costs continue to be incurred to provide ongoing CRM2-level reporting. In comparison, CRM3 will involve increased complexity, a wider scope of industry stakeholders, significant costs, and increased operational risk. For these reasons, we feel it is imperative that the Proposed Amendments reflect industry feedback and that its benefits exceed the implementation costs and risks. Ultimately, a meaningful portion of costs to industry participants will be borne by investors.

Proposed Section 14.17.1 contains several provisions that would, in our view, place an undue burden on dealers/advisors to verify and/or attempt to source information where it is not reliably provided to the dealer by the investment fund manager of the applicable fund. Dealers/advisors will necessarily be dependent on investment fund managers to receive accurate and timely information in order to include reliable data in reports to clients. Proposed subsection 14.17.1(2) would place too high an onus on dealers in obliging them to find alternative sources of information should the investment fund manager fail to provide the requisite information or should the dealer determine that the information is incomplete/misleading. Similarly, subsection 14.17.1(3) places too high of an onus on dealers to source information by "other means" in situations where information is not publicly available or is more than 12 months old. Dealers/advisors must be able to rely on fund-level information provided by those best-placed to reliably provide it (i.e. the investment fund managers).

If no information is provided to dealers/advisors, then a notation should be added to the clients' annual report on charges and compensation stating that no information is available. Similarly, we recommend that the CSA and CCIR incorporate required disclosure language in the annual report on charges and other compensation, which explains to investors that the information disclosed has been provided by investment fund managers and is calculated based on investment funds' most recently filed information.

Further, we note that the Proposed Amendments include reference to a "reasonable period of time", which we believe warrants additional clarity. We propose that an industry standard be provided in this regard in order to ensure consistency across the industry for both investment fund managers who are providing the information and for dealers/advisors who are utilizing the information for reporting to their clients.

IV. Responses to CSA's Specific Questions Regarding the Proposed Securities Amendments (Annex A to the Proposed Amendments)

Consistent with our view that it is not appropriate to list the Fund Expense Ratios in quarterly or monthly statements, we have focused our comments to the proposals relating to the annual report on charges and other compensation.

1. *Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,*
 - a. *exchange-traded funds,*
 - b. *prospectus-exempt investment funds,*
 - c. *scholarship plans,*
 - d. *labour-sponsored funds,*
 - e. *foreign investment funds?*

RESPONSE: YES. To achieve a scalable, consistent solution to deliver an all-in dollar amount presentation of investors' fund-related expenses, industry participants will likely need to engage service providers such as Fundserv and Broadridge. To the extent these service providers do not cover certain types of investment

funds or there are dealers who transact in funds without the use of Fundserv, it may not be feasible to include those funds in a solution as a first stage.

Exchange-traded funds (including closed-end funds): We anticipate significant challenges in attempting to implement the Proposed Amendments with respect to exchange-traded funds, as set out in more detail below, and we suggest that exchange-traded funds be excluded from the initial scope of CRM3.

There is no current mechanism to facilitate the transfer of exchange-traded fund expense information from fund managers to dealers. Further, exchange-traded fund managers do not maintain a record of unitholders. As a result, fund managers are not able to assist with the calculation of the dollar cost of ownership for exchange-traded funds because they have no visibility on the unitholders. Further, because dealers do not currently have the ability to store daily NAV information, it would be challenging for dealers to calculate the dollar cost of ownership for the exchange-traded funds owned by their clients. Accordingly, a significant technology build for fund managers and dealers would be required to facilitate the transfer of exchange-traded fund expense information from fund managers to dealers, for dealers to ingest daily fund expense ratios and NAV at the fund level from fund managers; multiply the ratios by the daily NAV to calculate a daily cost amount; match the ratio and dollar cost data to exchange-traded funds owned by clients to calculate an effective daily cost per client; and finally aggregate the sum of 365 days' worth of costs to arrive at an annual figure for the annual report on charges and other compensation to clients.

Labour-sponsored investment funds ("LSIF"): Due to the nature of these funds and the underlying small- and medium-sized business investment criteria, LSIFs with inactive trading status or in the wind-up phase may not have current prices. Therefore, it would be operationally unfeasible to implement the Proposed Amendments in the absence of timely data from the fund managers. Industry would require additional guidance on the total cost reporting approach to be adopted in such situations.

Prospectus-Exempt and Foreign Funds: We would also highlight that investment fund managers who are not subject to the requirements of NI 31-103, such as some exempt investment fund managers or those who operate outside of Canada, may not be as willing to provide some of the information or cooperation necessary to fulfill the requirements.

2. *Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purpose of the annual report on charges and other compensation?*

RESPONSE: YES. As noted above, we do not believe that it is appropriate to list Fund Expense Ratios in quarterly or monthly account statements. We reiterate our strong view that it is more appropriate to include any fund expense information in clients' annual report on charges and compensation, if this can be achieved in a workable way. If Fund Expense Ratios are disclosed to clients, the annual report on charges and other compensation is the more appropriate disclosure document for investors as noted above.

We acknowledge that the Fund Expense Ratio is a more comprehensive metric for investors. There is significant complexity for investment fund managers to provide, and dealers/advisors to receive, MER and TER information whether MER alone or as part of a combined Fund Expense Ratio as this data sharing is not part of the current disclosure framework presented to investors. Accordingly, if the regulators proceed with a requirement to disclose MER alone or the collective Fund Expense Ratio, we recommend an appropriate implementation period with a pre-implementation committee to address expected complexity.

3. *For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?*

RESPONSE: For conventional mutual funds, we believe it would be more appropriate to use net asset value, which is readily available for these types of funds. We have elaborated on the challenges associated with exchange-traded funds in our response to #1, above.

4. *Do you anticipate any other implementation issues related to the Proposed Securities Amendments?*

RESPONSE: YES. We note that dealers/advisors will face several challenges associated with the proposed cost ratio formula:

- As currently proposed, a dealer is meant to receive from a fund company a “daily dollar cost per unit”, which is calculated as $(\text{expense ratio}/365) \times (\text{NAV per unit})$. The dealer is then meant to calculate the daily cost of every client fund holding. Then, those daily values are to be summed and reported to each client. If dealers were to receive approximately 250 data points on each fund annually to store in their systems and run these calculations across 90,000 listings on Fundserv, this would translate to approximately **22.5 million data points**. This process is computationally intense for dealers/advisors, given the magnitude of data being transferred from fund managers. A significant systems build is required to capture, compute, and report the required cost information.
- As required under CRM2, trailing commission disclosure (in dollar terms, at the client account level, by fund) is provided by fund managers to dealers/advisors on an ongoing basis. If fund managers assume responsibility for the total cost reporting related to MERs and TERs (in dollar terms, at the client account level, by fund), a significant systems build will be required, with sufficient lead time before implementation. Unlike CRM2, where fund managers have historically calculated trailer fees in dollar terms for billing purposes, total cost information (in dollar terms related to MER and TER) is not currently calculated by fund managers. In addition, we reiterate that fund managers are not able to provide the computed cost information for ETFs, as ETF fund managers do not have access to holdings information for their unitholders, which is a necessary input for the calculation of the total dollar cost.
- The inclusion of 365 in the fund expense ratio formula is challenging for products which do not have daily valuations. We request clarification in the published rules for guidance to be followed in the case of funds with weekly, monthly, or quarterly NAV calculations.
- In the case of funds where the fund managers are not providing total cost data (e.g. ETFs and foreign funds), it is not efficient or practical for dealers to source the data and do calculations themselves, and as noted in our earlier comments on Section 14.17.1, is likely to result in differing calculations by dealers for the same funds due to differing calculation methodologies or assumptions.
- Should the investment industry not be successful in coordinating appropriately, and/or the range of products in scope of CRM3 not be sufficiently narrowed, we are concerned that a lack of consistency of CRM3 data across industry members will erode the credibility of client reporting. Data errors, gaps and inconsistencies will need to be addressed as we anticipate that implementing CRM3 will require a massive data exchange across many firms, each of whom have varying capabilities.
- Additional consideration is needed to address some of the following data/calculation issues:
 - MERs and TERs are calculated on certain cycles for each fund and vary across fund families and fund managers. We request guidance from the regulator regarding an “as at” date for alignment across the industry.
 - How would reporting be provided in respect of funds that no longer strike a NAV, do not strike a daily NAV (e.g. weekly, monthly, or quarterly NAV), or that have additional complexities such as performance fees.
 - The Proposed Amendments do not address new funds for which MER and TER are not available.

- How reporting would be provided with respect to funds with delayed NAVs, which are common in private market products.
- Investment fund managers with complex pricing structures (e.g. alternative investments) will be challenged in calculating and communicating cost information in a format that is comprehensive to their unitholders.
- We also note the following additional general considerations:
 - The CSA proposes that investment fund managers could rely on publicly available information disclosed in an investment fund's most recently filed disclosure documents, unless this information is outdated, or the investment fund manager reasonably believes that doing so would cause the information reported in the statement or report to be misleading. Under certain circumstances, where changes have occurred that would affect this information (for example, changes in the levels of management fees or performance fees), the inclusion of "misleading" in the Proposed Amendments may result in investment fund managers being required to revise such information outside the timeframe required under current regulations. This would unnecessarily and disproportionately increase the regulatory burden on investment fund managers.
 - If investment fund managers are not applying uniform assumptions or approximations, we are concerned that the method of providing different assumptions or approximation would not provide meaningful information to investors.
 - We are concerned that layering additional information in annual cost reports may affect the ability of dealers/advisors to deliver these reports on a timely basis. Dealers would need time to upload accurate information and process it in time to prepare these year-end reports.
 - The annual report on charges and other compensation currently sets out the amount of trailing commissions an investment fund pays. Under the Proposed Amendments, there is potential for trailing commissions to be double-counted, since MER already includes trailing commissions, which may ultimately result in the provision of an inaccurate representation of an investor's total cost of investing.

5. *Do you anticipate any issues specifically related to the proposed transition period?*

RESPONSE: YES. Industry participants will require significant time and resources to (a) create consistency in the data sources/format, and (b) implement systems at all dealers/advisors. A technology build will be required to facilitate the transfer of fund expense information from investment fund managers to dealers and advisors, and for such dealers/advisors to house such data as provided, and finally to reflect such enhanced financial information in client account statements and reports. There is a high degree of systems complexity with multiple stakeholders involved and at times, a necessarily sequential process flow, meaning that certain tasks cannot begin until the preceding tasks have been completed. The *Prototype Fundserv Schedule* referenced in the Investment Funds Institute of Canada submission elaborates on the practical implications and minimum estimated implementation timeline.

We also note that the proposed transition period coincides with the Canadian Capital Markets Association's announced plans to facilitate shortening Canada's standard securities settlement cycle from two days after the date of trade (T+2) to one day after the date of the trade (T+1) in 2024, aligning with a similar change in the United States. The move to T+1 also will have implications across capital markets, impacting all traded securities, including conventional mutual funds and exchange-traded funds, securities lending, and various routine corporate actions. Further, the anticipated TMS/CDS Post-Trade Modernization initiative is also scheduled for implementation in 2024, impacting fund managers and dealers/advisors.

We suggest giving further consideration to the resources that will be required to facilitate each of these operationally complex projects simultaneously and whether, in light of resource constraints, potential for client confusion, and risks associated with inaccurate data and reporting, a longer implementation timeline for the Proposed Amendments is required.

Conclusion: Revisit Cost-Benefit Assessment of CRM3

While high-level discussions regarding CRM3 have been occurring for some time, publication of the Proposed Amendments represents the first time that industry has had an opportunity to evaluate specific, written rule changes meant to implement CRM3. While we support the goals of CRM3, the Proposed Amendments raise significant questions and concerns that must be addressed before any rules are finalized. We urge the CSA and CCIR to take industry feedback strongly into consideration and to engage in further discussions before finalizing any rules.

The CSA and the CCIR state in the Proposed Amendments that they believe the proposals “would adequately balance the need for investors to receive information about the ongoing costs of owning investment funds, while avoiding imposing an undue regulatory burden on registrants.” We urge the CSA and CCIR to test this conclusion in light of the feedback they receive on the Proposed Amendments and to conduct a fresh cost-benefit analysis once armed with insights that this consultation process yields.

Finally, we request that, to the extent that the Proposed Amendments are based on research conducted by the OSC Investor Office Research and Behavioural Insights Team, the results of this research be made publicly available.

We appreciate the opportunity to provide comments and welcome the opportunity to discuss the foregoing with you in further detail. If you have any questions or require further information, please do not hesitate to contact the undersigned.



Doug Guzman

Group Head, RBC Wealth Management, Insurance, and Investor & Treasury Services



Neil McLaughlin

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CC: John Carinci, SVP & Head, RBC Wealth Management Operations and Technology
Erica Nielsen, SVP, RBC Personal Savings and Investments



July 25, 2022

Submitted Via Email

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attention:

Me Philippe Lebel, Corporate Secretary and Executive Director, Legal Affairs Autorité des marchés financiers Place de la Cité, tour Cominar 2640, boulevard Laurier, bureau 400 Québec (Québec) G1V 5C1 consultation-en- cours@lautorite.qc.ca	The Secretary Ontario Securities Commission 20 Queen Street West, Toronto, Ontario M5H 3S8 comments@osc.gov.on.ca
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Dear Sirs and Mesdames:

Re: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds (Total Cost Reporting Proposal or Proposal)

We are pleased to provide comments in response to the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) joint request for comment on the Total Cost Reporting Proposal. This letter will focus specifically on the CSA proposals for

the securities sector and is being submitted on behalf of TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Asset Management Inc., and TD Investment Services Inc. (collectively **TD** or **we**).

While TD supports the principles of transparency and meaningful cost disclosure to investors, we wish to highlight for the CSA's consideration that certain elements of the Total Cost Reporting Proposal create the following material risks:

- **Risk of failure to provide meaningful cost disclosure:** without additional context, the fund expense ratio will be confusing to investors. Comparable cost disclosure is not achieved by providing the aggregate amount of fund expenses.
- **Risk of implementation failure:** total cost reporting cannot be reliably and effectively implemented by dealers without mechanisms for data ingestion, consistent data standards and quality assurance over third party data.
- **Risk of serious unintended consequences:** the Proposal risks compromising other significant CSA public policy objectives.

TD generally supports the comment letters submitted by the Investment Funds Institute of Canada and the Investment Industry Association of Canada on these issues. Our comments elaborate on the risks noted above and set out our concerns with the implementation timeline proposed.

Risk of failure to provide meaningful cost disclosure

While we support the regulatory goal of providing investors with meaningful cost information, the current proposal to add the Fund Expense Ratio (stated as a percentage for each investment fund held by the investor on the account statements) will not achieve that goal. The provision of the FER (Management Expense Ratio (**MER**) and Trading Expense Ratio (**TER**)), without context (for example, distinguishing passive from active funds or domestic from international funds) is not sufficient to properly inform investors so they can assess the appropriateness of costs and may lead to investor confusion. In addition, the Proposal does not distinguish the various series with different fee structures (such as A series and F series) used in different account types. Investors who hold more than one account type may be confused when they compare the FER across their accounts.

Comparable cost disclosure cannot be achieved simply by providing the aggregate amount of fund expenses, in dollars, for all investment funds held during the year in the annual report on charges and other compensation. For example, an investor holding only index products will have a lower aggregate fund expense amount compared to an investor with active international exposure. There is no context to help investors determine if the fund expense amount is appropriate. An investor in a fee-based account holding F-series funds with no trailers would have a lower aggregate fund expense amount compared to an A-Series fund held in a transaction account. When all fees and charges are considered, the cost of ownership may be similar, but presented differently. In both these examples, at best the aggregate amount of fund expenses

will not be truly meaningful to an investor without additional context and, at worst, may inadvertently misinform decision-making.

Risk of implementation failure

Dealers cannot verify IFM data. Accordingly, total cost reporting cannot be reliably and effectively implemented by dealers without a mechanism for consistent data standards and quality assurance over third party data.

Today, dealers have access to and control over information required to provide their clients with accurate and timely disclosures both on statements and annual fees and compensation reports. All of this information is internal to the dealer.

In contrast, the Proposal requires dealers to rely on information provided by investment fund managers (**IFMs**) with respect to both timing and accuracy. The Proposal puts the onus on dealers to compile and present very detailed information (in reliance on an unverifiable third-party source of information) that will involve significant system and technology builds and an enormous amount of data from many service providers. Dealers are being asked to ingest, calculate, and publish detailed, unverified information for costs they do not collect nor control.

The Proposal requires dealers to figure out how to ingest and ensure the consistency and accuracy of IFM data, in many cases from numerous sources:

How to ingest IFM data? While Fundserv comes immediately to mind, it should be noted that Fundserv is not used for ETFs or Labour Sponsored Funds, thus additional development would be required.

How to ensure consistency and accuracy of IFM data? Once ingested, dealers would then spend a substantial amount of time and resources making sure all the data provided is accurate, without any practical way of testing the accuracy. From an IFM perspective, significant work would have to be done to ensure consistency in: (i) calculation methodology and (ii) reporting format. In addition, IFMs must be required to ensure processes are in place to ensure the accuracy of the information provided to dealers, as there will be no practical means for dealers to correct statements where the inaccuracy is due to information provided by a third party.

How to deliver timely cost information? Notwithstanding these data challenges, the Proposal further requires dealers to deliver the information within strict timelines, or risk delaying the release of statements altogether. Dealer reporting is not segmented based on products held by the investor. Therefore, any delay due to IFM performance in delivering the cost information would impact delivery of all client reporting, including for clients who did not invest in mutual funds. In turn, failure to provide timely, accurate statements carries significant reputational impact for the dealer who, again, has no control over the accuracy and timeliness of information.

Finally, TD believes that requiring the dealers to seek out cost information that is not publicly available is excessive and unwarranted. Where the IFM cannot provide cost information (ex. foreign funds), there is a need for clear disclosure requirements that will not create investor confusion or result in inconsistent reporting. Regulation should adequately reflect the dependency of dealers on IFMs and create clear and achievable rules for delivery of required cost information.

Risk of serious unintended consequences

While greater transparency in fees and costs to investors is an important regulatory objective, the Proposal risks compromising other significant CSA public policy objectives, such as burden reduction and reducing barriers to entry, without demonstrably improving disclosures to investors. TD strongly supports a public consultation on the trade-offs involved in these competing policy initiatives.

TD believes that notwithstanding the CSA's intention to strengthen investor protection, total cost reporting, as currently proposed, will likely result in several negative unintended investor consequences. We anticipate the additional regulatory cost and complexity introduced by the Proposal may lead to further dealer consolidation, limiting investor product choice and discouraging new/independent fund development. For example, to build out the reporting in an Order Execution Only (**OEO**) channel will take considerable time and resources for an asset class that many OEOs no longer receive revenue from (i.e., no trailers). Thus, there is risk that OEOs may stop offering investment funds, or may discontinue certain investment funds, due to the cost and operational risk they would incur or have to pass onto investors. Notably, newer and less established fund companies introduce greater data risk to dealers, including the potential for less accurate, reliable and timely delivery of information. Dealers may determine, on a cost-benefit analysis, to exclude these funds from product shelves.

In addition, dealers are not afforded any protection from investor complaints if the IFM's information proves to be inaccurate or prevents dealers from getting the client statements out in a timely manner.

An unrealistic timeline

The proposed 18-month transition period is unrealistic, without first addressing the issues identified above. Without a mechanism for consistent data standards and quality assurance, dealers cannot begin system development. Thus, until the IFMs have a clearly mandated industry methodology and reporting format, the dealers cannot begin meaningful development.

Furthermore, the abbreviated timeline to implement cost reporting is insufficient due to the operational complexity of implementation and unaddressed interdependency between dealers and IFMs for collecting, storing, delivering, and coding the proposed cost information.

TD's previous efforts to include more wholistic fees and charges information on client statements has informed our comments and we would be prepared to share our learnings from that experience with members of the CSA.

We urge regulators to further consider the risks and transition period noted above. If the CSA chooses not to address the risks identified, we anticipate regulators to be inundated with requests for further guidance and exemptive relief from various registrants.

We appreciate the opportunity to provide our comments and welcome the opportunity to discuss these important issues with you in further detail. Should you require any further information please do not hesitate to contact us.

Sincerely,



Raymond Chun
Group Head, Wealth Management
and TD Insurance



Paul Whitehead
Head of Branch Banking
Ultimate Designated Person,
TD Investment Services Inc.



64 Jefferson Ave.
Toronto ON | M6K1Y4

July 25, 2022

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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Fax: 514-864-6381
consultation-en-cours@lautorite.qc.ca

CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

[CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds](#)

CARP is pleased to respond to subject consultation.

It is an initiative that has been in the works for years, led by the mutual fund dealers association of Canada (MFDA). It is an important initiative particularly because, according to Morningstar research, Canadian investment fund fees are among the highest in the world.



Mercer says in its latest Retirement Readiness Barometer that paying typical investing fees can result in having to work years longer to achieve a financially secure retirement and increase the risk of running out of money after you exit the work force. The new Mercer analysis of various investment management fees in the market found that a representative individual paying the median level of fees available to the individual investor (1.9%) would be retirement ready by age 70 – well above the traditional retirement age of 65. If that doesn't get people to review the fees on their retirement investments, nothing will. Mercer report *Higher fees can set back retirement by four years | Mercer Canada*
<https://www.mercer.ca/en/newsroom/mercerc-retirement-readiness-barometer-2022.html>

We support the cost reporting initiative as it provides the information necessary for seniors to better control investing costs, the one aspect of their account they can control.

For those costs not currently disclosed in the current disclosure is only available on a non-consolidated basis. Investors receive different pieces of information at various times in different reports or must obtain information by going to different documents or websites. Having to receive/obtain information in this manner makes it unnecessarily difficult for investors, especially seniors, to understand the aggregate impact of costs and compensation on their accounts.

We appreciate that 100% client-specific accuracy may not be achievable due to the timing of Fund Facts MER disclosures, and data would not include rebates and/or temporary fee waivers. This is an acceptable imperfection as long as the issue is treated in an identical manner by all Dealers and Insurers.

The presentations should be clear, not confusing and lead to true investor comprehension as opposed to fulfilling a regulatory requirement. Font size should be easy to read. A glossary of key terms used is essential to support investor understanding.

Requiring equivalent reporting in the insurance industry is a real positive. A better understanding of segregated fund costs is important for seniors focussed on capital preservation. A harmonized approach will also reduce the opportunities for improper regulatory arbitrage.



Based on the sample reports provided, it seems to us that the reporting is clear, but such an assessment is best made by having investors from all demographics actually be exposed before deciding on a final format. No doubt behavioural finance experts have lent their expertise to the proposals.

Enhanced cost reporting will allow investors to better assess the benefits of the services provided.

We encourage the CSA to start preparing investor guidance documents on how to use the new cost reporting disclosures for more informed decision making.

Since seniors have a shorter timeline to recover from the adverse effects of fee erosion, the faster this initiative is implemented the better. It should be a high regulatory priority with as short a transition time as possible.

The fee and account reports should continue to be made available, free, in paper format if that format is preferred by investors.

The CSA should publish the metrics it intends to use to measure the success of the initiative.

We appreciate the opportunity to provide our viewpoint.

Your truly,

Bill VanGorder

Chief Operating & Chief Policy Officer

VanGorder@CARP.ca

902 999 3572 (cell)

416 607 7712 (Toronto office)

C.A.R.P. (also known as the Canadian Association of Retired Persons) is a national, non-partisan, non-profit organization that advocates for financial security and improved health care for Canadians as we age. With over 330,000 members and 27 chapters across Canada, C.A.R.P. plays an active role in the creation of policy and legislation that impacts older Canadians. C.A.R.P. advocates on behalf of older Canadians with all levels of government and collaborates with other organizations on health, ageism, housing, and financial issues.
www.CARP.ca



REFERENCE Documents

IAP Response to MFDA Discussion Paper on Expanding Cost Reporting

https://www.osc.ca/sites/default/files/2020-11/com_20180613_iap-mfda-cost-reporting.pdf

Improving Fee Disclosures for Canadian Investors: BIT/ MFDA

https://mfda.ca/wp-content/uploads/Improving_Fee_Disclosures.pdf

The Effect Investment Fees Have On Retirement Planning | PlanEasy

<https://www.planeasy.ca/the-effect-investment-fees-have-on-retirement-planning/>

An Experiment on Mutual Fund Fees in Retirement Investing

<https://corpgov.law.harvard.edu/2012/07/23/an-experiment-on-mutual-fund-fees-in-retirement-investing/>

The impact of fees- an information sheet for investors: CFA Society

https://www.cfasociety.org/calgary/Documents/Investors_2.%20The%20Impact%20of%20Fees.pdf

Improving Fee Disclosures for Canadian Investors: MFDA

https://mfda.ca/wp-content/uploads/Improving_Fee_Disclosures.pdf

Report on Charges and Compensation – Consultation Regarding Cost Reporting for Investment Funds BULLETIN #0671-P (Dec. 2015)

<https://mfda.ca/bulletin/bulletin0671-p/>

Sample Steadyhand Client statement

<https://www.steadyhand.com/asset/2014/12/04/sample%20statement%202017.pdf>

Investing in Mutual Funds: Desjardins

https://www.fondsdesjardins.com/information/Brochure-Fonds-Placement_EN_ACC_FINAL.pdf



The Importance of Fees on Your Retirement Savings: Manulife Financial

[http://groupsavings.manulife.com/groupretirement/CPOv2.nsf/LookupFiles/DownloadableFileFutureStepSmallBusfeeimpactflyer/\\$File/FutureStepSmallBusfeeimpactflyer.pdf](http://groupsavings.manulife.com/groupretirement/CPOv2.nsf/LookupFiles/DownloadableFileFutureStepSmallBusfeeimpactflyer/$File/FutureStepSmallBusfeeimpactflyer.pdf)

How advisors charge fees is as important to clients as how much:

Investment News

<https://www.investmentnews.com/how-advisers-charge-fees-as-important-as-amount-222625>

How to improve annual fee reports | Advisor's Edge

<https://www.advisor.ca/magazine-archives /advisors-edge /total-cost-reporting-is-coming/>

The impact of investment costs | Vanguard

<https://investor.vanguard.com/investing/how-to-invest/impact-of-costs>

July, 2017 BCSC study **Investor Readiness for Better Investing 2016-2017 Panel Study: Part 3 and Final Report**

<https://www.investright.org/wp-content/uploads/2017/09/Survey-Report-Part-3-Investor-Readiness-for-Better-Investing-July-2017-1.pdf> .

Good Practice for Fees and Expenses of Collective Investment Schemes:

IOSCO

<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD543.pdf>

Guide for advisors: Answering Your Clients' Questions about Services and Fees

https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=18573&lang=en_CA

Understanding retirement plan fees and expenses

<https://www.dol.gov/sites/dolgov/files/legacy-files/ebsa/about-ebsa/our-activities/resource-center/publications/understanding-retirement-plan-fees-and-expenses.pdf>



INCLUDES COMMENT LETTERS RECEIVED

INVESTOR ADVISORY PANEL

July 26, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince
Edward Island

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
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Fax: 514-864-6381
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The Secretary
Ontario Securities Commission
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Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
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ccir-ccra@fsrao.ca

To: The Canadian Securities Administrators (CSA) and
The Canadian Council of Insurance Regulators (CCIR)

Re: TOTAL COST REPORTING

On behalf of the Ontario Securities Commission's Investor Advisory Panel, I wish to thank the CSA and CCIR for this opportunity to comment on their proposed joint guidance relating to Total Cost Reporting (TCR) for Investment Funds and Segregated Funds ("the proposed TCR Guidance").

Overall, we are very supportive of this initiative. Cost transparency is critical for investors and policyholders (we will use "investors" to refer to both). It is only reasonable that they should know the full cost of the products and services they are buying. Moreover, it is essential that they receive substantially similar cost information regardless of what type of financial product or service they purchase, and regardless of regulatory jurisdiction under which the product or service falls. We are pleased, therefore, that this initiative aims to make cost reporting not only comprehensive but also standardized and consistent for investment funds and segregated funds, promoting greater clarity and reducing confusion for investors.

Our specific comments focus on two issues: (a) the crucial importance of presentation format, and (b) the need for swifter implementation of this initiative, as well as more industry-regulatory collaboration on systems design in the future to avoid unnecessary delays in achieving policy outcomes. We hope these comments will prove helpful.

Content and format of the statement's first page should be prescribed

To be effective, cost disclosure must be more than just accurate, complete and plainly worded. It also must be engaging and easy to grasp so that even consumers with limited financial knowledge will absorb it. This means the information must be presented in an appropriate context and sequence.

We believe an effective presentation should begin with just four basic data points that provide a "bottom line" view of costs and their impact on portfolio performance. Those data points are:

- A. The value of the investor's account at the beginning of the year;
- B. The net amount of all their deposits to and withdrawals from the account (if any) during the year;
- C. The total of all direct and indirect costs they incurred during the year to buy, sell and hold their financial products, along with all annual costs incurred for administration of their account; and
- D. The value of their account at the end of the year after deduction of the year's costs.

In our view, this is key basic information every investor should have, and we believe most will welcome it. We recognize that some investors – perhaps a majority of them – may be disinclined to examine a detailed cost breakdown or may find such detail confusing and overwhelming. However, that should not be viewed as a rationale for withholding the basic information, nor should it permit the basic information to be obscured through ineffective presentation.

Those who want only basic information should not have to hunt through a mass of data spread across the annual statement just to find the “bottom line” numbers A, B, C and D. All four numbers should be presented together, up-front and isolated from everything else. This spotlighting will promote basic awareness of costs and their impact on the value of the account. It also will facilitate cost comparability where two accounts are held at different firms or when a portfolio has been transferred from one firm to another.

We regard up-front, isolated presentation of the “bottom line” numbers as an essential element of effective cost disclosure, and therefore we urge regulators to standardize the presentation of these key data points in a prescribed format for the first page of all annual statements.

Subsequent pages should set out the detailed cost breakdowns contemplated in the proposed TCR Guidance (e.g., costs paid directly by the investor vs. costs deducted by fund managers; itemization of amounts paid out for administration, trading expenses, distribution, and ongoing advice; plus, in the case of segregated funds, amounts paid to maintain capital guarantees; etc.). Investors who wish to examine and dig into this comprehensive information will, no doubt, find it useful for assessing or monitoring costs, measuring the impact of various costs on portfolio performance or in assessing the value of the advice they receive.

We anticipate that investors seeking this level of understanding will comb through their annual statements quite thoroughly. For this reason, we do not feel it is essential for the format of the detailed cost breakdown to be prescribed – though we do believe a standardized presentation format generally promotes clarity and better understanding. It should be sufficient if the detailed cost breakdown is accurate, complete and written in plain language.

As noted, however, the key to widespread investor awareness and understanding of costs lies in placing the “bottom line” information at the statement’s front end and highlighting it there in a simple and straightforward context uncluttered by other information that may distract, confuse or overwhelm.

Further, we believe that, without such an up-front format being mandated, it is unlikely to be adopted industry-wide. This was in fact borne out with the rollout of CRM2, where no format was prescribed, and where the industry did not develop any standardized approach to reporting. Instead, firms utilized a wide array of idiosyncratic presentation layouts that proved ineffective in advancing investors’ awareness and understanding of costs.

Therefore, this time, it would be preferable if regulators prescribe the content and general format of the annual statement’s first page in order to optimize its utility and effectiveness as a cost disclosure mechanism.

Transition period is too long and points to a need for systemic changes

Often in the past we have commented on the absence of an appropriate sense of urgency in regulators' implementation of investor protection initiatives. The proposed December 2025 implementation date for Total Cost Reporting – an initiative in the works since at least 2016 – offers a prime example of that deficiency.

We realize some technical hurdles must be overcome to implement TCR. We also appreciate that modifying the industry's software systems to meet new regulatory requirements can't be completed without a final set of regulations. However, it's important to remember, too, that the aim of this initiative is not vague or amorphous. The objective of TCR is abundantly clear. Furthermore, much of the data in question already gets captured in existing systems. All TCR will require is some sort of aggregation of this data – nothing more complicated than that.

Given these known elements, it should be possible (and not overly burdensome) for industry to move forward substantially on TCR systems design while regulations are being finalized and ministerial approvals obtained. If this design work is appropriately resourced and undertaken with due regard for incorporating nimbleness as a design feature, we see no reason why 18 months would be needed afterward for additional adjustments.

Indeed, the industry has recently demonstrated tremendous agility in response to the COVID-19 pandemic. Significant operational changes were prompted by rapidly evolving conditions amidst unprecedented uncertainty, yet the industry was able to respond to these challenges in a matter of mere weeks. Industry has proved it can overcome technological hurdles swiftly when necessary. That same capability and resolve should now be applied to the TCR project.

It should be kept in mind as well that TCR is not meant to drive competitive advantage, so there will be no need for industry players to develop proprietary solutions. Firms should be able to pool their resources and engage service providers together. Presumably, this will speed up the work, reduce the cost of getting it done, and help avoid a scramble for service provider availability.

We therefore urge regulators to reconsider the proposed transition period in light of these possibilities, and work with industry to expedite TCR implementation with an aim of completing it by December 2024. We reiterate that this investor protection measure is long overdue.

In addition, we recommend reviewing the current practice of policymakers depending entirely on industry to design and build systems critical to the success of regulatory reforms and initiatives.

This dependency creates a host of potential weaknesses when industry lacks enthusiasm for, or outright opposes, a regulatory change. In those situations, industry-induced delays are common at the project's conceptual stage – often manifested by contentions that the project is not technologically feasible, that its objectives are too vague or overreaching, that the cost of implementing it will be greater than the benefit to be derived from it, or that it will place too

great a burden on the industry's resources. The project can be further hobbled by industry insistence on an overlong implementation period.

Wholesale dependency on industry to design and build these systems also carries with it an ongoing post-implementation risk of regulators effectively being unable assess the validity of industry claims about the system's functionality or reliability.

These are not risks and vulnerabilities that regulators ought to perpetuate, especially if policy outcomes and regulatory compliance increasingly will be systems-driven in future. Therefore, it seems unwise to maintain the current process in which regulators leave critical architecture to be created entirely by one set of stakeholders, who may not be favourably disposed toward the architecture's purpose.

We urge the CSA to explore alternatives, including more collaborative processes for operationalizing future systems-dependent regulatory initiatives aimed at enhancing investor protection. This collaboration should focus on ensuring appropriately robust and timely development of those systems. It also should encourage adoption of common technological standards across the industry – a measure that would provide greater consistency and enhanced quality of service for investors while also laying groundwork for improved regulatory oversight by facilitating the inter-operability of systems utilized by regulators and industry.

Once again, thank you for this opportunity to comment on the proposed TCR Guidance. We will be pleased to discuss this topic further if you require any clarification or elaboration on our recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Neil Gross', is positioned above the printed name.

Neil Gross
Chair, Investor Advisory Panel

Attention:

M^e Philippe Lebel, Corporate Secretary and Executive Director, Legal Affairs, Autorité des marchés financiers
The Secretary, Ontario Securities Commission

CC:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Re: Comments on Total Cost Reporting for Investment Funds

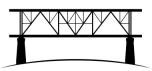
Please accept the following comments on behalf of High Level Wealth Management Inc., an Alberta-based portfolio manager, regarding the proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* related to Total Cost Reporting for Investment Funds.

Thank you for the opportunity to submit our comments on this important subject. We would be happy to discuss any follow-up questions you might have related to our submission.

Sincerely,



Kent Akgungor, CFA
President and Chief Compliance Officer
High Level Wealth Management Inc.

**Responses to specific questions regarding the Proposed Securities Amendments**

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,
 - a. exchange-traded funds,
 - b. prospectus-exempt investment funds,
 - c. scholarship plans,
 - d. labour-sponsored funds,
 - e. foreign investment funds

We do not anticipate any implementation issues related to the inclusion of exchange-traded funds in the Proposed Securities Amendments. Our firm does not presently advise on, or invest in, the securities listed in subsections (b), (c), (d), or (e) so we cannot comment on the potential implementation issues related to those categories.

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

We would not consider it acceptable to disclose the MER alone. To the extent that the Proposed Securities Amendments are attempting to provide investors with information on the "Total" cost of investing, all related costs should be included in the disclosure. We therefore believe that the fund expense ratio (MER + TER) is the appropriate information to be included in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

We do not have specific comments for this question as the provisions of subsection 14.14.1(2) are not currently applicable to our business. However, generally speaking we believe that market value is the preferred input and ideally the same input would be required across all types of funds to ensure consistency and comparability.

4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

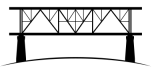
As additional context for the response to this question, please first consider the following:

High Level Wealth Management Inc. is currently registered as an adviser (portfolio manager) and has entered into a Portfolio Manager – Dealer Member Service Arrangement (PMDSA) with an IIROC dealer member. Given that our firm does not presently hold any client investments directly – i.e. all client investments are held exclusively in accounts at the dealer member – and given that the dealer member issues monthly account statements, we do not currently issue our own account statements to clients. Instead, we follow the guidance in CSA Staff Notice 31-347 and take appropriate steps to verify that clients receive complete, accurate, and timely account reporting from the dealer member.

As currently written, the Proposed Securities Amendments, specifically those made to section 14.17 *Report on charges and other compensation*, would apply equally to both parties of a PMDSA, requiring the portfolio manager and the dealer member to each prepare and deliver a report to the same client. To the extent that the Proposed Securities Amendments are intended to provide investors with clear and transparent disclosures about their total cost of investing, we think there is an opportunity for the CSA to issue guidance along with the amendments allowing for the issuance of a single consolidated report on charges and other compensation, subject to certain requirements being met.

Assuming both the portfolio manager and dealer member remain responsible for ensuring that the report on charges and other compensation is complete, accurate, and timely – similar to the account statement-related guidance provided in CSA Staff Notice 31-347 – clients would receive the same level of enhanced cost disclosure but would benefit from having this information organized in a single report instead of two. Furthermore, to the extent that the new disclosure requirements related to total fund expenses allow for some flexibility regarding data sources for the expense calculation inputs, requiring separate reports from both a portfolio manager and a dealer member could actually lead to client confusion in cases where the reported total fund expense amounts are slightly different.

In terms of implementation, we suggest that a portfolio manager should be permitted to satisfy their obligations under section 14.17 in cases where all of the portfolio manager's fees and charges are incorporated into the report on charges and other compensation that is prepared and distributed by the dealer member and where the portfolio manager takes steps to ensure that the content of the dealer member report is complete, accurate, and delivered to clients in a timely manner. To the extent that a portfolio manager's fees and charges are already properly coded and debited from client accounts at the dealer member, the necessary data already exists within the dealer member's information system and could be easily incorporated into the dealer member's report.



5. Do you anticipate any issues specifically related to the proposed transition period?

We do not anticipate any issues specifically related to the proposed transition period. In fact, given the substantial benefits to investors from enhanced disclosures and total cost reporting, we would actually support a more accelerated transition period.

Steadyhand

July 27, 2022

Alberta Securities Commission
 Autorité des marchés financiers
 British Columbia Securities Commission
 Financial and Consumer Services Commission (New Brunswick)
 Financial and Consumer Affairs Authority of Saskatchewan
 Manitoba Securities Commission
 Nova Scotia Securities Commission
 Nunavut Securities Office
 Office of the Superintendent of Securities, Newfoundland and Labrador
 Ontario Securities Commission
 Office of the Superintendent of Securities, Northwest Territories
 Office of the Yukon Superintendent of Securities
 Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

C/o M^e Philippe Lebel
 Corporate Secretary and Executive Director, Legal Affairs
 Autorité des marchés financiers
 Place de la Cité, tour Cominar
 2640, boulevard Laurier, bureau 400
 Québec (Québec) G1V 5C1
 Fax: 514-864-6381

And

C/o The Secretary
 Ontario Securities Commission
 20 Queen Street West
 22nd Floor, Box 55
 Toronto, Ontario
 M5H 3S8
 Fax: 416-593-2318

Dear Mesdames/Sirs,

RE: Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds.

Steadyhand Investment Management Ltd. (Steadyhand) welcomes the amendments to the investment funds cost reporting framework and additional reporting requirements for segregated



Steadyhand

funds. These enhancements reflect an investor-focused orientation to reporting and bring us more in line with jurisdictions considered leaders in transparency.

In researching the topic, we have engaged with multiple stakeholders. In our conversations, we have observed two differing viewpoints. Clients, investor advocates and media have a positive view of the amendments. By contrast, many Canadian investment providers view the enhancements negatively.

Steadyhand is an outlier in the investment industry. We are an investment provider and will have to invest significant resources to implement the amendments. But we also view ourselves as a strong advocate for individual investors and have long called for better practices in our industry.

Given this background, we are uniquely positioned to comment on concerns industry participants may have. As such, the first part of this letter provides our suggestions for your consideration. The second section addresses the excuses providers may use to delay or halt the implementation of the enhancements.

For Your Consideration

Our experience has taught us that: (1) Canadians want a single figure that includes all costs charged to them, (2) they want it in dollar and percentage terms, and (3) they want it disclosed quarterly.

Total Investing Costs

We propose the ongoing disclosure of a single figure that sums all explicit investment-related fees, including advice costs, MER, TER, admin (custody, fund accounting, recordkeeping, legal, etc.) and taxes charged for all investment accounts. In the following paragraphs, we refer to this figure as the total investment cost (TIC).

TIC should be disclosed in dollar and percentage terms. While it is useful to express costs in percentage terms to allow for comparison between products, percentages hide the real costs investors incur. Canadians see costs in dollar terms for all other goods or services they purchase. Moreover, behavioural studies suggest that people respond better to dollar figures. For example, asking how investors would react to seeing their portfolio fall from \$100,000 to \$70,000 elicits different responses than asking how they would react to a 30% decline. A dollar figure also allows investors to judge whether they are getting value for what they pay.

The breakdown of the costs and disclosures for individual accounts should be included in later sections of disclosure documents.

Quarterly disclosure

CRM2 required the disclosure of costs in an annual statement, however, investors need more frequent disclosure to assess the quality of services they receive. Quarterly TIC disclosure would give investors the information they need while balancing the burden on investment fund managers (IFM) and dealers to provide frequent disclosure. Moreover, not all funds calculate net-



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asset-values daily. Quarterly reporting would allow those funds to provide the required disclosures.

Effective rate versus posted rate

Steadyhand has a fee reduction program that reduces the cost of owning our funds based on tenure as a client and size of assets with the firm. Cost disclosure must allow for the effective (reduced) rate the client pays, not just the 'rack rate' of the funds. This is particularly relevant when our funds are held by clients at other dealers.

Allow reasonable estimates for TER

Including reasonable TER estimates provides Canadians with sufficient information to make decisions about their investment providers without adding to the already high costs IFMs and dealers pay custodians for reporting.

The allowance of estimates and the threshold for "misleading" disclosure (Section 14.1.1) should be made explicit in requirements.

Form a task force to help small- and mid-sized investment providers

Small- and mid-sized industry participants are likely to face the most constraints on their resources from these reporting changes. They would be helped by a dedicated team of professionals from the CSA that guide them through the nuances of the reporting enhancements. While some providers are already members of the Portfolio Management Association of Canada (PMAC) and Investment Funds Institute of Canada (IFIC), their voices are likely to be dwarfed by the larger members.

Likely Areas of Industry Pushback

In this section we have used our experience as an IFM and dealer to address those topics some industry participants might cite as areas of concern.

Disseminating totals fund costs is complex, but doable

Today, IFMs send hundreds of data points to data providers like Morningstar, Fundata, Lipper, and eVestment, all to market their products. Dealers and IFMs work diligently to exchange holdings and price details with FundSERV, CDS, and custodians. These are among the many examples of industry participants showing leadership in the development of processes to disseminate information to key stakeholders. There is no reason they will not be able to do the same for the benefit of their most important stakeholder – the client.

Adopting changes requires coordination, but is possible in the allotted timeline

The enhancements will require effort and coordination. However, the investment industry has shown an ability to rise to these challenges in the past. For example, the roll out of the Tax-Free Savings Account (TFSA) was successful despite the short timeline and complexity.



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Recently, industry groups have asked the federal government to provide clarity on the Tax-Free First Home Savings Account (FHSA) in a desire to get ahead of a challenging task.

The new rules need not be phased in

These new rules *are already* being phased in. The total cost reporting framework is a natural progression from CRM2, which emphasized advice costs. Moreover, surveys show that investors mistakenly believe current disclosures account for all costs. Delaying or phasing implementation would only risk further deteriorating confidence in capital markets.

Foreign investment funds reporting is similar to National Instruments

Allowing use of methodologies used in foreign markets would be a close approximation for costs incurred by Canadian investors. Exchange traded funds (ETF) listed outside of Canada use similar methodologies to calculate fund costs. Presumably, IFMs and dealers are already adjusting costs disclosed by foreign-listed funds to make an apples-to-apples comparison and meet suitability requirements.

Funds with performance fees are better equipped to provide up-to-date fee disclosures

Performance fee disclosures are confusing. Stated management fees can be significantly different than MERs. Moreover, MERs can vary from year-to-year. Some industry participants may argue that the proposal will cause further confusion, however, the enhancements are more likely to improve investors' understanding. IFMs using performance fees are better equipped to provide a frequent and precise assessment of fund costs. Overseeing these funds requires sophisticated systems to track fee accruals given the complex nature of performance fee calculations. Often, fees must be tracked daily.

Conclusion

The proposed rules are an important step forward in investor-focused disclosure and a natural and welcomed progression from CRM2. Overall, the enhancement will serve Canadians better than the current requirements. We are hopeful that regulators will remain committed to the implementation of the amendments by the proposed date. They bring us in line with other developed markets in requiring investment providers to provide their clients a more complete picture of total costs incurred.

We look forward to any discussion you may wish to have as you review the comment letters.

Kind Regards,

Neil Jensen
CEO

Salman Ahmed
CIO

Elaine Davison
CFO & CCO





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JULY 27, 2022

DELIVERED BY EMAIL: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca, ccir-ccra@fsrao.ca

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Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
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Re: CSA and CCIR Joint Consultation on Total Cost Reporting for Investment Funds and Segregated Funds

Sun Life Canada thanks both the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) for the opportunity to provide comments on the *CSA and CCIR Joint Consultation on Total Cost Reporting for Investment Funds and Segregated Funds (the "Joint Consultation")*.

At Sun Life, our Purpose is to help our Clients achieve lifetime financial security and live healthier lives. Their needs are at the heart of everything we do, therefore, we support any initiatives that aim to provide greater transparency and better outcomes for Clients.

Sun Life manufactures and distributes both mutual funds and segregated funds. We therefore encourage all efforts to harmonize regulation across the insurance and securities industries, and we applaud the CSA and the CCIR in their endeavour to align in this regard.



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Sun Life supports the submissions of the Investment Funds Institute of Canada (IFIC) and the Canadian Life and Health Insurance Association (CLHIA) on the Joint Consultation, highlighting the overall impact to the securities and insurance industries and the challenges that registrants may face with implementing the requirements as proposed.

We would like to take this opportunity to highlight some specific concerns with the existing proposal in two main areas:

- i) the potential for Client confusion, including relating to the addition of cost information to quarterly/monthly client statements, the potential for inconsistency, the format of statements and disclosures, and reporting of potentially duplicative or misleading data; and
- ii) concerns with the suggested timelines for implementing the new requirements.

We have provided responses to some of the specific questions posed in the Joint Consultation in Annex A (securities) and Annex B (insurance) following our general comments.

(i) Potential for Client Confusion

Frequency of Cost Reporting in Statements

As echoed in IFIC's and CLHIA's responses, Sun Life believes that cost reporting should only be required annually for both industries. For securities, we believe that including the cost information in quarterly or monthly statements may lead to a disconnect between the information in those statements and their annual cost report. In addition, there are operational and system challenges with collecting the appropriate data on a quarterly (or monthly) basis that would make it costly and time-consuming on an ongoing basis without any evidence that this will have benefits for Clients.

A particular area of concern is for Clients who hold both mutual funds and segregated funds as they may end up receiving statements quarterly (for their mutual funds) and semi-annually (for their segregated funds) in addition to the annual reports from their dealers and insurers. This would result in a disconnect between the quarterly/semi-annual statements and the annual reports. Quarterly dealer statements would only show FER, as a percentage, whereas the annual reports will provide total cost information in dollars. In addition, quarterly statements would provide performance information over a number of time frames, ranging from short to long term, whereas FER is only calculated annually. Not only would Clients be seeing partial costs in the quarterly statements, the differences in how the information is being reported, both within the quarterly statements and between quarterly and annual reports could lead to cost information being presented out of context and in a confusing and misleading manner.

Having annual and quarterly statements also poses the risk of burdening the Client with information in different formats that they will have to review and compare. In these instances, consideration should be given to 1) consistency in the methodology for calculating and showing costs, and 2) frequency.



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Potential for Inconsistency

Some Clients invest in segregated funds through dealer firms while others deal with Managing General Agent (MGA) firms. Dealer firms have different reporting obligations than MGAs and other insurance industry intermediaries. Clients could therefore have different experiences in the cost information they receive depending on who they invest through and whether their funds are held in nominee accounts or in the Client's name. Specifically, they may receive inconsistent information, which could lead to significant confusion. If the intent is harmonization across industries to enable better Client outcomes, then simplicity and consistency in reporting is critical.

Statements and Disclosures

Final requirements should be simple enough to be explained in concise, plain language, both in the type and format of the information that is required to be presented. Overcomplicating information displayed for Clients may result in an overreliance on disclaimers to qualify content and thus potentially confuse Clients. As some of our Clients hold mutual funds and segregated funds, having flexibility in the design of statements is essential and would allow us to best adapt them to our Client base.

Risk of Duplicative or Misleading Data

The potential for reporting, or the appearance of reporting, of duplicate data within the statements is another area of concern that should be considered and addressed in the final regulatory requirements.

In both the segregated fund and mutual fund industries, there are a variety of ways that cost information is captured and reported. For instance, some costs (i.e., trailer fees or insurance costs) are already part of the reported MER. In these situations, a Client may incorrectly perceive the costs of those products as inflated when compared to other products that do not include trailer fees or insurance costs in their MER. Breaking out these costs or fees as separate line items could also give the impression that a Client has been double charged when that is also not the case.

(ii) Timeline to implementation

We believe that additional implementation time of a year beyond the proposed timeline will be required. Sun Life manufactures and distributes both mutual funds and segregated funds through subsidiaries and third parties. Implementation of the requirements in the Joint Consultation will affect a significant portion of our operations across the country. While we aim to leverage all efficiencies internally, tight deadlines will make it difficult to adapt to any unforeseen challenges.

Upstream and downstream data-feed implications also need to be fully assessed as there are numerous ways that cost information is captured and reported. It is challenging to understand the full impact and feasibility in achieving desired outcomes within the proposed timeline without the final requirements to provide to our service



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providers. Third-party, back-office service providers are pivotal to operationalizing the proposed changes and must be engaged in further discussions to determine an appropriate implementation timeline. As such, we ask that the CSA and CCIR consider appropriate timing to allow for both registrants and industry third parties to adequately build and operationalize final requirements.

Sun Life is committed to working alongside regulators and the industry to enable a seamless transition to total cost reporting and we thank you for this opportunity to provide our comments on this important endeavour.

Sincerely,

A handwritten signature in blue ink, consisting of a stylized 'J' and 'C' followed by a period.

Jacques Coulet
President
Sun Life Canada

ANNEX A
RESPONSES TO SPECIFIC QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

The table below includes our response to the questions posed in the Joint Consultation where we have feedback to offer on the proposed securities amendments.

Consultation Question #	Question	Sun Life Comments/Response
2.	<i>Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?</i>	Yes, this would be acceptable. We agree with the industry's position on this point as discussed in IFIC's response.
3.	<i>For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?</i>	Yes, the use of net asset value would be appropriate.

ANNEX B
RESPONSES TO SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

The table below includes our response to the questions posed in the Joint Consultation where we have feedback to offer on the proposed insurance amendments.

Consultation Question #	Questions	Sun Life Comments/Response
1.	<p><i>Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,</i></p> <ul style="list-style-type: none"> <i>a. Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;</i> <i>b. Segregated Fund Contracts which are no longer available for sale and to which customer can no longer make deposits;</i> <i>c. Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);</i> <i>d. Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the Client holds units)?</i> 	<p>1(a) & 1(b):</p> <p>Yes, we anticipate implementation issues with certain 'legacy' products. These challenges will likely lead to delays in implementation. We, therefore, agree with CLHIA's position to carve out these types of products from the final requirements.</p> <p>1(c):</p> <p>We are not answering this question.</p> <p>1(d):</p> <p>Yes, we anticipate implementation issues. There are portions of insurance fees charged either through MER or through unit redemptions which are already disclosed on statements. This presents an added complexity when reporting annual costs to Clients as any implemented solution will need to avoid duplication and burdensome disclosure.</p>
2.	<p><i>The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract.</i></p> <p><i>Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the Client holds each day as follows.</i></p>	<p>We support both models with a preference for Option 1. The difference in the resulting number does not provide meaningful insight for the Client to use when evaluating or making decisions about the product. We ask that the the method be similar for both mutual funds and segregated funds.</p>

	<i>Option 1 or Option 2 (please see consultation document)</i>	
3.	<p><i>Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses?</i></p> <p><i>Please comment on the advantages and disadvantages of:</i></p> <ul style="list-style-type: none"> <i>a. Requiring all insurers to use the same calculation; or</i> <i>b. Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.</i> 	<p>Yes, there should be a standardized formula.</p> <p>We want to ensure a level playing field for all companies as well as having a uniform disclosure for Clients.</p>
4.	<p><i>For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e. MER + TER):</i></p> <ul style="list-style-type: none"> <i>a. MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis;</i> <i>b. MER and TER calculated for the year in question after the year ends; or</i> <i>c. Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?</i> 	<p>All of the proposed options shown provide close approximations of expenses for Clients. We ask the CCIR to duly consider costs versus benefits upon determination of the final requirements. As mentioned, the simplest, easiest to explain and understand solutions should be preferred as these can provide transparency for Clients without additional costly work to implement.</p> <p>Of the proposed calculation methods, options A and B are pragmatic and use readily available numbers and could potentially be implemented more quickly.</p> <p>Option B may be a closer approximation, however given the timing of when information becomes available, implementation of this option would likely result in Client statements needing to be sent later than current standards.</p> <p>For option C, any estimation of MER and TER will would require further consultations to determine the best approach. Additionally, point-in-time based calculations (e.g., a calculation based on specific day in the year)</p>

		would require longer build times with higher costs.
5.	<p><i>For the purpose of the calculation described in question 2, what are the costs, benefits, and risks of using:</i></p> <ul style="list-style-type: none"> <i>a. 365 days;</i> <i>b. The actual number of days in the calendar year in question; or</i> <i>c. Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?</i> <p><i>Note that the proposed calculation for securities assumes 365 days.</i></p>	<p>Sun Life aligns with the industry consensus. We believe that the simplest option is to use 365 days for the year and cannot point to any material risks of doing so.</p>
6.	<p><i>Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:</i></p> <ul style="list-style-type: none"> <i>a. disclosed in annual statements for each fund; and</i> <i>b. used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?</i> <p><i>What are the costs, benefits and risks of using (MER + TER) versus only using MER?</i></p>	<p>Yes, this would be acceptable. We support the industry position on this point as discussed in CLHIA's response and in alignment with the securities' industry feedback offered via IFIC.</p>

July 27, 2022

British Columbia Securities Commission
 Alberta Securities Commission
 Financial and Consumer Affairs Authority of Saskatchewan
 The Manitoba Securities Commission
 Ontario Securities Commission
 Autorité des marchés financiers
 Financial and Consumer Services Commission of New Brunswick
 Superintendent of Securities, Prince Edward Island
 Nova Scotia Securities Commission
 Superintendent of Securities, Newfoundland and Labrador
 Superintendent of Securities, Yukon Territory
 Superintendent of Securities, Northwest Territories
 Superintendent of Securities, Nunavut

Sent via email to:

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The Secretary
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Mr. Tony Toy, Policy Manager
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Re: CSA and CCIR Joint Notice and Request for Comment – Total Cost Reporting for Investment Funds and Segregated Funds (TCR Proposal)

FAIR Canada is pleased to provide comments on the above-referenced TCR Proposal published by the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR).

FAIR Canada is a national, independent charitable organization dedicated to being a catalyst for the advancement of the rights of investors and financial consumers in Canada. We

advance our mission through outreach and education, public policy submissions to governments and regulators, and proactive identification of emerging issues. FAIR Canada has a reputation for independence, thoughtful public policy commentary, and repeatedly advancing the interests of retail investors and financial consumers.¹

Unless otherwise noted, our comments throughout apply to both the securities and insurance components of the TCR Proposal, and references to “investors” or “clients” include persons holding mutual funds, exchange-traded funds (ETFs), or segregated funds. We also refer to dealer firms, adviser firms, and insurers collectively as “firms.”

A. GENERAL COMMENTS

1. Full cost disclosure is a fundamental investor right and promotes healthy competition

A basic tenet of fairness within consumer protection frameworks is that the consumer should be able to see and understand all the fees and costs associated with buying a product. It should be no different when buying securities or insurance products. Yet the lack of “total cost” transparency in the securities and insurance sector has been, and continues to be, an ongoing problem.

Like any other business, fund companies need to be compensated for the services they provide. This is not the issue. Rather, it is that investors are not informed about how these costs affect their investments each year. This problem is aggravated by the fact that these costs often represent a significant portion of the total costs of investing. They impact how much money stays in the investor’s pocket and, ultimately, affect the individual’s financial well being—a recent study found that higher investment fees can set back an individual’s retirement by four years.²

We are pleased that the CSA and CCIR have made resolving this issue a priority. We fully support the TCR Proposal. It builds on the Mutual Fund Dealers Association (MFDA)’s efforts and is a critical investor protection initiative that will finally close the transparency gap. It will promote better outcomes and enhance investor confidence that they are being treated fairly.

The increased transparency should also help investors identify the more expensive products in their portfolio and ways to lower their costs, while maintaining suitable investments. This will promote healthy competition within the fund management industry and help drive down costs as firms compete on delivering products and services more efficiently. This would certainly be a welcome development, given that Canada has some of the highest mutual fund costs in the world.³

2. Investor-facing disclosure must be based on behavioural research and testing

¹ Visit www.faircanada.ca for more information.

² [Higher fees can set back retirement by four years: Mercer](#) (2022), Mercer Canada.

³ [Mutual Fund Fees in Canada Are Among the World’s Highest](#) (2019), Barron’s.

While we are disappointed the TCR Proposal took this long to develop, and will take further time to implement, we support the regulators' efforts to consult often and early on this initiative. And we support efforts to harmonize the requirements across the securities and insurance sectors.

We are also encouraged by the regulators' use of behavioural insights (BI) research and focus group testing to develop the new prototypes for reporting annual costs. We believe this approach should be used when developing all investor-facing disclosure. The insights gained from BI research and testing with focus groups will lead to better disclosure that is easier to read and understand. It will also lead to greater investor engagement and help them appreciate the importance of the information they receive from firms.

Given the importance of BI research as a means for improving investor outcomes, we are disappointed the CSA was not willing to share the BI research it relied on for the TCR Proposal. This lack of transparency makes it more difficult to evaluate and comment on the annual cost report prototypes and other amendments. It is also inconsistent with best practice, which is to promote transparency in the rule-making process.⁴ To the extent any regulatory proposal relies on research to support policy choices, this research should be made public or at least shared when requested by stakeholders.

3. Implementing the TCR Proposal should not be delayed further

As detailed further below, we have several recommendations that would improve the TCR Proposal. While we believe these recommendations will help enhance the proposal, they should not necessitate further delays.

We also believe the proposed 18-month transition period is more than sufficient for firms to implement the TCR Proposal.

Regulators have engaged early and often with firms on this investor protection issue. Given the level of awareness about the proposal, firms have been well positioned to start scoping and planning for any needed changes to their back-office systems. There is absolutely no reason this work could not start before the rules are finalized.

This is particularly true for firms that manufacture and distribute investment funds/ segregated funds in-house (integrated firms), which already have the information needed to begin designing and testing system changes. Moreover, firms in the securities sector are not starting from scratch—the TCR Proposal builds on existing CRM2 requirements and systems previously implemented by firms. Case in point, we understand that some firms are already providing TCR to their clients.

From the perspective of investors, the fact that some firms choose to turn a blind eye to this issue should not now be used to justify further delays. Otherwise, regulators risk rewarding them for their lack of authentic engagement with the public consultations over these many years.

⁴ For example, the MFDA's [Improving Fee Disclosures for Canadian Investors](#) (2021) report and the OSC's [Improving Fee Disclosure Through Behavioural Insights](#) (2019) were both made public.

Finally, while the TCR Proposal is a significant step forward, the regulatory focus on simplifying information for investors should not stop here. For example, regulators should explore whether firms should be required to report costs at the portfolio level, rather than on a per-account basis. While firms are free to do so today, many do not. Breaking down the cost information on a per-account basis, while beneficial, is inferior to a portfolio-level approach. This is because investors still need to take steps to piece together information from different reports to see the total picture.

B. MANDATE KEY ELEMENTS OF THE PROTOTYPES

The TCR Proposal includes sample prototype statements and annual cost reports developed using BI research concepts and techniques. Focus groups were also used to test various wording and formats to objectively find the best way to present information that most investors will read, understand and absorb.

Use of these prototypes, however, is not mandatory. Apart from some specific wording prescribed in the rules, firms will continue to be free to choose their own content and wording, as well as how they layout and organize the cost-related information.

We appreciate the importance of preserving flexibility for how each firm communicates with its clients. This creates an understandable reluctance to require firms to use a prescribed form. However, unless the key information and the basic presentation headings are prescribed, we are concerned the lessons learned from the BI research will not be broadly applied in practice.

A random review of firm disclosures (where the contents are not prescribed) demonstrates this. The quality and readability vary tremendously, with many firms failing to present information in plain language or in a way that the average investor can easily read and understand. Our concern is that without prescribing critical minimum disclosure elements, the TCR Proposal will not measurably improve investor comprehension or engagement with the cost information.

To improve results and maximize the impact of the TCR Proposal, we recommend that section 14.17 of National Instrument (NI) 31-103 (and the relevant CCIR Guidance documents where necessary) be further amended to prescribe the following:

1. Firms should explain why the information is important

Firms should have to provide, in plain language, a brief description of the information included in the annual cost report, including why it is important.⁵

BI research commissioned by the MFDA provides an example of a statement that should be prescribed:

⁵ We use “annual cost report” to refer collectively to the Annual Charges and Compensation report in the securities sector and the proposed equivalent prototype report in the insurance sector.

“This report provides a breakdown of the total costs you paid to invest in [Year]. It includes all the fees you paid us [FIRM NAME] for things like investing advice, account administration, and transactions. It also includes fees that you paid to other entities, like the mutual fund companies that operate the mutual funds you hold. The information in this report is important and can help you make more informed investing decisions.”⁶

Further, this information should be placed at the beginning of the annual cost report or included as a prescribed cover page. The placement of the information helps make it more salient and minimizes the risk it will be missed.⁷

2. Firms should prominently set out a single dollar amount representing the total cost of investing

All firms should be required to include at the top of their annual cost report, or in a prescribed cover page, the following notification or a notification that is substantially similar: “Your total cost of investing was \$X last year.”

3. All firms should explain how costs affect the client’s returns

MFDA research and the TCR Proposal both reflect the importance of communicating the impact of costs on returns.⁸ The proposed amendments to NI 31-103 will require this information, but it will be buried in the footnote that explains “fund expenses.”

In our view, all firms should include, at the top of their annual cost report or in a prescribed cover page, the following notification or a notification that is substantially similar: “Costs can have a big impact on how much money you earn from your investments. They reduce your profits and increase your losses.”⁹

4. Firms should explain what steps a client can take if concerned about their costs

Earlier research published by the Ontario Securities Commission (OSC) indicates that investors are not aware of all the actions they can take based on the information they receive.¹⁰ Simply put, even if investors see and understand the annual cost report, they may not know how to act on it. The OSC study suggests that one way to address this knowledge gap is to provide a simple list of actions investors could take to lower costs.

Accordingly, firms should have to include in their annual cost report the following notification or a notification that is substantially similar:

⁶ [Improving Fee Disclosures for Canadian Investors](#) (2021), MFDA, at page 10.

⁷ *Ibid.*, at page 10.

⁸ *Ibid.*, at page 10.

⁹ The securities sector prototype of the annual cost report includes similar wording near the top of the first page.

¹⁰ [Improving Fee Disclosure Through Behavioural Insights](#) (2019), OSC, at pages 3 and 21.

Here are some of the **steps you might take to reduce your fees:**



Talk to us about whether lower-fee investment options might be right for you. Call us at (555) 123-4567, or reach us by email at advisor@investmentdealerabc.com



Go to our website to learn more. For example, learn what questions you might want to ask us to start a conversation about our charges.



If you think it might be right for you, **ask your advisor about investment strategies that include passive as well as active investments.**

5. Firms should have to present information using specified sections and headings

A key improvement in the annual cost report prototype is the way information is organized into different sections under key headings. Specifically, one section for the fees paid by the investor, and another section highlighting the fees received by the firm. It also uses plain language headings like “What you paid” and “What we received”.

Breaking out the information into different sections with plain language headings helps promote readability and comprehension. As such, firms should be required to use these basic elements when designing their annual cost reports.

In our view, however, the MFDA’s breakdown and headings are clearer and easier to read and understand.¹¹ If adopted, the MFDA approach would require firms to break down the cost information into two sections—one that highlights the net amount of fees received by the firm, and the other showing the net amount paid to investment fund companies.

In contrast, the securities sector prototype in the TCR Proposal is more confusing because it tries to capture all the fees paid in one section (“What you paid”), but then breaks it down further in order to highlight the amount received by the firm (“Our Compensation”).

We believe the MFDA’s approach is clearer and will help the investor better understand where their fees are going. It is also easier to follow the “math” and understand how the firm arrived at the total costs amount.

Ensuring that all annual cost reports contain the five elements above will help promote better investor outcomes and the TCR Proposal’s ultimate success. They are based on science and extensive BI research. Not prescribing them means that we risk losing the benefit of that research and perpetuating existing investor confusion over fees.

For example, the Investment Funds Institute of Canada (IFIC) conducted a behavioural audit of annual fee summaries required under CRM2 (the IFIC Audit).¹² While regulatory guidance exists for fee disclosure under CRM2, the form of the disclosure is not mandated. The IFIC Audit found that many CRM2 fee summaries contained jargon and technical language, which

¹¹ Specifically, see “Option 4: Expanded Cost Detail, Combined Costs & BI” of [Improving Fee Disclosures for Canadian Investors](#) (2021), MFDA, at page 49.

¹² [Behavioural Economics \(BE\) Applied to Financial Disclosure](#) (2019), IFIC.

decreased attention, comprehension, and perceived value.¹³ BI research commissioned by the MFDA came to similar conclusions and found that “fewer than 1 in 5 investors surveyed correctly identified the types of fees currently included in annual fee summaries.”¹⁴

Information about annual fees and costs is too critical to leave it to chance that firms will get it right. As such, we recommend that the CSA and CCIR ensure the critical elements discussed above will be provided to investors.

C. THE FUND EXPENSE RATIO

1. Include the Trading Expense Ratio (TER) as proposed

Under the TCR Proposal, firms will have to disclose the “fund expense ratio” (FER). This is defined to include both the “management expense ratio” (MER) and the “trading expense ratio” (TER). In our view, the FER should include both the MER and TER for multiple reasons.

First, the TER is less likely to be provided to investors after the point of sale, or as part of a fund’s marketing materials. This is because trading fees vary significantly from fund to fund depending on market conditions, investment strategy, and asset class or mix. Trading fees also depend on fund flows, the level of liquidity of different securities held by the fund, or how efficiently the securities are traded.¹⁵

Second, while the TER may be small for some funds, it could be more significant for other funds. In the case of some funds, the TER may even exceed the MER.

Finally, the purpose of the TCR Proposal is to provide investors with an overview of their total costs. Omitting the TER would give investors an incomplete picture of all their expenses, including how those expenses are allocated by the fund companies.

2. Should the account statement include the FER?

In addition to defining the FER, the TCR Proposal will require that it be included in the account statement, or an “additional statement” required under NI 31-103. It will have to be expressed as a percentage in those statements.¹⁶

The rationale for this new requirement is not explained. Presumably, it is intended to increase cost transparency by periodically highlighting FER information pending delivery of the annual cost report.

We also do not know whether this proposed change to the account statement is based on BI research or testing with focus groups. And, if so, we do not know whether that research

¹³Ibid., at page 77.

¹⁴ [Improving Fee Disclosures for Canadian Investors](#) (2021), MFDA, at page 7.

¹⁵ See “What drives a fund’s TER” in [Anatomy of the Trading Expense Ratio \(TER\)](#) (2019), RBC Global Asset Management.

¹⁶ See proposed amendments to sections 14.14 and 14.14.1 of NI 31-103.

supports the proposed change.

The MFDA's BI research speaks to this issue to a certain extent. It states:

[M]anagement fees could be linked to investor choices by adding a column noting the MER of each investment fund held to the holdings section of account statements. This would help investors acknowledge that investment funds have different MERs and identify which holdings have higher costs...¹⁷

The MFDA research, however, seems to be more focused on the need to break down the information on a per fund basis (we discuss this issue in more detail below), rather than necessarily including it in account statements.

In terms of where to include that information, we question the value of including it in both the account statements and the annual cost report. Between these two options, we believe the annual cost report is the better choice.

The purpose of the account statement is to provide a snapshot of the investor's account holdings and highlight how those holdings performed between the reporting periods. It is not intended to provide cost-related information.

Given this different purpose and context, requiring FER information in the account statement risks creating confusion while offering little insight about why this information is important.

As such, we believe investors and the industry would be better served by keeping all cost-related information in one place—the annual cost report.

3. Break down fund expenses per fund

As noted above, we recommend the FER be broken down on a per fund basis within the annual cost report. The breakdown should include both the dollar amount and percentage for each fund.

Breaking down information in this way would help investors map these costs to specific funds, enabling them to better identify which products they may want to consider when looking to reduce their costs.

The MFDA research speaks directly about this issue. It states:

Results also suggest that including the management expense ratio (MER) for each investment fund holding within the account holdings ... may improve investors' ability to identify actions they could take (e.g., to better understand their fees, improve the value of their (sic) service they receive,

¹⁷ [Improving Fee Disclosures for Canadian Investors](#) (2021), MFDA, at page 11.

and/or reduce their costs of investing).¹⁸

The MFDA report goes further and recommends that regulators:

Provide more detailed fee information as a supplement to the fee summary, with the more detailed information providing a “1:1” link between investor choice and costs incurred. In additional pages attached to the main fee summary, provide investors with a breakdown of costs within each fee category to help them map their fees onto their previous choices. For example, the ongoing costs of investing could be broken down by mutual fund (or ETF) held... Each set of detailed information (i.e., each type of fee) should be in a separate section to enable narrower “choice bracketing.”¹⁹

D. SUGGESTED IMPROVEMENTS TO THE PROTOTYPES

The proposed prototype annual cost reports included with the TCR Proposal are significant improvements over the status quo. We offer a few suggestions to help further improve them.

1. Securities sector prototype – “Your Cost of Investing and Our Compensation”

- i. **Clarify the title.** To clarify the frequency of this report, amend the title as follows:

Annual Report of Your Cost of Investing and Our Compensation

- ii. **“Charges” vs. “fees”.** The words “charges” and “fees” are used interchangeably throughout the prototype. For example, the phrase “investment fund company *fees*” is used in the table on page 29 of the TCR Proposal, whereas “investment fund company *charges*” appears on page 30. To minimize confusion, we recommend choosing one term (either “fees” or “charges”) and using it consistently.

2. Insurance sector prototype

- i. **“Charges” vs. “fees”.** Like the securities sector prototype, the words “charges” and “fees” are used interchangeably. For example, on page 33 of the TCR Proposal, the phrase “charges and fees” is used at the top. However, the bar chart at the bottom states “net of charges”, without using the word “fees”. Again, we recommend using only one of these terms in the prototype.
- ii. **Bar Chart – “Your Total Annual Personal Rate of Return (net of charges)”.** The bar chart on page 33 of the TCR Proposal could be enhanced by adding an illustration of the total annual personal rate of return **before** costs are paid. Including the rate of return before and after costs will help policy holders better see how costs affect their

¹⁸ Ibid., at page 3.

¹⁹ Ibid., at page 11.

returns.

- 3. Re-organize how the information is presented based on the MFDA report.** The way the "What you paid" information relates to the "Our Compensation" section is confusing. For example, it is not immediately apparent that the \$342 trailing commission under "Our Compensation" is part of the \$645 fund expenses under the "What you paid" section. As noted above, the MFDA BI research provides a better way to organize this information:²⁰

	Cost
1. Fees that we, Dealer ABC Inc., received	
Trailing commissions ¹ – paid to us by investment fund companies out of the fees they charge you	\$342.00
Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell investments	\$20.00
Net amount we received	\$462.00
2. Amounts you paid to investment fund companies	
Investment management fees and operating expenses ² – automatically deducted from your investments by the investment fund companies (based on the fund's MER)	\$645.00
Minus: trailing commissions the fund companies paid to us, as reported above	(\$342.00)
Net investment management fees and operating expenses	\$303.00
Redemption fees on deferred sales charge investments	\$50.00
Net amount you paid to investment fund companies	\$353.00
Total you paid to invest in 2020	\$815.00

E. TRANSITION PERIOD

A key question in the TCR Proposal concerns the proposed 18-month transition period. We believe that 18 months is sufficient and should not be extended for the following reasons:

1. Delays will harm investors

The IFIC Audit and other research by regulators shows that too many investors today have difficulty understanding the fees they pay as currently reported, let alone their total costs. We believe the TCR Proposal (with our recommended improvements) will help address this serious investor protection issue. Any further delays must be avoided to minimize ongoing

²⁰ Ibid., at page 49.

harm to investors.

2. There have been repeated consultations about TCR with firms

Firms have been extensively consulted about enhancing fee transparency and have had every opportunity to turn their minds to this issue and improve the disclosure to their clients.

The lack of transparency was recognized in the securities sector as far back as 2004 with the publication of the *FAIR Dealing Model*.²¹ Since then, regulators repeatedly tried to address this problem through the client relationship model (CRM) initiative. After years of effort, the CSA managed to adopt new rules requiring dealers to show the fees they received, either directly from their clients, or indirectly through trailing commissions.²²

These rules (known as CRM2) were completed in 2013, but came into force in stages over a three-year period. They provided much improved fee transparency to clients. However, they still fell short of requiring dealers to give their clients a complete picture of all their costs when investing.

Further consultations within the securities sector occurred in 2015²³ and 2018²⁴ to try to address this gap. These proposals, referred to as “total cost reporting” or “CRM3,” were led by the MFDA. They focused on reporting costs of owning investment funds that are not paid to the dealer, including management fees, fund operating costs, redemption fees and short-term trading fees. This included publishing specific proposals with concrete examples designed to aid and encourage the securities industry to transition to total cost reporting as quickly as possible.

In the insurance sector, the problem was also considered with the CCIR’s *Segregated Funds Working Group Issues Paper* in 2016.²⁵ This paper sought stakeholder feedback on several issues, including enhancing cost disclosure to policy holders of segregated funds, an insurance product that includes an investment fund component.

3. Firms are not starting from scratch

Firms on the securities side will not be starting from scratch since the TCR Proposal builds on the current CRM2 requirements. These firms should be able to leverage the work that went into building systems and processes to comply with CRM2. They should also be able to build on and make a few modifications to their existing annual cost reports. Unless they were initially poorly designed to communicate costs, firms’ forms of the annual cost report should not require a major overhaul.

4. Work can start now

²¹ [The Fair Dealing Model](#) (2004), OSC.

²² See amendments to [NI 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations](#) (June 2013).

²³ [Report on Charges and Compensation – Consultation Regarding Cost Reporting for Investment Funds](#), (2015), MFDA.

²⁴ [Discussion Paper on Expanding Cost Reporting](#) (2018), MFDA.

²⁵ [Segregated Funds Working Group Issues Paper](#) (2016), CCIR, at page 11.

Firms do not need to wait for the TCR rules to be finalized before taking steps to be more transparent with investors. For instance, we recommend that investment funds begin collecting and supplying data on MER and TER to service providers, such as Fundserv (or the equivalent in the insurance sector). This data is currently accessible and there is no need to wait to begin consolidating it so that it is readily available to firms.

We also recommend firms set up industry working groups to begin scoping out any needed system changes, particularly when it comes to breaking down the MER and TER data on a per-account basis.

The industry should not now use the failure to start planning or begin gathering needed information to justify further delays to implement TCR.

5. Integrated firms already have the data

Integrated firms, or those that offer only proprietary products, already have access to the cost-related information needed to implement TCR. As such, for these firms in particular, there should not be any need to delay implementation. In fact, they may be able to fully implement changes to the annual cost report in significantly less time than the allotted transition period.

6. Some firms already provide TCR

We understand that some firms have taken the initiative and already include total costs in their annual cost reports to their clients. As opposed to rewarding those firms that try to do the right thing on their own, delaying implementation risks rewarding recalcitrant firms. This would be inappropriate and would send the wrong message.

We also worry that those in the industry pushing for further delays may tarnish the reputation of firms that do the right thing. Simply put, it would not be fair to firms that already provide this information to delay implementation further.

Further delays would also fuel the perception that investor protection mechanisms often take years or decades to implement, whereas burden reduction initiatives seem to occur more quickly. While there are reasons that could explain this difference, the mere perception it occurs undermines public confidence in the system. As such, we believe there should be a high bar for justifying any further delays for the TCR Proposal.

F. CONCLUSION

No one likes to pay hidden costs. And no one, if they're being honest, would argue that keeping them hidden from consumers is somehow fair.

And yet, when it comes to investment funds and segregated funds, investors continue to wait for full cost transparency. Total cost reporting has been debated and considered for

about two decades, but still eludes us today. The TCR Proposal finally brings this goal within reach. For that, we thank the CSA and CCIR for making it a priority within their investor protection mandates.

We urge the CSA and CCIR to stand firm on the proposed timelines for implementing TCR. We also call on the securities and insurance industries to fully commit to delivering on this for their clients – not because the rules require it, but because it's the right thing to do.

We thank you for the opportunity to provide our comments and views in this submission. We welcome its public posting. Please note that we intend to make our submission public by posting it on our FAIR Canada website. Should you have questions or require further explanation of our views on these matters, please contact us at jp.bureaud@faircanada.ca or mauro.lagana@faircanada.ca.

Sincerely,



Jean-Paul Bureaud
President, CEO and Executive Director
FAIR Canada



Date: July 27, 2022

To: Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office of the Superintendent of Securities
Newfoundland and Labrador Ontario Securities Commission
Office of the Superintendent of Securities Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

And To: Me Philippe Lebel Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
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The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Dear Sirs/Mesdames:

Re: Response to CSA and CCIR Joint Notice and Request for Comment – *Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations, and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds* (the “Proposed Amendments”)

The Private Capital Markets Association of Canada (“**PCMA**”) is pleased to provide our comments in connection with the Proposed Amendments, as set out below.

A. About the PCMA

The PCMA is a not-for-profit association founded in 2002 as the national voice of the exempt market dealers (“**EMDs**”), issuers and industry professionals in the private capital markets across Canada.

The PCMA plays a critical role in the private capital markets by:

- assisting hundreds of dealers and issuer member firms and individual dealing representatives to understand and implement their regulatory responsibilities;
- providing high-quality and in-depth educational opportunities to the private capital markets professionals;
- encouraging the highest standards of business conduct amongst its membership across Canada.
- increasing public and industry awareness of private capital markets in Canada;
- being the voice of the private capital markets to securities regulators, government agencies and other industry associations and public capital markets;
- providing valuable services and cost-saving opportunities to its member firms and individual dealing representatives; and
- connecting its members across Canada for business and professional networking.

Additional information about the PCMA is available on our website at www.pcmacanada.com.

B. General Support

Overall, the PCMA generally supports providing additional reporting to help investors better understand their investments, as intended in the Proposed Amendments.

Many EMD dealing representatives are also licensed insurance agents that sell segregated funds. Accordingly, the PCMA generally supports having the same/similar reporting requirements imposed on investment funds and segregated funds which helps reduce regulatory arbitrage, subject to our comments below.

C. Implementation Issues

Many EMDs sell investment funds to accredited investors under the Accredited Investor Exemption and have concerns on the application of a cost and performance reporting regime for prospectus offered investment funds, such as conventional mutual funds, being imposed on prospectus-exempt investment funds, such as non-redeemable investment funds.

Many investment fund managers (“**IFMs**”) of prospectus-exempt investment funds do not typically calculate a “**fund expense ratio**” consisting of an investment fund’s management expense ratio and trading expense ratio expressed as a percentage since it is not required under National Instrument 81-106 – *Investment Fund Continuous Disclosure*.

Prospectus-exempt investment funds also do not have publicly available information that would allow an EMD to calculate a fund expense ratio or determine if an IFM's reported fund expense ratio is misleading. Therefore, if an IFM does provide an EMD with a fund expense ratio, an EMD should be able to rely on such information for reporting to its clients.

We note that the underlying portfolio of an investment fund may be illiquid so the calculation of net asset value or its equivalency may be based on stale-dated or unaudited financial information (in circumstances where an investment fund holds investments where an investee is not required to provide the investment fund with audited annual financial statements). For purposes hereof, "**stale-dated**" means financial information that is over 30 days old. Investment funds with illiquid assets generally do not publish net asset values on a daily basis (they can be monthly, quarterly or annually) and there is also no standard valuation frequency as it is product dependant and the frequency is set out in an investment fund's offering documents.

Therefore, if an IFM does not provide an EMD with fund expense ratio information for an investment fund that meets the requirements of the Proposed Amendments, then it will be the norm and not the exception that an EMD's client account statements will report that such information is unavailable and not being reported (as required and permitted by proposed section 14.17.1(4) *Reporting of fund expenses and direct investment fund charges*). The PCMA submits that the Canadian Securities Administrators (the "**CSA**") should further consider whether the cost reporting changes, as outlined in the Proposed Amendments, should have a carve-out for prospectus-exempt funds.

D. A Registrant Should Be Able To Rely On Another Registrant

The PCMA submits that an EMD should be able to rely on information provided by an IFM in connection with its cost reporting obligations under the Proposed Amendments.

An IFM is a registrant and has certain duties and responsibilities under applicable securities law. It is concerning that if an IFM fails to provide an EMD with the information required under the Proposed Amendments and more importantly, if an EMD reasonably believes the information is incomplete or in relying on such information is misleading, then an EMD would have to resort to other measures to provide such information, if at all.

EMDs do not necessarily have the proficiency to prepare the required financial information as required under the Proposed Amendments, let alone have access to such information since, as discussed above, it is not publicly available. Simply, we respectfully submit that a registrant, such as an EMD, should not be the surrogate of providing or verifying such information.

E. Performance Reporting Should Be Included With Cost Reporting

The PCMA submits that costs should not be viewed in isolation, rather investors should see costs and performance information in their client account statements and reports so they have a better overall understanding of their investment. In the PCMA's view, costs without any connection to performance information are misleading since they are not presented in the context of an investor's overall investment.

The PCMA also believes that linking costs and performance avoid any possible debate that investment funds with high fund expense ratios have better or worse performance than those investment funds

with lower fund expense ratios. It would also provide a better comparison of costs and performance among and between prospectus offered investment funds and prospectus-exempt investment funds. For example, certain prospectus-exempt investment funds that provide for a carried interest or performance fee to be paid and shared with a manager/promoter would be higher relative to conventional mutual funds. However, these costs, reflected in a fund expense ratio, need to be linked to performance among prospectus offered versus prospectus-exempt investment funds.

Currently, performance disclosure is only required on an annual basis and is based on the performance of the investment fund within a client's account at a dealer. If costs are to be included in ongoing account statements, as proposed, this should also require performance to be included. As discussed above, prospectus-exempt funds may not publish net asset values on the same frequency as prospectus offered investment funds. Accordingly with different frequencies in reporting, ongoing performance reporting for prospectus-exempt investment funds may be problematic.

Lastly, registrants have know-your client and know-your-product obligations under applicable securities law in order to assess suitability, therefore registrants look at both cost and performance information to assess the potential value of an investment before making a product recommendation. Accordingly, clients should receive both cost and performance information to assess their investment.

F. Alberta-Based MICs That Are IFMs Should Be Excluded From The Proposed Amendments

The PCMA has a number of Alberta-based mortgage investment corporations ("**MICs**") and dealers that distribute securities of Alberta-based MICs.

The PCMA is concerned that certain mortgage investment entities ("**MIEs**"), including "*mortgage investment corporations*" (as defined in the *Income Tax Act (Canada)*) and mutual fund trusts operating as mortgage lenders, will be unduly prejudiced by the Proposed Amendments due to jurisdiction-specific interpretations as to whether or not they qualify as *investment funds* under local legislation.

As set out in CSA Staff Notice 31-323 *Guidance Relating to the Registration Obligations of Mortgage Investment Entities* ("**SN 31-323**"), an MIE is defined as a person or company whose purpose is to directly or indirectly invest substantially all of its assets in debts owing to it that are secured by real property (including mortgages) and whose other assets are limited to deposits, cash, debt securities, real property and risk-hedging instruments.

SN 31-323 states, among other things, that the applicability of the IFM registration requirement for a "**Pooled MIE**" (*i.e.*, an MIE that manages a portfolio of mortgages) varies in the different CSA jurisdictions. In all jurisdictions other than Alberta, a Pooled MIE *is not considered an investment fund* if its primary activity is managing an investment portfolio that includes mortgages. More specifically, a Pooled MIE in jurisdictions other than Alberta is not considered an investment fund if the Pooled MIE (a) originates its own mortgages, (b) funds its own mortgages, (c) acts as mortgagee and (d) administers the mortgages directly or through an agent.

Conversely, SN 31-323 further states that for a Pooled MIE whose principal jurisdiction is Alberta, this analysis does not apply. Instead, the definitions of "mutual fund" and "non-redeemable investment fund" pursuant to the *Securities Act* (Alberta) apply. In this case, the view that a mortgage is a security creates a scenario where an Alberta-based Pooled MIE is an investment fund because, irrespective of

redeemability provisions, the primary purpose of the entity is to invest money provided by its security-holders in mortgages.

As a result of SN 31-323, Pooled MIEs whose principal jurisdiction is Alberta will be required to comply with the Proposed Amendments while all other operational Pooled MIEs in jurisdictions outside of Alberta will not. This further fractures the issuer regulatory environment in Canada and encourages Pooled MIEs to jurisdiction-shop in order to remain competitive with their regulatory burdens.

ASC Staff Notice 81-701 *Mortgage Investment Entities and Rules Applicable to Investment Funds* (“**ASN 81-701**”) expands upon the applicability of the investment fund concept to MIEs by introducing the concept of an “**Operational MIE**” (which aligns closely with other CSA jurisdiction analysis for non-investment fund MIEs) and introduces the precedent of excluding Operational MIEs from certain investment fund regulatory requirements. Unfortunately, the accompanying designation order (*Certain mortgage investment entities designated not to be non-redeemable investment funds (except for registration), 2014 ABASC 370*) only addresses non-redeemable investment funds. It is unclear why private Operational MIEs that raise capital in the exempt market, but utilize redeemability at net asset value (a hallmark of the definition of a “mutual fund” under applicable securities law), were not included in this designation order.

The PCMA submits that the guidance of ASN 81-701 should be expanded and incorporated into the Proposed Amendments to establish that an Operational MIE in Alberta is not an investment fund except for the purposes of registration. This will reduce regulatory drift by Alberta away from other jurisdictions in Canada and facilitate a more equitable deployment of the Proposed Amendments.

Simply, an Operational MIE should not be subject to the Proposed Amendments solely because its principal jurisdiction is Alberta, nor should the registered firms that sell these funds and who inevitably have a reporting obligation to their clients.

G. Timelines

The CSA states that it would like the final Proposed Amendments to become effective in September 2024 assuming that final publication would occur and ministerial approvals are obtained during the second quarter of 2023.

The PCMA believes that all registrants should have sufficient time to implement any final version of the Proposed Amendments. The PCMA does not believe it is in the public interest, nor fair to registrants, for the CSA to assume an implementation date when the rules are not final. Accordingly, the PCMA is against a shortened transition period and advocates for a reasonable implementation period post final approval as is typically done with other CSA initiatives.

Lastly, the PCMA believes the CSA should have more direct communications with IFMs of prospectus-exempt investment funds and determine what other disclosure challenges need to be considered or added to the final rule since there is little to no information in the Proposed Amendments that deal with the unique nature of prospectus-exempt investment funds.

* * *

We thank the CSA for the opportunity to provide you with our comments and would be pleased to discuss them with you at your earliest convenience.

Yours truly,

PCMA Comment Letter Committee Members*

"Brian Koscak"

PCMA Chair of Advocacy Committee &
Executive Committee Member

"Nadine Milne"

PCMA Executive Committee Member and
Co-Chair of the Compliance Committee

"Phil du Heaume"

Executive Committee Member

**The views expressed herein are those of the above individuals in their role as members of the PCMA and not necessarily those of the organizations of which they are employed or affiliated.*

cc: PCMA Board of Directors

July 27, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

M^e Philippe Lebel
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RE: CSA and CCIR joint notice and request for comment proposed amendments to National Instrument 31-103 Registration Requirements, exemptions and ongoing registrant obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations

I am pleased to submit this letter in response to the above-reference consultation. I am a principal with HighView Financial Group (“HighView”), a brand name used by HighView Asset Management Ltd (“HAML”) and HighView Wealth Practices Inc (“HWPI”). HAML is registered in the category of Portfolio Manager in Ontario, Alberta, British Columbia, Manitoba, and Saskatchewan. HWPI is registered in Ontario as an insurance agency.

HighView is an investment counselling firm built around the concept of an outsourced chief investment officer (OCIO) for wealthy families and institutions. As a registrant in the category of Portfolio Manager, we are held to a legal fiduciary standard – which we openly embrace.

General Comments on Cost Transparency

It is my impression that there is no debate regarding whether total costs should and will be reported to individual investors. Kudos to the MFDA for leading the charge on total cost reporting when the ink was still wet on the second phase of the client relationship model (“CRM2”). The only points of debate seem to be what precise information is to be reported, how often, and when the new requirements will come into force. While this comment letter is on behalf of our firm, I have a long individual history with the issue of cost disclosure.

Early in my career – in the fall of 1997 – I was part of a team that launched an online suite of investment fund portfolio analytics that included a portfolio-level disclosure of total costs in percentage and dollar terms. This application was sufficiently innovative that its last incarnation (completed in the 2000s) is still being used today by a major mutual fund company¹ with the only noticeable changes being cosmetic.

In other words, the core of what we created more than two decades ago was sufficiently robust and innovative that it remains relevant today. The point of highlighting this is not to congratulate myself – that system would have been created without me. Rather, my point is that if a small-city FinTech startup was able to operationalize total cost disclosure in a web-

¹ The original web-based application was created by FundMonitor.com Corporation in 1997. By the year 2000, it had evolved to greater levels of sophistication (e.g., allowing dealer back offices to upload data directly, avoiding manual entry). FundMonitor.com sold the technology to a large mutual fund company, which uses it as a service made available to its ‘retail advisor’ partners. The version in use today is functionally what we created in 1997.

based application in 1997 in a matter of months, I am certain today's industry – armed with much more robust technology and resources – can make this happen in a year or so.

Subsequent to my part in this innovation, I fielded many inquiries from friends, relatives, and readers of my articles looking for insight into what exactly they pay for financial advice. With an abundance of media articles and blogs pounding the 'cost matters' drum and illustrating the 'negative compounding' effect of asset-based fees, it would be easy to assume that most investors have good awareness of what they pay for financial and investment advice. I might have assumed the same, except that I continue to receive the same questions today about costs that I have been receiving over the past twenty-five years.

On Twitter, I recounted a recent inquiry from a friend [asking if they paid anything](#) for the services of their big financial institution financial advisor. Using a recent statement, I calculated their total costs and sent them the summary table below-left (subsequently adding the second table below it). I then posted to Twitter [my friend's reaction](#)² to this information (see below-right). There was immediate comprehension of costs shown in the below tables.

Annualized Total Portfolio Cost Estimate	Total \$	% of Portfolio Value
Fees Embedded in the products you hold	\$ 2,765.16	0.91%
Fees Charged directly to your accounts	\$ 3,163.55	1.04%
GRAND TOTAL (including HST)	\$ 5,928.71	1.96%



Dan Hallett
@DanHallett

...

UPDATE...Friend sent me big institution statement. Here's what I found:

Estimated breakdown of total costs (who gets what)	Total \$	% of Portfolio Value
Advisor Compensation (embedded)	\$ 546.30	0.18%
Advisor Compensation (directly charged)	\$ 3,163.55	1.04%
Administrative costs (embedded)	\$ 302.84	0.10%
Investment Manager Fees (embedded)	\$ 1,916.02	0.63%
GRAND TOTAL (including HST)	\$ 5,928.71	1.96%

- Held 9 mutual funds
- Proprietary products = approx 86% of portfolio
- Combo of direct & embedded costs
- Total costs = 1.96% per year (> \$5,900/yr)

I sent friend below summary. Reactions: 🤔 🤔 🤔

This is just the latest example in a career-long string of inquiries exemplifying investors' bewilderment when trying to assemble their investment cost puzzle. This underscores two required outcomes of this proposal, in my opinion.

² My very smart and educated friend was quite surprised since they were unaware of the existence and amount of these costs. They were taken aback at the dollar amount (particularly since the account I reviewed makes up less than half of their total household portfolio). Finally, they were angry – at themselves for not being more aware, and at their former advisor for not being transparent.

First, the industry must deliver this in a reasonably timely manner. Waiting two to three years is too long for clients to wait and an excessive amount of time to operationalize the disclosures. Between one year and eighteen months seems about right. If our little team could do this a quarter-century ago, I'm sure the industry can accomplish this by end of next year. Second, the format of the disclosure and the language used will be critical to ensure that clients truly grasp the important information contained in this proposal.

Consultation Questions – Securities (CSA)

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,
 - a. exchange-traded funds,
 - b. prospectus-exempt investment funds,
 - c. scholarship plans,
 - d. labour-sponsored funds,
 - e. foreign investment funds?

I have no concerns with the inclusion of exchange-traded funds, scholarship plans, and labour sponsored funds. I do, however, anticipate some implementation issues with respect to foreign investment funds and prospectus-exempt investment funds.

Foreign Investment Funds

Foreign investment funds include exchange-traded funds (ETFs) and closed-end funds (CEFs) that trade in the U.S.³ While I am not well versed in U.S. fund regulations, my review of some U.S. domiciled products revealed that U.S. funds generally disclose the dollar amount of fund-level brokerage commissions in the Statement of Additional Information (SAI). None of the CEFs that I reviewed had any SAI form available⁴, making TER calculations impossible. While MERs (or net expense ratios in the U.S.) are available on U.S. funds, TERs for ETFs would have to be calculated manually. Cost data for all U.S. funds are not available in an electronic format to feed into Canadian registrants' reporting systems.

Prospectus-Exempt Investment Funds

I am concerned about broadly applying this rule to all prospectus-exempt investment funds. Consider the example of real estate investment trusts (REITs). When most people think of REITs, they think of the publicly-traded variety. But there exist highly similar vehicles not listed on a public stocks exchange. These are operating businesses structured as trusts that do not trade on any exchange (i.e., private REITs); and are offered by offering memorandum (not via prospectus).

To illustrate, see the table on the next page comparing the income statements of a private REIT with a TSX-listed REIT⁵. The cost line items that make up fund MERs (e.g., management, audit, legal costs for the trust, etc.) are not broken-out. Nor are costs segmented for the operating business and investment vehicle, respectively (the MER would focus on the latter). Accordingly, no meaningful MER-equivalent figures can be calculated for either.

³ These funds also include mutual funds, though Canadian investors and registrants cannot access U.S. domiciled mutual funds. U.S. domiciled ETFs and closed end funds can, however, be accessed via U.S. stock exchanges through a Canadian brokerage account.

⁴ Canadian-domiciled closed end funds publish TERs in their annual reports.

⁵ The private REIT used in this illustration publishes its financial statements on its website. Financial statements for the public REIT were obtained from SEDAR. For illustrative purposes, some line items were consolidated.

Moreover, other prospectus-exempt investment funds are highly similar to businesses trading on a stock exchange. It is impossible to calculate a MER that is at all similar to an investment fund. Private lender [Accord Financial](#) (ACD/TSX) and private equity firm [Mosaic Capital Corporation](#) (formerly traded as M/TSXV⁶) are examples of TSX-listed equities that are highly similar to investments offered as unlisted prospectus-exempt products.

Again, these are active businesses for which mutual-fund-type MER calculations are neither possible⁷ nor meaningful. These and other vehicles house businesses that blend costs of operating an active business and the legal entity within which it 'resides'.

<i>Income Statement for Calendar 2021 (source: respective REIT audited financial statements)</i>			
	Private REIT		Public REIT
Revenue from investment properties	\$	154,983,000	\$ 933,137,000
Property operating costs	\$	(57,171,000)	\$ (323,144,000)
Net rental income	\$	97,812,000	\$ 609,993,000
Other Income	\$	31,802,000	
Expected recovery of credit losses	\$	1,102,000	\$ -
Operating Income	\$	130,716,000	\$ 609,993,000
Trust administrative expenses	\$	(29,075,000)	\$ (51,366,000)
Unit Compensation Expense			\$ (15,111,000)
Net fair value gains	\$	124,727,000	\$ 1,062,165,000
Finance costs	\$	(37,697,000)	\$ (160,463,000)
Income from minority interests	\$	76,403,000	\$ 31,713,000
Currency Gain (Loss)	\$	(1,239,000)	\$ (6,095,000)
Realized Gain (Loss)	\$	-	\$ 11,390,000
Amortization			\$ (8,250,000)
Income Before Taxes	\$	263,835,000	\$ 1,473,976,000

⁶ Mosaic Capital Corp was acquired (taken private) in August 2021 by 2356340 Alberta Inc, an entity owned by Fairfax Financial Holdings Ltd and MCC Holdings Ltd.

⁷ The only similar calculations that can be done are similar to those calculated for all kinds of active businesses like gross margin, operating margin, net margin, etc.

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

I support the inclusion of TER. I agree with the arguments presented by the *Financial Planning Association of Canada* and Ken Kivenko in their respective comment letters. While TERs generally average about 10 basis points annually⁸, there are many instances where a fund's TER is very significant – in some cases exceeding the same fund's MER. Funds making extensive use of derivatives or those using high turnover strategies tend to have high TERs.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

It seems most appropriate to calculate market value using the closing market price for investment funds that trade on a stock exchange (e.g., ETFs, closed-end funds) – not the published net asset value (NAV)⁹. Investment funds that do not trade on an exchange should use the end-of-day NAV.

⁸ Source: Annual instalments of *The Trading Expense Ratio and the Total Cost of Fund Ownership* published by IA Securities (formerly Hollis Wealth and Dundee Securities) from 2007 through 2016.

⁹ While an ETF's NAV is usually extremely close to its quoted market price, there are times where the figures diverge. For example, during March and April of 2020, many bond funds' market prices were far lower than published NAVs (with very wide bid-ask spreads). During this period, calculated NAVs were stale since many bonds did not trade (hence wide spreads). Market prices better reflected true market values at that time.

4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

It is critical for any firm with a very broad product shelf (e.g., MFDA or IIROC dealer) to receive an electronica data feed from the investment fund managers so that dealers can 'receive' the key inputs required to provide total cost reporting. For example, investment fund managers have long 'fed' trailing commission data into dealer back-office systems. This same 'pipeline' can be used to flow fund expense ratio data for the required reporting.

This strikes me as the easier part of the process, though it will require some systems work by IFMs. Client-facing registrants will, in my estimation, bear the larger workload to adapt systems to use these data to produce the required reporting. As long as only the content is prescribed – not the format – this is very feasible.

5. Do you anticipate any issues specifically related to the proposed transition period?

I do not anticipate any issues with the transition period for a few reasons.

First, investors deserve a complete picture of their investment costs. Forward-thinking fiduciaries have found a way to operationalize this and have been providing this transparency for many years.

Second, the limitation of CRM2 reports on fees, charges, and compensation was well known before they became requirements¹⁰. It should have been clear given the regulatory momentum at that time that total cost disclosure would eventually be required.

Finally, the systems built to comply with CRM2 reports should be 'expandable' to include the proposed additional items. That's not to say that there isn't some systems work involved to accommodate the requirements of this proposal – there is – but this is not a new build for securities registrants.

¹⁰ I wrote about the exclusion of embedded costs in 2014 for Investment Executive (prior to CRM2 implementation). <https://www.investmentexecutive.com/newspaper/focus-on-products/a-nasty-eye-opener/>

Based on my experience and conversations with some dealers, a transition period of twelve months seems sufficient. Accordingly, the proposed timeline is more than fair – particularly since this was all proposed in the [OSC's 2004 Fair Dealing Model concept paper](#).

Consultation Questions – Insurance (CCIR)

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,
 - a. Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;
 - b. Segregated Fund Contracts which are no longer available for sale and to which customer can no longer make deposits;
 - c. Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);
 - d. Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the client holds units)?

I do not foresee any implementation issues in these scenarios, but note the concern regarding (d) above expressed by the Financial Planning Association of Canada in its comment letter.

2. The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract. Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the client holds each day as follows.

I recommend that insurers use Option 1¹¹. Basing the calculation on net asset value would make the result consistent with how such costs are calculated with investment fund securities.

¹¹ Option 1: $\text{Fund Expense Ratio} / 365 \times \text{Seg Fund NAV per unit} \times \text{Number of Units owned by policyholder for the day}$

3. Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses? Please comment on the advantages and disadvantages of:
- Requiring all insurers to use the same calculation; or
 - Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.

All insurers should be required to use the same calculation methodology to create consistency for policyholders (i.e., option a).

4. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e., MER + TER):
- MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis;
 - MER and TER calculated for the year in question after the year ends; or
 - Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?

The most accurate calculation is likely from option (b) because the data would come from audited financial statements.

Option (c) would be preferred for new products, for which MERs could be estimated as: $\text{MER\%} \times (1 + \text{applicable GST/HST rate}) + \text{estimated operating expenses (including applicable GST/HST)}$. TERs could not be estimated well for new funds. This is precisely the method I have long used when calculating an investor's total costs¹². If this option is even considered, however, the **onus should be on the fund sponsor to provide this information**.

¹² To estimate operating costs, one can easily use the fund company's fixed operating cost rate (more common over the last ten years) or simply look to other similar fund types offered by the same company to get a reasonable estimate. One can even estimate TERs, albeit less precisely, by either assuming an average or estimating a figure based on the fund manager's turnover rate in other products.

5. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using:
- 365 days;
 - The actual number of days in the calendar year in question; or
 - Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?

Note that the proposed calculation for securities assumes 365 days.

I recommend the use of 365 days because most years have that many days and because the calculation for securities assumes 365 days. I do not anticipate any meaningful differences in costs and risks of these options. But using 365 days is beneficial because it creates greater consistency.

6. Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:
- disclosed in annual statements for each fund; and
 - used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?

What are the costs, benefits and risks of using (MER + TER) versus only using MER?

As noted below in my additional comments, this information is most meaningful when reported on a total portfolio basis. Moreover, the investment-specific data chosen to be included in total cost reporting for segregated funds should be consistent with total cost reporting for investment fund securities.

Accordingly, I support the disclosure of MER and TER. I am not aware of any reason why the costs and risks of disclosing MER and TER should be materially different than disclosing only the MER. The benefit of using both is to provide policyholders with true "total cost" disclosure – and one that aligns with investments held by the same individuals in their investment accounts with securities registrants. The importance of consistency is underscored by the fact that individuals are often sold investment and insurance products by the same people and organizations.

7. Might Segregated Fund Contract customers incur significant costs, other than for deferred sales charges, if they withdraw all funds from their Segregated Fund Contracts? If so, what are those costs?

Many segregated fund policies are purchased or owned with guaranteed minimum withdrawal benefit (GMWB) riders. This involves two layers of insurance – one for the segregated fund contract and one for the GMWB rider. Each involves distinct insurance costs. And each may involve distinct direct costs upon early full liquidation.

Also, in my experience, policyholders (and many advisors) are unclear about the impact of *partial* withdrawals on segregated fund policy guarantees.

8. The guidance describes annual statements. Do you anticipate any issues in connection with the guidance as drafted in cases where an insurer provides semi-annual statements to customers?

As noted in my additional comments below, annual reporting of total costs is sufficient – and ideal since disclosure must strike a delicate balance between informing investors and policyholders while not overwhelming them with data and information.

9. Do you anticipate any other implementation issues related to the Proposed Insurance Guidance?

My answer to this is substantially the same as my response to question #4 in the CSA's consultation questions (see page 8 of this comment letter).

10. Do you anticipate any issues specifically related to the proposed transition period?

My answer to this is substantially the same as my response to question #5 in the CSA's consultation questions (see page 8 of this comment letter).

Additional Comments on the Proposal

Transition periods need not be aligned

To the extent that a longer transition period has been chosen for both sectors to implement total cost disclosure in tandem, I recommend assigning a shorter transition for the securities sector. Having a common implementation for securities and insurance industries could cause implementation delays. If one sector is too slow or is delayed, it would unnecessarily hold back the other sector's progress. Securities registrants should not require as much time as the insurance sector¹³. And if it has been validated that insurance registrants need more time, then they can implement disclosures at a later, reasonable date.

Total Portfolio disclosure is most meaningful

Much like the CRM2 reports, this proposal focuses on an account-level reporting. While this aligns with other reporting obligations – and CRM2 was a great leap forward compared to reporting prior to its implementation – my anecdotal experience suggests that these reports' end users – clients – are not grasping the piecemeal nature of the disclosure as intended.

In my experience, reporting costs on a total portfolio basis is the most informative for clients. Many families have several accounts across the household¹⁴, making account-by-account reporting rather fragmented. If the goal is to most effectively inform clients on their "total costs", total portfolio reporting is most meaningful and most likely to inform clients¹⁵.

¹³ Securities registrants had a head start by having to implement CRM2 disclosures.

¹⁴ A family with seven to ten accounts is not unheard of – e.g., a few RRSP accounts, one or more RESP account(s), two or more TFSA accounts, a joint non-registered account, and accounts held in the name other entities (e.g., trusts, corporations, individual pension plans, etc.).

¹⁵ There is value, of course, in providing clients with cost disclosures in taxable accounts for tax filing purposes. This may or may not optimally achieved as part of this particular total cost reporting initiative. Some advisory firms already provide tax reporting packages summarizing any deductible costs.

Prescribe the Content not the Format

I agree with the decision to prescribe the content but not the format. Most registrants charged with producing this reporting have already invested significant resources to develop – and, in some cases, customize – reporting to suit client needs and maximize usefulness to clients. Prescribing the form of total cost reporting would have detrimental impacts on clients and registrants.

Report Prototypes

I appreciate the effort put into designing the prototypes. I expect that the prototype included in the consultation paper, if adopted, would be challenging for investors and their accountants to interpret accurately. This is my initial impression. The OSC Investor Office Research and Behavioural Insights Team (IORBIT) released neither details of all prototypes and nor its testing methodology (i.e., sample size, process, questions asked, breakdown of answers, etc.).

The MFDA's June 2021 report [Improving Fee Disclosures for Canadian Investors](#), however, details its thorough testing of four disclosure formats. Those labeled as options 3 and 4 are more similar to disclosures that, in my experience, have been effective at creating cost transparency that investors can grasp. I reiterate, however, my experience indicates that people more easily grasp total portfolio reporting.

Inclusion of performance fees

Many investment funds' fee structures include performance fees. Ideally, performance fees should either be presented as a separate line item or noted as in Fund Facts to highlight how much of the MER is attributed to performance fees (as in the sample below from an equity fund's recent Fund Facts disclosure document).

	Annual rate (as a % of the Fund's value)
Management expense ratio (MER)	
This is the total of the Series A units of the Fund's management fees (which includes the trailing commission), fixed administration fees, fund costs and performance fees. This includes the accrual of 0.56% in performance fees.	2.99%
Trading expense ratio (TER)	
These are the Fund's trading costs.	0.19%
Fund expenses	3.18%

That said, there are some funds – hedge funds structured as LPs, notably – that structure performance fees as a profit allocation to the general partner. As such, the amount otherwise considered a ‘performance fee’ is treated as a capital cost to the fund; charged against the limited partners’ capital. This is more tax efficient structure for the general partners (the reason for the structure) but it also escapes inclusion in the MER calculation because this profit allocation is not an operating expense¹⁶.

Annual reporting of total costs is sufficient

Except for situations where there has been a significant portfolio restructuring, reporting this information annually is sufficient. This also aligns with the frequency of audited financial statements.

Industry foot-dragging is unacceptable

While I was not included in discussions held earlier this year on this proposal with key stakeholder groups (i.e., investor advocates, IIAC, IFIC, FundSERV), I am told that the industry has stated that it cannot begin to work on this initiative until they see all details of the final rules. Given how quickly the industry jumps into action when exploiting a revenue-generating opportunity – e.g., liquid alts – it is embarrassing that the industry admits to sitting on its hands for such a long-overdue disclosure for clients.

There is no reason why affected stakeholder groups could not have already had conversations about the data likely required (e.g., product MERs and TERs) and how to efficiently transmit these data to the registrants that will need it. As noted, investment fund managers have been transmitting some data electronically to dealers for more than twenty years (e.g., commissions). The lack of initiative reflects an unwillingness to begin working on this, not an inability to at least start planning how to deliver this important disclosure to clients.

¹⁶ MERs are calculated using all expenses on a fund’s operating (or income) statement. This type of profit allocation shows up in the statement of changes of net assets or equity, not as an operating cost.

An interim solution: the snapshot cost estimate

In my opinion, creating the proposed total cost disclosure is feasible in twelve or so months. But let's suppose for a moment that I am wrong; and it cannot be done because it involves much more complexity, time, and cost than advocates and regulators estimate. In that scenario, I propose starting with an estimate that focuses on a snapshot cost estimate – i.e., a weighted average fund expense ratio (i.e., MER + TER) calculated using the dollar value held in each product as at a specific date and the latest available MER and TER figures as of that date.

It is not a precise accounting for a calendar year. But this would allow people to get a very clear picture of their 'running' costs – and it is the method I have used for virtually my entire career when people ask for help to determine their investment costs. Again, in my estimation, the industry does not need two or more years to deliver total cost disclosure. But on the chance that it will take two or more years, start with this snapshot estimate **starting with the issuance of 2022 year-end statements** while the industry works on getting its systems ready for a more precise accounting of total investor costs.

The industry too often responds to client-friendly proposals with a “No-first” attitude, usually citing many challenges. As I stated at the [OSC's roundtable discussion on discontinuing embedded commissions](#) nearly five years ago, industry spokespeople must stop immediately listing why initiatives cannot be done, and start finding feasible ways to give clients the transparency they want and deserve.

I welcome any opportunity to help further efforts to deliver to clients a simple and clear disclosure of all of their investment and financial advice costs.

Sincerely,

Dan Hallett

Dan Hallett, CFA, CFP
Vice-President, Research & Principal
HighView Asset Management Ltd.

July 27, 2022

Alberta Securities Commission
 Autorité des marchés financiers
 British Columbia Securities Commission
 Financial and Consumer Services Commission (New Brunswick)
 Financial and Consumer Affairs Authority of Saskatchewan
 Manitoba Securities Commission
 Nova Scotia Securities Commission
 Nunavut Securities Office
 Ontario Securities Commission
 Office of the Superintendent of Securities, Newfoundland and Labrador
 Office of the Superintendent of Securities, Northwest Territories
 Office of the Yukon Superintendent of Securities
 Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Me Philippe Lebel
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Grace Knakowski
 Secretary Ontario Securities Commission
 20 Queen Street West 22nd Floor Toronto, Ontario M5H 3S8
 Delivered by e-mail: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Proposed CCIR *Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds* (collectively the “Notice”)

This comment letter is submitted on behalf of the Canadian division (“**AIMA Canada**”) of the Alternative Investment Management Association (“**AIMA**”) and its members to provide our comments to you on the legislative proposals referred to above.

About AIMA

AIMA was established in 1990 as a direct result of the growing importance of alternative investments in global investment management (covering primarily hedge funds, private credit, liquid alternative funds though now also digital assets) to help facilitate institutional-quality, operational sound practices for its members. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. As a not-for-profit international education and research body, AIMA works to raise media and public awareness of the value of the industry.

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AIMA's global membership comprises approximately 2,100 corporate members in more than 60 countries, including many leading investment managers, professional advisers and institutional investors and representing over \$2.5 trillion in assets under management.

Under our pillars of Advocacy, Education and Communication, the objectives of AIMA are to provide an interactive and professional forum for our membership; act as a catalyst for the industry's future development; provide leadership in due diligence and sound practices, including ESG and diversity, equity and inclusion; enhance industry transparency and education; and liaise with the wider financial community, institutional investors, the media, regulators, governments and other policy makers. Part of the benefit of AIMA's global and local footprint is to ensure our members have the opportunity to be current and consistent with international best practices and the latest trends impacting alternative investment management.

AIMA Canada, established in 2003, has approximately 140 corporate members (53% managers, 19% institutional/retail dealer allocators, 28% service providers, including legal, accounting, prime brokerage, administration and other). The majority of AIMA Canada members are managers of alternative investment funds and fund of funds. Most are small businesses with fewer than 20 employees and \$100 million or less in assets under management, though some members are some of our country's largest traditional asset managers. The majority of assets under management are from high-net-worth investors and are typically invested in pooled funds managed by our members. Investments in these pooled funds are sold under exemptions from the prospectus requirements, mainly under the accredited investor and minimum amount investment exemptions. Manager members have multiple registrations with the Canadian securities regulatory authorities: as Portfolio Managers, Investment Fund Managers, Commodity Trading Managers and in many cases as Exempt Market Dealers.

Of our manager members in Canada, approximately 75% offer private funds ("**Private Funds**"), typically offered via an offering memorandum ("**OM**"), while 40% engage in selling prospectus-qualified Alternative Mutual Funds ("liquid alternatives") under *National Instrument* 81-102 ("**NI 81-102**") to retail investors. There is some overlap with those managers who offer both types of fund structures (private and retail) to service different investor types (institutional and retail). In this case, often the investment strategy is managed *pari passu* between Private Funds and prospectus-qualified funds, though with different restrictions on short selling, leverage, exposure to private instruments or otherwise.

Comments

We are writing in response to the Notice and appreciate the opportunity to share our views on behalf of our members. Our comments are focused on the investment funds aspect of the Notice. We do not have any comments on the segregated funds aspects as our members do not manage this type of product.

AIMA Canada agrees with the objective of the Notice that enhanced and ongoing disclosure of the costs associated with owning investment funds will benefit investors' understanding of their investments in achieving their objectives. We urge the CSA, however, to carefully consider the effect on investors and advisers and probable actions in response to the disclosures before imposing new industry wide reporting systems that may in fact be unnecessary, or the cost of which may outweigh the intended benefits. Further, the diversity of the many investment fund types (and their respective jurisdictions), which are currently available on most dealer shelves, will inevitably lead to spurious, if not categorically erroneous, comparisons.

Our comments are organized as general comments and concerns regarding the Notice, followed by a proposed alternative approach, attached as [Appendix B](#). Attached as [Appendix A](#) are responses regarding the specific questions posed by the CSA in the Notice.

In preparing our comments and recommendations we reviewed the Notice in light of both its stated objectives and the behavioural insights findings and suggestions referenced in the Notice to OSC Staff Notice 11-787 *Improving Fee Disclosure Through Behavioural Insights* (August 19, 2019) (the “**OSC Staff Notice**”).

The stated objectives of the proposal are:

1. To enhance investor protection by improving investor’s awareness of ongoing embedded fees and expenses that are the cost of owning an investment fund, as the costs impact returns and have a compounding effect over time. Understanding these costs will assist investors in determining if they are receiving value for their fees.
2. To potentially increase competition regarding fees through the enhanced disclosure, thereby benefiting investors through reduced costs.

Behavioural insight findings and potential tactics to address issues from the OSC Staff Notice that we considered to be particularly relevant to the Notice were:

1. Investors may be confused by terminology, may not understand what is included and what is excluded, lack reference points to determine whether fees are higher or lower than the norm, and do not understand the compounding impact of fees and expenses over time (barriers to investors using annual fee reports as intended).
2. Do not aggregate fees to a higher level without also providing a breakdown of how the fees were incurred (barrier to comprehension).
3. Present essential information up front on a summary page with detail on a following page(s) (barrier to comprehension).
4. Link fees to the actions that triggered them (barrier to action).

General Comments

Fund Expense Ratio (FER)

The Notice proposes to disclose and calculate costs based on the FER, being the sum of the management expense ratio (“MER”) and the trading expense ratio (“TER”).

Trading expenses are driven by the investment strategy of the fund; they are not expenses in the commonly understood sense of the word. A higher TER is not necessarily a negative with regards to fund performance; it could reflect an effective portfolio management strategy in a volatile market.

For example, for a fund that engages in short selling the borrowing costs are included in the TER. Therefore, a fund that shorts may have a higher TER, but shorting can provide reduced volatility in the performance of the fund, resulting in better risk-adjusted performance for the investor. Investors may not understand such activity and its impact, thereby acting as a barrier to comprehension.

The TER is disclosed in the MRFP, Fund Facts and ETF Facts for reporting issuers but is not normally reported for other investment funds. Requiring this calculation to be done for all funds increases regulatory burden, contrary to the regulatory direction to reduce the burden of compliance.

In our opinion MER alone should be used in the calculation of any fund expense amounts reported, if this approach is adopted. Please also refer to our comments in [Appendix A](#) question #2 on this issue.

Management Expense Ratio (MER)

The Notice proposes to use MER as the basis for calculating investor costs. For applicable funds only, the MER is currently calculated on a semi-annual basis and annualized and disclosed in the Statement of Financial Highlights included as part of the Management Report of Fund Performance ("MRFP") published by reporting issuers under NI 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106"). The MER reported in the MRFP is also disclosed to investors in the Fund Facts sheet and ETF Facts sheet provided to investors at the time of purchase.

We have the following comments and concerns regarding the use of MER to calculate investor costs:

- a) Using the MER for a 6- or 12-month period implicitly assumes a constant level of expenses in a fund, which is not necessarily the case. It could be particularly misleading in the case of a fund with performance fees, as offered by many AIMA Canada members.

As an example, assume that a fund pays a performance fee in the first half of a year ("H1") but not in the second half ("H2"). Use of the fund MER for the year would understate the expenses borne by investors holding the fund in H1 as only they bore the cost of the performance fee. Expenses would be overstated for investors who purchased the fund in H2 as the costs of the fund during the period did not include the performance fee.

- b) The Annual Report on Charges and Compensation (the "ARCC") is required to be delivered with the year end statement, or within 10 days following the year end statement. In order to meet this deadline, dealers require that all necessary information be available in their systems at December 31st or very shortly thereafter. However, the annual MER for a fund cannot be finalized until the audit of the fund is completed. For the majority of funds this is 90 days after the year end when the audited financial statements must be filed. As a result, any MER used for reporting in the ARCC would be based on an annualized MER as at the previous June 30th. Given this situation any disclosure of cost reporting based on the MER must clearly state that it is an estimate in order to not be misleading. Even clear statements to this effect may result in confusion for investors and will impact their ability to effectively compare and understand the costs of different investment funds. Alternatively, the deadline for sending the ARCC to an investor must be moved to later in the following year so that the MER can be finalized based on audited financial statements, e.g., for inclusion with the March statement of the following year.

We recommend that the definition of MER be amended to exclude performance fee expenses, and applicable taxes, from the calculation. This is for two reasons:

- i. In our view the focus on reporting costs to investors should be on those costs that they will incur, indirectly, regardless of whether the fund is profitable. Such costs are under the purview of the IFM and are manageable to a degree. Performance fees are only incurred if an investor's holdings are increasing in value and represent a portion of the increase in value, i.e., effectively a reduction in an investor's revenue even though it is reported as an expense.
- ii. As noted in our comment in (a) above the use of an annualized MER including performance fees, for a fund that has performance fees at varying periods during a year, can greatly distort the estimated level of expenses reported to an individual investor.

We recommend that MER not be used to attempt to calculate an actual dollar cost for an investor due to the resulting costs being an estimate that could be materially misleading. If an actual cost is to be calculated for an investor, please see our comments in [Appendix A](#) Question #2 as to how this should be done.

However, we do recommend that MER be disclosed, along with the estimated cost per \$1,000 invested, as is done for Fund Facts and ETF Facts. Please review the details in our alternative approach discussed below and in [Appendix B](#).

Calculation and Reporting of a Daily Cost per Unit

The Notice requires the calculation of a daily cost per unit for each class or series of a fund, with it then being used to calculate a daily cost for each investor in the fund, and then summing and reporting the costs for each investor over the year. Our comments above address the issue of using a fund's MER for this calculation.

The major operational concerns with this daily cost approach are that:

- a) A new industry wide reporting system would need to be established to report the daily cost per unit to dealers for each class or series of each fund. A large part of the industry is covered through Fundserv, but not all funds use Fundserv, such as ETFs and Closed-End Funds. The creation and costs involved in creating such a database have not been scoped in detail and in our view could be significant. While Fundserv participants might come to agreement on common standards, file format etc. there is no mechanism to bring together other parties to create a common reporting standard. We note that in a recent article in Investment Executive from Mr. Paul Bourque¹, President and CEO of IFIC, it was indicated that, based on work with industry utilities, implementation of the Notice would require an estimated 30-month implementation period, in a best-case scenario. The Notice proposes implementation in September 2024, assuming approval of the final rule in Q2 2023, a period of 18 months or less.

As a reference benchmark, as outlined in the article, it should be noted that implementation of the OEO trailer fee ban, arguably a smaller exercise, took 21 months from publication of the final rule.

- b) Since a daily cost per unit is required, 365 data points must be created for each class or series of every fund. Fundserv alone has over 100,000 fund codes for classes or series of funds in which people have invested. Thus, a database of daily costs is likely to consist of at least 36.5 million datapoints, which must be updated and maintained annually. This estimate does not include non Fundserv products. As noted above, we anticipate that the costs of creating and maintaining such a database could be significant, along with a significant amount of time to implement.
- c) Once the database of daily costs has been created then the costs must be aggregated for each fund held by each investor for the year, i.e., the daily cost per fund for each investor account must be calculated and then added to the previous days' cumulative cost to determine a total cost for the year. This calculation could be performed by the fund administrator and provided to dealers on an account basis, or else performed by the dealer for their clients based on daily data from the fund administrator. Either way this implies the creation and maintenance of a second database of costs by fund for each investor account, the cost and implementation

¹ "Successful rule implementation requires industry collaboration" Investment Executive July 18, 2022
https://www.investmentexecutive.com/inside-track/_/paul-bourque/successful-rule-implementation-requires-industry-collaboration/

issues of which would need to be determined.

As an example, one of AIMA Canada's fund administrator members currently administers approximately 700,000 investor accounts for its clients. The calculations above would require 511 million calculations annually.

In summary, the Notice would require the creation and maintenance of massive industry wide databases of daily fund costs and cumulative costs for each fund for each investor account, at a cost that has yet to be determined and which cost would likely ultimately flow through as increased fund expenses borne by investors. This must be a consideration in the reasonableness of requirements and benefit to investors versus the costs involved.

We would also like to point out that, under the proposed transition period, the Notice would require the design and implementation of the required systems during the same time frame as the proposed move to a T+1 settlement cycle in North America, requiring the utilization of the same industry resources. This project requirement was not taken into account by IFIC in its assessment of 30 months being required to implement the Notice. This overlap would increase the required implementation period even more and require the CSA, CCMA etc. to decide project priorities.

We recommend that the calculation of a daily cost per unit and its aggregation for reporting to clients not be required. As noted above, based on preliminary estimates from IFIC, the proposed transition period of approximately 18 months for the Notice cannot be met.

Please see our additional comments on this issue in [Appendix A](#) Question #5 and our alternative approach below and in [Appendix B](#).

Disclosure of FER in Account Statements

The Notice would require the inclusion of a fund's FER in every account statement (or additional account statement) for each class or series of fund in the investor's account, together with explanatory general disclosure about fund costs.

Our concerns with such ongoing disclosure are:

- a) The information is misleading as the period covered by the FER is not disclosed. If it is not made clear then an investor will assume that it is applicable to the current month or quarter, which is not true.
- b) Repeating such disclosure on a monthly or quarterly basis lessens the impact on an investor's recognition of the importance of costs. As noted in the behavioural research, investors may not read a report or will just scan it, particularly if they see it repeatedly. When the investor then sees the amount in the annual report on charges they will view it as being of less importance.
- c) The disclosure does not show the implications of the FER and why an investor should take action, if any, in light of the information.
- d) As noted above, disclosure of a historical FER can be misleading, particularly if a fund has performance fees.
- e) A possible natural inclination of the disclosure is to multiply the fund holdings by the FER in an attempt to estimate costs on a monthly/quarterly basis. As noted previously, this is inaccurate due to the use of a historical ratio and the aggregate of such amounts is not reconcilable to the proposed disclosure in the Annual Report on Charges and Compensation.

In our view such disclosure should not be required. It is better handled on an annual basis with enhanced disclosure and discussion. Please see our Alternative Approach recommendation below.

Report on Charges and Other Compensation

The Notice would require the inclusion and disclosure of investment fund expenses and charges in the ARCC, as exemplified in Annex G Sample Securities Prototype. Our concerns regarding the proposed disclosure are:

- a) The dollar amount of fund expenses is presented as if it is an actual amount. As noted above, any amount calculated following the proposed methodologies based on a historical FER is an estimate only and should be indicated as such.
- b) Presenting only the total amount of fund expenses naturally leads to several questions by an investor:
 - i. How does this break down between my various fund holdings?
 - ii. How does this relate to the FER that I see on my monthly/quarterly statement by fund?
 - iii. How does the cost compare between my various fund investments?
 - iv. Are these costs high or low in relation to the industry?

Presenting a dollar cost per fund does not allow for a meaningful comparison between funds in which varying amounts have been invested.

Presenting only the total does not take into account the findings from the behavioural insights study, which recommends that a summary amount should be supported with detail. The provision of detail is important for investor clarity and to promote possible action and competition, an objective of the Notice.

- c) The presentation or discussion of a purely dollar amount of fees for multiple funds could lead to a misunderstanding of the benefits of paying such costs. This is contrary to a stated objective of the Notice that the intent is to assist investors in understanding if they are obtaining value for the fees. It is also contrary to a finding from the behavioural insights study that recommends linking fees to the action that created them, i.e., investing in a fund, in order to overcome a barrier to action.

As an example, the management fee is calculated daily/monthly based on the NAV for the period. If NAV is increasing during the year, the dollar amount of the management fee will increase monthly. Conversely, if NAV is decreasing the dollar amount will decrease month over month. If an investor is only shown the two dollar amounts the natural inclination would be to assume that the lower dollar amount is better. This would be a potentially incorrect decision given that it reflects declining performance.

- d) In Annex G both fund expenses and trailing commissions are shown. Trailing commissions are paid by the investment fund manager from the management fees collected and are not an additional expense to investors. Notwithstanding that the trailing commissions are segregated and explained as being from the investment fund manager, the risk exists that an investor looking at the report would add the two costs together, thereby overstating the assumed level of expenses.
- e) Many AIMA Canada members have only direct investors in their funds. As a result, no annual report on charges is required to be produced. Investors only receive the annual investment performance report. Requiring the sending of the annual report on charges to show fund expenses would be an additional regulatory burden and require time for implementation that would impact the transition period.

In our view the disclosure of fund fees and expenses should be modified and moved to the annual investment performance report, with the level of detail revised. Please see our recommended alternative approach outlined below.

The Annual Report on Charges and Compensation should be renamed to the Annual Report on Direct Charges and Compensation and be limited to amounts paid directly to the reporting dealer.

An Alternative Approach

After careful review we propose that a modification and enhancement of the annual Investment Performance Report (“IPR”) would better meet the objectives of the Notice, taking into account the behavioural insights from the OSC Staff Notice. No change would be made to account statements. No change would be made to the Annual Report on Charges and Compensation, which would remain focused on the direct charges and compensation earned by the reporting dealer.

The key change to the IPR is the addition of a section providing an indication of the costs incurred by an investor to achieve the performance of their investments.

Attached as [Appendix B](#) is a draft enhanced IPR. It is a modification of the current sample IPR from the Companion Policy to NI 31-103.

In our opinion the modified IPR better meets the objectives of the Notice due to the following:

- a) It links in one report the costs of the investments to the returns achieved by the investor, a key insight from the OSC Staff Notice that increases the likelihood of an investor understanding what has happened and taking action, if warranted.
- b) It provides estimated cost information on a per fund basis, thereby providing the detail up front to an investor rather than them asking for it.
- c) It enables a comparison of estimated costs between funds in both percentage terms, i.e., the MER, and dollar terms, i.e., the estimated cost per \$1,000 invested. This is consistent with the Fund Facts and ETF Facts information provided to investors and so is not a major departure from existing practice and is information with which investors are familiar. It also facilitates a comparison of costs between funds in which varying amounts have been invested. We recommend that the reported MER exclude performance fees and applicable taxes, as noted in our General Comments above with respect to MER.
- d) Actual daily unit dollar costs are not required to be provided since an estimated dollar cost is not provided. This greatly lessens the volume of data potentially required to be delivered to dealers for reporting since only fund MERs, calculated twice a year, would be provided. We anticipate that this would be a more manageable and less costly exercise and could allow for implementation within the suggested timeframes.
- e) The risk of investors adding direct charges and trailing commissions together, thus overstating costs, is eliminated as they are not shown on the same report.
- f) The additional costs for AIMA members with only direct fund investors of being required to create an annual report on charges is removed, along with the transition issues. It would be easier for such industry members to deal with modifications to an existing report.

Implementation of this approach would potentially require a change in the required timeframe for the delivery of the IPR. If the MER of the most recent year is to be used then sufficient time must be allowed for the completion of the audit of a fund and dissemination of the final MER to dealers. Typically this would mean that the IPR would be deliverable in April with March statements instead of with the year end statement.

If this delay is not acceptable then the most recent MER available as at year end would have to be used, with appropriate disclosure.

* * *

In summary we recommend the following:

1. A fund's MER should be the only ratio reported, with full disclosure that it is a historical amount. The definition of MER should be amended to exclude performance fees and applicable taxes from the calculation.
2. No additional reporting on account statements or additional statements is required.
3. The Annual Report on Charges and Compensation should remain as currently required to only report direct charges earned by the client's dealer.
4. The annual Investment Performance Report should be modified and expanded to include disclosures of costs and revenues per \$1,000 of funds invested, similar to current Fund Facts and ETF Facts requirements, with enhanced explanatory notes.

We appreciate the opportunity to provide the CSA with our views on the Notice. Please do not hesitate to contact the undersigned with any comments or questions that you might have. We would be pleased to meet with you to discuss our comments and concerns further.

Yours truly,

ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION CANADA

Ian Pember, Glen Williams Consulting

Rob Maxwell, Arrow Capital Management

Ron Landry, CIBC Mellon

Andy Smith, SGGG Fund Services

Norbert Knutel, Blake, Cassels & Graydon LLP

Darin Renton, Stikeman Elliott LLP

Michael Burns, McMillan LLP

Appendix A – Comments re CSA Specific Questions Regarding the Proposed Amendments

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,

(a) exchange-traded funds,

The major implementation issue would be that ETFs, and any other publicly traded investment fund type such as REITs and Closed-End Funds, do not currently have a centralized data repository or other mechanisms for the reporting of daily cost data to dealers similar to Fundserv for investment funds, nor do they provide any other daily information/data related to the funds that could be leveraged. The creation and maintenance of such a system would have to involve a wide range of firms to agree on standards, files and their transmission, etc. Another concern is each dealer organization treats ETFs differently, with many classifying an ETF as an equity, making it difficult to assign a cost since there are no unique identifying characteristics that would separate an ETF from any other exchanged traded security. All industry standard identifiers (CUSIP, ISIN, SEDOL and ticker) do not identify if the security is a stock, bond, ETF, etc. The final concern is that as at December 2021 15.5% or \$63.9 billion of the \$412.5 billion of ETFs owned by Canadian investors (retail and institutional) were US-listed ETFs. Of the 15.5% nearly 40% were US listed ETFs of ETF providers with no Canadian affiliate. It will be difficult to enforce a Canadian regulation on US ETF providers, their service providers or depositories, to provide a daily cost unit. In addition, the concept of a MER does not exist in the US; it is actually a total expense ratio (TER), which would further confuse investors.

(b) prospectus-exempt investment funds,

These funds would have the same issues as noted above for ETFs, to the extent that they are not on the Fundserv platform, yet the fund is held through third-party dealers.

Many of these funds are only valued on a monthly basis. As such, the Notice must clearly address how the calculations of cost are to be determined. It is important to note that the calculation of the daily fund cost, however determined (see our comments in question #2 below) would have to be performed with the same frequency as fund purchases/sales, e.g., daily or monthly, to ensure that the correct amount is determined.

(c) scholarship plans,

No comment.

(d) labour-sponsored funds,

No comment.

(e) foreign investment funds?

Foreign funds may be unwilling, or unable, to provide information in the required detail within the required deadlines. Some jurisdictions do not align with Canadian reporting cycles. This can be a particular issue for some types of investment vehicles, e.g., foreign private credit funds. There is also an assumption that foreign investment funds have similar data points that could be provided and that are comparable.

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

In our opinion MER alone should be disclosed in account statements and additional statements and used in the calculation of any fund expense amounts reported.

The TER is disclosed in the MRFP for reporting issuers but is not normally reported for other investment funds

We would point out that it is only MER that is used in the OSC Investor Office Mutual Fund Fee Calculator (<https://www.getsmarteraboutmoney.ca/calculators/mutual-fund-fee/>) and in the linked discussion of how fees impact returns (<https://www.getsmarteraboutmoney.ca/invest/investment-products/mutual-funds-segregated-funds/mutual-fund-fees/>).

The proposed revised s. 14.1.1 (Duty to provide information – IFM) requires that an IFM must provide to a dealer the daily cost per unit, in dollars, calculated as $A/365 \times B = C$, where:

A = fund expense ratio (FER) of the applicable class or series of the investment fund

B = the NAVPU/NAVPS of the applicable class or series of the investment fund

C = the daily cost per unit/share

It is important to note that MER is not calculated daily. It is calculated twice a year by investment fund reporting issuers for the MRFP and is used to update Fund Facts and ETF Facts reporting. For other investment funds, MER may be calculated twice a year for financial statement purposes in the Statement of Financial Highlights, or not at all as the Statement of Financial Highlights is not a statement mandated by IFRS.

Given the above, the use of the MER to estimate dollar fund costs paid by an investor has the potential to be seriously misleading as fund expenses may vary during the year. This is particularly critical if a fund has performance or incentive fees, as is the case with many of our members. For example, a fund may pay performance fees in the first half of a year but not in the second. Use of the annual MER to determine reported costs will understate the expenses borne by those investors who were in the fund in H1 and overstate the expenses borne by investors who invested in the fund in H2.

It is important to understand that any dollar amount reported to investors using the proposed methodology is an estimate and the totals reported for any given fund would not be reconcilable to the fund's actual expenses. The reporting of an actual total dollar amount implies a greater degree of accuracy than exists.

If a total cost dollar amount is to be reported to investors, **which we do not recommend** (see AIMA Canada's alternative approach), the following approach should be used in order to obtain an accurate dollar amount that is reconcilable to actual fund expenses. Determine the reporting date cost per unit/share calculated as $A/B = C$, where:

Reporting date = a day on which fund purchase/sale transactions are allowed. This could be either daily or monthly.

A = the expenses charged/accrued to each class/series of the fund for the reporting date. This is done by the IFM, or the administrator, as part of the calculation of NAV.

B = determine the number of units/shares of the class or series outstanding on the reporting date.

Calculate $A/B = C$. This provides a clear allocation of actual fund dollars to a unitholder on the reporting date and is reconcilable to the fund f/s since actual dollars accrued are allocated. If the fund is valued monthly, or on some other period, this value would be divided by the

number of days in the reporting period to determine a daily cost. The daily value from a Friday would be assumed to apply to the following Saturday and Sunday.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

It is appropriate to use net asset value as market value for investment funds that are not publicly traded as it is the basis for investor transactions and is audited annually. For publicly traded securities the market value from trades is appropriate. This applies equally to the requirements of s. 14.14 Account Statements.

For such a statement we believe that the wording of the notification should be as outlined below, given our comment that the MER of a fund, as defined, includes the TER and so they are not additive (see our General Comments).

“Fund expenses are made up of the management fee and operating expenses. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They are reflected in the fund's management expense ratio (MER). These costs are already reflected in the current values reported for your fund investments.”

4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

The major implementation issues have been addressed in our General Comments.

5. Do you anticipate any issues specifically related to the proposed transition period?

The Notice would require the establishment of a new industry wide infrastructure for the reporting of cost data as envisaged. In order to implement the proposals for funds purchased and sold on Fundserv alone a massive database with millions of datapoints would need to be created and maintained on an ongoing basis to report the fund cost data for over 100,000 fund codes or ID's, i.e., individual classes or series that investors have purchased. All IFM's, together with their fund administrators, involved would need to determine how the database would be fed. The information from this database would then have to be integrated into each dealer's systems to enable account level reporting to investors.

The time and effort required to establish such a database and update dealer systems would need to be carefully scoped to determine implementation structure, timelines and costs. As noted previously an estimate prepared by IFIC, in consultation with industry utilities, was that implementation would require 30 months in a best-case scenario vs. the 18 months or less proposed in the Notice. It is also important to note that the IFIC estimate did not take into account the overlapping requirement to implement the change to T+1 settlement by mid 2024.

Please note the following points with respect to the implementation and maintenance of such a reporting system:

- The Notice requires the calculation of a daily expense amount per unit/share for each series or class of a fund held by an investor, i.e., 365 values. This would mean a database

with approximately 36.5 million data points, per annum, for the 100,000 fund codes on the Fundserv system alone. When additional investment products not included in Fundserv are considered, such as ETFs, the number of data points could grow significantly.

- The total daily cost per unit/share would have to be calculated for each investor account for each investment fund holding. This value would either; (i) have to be used to calculate the daily total cost for each investor account and transmitted by the IFM or their administrator to the appropriate dealer, who would then need to integrate the data into their reporting systems; or (ii) the dealer would have to take the daily cost per unit/share and do the calculation for each account in their system.

As an example of the potential impact, one of our fund administrator members currently services approximately \$68 billion of AUM, largely for prospectus exempt funds, involving about 700,000 account positions. To provide cost reporting would require (i) the calculation of the daily cost per unit/share for each class/series of each fund administered; (ii) 700,000 daily calculations to determine the daily dollar amount for each account; plus (iii) 700,000 daily calculations to aggregate the cost amounts for the reporting period, resulting in at least 511 million calculations annually for aggregation and reporting.

This is the potential impact on a small amount of the \$1.997 trillion of mutual fund assets reported by IFIC as of February 2022.

We note that the theoretical database discussed above does not cover the entire range of investment funds included in the proposal. Many funds covered by the Notice are either publicly traded, e.g., ETFs, or do not utilize Fundserv, e.g., private funds not sold through third party dealers. How the cost data would be determined and reported to dealers for reporting to clients would require uniform standards, file formats etc. It has been historically difficult to obtain such agreement, if at all. Regarding private funds, many AIMA Canada members are small firms and the requirement to implement such a reporting system for their funds, either on their own or through their fund administrators, would be a significant additional reporting burden to be implemented on top of running the daily business, the costs of which would flow through to the funds and impact investors. This direction by the CSA and potential workload is contrary to the emphasis on burden reduction, for potential benefits that have not been quantified or clearly outlined.

It is important to note that the proposed transition period is coincident with the implementation of the move to T+1 settlement in Canada and the U.S., currently scheduled for the first half of 2024, with the specific date yet to be determined. This project potentially requires the same resources as those required to implement the Notice, thereby increasing costs and the possibility of errors. The T+1 project particularly impacts Fundserv.

AIMA Canada's alternative proposal would lessen these concerns about the length of the transition period.

Appendix B – Revised Investment Performance Report

Your Investment Performance Report For the period ending December 31, 2030

Investment Account 123456789

Client name and address

This report tells you how your account has performed to December 31, 2030. It can help you understand and assess your progress toward meeting your investment goals. This report is designed to answer 4 key questions:

- I. What has been the increase or decrease in the value of your account?
- II. What activities contributed to the increase or decrease?
- III. What rate of return have you earned on your investments?
- IV. What were the costs of achieving this increase or decrease?

We strongly recommend that you review this report and discuss it with us to ensure that you understand your investment portfolio.

It is important that you tell us if your personal or financial circumstances have changed. We can then recommend adjustments to your investments to keep you on track to meeting your investment goals.

What has been the increase or decrease in the value of your account?

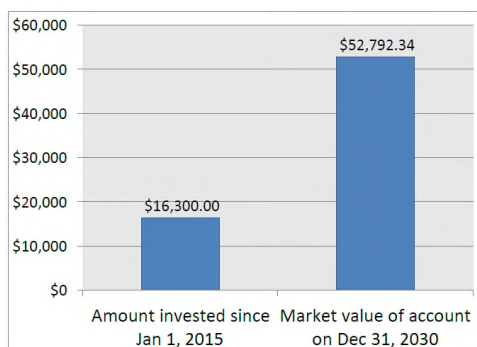
Your investments have increased by \$36,492.34 since you opened the account.

Your investments have increased by \$2,928.85 during the past year.

Amount invested since you opened your account on January 1, 2015 ⁽¹⁾ \$16,300.00

Market value of your account on December 31, 2030 **\$52,792.34**

(1) This is the market value of all deposits and transfers of securities and cash into your account, not including interest or dividends reinvested, less the market value of all withdrawals and transfer of securities and cash from your account.



What were the components of this increase or decrease?

This table is a summary of the activity in your account. It shows how the value of your account has changed based on the type of activity.

	Past Year	Since you opened your account
Opening market value	\$51, 063.49	\$0.00
Deposits	\$4,000.00	\$21,500.00
Withdrawals	\$(5,200.00)	\$(5,200.00)
Direct charges paid to us ⁽¹⁾	\$(200.00)	\$(400.00)
Change in the market value of your account, net of fund fees and expenses ⁽²⁾	\$2,728.85	\$36,092.34
Closing market value	\$52,792.34	\$52,792.34

(1) This is the amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank, as reported by us to you on the Annual Report on Charges and Compensation.

(2) See "What were the costs of achieving this performance and the related returns?" below for a further discussion.

What rate of return have I earned on my investments?

What is a total percentage return?

This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

For example, an annual total percentage return of 5% for the past three years means that the investment effectively grew by 5% a year in each of the three years.

Your personal rates of return

The table below shows the total percentage return of your account for periods ending December 31, 2030. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and account-related charges, but not income tax. It also includes fund expenses paid indirectly within funds that you own.

Keep in mind your returns reflect the mix of investments and risk level of your account. When assessing your returns, consider your investment goals, the amount of risk you're comfortable with, and the value of the advice and services you receive.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since you opened your account
Your account	5.51%	10.92%	12.07%	12.90%	13.09%

Calculation Method

We use a money weighted method to calculate rates of return. Please contact us if you want more information about this calculation.

The returns in this table are your personal rates of return. Your returns are affected by changes in the value of the securities you have invested in, dividends and interest that they paid, and also deposits and withdrawals to and from your account.

If you have a personal financial plan, it will contain a target rate of return, which is the return required to achieve your investment goals. By comparing the rates of return that you actually achieved (shown in the table) with your target rate of return, you can see whether you are on track to meet your investment objectives.

What were the costs of achieving this increase or decrease?

Fund expenses: Fund expenses are made up of the management fee and the operating expenses, together with applicable taxes. You don't pay these expenses directly. They are periodically deducted from the value of your funds by the companies that manage and operate those funds. Different funds have different fund expenses. These costs are already reflected in the current values reported for your fund investments. They affect you because they reduce the fund's returns. These expenses have a compounding impact over time. This is because you lose any future return that would have been earned on the amount of fees had they not been charged and had been invested. In return for the payment of these expenses, you receive professional investment advice and management.

In your account, the funds in which you have invested are managed by us. As a result we have earned the management and performance fees incurred by the funds. **[To be added if the investor account holds proprietary funds managed by the reporting dealer.]**

Detail about the impact of fund expenses and their impact over time can be found in the Relationship Disclosure Information document that we have previously provided to you. Further discussion can also be found on the Ontario Securities Commission website at (<https://www.getsmarteraboutmoney.ca/invest/investment-products/mutual-funds-segregated-funds/mutual-fund-fees/>).

In addition, if you have not already received them, you are entitled to receive the financial statements of a fund in which you have invested. Please contact us if you want the financial statements.

Fund expenses are expressed as an annual percentage of the total value of the fund. This is referred to as the Management Expense Ratio or “MER”. The table below shows the MER, for the year ending December 31, 2030, for each fund in which you were invested and the cost per \$1,000 invested, if you were invested in the fund for the entire year. It also shows the time weighted rate of return (“TWRR”) earned by the fund⁽²⁾ for the year and the estimated annual return per \$1,000 invested that would have been earned if you were invested in the fund for the entire year.

When reviewing returns it is important to remember that past performance is not indicative of future returns.

Fund	MER	Cost per \$1,000 invested last year ⁽¹⁾	TWRR last year ^{(1) (2)}	Return per \$1,000 invested last year ⁽¹⁾
ABC Fund	2.06%	\$20.60	15.60%	\$156.00
DEF Fund	1.78%	\$17.80	6.90%	\$69.00
XYZ Fund	2.56%	\$25.60	(4.00%)	\$(40.00)

(1) The cost and return per \$1,000 invested shown are for the last year only and are estimated amounts. It is important to review these amounts depending on how long you have been invested in the fund, particularly if you have been invested in the fund for more than one year as returns can vary significantly between years.

(2) “TWRR” calculations measure the performance of all cash and securities in your account over a time period. The results of this performance calculation isolates the investment decisions made within the fund, independent of the timing of deposits and withdrawals which are not under the control of the fund manager. Therefore, your account's TWRR can be compared against a relevant benchmark or other funds for you to assess your performance.

We strongly encourage you to discuss this analysis with us with respect to understanding changes to the value of your account and in reaching your investment goals.

A tool for reviewing the MER and returns of various funds can be found on the Ontario Securities Commission website at (<https://www.getsmarteraboutmoney.ca/calculators/mutual-fund-fee/>).



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July 27, 2022

Delivered By Email: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

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Toronto, Ontario M5H 3S8

Me Philippe Lebel
Corporate Secretary and Executive Director,
Legal Affairs
Autorité des marchés financiers
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Québec (Québec) G1V 5C1

Dear Sirs and Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“31-103CP”) and to Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds (the “Consultation”)

Franklin Templeton Investments Corp. (“**Franklin Templeton Canada**”) appreciates the opportunity to comment on the Consultation. Our comments are limited to the Canadian Securities Administrators’ (“**CSA**”) proposals for the securities sector in the Consultation (the “**Securities Laws Proposals**”) in the form of amendments to NI 31-103 and 31-103CP.

Franklin Templeton Canada is registered as an investment fund manager, portfolio manager, mutual fund dealer and exempt market dealer with the securities regulatory authorities in various Canadian provinces and territories. Franklin Templeton Canada is an indirect, wholly owned subsidiary of Franklin Resources, Inc. [NYSE:BEN], a global investment management

organization with subsidiaries operating as Franklin Templeton and serving clients in over 155 countries. Franklin Templeton's mission is to help clients achieve better outcomes through investment management expertise, wealth management and technology solutions. Through its specialist investment managers, the company offers boutique specialization on a global scale, bringing extensive capabilities in equity, fixed income, multi-asset solutions and alternatives. With offices in more than 30 countries and approximately 1,300 investment professionals, the California-based company has 75 years of investment experience and approximately US\$1.4 trillion (approximately CAN\$1.8 trillion) in assets under management as of June 30, 2022.

General Comments

Franklin Templeton Canada supports the CSA's initiative to expand cost reporting to investors because we believe increased fee transparency and awareness will assist investors in making informed investment decisions. Furthermore, although we have not commented on the proposals for the insurance sector in the Consultation, we are pleased that this is a joint initiative of the CSA and the Canadian Council of Insurance Regulators. Including segregated funds in the proposals will bring their disclosure standards more in line with investment funds allowing for better comparability between these competing investment products.

Franklin Templeton Canada is a member of the Investment Funds Institute of Canada ("IFIC") and generally supports the submissions made by IFIC with respect to the Securities Law Proposals. In addition, Franklin Templeton Canada wishes to provide comments on the Securities Law Proposals in areas we believe merit additional emphasis.

Account Statement Requirements

Franklin Templeton Canada is of the view that including a fund expense ratio ("**FER**"), which is the sum of the management expense ratio ("**MER**") and the trading expense ratio ("**TER**"), on quarterly (or monthly) client account statements for each individual investment held in an account is not desirable because it would be confusing, misleading and duplicative of information already provided to investors.

The requirement to include FER could be confusing to investors because it would be different in form (percentage vs. dollars) and for a different time period than other client account statement disclosure. Furthermore, the inclusion of an FER of a particular fund series without corresponding performance information could result in investors making decisions solely based on cost instead of the entire value proposition of the fund they have purchased. Including an FER on a client account statement is conflating the policy principles of investment fund continuous disclosure with the rationale behind individualized client account statements, which we believe would lead to investor confusion.

The requirement to include FER could be misleading because it is not specific to an investor and would not give them information unique to their situation when the balance of the information on a client account statement is personalized. The inclusion of FER also fails to capture other information (e.g., for Series F, fees paid directly by the investor to their advisor) and would, therefore, give an inaccurate picture of an investor's cost.

Including FER is duplicative and redundant because the MER and TER of a fund is already disclosed in a fund's management report of fund performance, fund facts and/or ETF facts documents. As a result of the January 2022 amendments to National Instrument 81-106 – *Investment Fund Continuous Disclosure*, investment funds must have a designated website on which these documents are posted, which makes this information more easily available to investors.

Requirement to Include TER

Franklin Templeton Canada believes that the TER should not be combined with the MER for the FER value used in the calculation of total fund expenses disclosed in the Annual Report on Charges. There are various issues with including the TER. A TER exhibits a higher degree of variability depending on fund flows and changes in portfolio holdings and can be distorted by significant purchases or redemptions of a fund. Furthermore, applying a TER as of a specific point in time could lead to inaccurate disclosure to an investor. In contrast, an MER is more stable and accurate for purposes of calculating fund expenses. For these reasons, Franklin Templeton Canada recommends that the CSA consider using the MER for calculating fund expenses for the purposes of the Annual Report on Charges.

Foreign Investment Funds

Franklin Templeton Canada believes that foreign investment funds should not be included in the Securities Law Proposals. Foreign investment funds may not report MERs or TERs and/or their calculation methodology may be different. Furthermore, the investment fund managers of these funds may not be registered in a Canadian jurisdiction and would, therefore, not be subject to NI 31-103. As a result, obtaining the necessary data could be difficult. If the burden on dealers to obtain this information is too great, they may choose not to offer foreign investment funds to their clients, resulting in less choice for investors.

Proposed Implementation Timeline

Franklin Templeton Canada urges the CSA to re-consider its proposed timeline for the implementation of the Securities Law Proposals as the current timeline is neither reasonable nor practical.

It is unrealistic to expect registrants to begin implementation of this regulatory initiative by securing the necessary budget approvals, devoting resources and effecting the necessary systems changes until the CSA publishes final rule amendments and registrants have certainty regarding the new reporting requirements.

An additional constraint is the timeline that Fundserv, the investment fund industry's service provider, has for designing, coding and publishing system changes. Fundserv's timelines largely dictate the timelines for fund managers and dealers. Registrants cannot begin their work to implement the new regulatory requirements until Fundserv publishes its final technical solution.

The CSA's proposed timeline would be more challenging for registrants that manage or trade in exchange-traded funds ("**ETFs**") because of the lack of infrastructure to transmit and retain the data needed to comply with the Securities Law Proposals. Since there is no central

repository like Fundserv for ETFs, there is uncertainty as to how the necessary information will be transmitted by investment fund managers to dealers and how dealers will obtain and store the information.

The proposed timeline for implementation of the Securities Law Proposals also conflicts with another significant regulatory initiative – the move from T+2 to T+1 – which is proposed to take effect in September 2024. Implementing both projects at the same time will require significant resources, presenting a large burden for, and increased risks to, registrants.

Finally, we note that when the final CRM2 changes were announced, industry participants were provided with a three-year transition period for the new annual report requirements. Since the Securities Law Proposals are more complex and require new FER data to be created, we ask the CSA to consider a timeline of similar or greater length after final rule amendments are published.

Conclusion

Whatever form the final Securities Law Proposals take, we expect this to be a complex change for the investment funds industry. Therefore, we encourage securities regulators to establish an industry forum and to work with the industry in a collaborative manner to address the myriad of questions and issues that are likely to arise during implementation.

Thank you for your consideration of this submission. Please feel free to contact me at brad.beuttenmiller@franklintempleton.ca should you have any questions or wish to discuss our submission.

Yours truly,

FRANKLIN TEMPLETON INVESTMENTS CORP.

“Brad Beuttenmiller”

Brad Beuttenmiller
Senior Associate General Counsel

cc: Duane Green, President & CEO, Franklin Templeton Canada



BY EMAIL: comment@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

July 27, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

The Secretary
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M^e Philippe Lebel
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consultation-en-cours@lautorite.qc.ca

Dear Sirs / Mesdames:

RE: Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations (the “Proposed Securities Amendments”) and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance (together, the “Proposed Amendments”)

Thank you for the opportunity to provide comments to the Canadian Securities Administrators (the **CSA**) on the Proposed Amendments.

Fidelity Investments Canada ULC (**Fidelity**) is the 3rd largest mutual fund company in Canada. As at June 29, 2022, Fidelity managed more than \$189 (CAD) billion in retail mutual funds, exchange traded funds and institutional assets. Many Canadians entrust us with their savings, and we take their trust very seriously.

Summary of Fidelity's Position on the Proposed Amendments

We applaud the CSA and the Canadian Council of Insurance Regulators (**CCIR**) for working together on this initiative and are pleased to see that the Proposed Amendments aim to harmonize the cost disclosure requirements for segregated funds and mutual funds, which will allow investors to be able to compare the costs of investing in similar investment products. The Proposed Amendments, once implemented, will lead to better disclosure for investors and a greater awareness of the total cost paid to invest (**Total Cost Disclosure**). We also believe in full disclosure concerning the costs of investing in other investment products, such as bank products (e.g. PPNs) and are hopeful that we will see similar cost disclosure for these products.

Overall, we are highly supportive of this initiative, with the following exceptions/clarifications (as applicable):

1. If the Trading Expense Ratio (**TER**) is going to be reported, explanatory language must be provided to investors concerning the limitations of this number.
2. The Fund Expense Ratio (**FER**) should not be included in quarterly account statements.
3. Flexibility should be given when it comes to how information is reported in statements.
4. The amendments should outline the information that can be used for new funds and include standard disclosure concerning the limitations of that information.
5. The amendments should contemplate that investment fund managers (**IFMs**) cannot provide investor-level information for certain funds.
6. The transition period should be extended.

In addition, we have participated in the Investment Fund Institute of Canada's (**IFIC**) Full Cost Disclosure Sub-Group, and we are generally supportive of IFIC's comments.

Fidelity's Position on the Proposed Securities Amendments

1. If the Trading Expense Ratio (TER) is going to be reported, explanatory language must be provided to investors concerning the limitations of this number

We believe it would be acceptable if the management expense ratio (**MER**) alone was used to calculate fund expenses for the purposes of the Annual Report on Charges and Other Compensation based on the limitations of the TER, as further outlined below. However, we understand that the point of this initiative is to give investors an appreciation for their total cost of investing and the TER is a factor in the overall cost. As such, we are not opposed to the inclusion of the TER provided appropriate disclosure is provided to investors concerning the limitations of the TER.

Limitations of the TER

Because the TER is expressed as a percentage of a fund's total assets, it is affected by factors such as the age of the fund, fund type and market conditions. For example, if an investment fund is in redemption, the

TER will generally be under reported, because in this case the average net assets used to calculate the TER would be overstated. On the other hand, the TER is generally over reported for new funds as they are in the process of obtaining assets. The TER is more variable than the MER from year to year, and it can be seen to be misleading as it reflects the previous year's trading activity. Fidelity has observed variances in this number up to 80 basis points comparing two consecutive years, which could lead an investor to believe the fees they paid were much higher than the fees they actually paid.

If the TER is to be included in investor reporting, it would be beneficial for investors to receive appropriate disclosure that identifies the potential fluctuations in the TER and that the TER used may provide a reasonable approximation of fund expenses, but that the actual fund expenses paid by the investor on their units/shares for the relevant period may differ.

2. The Fund Expense Ratio (FER) should not be included in quarterly account statements

We do not believe that including the FER as a percentage in monthly or quarterly account statements would be beneficial to investors. The MER and TER are already included in the Fund Facts and Management Reports of Fund Performance (**MRFPs**). We do not see the value in duplicating this disclosure and we agree with IFIC that from an investor's perspective, this disclosure could be misleading and confusing for the various reasons set out in IFIC's comment letter. The most compelling reasons in our opinion are as follows:

- (i) The FER in percentage terms would not necessarily reflect what the investor pays given the investor may receive management fee rebates or other volume-based discounts. However, all other information in client account statements is personalized to investors.
- (ii) The FER is an annual number, but the client account statements include shorter periods of performance in dollar terms. This could confuse investors about what their expenses were during the month/quarter.
- (iii) The performance information in client account statements is at the account level but the Proposed Securities Amendments require the FER to be presented for each fund held (without the corresponding performance being provided at the fund level). This could lead investors to draw inappropriate conclusions about the FER since they don't have the appropriate context to conduct a comparison (i.e., fund performance at the account level for the same period of time).
- (iv) Monthly or quarterly client account statements do not contain cost information so the inclusion of the FER without an additional requirement to include all costs, would be misleading.

In addition, providing fund expenses based on the TER annually in dollar terms would align with the frequency that Total Cost Disclosure will be provided to segregated fund investors in their annual statements.

We are supportive of the proposed cost disclosure in dollar terms in the Annual Report on Charges and Other Compensation.

3. Flexibility should be given when it comes to how information is reported in statements

We appreciate the provision of a prototype statement in the Proposed Securities Amendments. In recognition that dealers have spent a considerable amount of time making updates to their account



statements in connection with CRM2, we believe that dealers should have flexibility in implementing the Proposed Requirements and not be required to conform to a predefined template in providing this additional disclosure, provided the requirements in the Proposed Securities Amendments are met.

We note that the prototype Annual Report on Charges and Other Compensation could mislead investors since trailing commissions are included with other fund expenses as an aggregate number in the section "Investment fund company fees" and are also captured in the section on dealer compensation under the heading "Trailing commissions paid to us by investment fund companies". This could lead to investors double counting these fees.

We do not believe that trailing commissions should be included in the section of the statement or under a heading that reads "amount paid to investment fund companies." This makes it seem like these fees are retained by the IFM instead of being passed on to the dealer.

4. The Proposed Securities Amendments should outline the information that can be used for new funds and include standard disclosure concerning the limitations of that information

The Proposed Securities Amendments should prescribe the information that an IFM can use to calculate the daily dollar cost per unit/share for new funds that do not have an MER or TER until the first MRFP is filed for that fund. The IFM should be able to use the management fee, administration fee, and any other fund fees disclosed in the fund's most recent prospectus or fund facts to determine the FER and standard disclosure should be provided to investors to inform them that the fund expenses reported are reasonable estimates and may not represent what they actually paid to hold the fund.

5. The amendments should contemplate that IFMs cannot provide investor-level information for certain funds.

Unlike conventional mutual funds, IFMs do not have any information on the number of securities held by an Exchange-Traded Fund (ETF) investor, because ETFs trade on an exchange. While an ETF's IFM can provide annualized historical MER and TER figures for the ETF to advisers and dealers, the IFM cannot apply those figures against each investor's holdings in order to provide the information required by the Proposed Securities Amendments. The Proposed Securities Amendments should clearly outline the roles and responsibilities of IFMs vs. dealers when it comes to the calculation of the total amount of fund expenses and should recognize that where IFMs do not have visibility into the end investor, they will not be able to provide the total amount of fund expenses.

6. The transition period should be extended.

Fidelity believes that a lengthy transition period is justified by the amount of work required to build the systems and processes necessary to operationalize Total Cost Disclosure. We agree with the comments made by IFIC in respect to the challenges with the proposed transition period and refer you to the very detailed implementation timeline and supporting rationale discussed in their comment letter. We ask the CSA to give due consideration to the very thorough and thoughtful response provided by IFIC on the appropriate transition period.

We agree with IFIC that this work cannot commence until after the final version of the amendments to NI 31-103 is published by the CSA. We ask for a minimum transition period of 2.5 years from the date the final



amendments are published, plus one year for collecting and storing one full year's worth of data required for the Annual Report of Charges and Other Compensation. That means that investors will first receive the updated Annual Report on Charges and Other Compensation in December of 2026.

We feel strongly that the industry should not have a shorter transition period than what was allowed for CRM2, especially since the changes required to meet the Proposed Securities Amendments for Total Cost Reporting requires new FER data to be created. FER data at the investor level does not exist in the fund managers' transfer agency system. Currently, the FER can only be calculated at the fund level on fund accounting systems. Fundserv does not have a file for this data point to be transmitted and will need to make system updates to capture this data point. In turn, dealers will need to make system updates to receive and store this information, perform necessary calculations at the investor account level and update client account statements with the additional disclosure. This is even more challenging for other types of investment fund providers and dealers (ETFs, prospectus-exempt funds, scholarship plans, labour-sponsored funds and foreign investment funds) since there currently is no infrastructure - similar to Fundserv - for the required data transmission and retention.

The CRM2 requirements did not require new data to be created since fund managers were already providing dealers with trailer fee information. Considering that under CRM2 the CSA provided most registrants with a total transition period of 3.5 years, it is very reasonable for the industry to be given a comparable period of time to implement Total Cost Reporting.

Fidelity's Response to Specific Questions Regarding the Proposed Securities Amendments

For your ease of reference, we have reproduced the CSA's questions in bold font below followed by our responses to each question.

- 1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,**
 - (a) exchange-traded funds,
 - (b) prospectus-exempt investment funds,
 - (c) scholarship plans,
 - (d) labour-sponsored funds,
 - (e) foreign investment funds?

We appreciate that a consistent calculation methodology should be used to calculate the total cost of owning the funds listed above. However, please see our response under: 5. The amendments should contemplate that IFMs cannot provide investor-level information for certain funds and 6. The transition period should be extended above, where we note the challenges with providing investor-level information for these funds.

- 2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?**



Please see our response under: 1. If the Trading Expense Ratio (TER) is going to be reported, explanatory language must be provided to investors concerning the limitations of this number above.

3. **For the purpose of subsection 14.1.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?**

We believe that NAV is more appropriate than market value.

4. **Do you anticipate any other implementation issues related to the Proposed Securities Amendments?**

We have outlined the material anticipated implementation issues in this comment letter and we support the additional issues addressed in IFIC's comment letter.

5. **Do you anticipate any issues specifically related to the proposed transition period?**

Please see our response under: 6. The transition period should be extended above.

Once again, we would like to thank the CSA for the opportunity to comment on the Proposed Amendments and we would be pleased to discuss any of our comments.

Yours sincerely,

"Sian Burgess"

Sian Burgess
SVP, Fund Oversight
Fidelity Investments Canada ULC

c.c. Rob Strickland
President
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July 27, 2022

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 Financial and Consumer Services Commission (New Brunswick)
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 Manitoba Securities Commission
 Nova Scotia Securities Commission
 Nunavut Securities Office
 Office of the Superintendent of Securities, Newfoundland and Labrador
 Ontario Securities Commission
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Dear Sirs/Mesdames:

**Re: CSA Notice and Request for Comment
 Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to
 Companion Policy 31-103CP – Total Cost Reporting for Investment
 Funds and Segregated Funds published for comment on April 28, 2022
 (the Proposed Amendments and Total Cost Reporting)
 Comments of Borden Ladner Gervais LLP and AUM Law Professional
 Corporation**

We are pleased to provide the members of the Canadian Securities Administrators (**CSA**) with comments on the above-noted Proposed Amendments. Our comments are those of the individual lawyers in the Investment Management practice group of Borden Ladner Gervais LLP as well as the lawyers with AUM Law Professional Corporation (**AUM Law**) listed below, and do not

necessarily represent the views of BLG, AUM Law, other BLG or AUM Law lawyers or our respective clients.

In preparing this comment letter, we have reviewed the draft comment letters prepared by the Investment Funds Institute of Canada (IFIC) and the Portfolio Management Association of Canada, as well as other industry participants. As long-time legal advisers to industry participants, we are providing our comments on the Proposed Amendments not only to provide our own thoughts, but also to support the commentary provided in the above-noted comment letters. As with the other commentators, we do not necessarily disagree with the underlying objective of the CSA with the Proposed Amendments - that is, to further investors understanding of the costs of their investments in investment funds, but we consider it imperative that the CSA take seriously the comments provided, including: i) a need for further direct consultation by the CSA on the operational challenges inherent with the Proposed Amendments; and ii) a need for a realistic transition period, assuming the CSA decides to move forward.

Need for Continued Consultation on the Proposed Amendments and a Realistic Transition Period

1. As noted in the various draft comment letters we have reviewed, we strongly recommend that further direct consultation by the CSA is necessary with a committee of industry participants, including Fundserv and the various trade associations. In this way, the CSA will not only understand the operational and other challenges inherent with the Proposed Amendments, but it may be possible to develop a *realistic* way to provide investors with information that will be meaningful for them. In our view, the Proposed Amendments propose a *theoretical* way to achieve “total cost reporting”, but in ways that are not practical or possible using the existing systems in place in the industry. It is not currently practical or appropriate for the CSA to expect the necessary information to be provided through manual “sharing” of information, which is how the Proposed Amendments have been drafted. Some systematic approach must be developed, given that one does not exist at present. This will take time to develop.
2. As the trade associations have previously explained, including with the Proposed Amendments, given the costs associated with developing new systems and approaches and competing priorities, industry participants cannot develop new systems until they know final rules. As such, it is not appropriate for the CSA to suggest that industry participants begin now to develop the necessary systems to implement the *Proposed* Amendments. The Proposed Amendments are merely “proposed” rule changes – they are not final rules and are subject to change, even though the CSA may be determined to make the Proposed Amendments final as soon as possible. It is incumbent on the CSA to review carefully the comments on the Proposed Amendments and consider whether the costs of the Proposed Amendments are proportionate to their perceived benefits and consider whether changes should be made to the Proposed Amendments. We do not consider that the CSA has done enough consultation to be able to make that determination at this time.
3. A realistic transition period is critical. In addition to our above-noted comments, we urge the CSA to take into account the various regulatory priorities facing the industry before moving forward so quickly with the Proposed Amendments. We note that industry

participants are still working to ensure that the Client Focused Reforms are appropriately implemented, including responding to regulatory compliance reviews on this implementation. The various dealers will also be required to consider the SRO consolidation being implemented in 2023, as well as industry participants tackling the challenges inherent in moving to T + 1 and even if Canada does not make this change, industry will need to deal with the US moving to T+1. In our view, we do not consider that the CSA has made enough of a case for aggressively moving forward with the Proposed Amendments, particularly in light of the other priorities listed in the CSA 2022-2025 business plan, which will also take time to review and consider implementation.

Determine what Information is Relevant to Total Cost Reporting

4. We agree with the various industry submissions that including a new metric “fund expense ratio”, being the combined MER and TER, to the monthly/quarterly account statements for each fund in which the accountholder invests, will be problematic and confusing to investors. We do not consider that the CSA has made a supportable case for providing this information on account statements, which will be the only investment “cost” information provided on these statements and so may be confusing to investors. For investment funds subject to National Instrument 81-106, this information is already publicly available, and the Proposed Amendments suggest a new metric, so that the information will not line up with the information available to investors as required by NI 81-106. In short, multiple, and possibly conflicting, cost reporting delivery channels may serve to increase client confusion rather than reduce it. We recommend that further consultation be undertaken by the CSA in conjunction with the long-promised review of NI 81-106. We do not consider the mandatory disclosure of this information on account statements is the answer to the perception that investors do not access the information already provided to them via the NI 81-106 statements.
5. If the CSA wishes to proceed with total cost reporting on the annual statements, we consider it critical that the CSA allow fund managers to provide cost information about their funds in ways that are realistic and systematic for all industry participants. It may be necessary for the CSA to accept that this information can be provided for some funds (public investment funds for instance) at an earlier stage than others (ETFs and investment funds offered via private placements). More consultation is required in order to land on an appropriate systematic way for fund managers to make this information available to dealers and advisers, and as noted it may be possible for this information to be disseminated via existing systems in place within Fundserv, which will not catch all investment funds for the reasons set out in the various trade association comment letters.
6. Subject to the above comment, we agree that this information would fit with the information already provided in the annual CRM2 costs/performance reports.

Remove Liability on Dealers/Advisers in Relying on Information Provided Systematically

7. The Proposed Amendments put a responsibility on dealers and advisers to consider whether the information about the costs of investing in investment funds provided by fund managers is reasonable and reliable. Cost information from an investment fund would likely be seen as a “material fact” under existing securities laws and as recently reinforced

by the client focused reforms initiative, requiring a dealer or adviser to consider and potentially override material fact disclosure of an investment fund may create a whole host of legal and regulatory difficulties. This obligation should be removed from the Proposed Amendments. If the industry, with the CSA, land on a way for fund managers to systematically provide information that can be used by dealers and advisers, other than ensuring that the statements include the correct information, it should not be up to these registrants to undertake any form of additional due diligence to determine whether this information is reasonable and/or correct. This should not be necessary and would otherwise put an undue burden on dealers and advisers.

Realistic to Move Forward with Public Investment Funds at This Time and Conduct Further Consultation on other Investment Funds

8. The Proposed Amendments would require total cost reporting for privately placed investment funds, “foreign” investment funds, and publicly offered investment funds. The CSA should undertake specific consultation on the realistic ability for managers of private investment funds, including non-Canadian investment funds, to provide such reporting. Final rule amendments should not be put in place for non-public investment funds, if it is found, through such specific consultation that this information would be unduly burdensome to obtain or be provided by these fund managers. Indeed, to apply these requirements to non-Canadian fund managers will give rise to an extra-territoriality application of Canadian regulation, which, when coupled with difficulties in ensuring compliance, is a problem. Given that the investors in non-Canadian managed funds are generally accredited/institutional investors and have a different relationship with their funds than retail investors in public funds, we consider the burdens of providing this information to be disproportionate to the perceived benefits.
9. We also query whether the Proposed Amendments have taken into account scenarios where investment funds are part of managed accounts (and “all-in” fees are paid by investors) vs direct investments in investment funds. We wonder if the objectives of the CSA will be achieved – that is, will investors be able to understand the different disclosures provided to them, which will differ depending on the type of account they hold.

Consider Unintended Consequences

10. As part of the above-noted consultation, we consider it very important for the CSA to consider whether the Proposed Amendments in their current form will push dealers and advisers to further reduce the diversity of investment funds they offer to investors, given the burdens of obtaining the data to provide total cost reporting. This returns us to our central proposition that it is critical that the CSA consult with industry and seek to understand the operational requirements required to underpin the Proposed Amendments and to work with industry to develop a realistic and systematic approach to providing investors with relevant and useful information, before the Proposed Amendments are made final.

+++++

We hope that the CSA consider our comments as positive and helpful to advance the CSA's considerations of the important matters outlined in the Proposed Amendments.

Please contact Rebecca Cowdery at rcowdery@blg.com and 416-367-6340 if you have any questions on our comments or wish to meet with us to discuss any or all of our comments.

Yours very truly,

Borden Ladner Gervais LLP

Rebecca Cowdery Donna Spagnolo Michael Taylor

AUM Law Professional Corporation

Kimberly Poster Richard Roskies



July 27, 2022

VIA EMAIL

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
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The Secretary
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comment@osc.gov.on.ca

Dear Sirs/Mesdames:

RE: Request for Comment – Total Cost Reporting for Exchange Traded Funds

The Canadian ETF Association (**CETFA**) welcomes the opportunity to provide feedback on the Request for Comment regarding proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the **Proposed Securities Amendments**) concerning proposed enhanced cost disclosure reporting requirements for investment funds published by the Canadian Securities Administrators (**CSA**) on April 28, 2022, specifically as they relate to exchange-traded funds (**ETFs**).

CETFA is the only ETF association in Canada and represents members comprising 95% of the ETF assets under management in Canada. The mandate of CETFA is to support the growth, sustainability and integrity of Canada's ETF industry on behalf of our members, who are typically ETF managers. Based in Toronto, Canada, CETFA is the only ETF association in Canada, and the first of its kind in the world.

We would like to address the topics outlined below.

- 1. It is not sufficient to report the management expense ratio (MER) alone; the trading expense ratio (TER) should also be reported and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation.**

Although there may be some disadvantages associated with reporting TER, on balance we consider that reporting MER alone would not allow investors to compare a full and accurate picture of the costs associated with different products. Further, listing both MER and TER separately (instead of as a single combined ratio) provides investors with information about how the different features of products drive costs. There is a wide divergence in the TER for products with different features, especially ETFs. For example, TER is higher for ETFs that hold a higher proportion of equities as opposed to fixed income securities. TER is also higher for ETFs that have a higher portfolio turnover rate. TER is also generally higher for an ETF class or series of a conventional mutual fund than for an otherwise comparable standalone ETF. Consequently, reporting MER and TER separately provides investors with superior information, as compared with reporting MER alone or reporting a fund expense ratio (**FER**) that combines MER and TER.

2. A longer transition timeframe for the Proposed Securities Amendments is warranted, in light of the other complex industry initiatives scheduled for implementation in or about 2024 and the operational and logistical hurdles the industry will need to address prior to implementation.

The CSA has proposed that the Proposed Securities Amendments will come into force in September 2024. For the securities sector, investors would receive the first quarterly account statements containing the newly required information for the period ending in December 2024, and the first annual reports containing the newly required information for the reporting period ending in December 2025. In December 2021, the Canadian Capital Markets Association announced its plans to facilitate shortening Canada's standard securities settlement cycle from two days after the date of trade (T+2) to one day after the date of the trade (T+1) within the first half of 2024.¹ Further, the CDS Post-Trade Modernization project is scheduled for implementation in late 2024. This project will deliver an integrated technology platform for the TMX-CDS systems including: clearing, settlement, depository, corporate actions and risk.

The investment fund manager (**IFM**) of an ETF does not have access to any information regarding the identities of the investors in the ETF; only advisers and dealers have access to this information. While an ETF's IFM can provide annualized historical MER and TER figures for the ETF to advisers and dealers, the IFM cannot apply those figures against each investor's holdings in order to provide the information required by the Proposed Securities Amendments. Only the adviser or dealer through which an investor holds ETF securities is able to perform the requisite calculations for that investor. Building the systems infrastructure necessary to automate the required calculations is likely a significant undertaking for advisers and dealers that will require substantial time and resources.

It is not clear how the MER and TER figures for each product will flow from IFMs to advisers and dealers. It should be noted that, unlike conventional mutual funds, ETFs do not trade on Fundserv. Consequently, to the extent Fundserv will facilitate the flow of information for conventional mutual funds, an alternative mechanism will be required for ETFs.

¹ The announcement can be found at: <https://ccma-acmc.ca/en/wp-content/uploads/Canada-Announces-Faster-Securities-Settlement-December-1-2021.pdf>

The Proposed Securities Amendments do not address foreign ETFs. Advisers and dealers will need to determine whether it is possible to compel foreign IFMs to provide the required information in the required format and, if it is possible, the appropriate methodology for doing so. The Proposed Securities Amendments should provide guidance to advisers and dealers in this regard and the implementation timeframe should account for the time and resources that will be required to address this issue. Further, it should be noted that foreign ETFs may be reluctant to provide the required information and, if an exemption from these requirements is not provided for foreign ETFs, dealers may no longer permit their clients to hold foreign ETFs.

As at December 2021, 15.5% or \$63.9 billion of the \$412.5 billion of ETFs owned by Canadian investors (retail and institutional) were U.S.-listed ETFs. Of the 15.5% nearly 40% were U.S.-listed ETFs of ETF providers with no Canadian affiliate. It will be difficult to enforce a Canadian regulation on U.S. ETF providers, their service providers or depositories, to provide the required information. Further, the concept of a MER does not exist in the U.S.; instead, the U.S. concept is a total expense ratio (TER) which is a distinct concept from the trading expense ratio (TER) connoted by the same acronym in Canada. Incorporating the U.S. total expense ratio concept into investor statements would further confuse investors.

Significant resources will be required to facilitate each of the complex industry initiatives scheduled for implementation in or about 2024 simultaneously. Further, significant time and resources will be required to address the operational and logistical hurdles the industry will need to address prior to implementing the Proposed Securities Amendments. A longer transition timeframe for the Proposed Securities Amendments is warranted.

3. Disclosure clarifying that the cost figures reported are annualized estimates based on the historical MER and TER of the fund and actual costs incurred may be materially different should be included. In addition, clarification on disclosure requirements for new products is needed.

As a result of the calculation methods prescribed by securities regulations, the MER and TER figures IFMs provide for existing products will necessarily be historical and represent annualized figures. Additionally, the time period a given investor has held securities of an ETF for will not always align with the time period used for calculating the MER and TER. This is particularly relevant if the reporting period of an ETF ends prior to the reporting period of the statement disclosing costs. For example, where an ETF has a September 30 year-end but the statement covers the calendar year ending December 31, the December 31 statement will use MER and TER figures as of the prior September 30 to calculate the cost figures. As a consequence, the cost figures will necessarily be estimates and investors should be made aware of this fact.

From a disclosure perspective, we suggest adding a footnote to clarify that the figures are estimates based on the historical MER and TER of the fund and reflect the estimated costs that could be incurred in connection with the investor's holdings. The footnote should also explain that actual costs could be materially different than those listed. Actual costs could be lower due to the impact of householding and management fee rebates.

Further, the Proposed Securities Amendments do not account for new products where such historical information may not be available. Clarification on disclosure requirements for new products would be helpful.

4. The requirement that an IFM must not rely on the previously publicly disclosed MER and TER information if it is outdated or if the IFM reasonably believes doing so would cause the information in the statement or report to be misleading should be struck from the Proposed Securities Amendments.

The Proposed Securities Amendments would allow IFMs to rely on publicly available information disclosed in an investment fund's most recently published fund facts document, ETF facts document, prospectus or management report of fund performance, unless this information is outdated, or the IFM reasonably believes that doing so would cause the information reported in the statement or report to be misleading.

Current regulation requires an ETF's MER and TER are disclosed twice a year in the ETF's management reports of fund performance (**MRFPs**). Audited MER and TER figures are reported once per year in an ETF's annual MFRP, which must be filed within 90 days of the ETF's year-end. Unaudited MER and TER are reported once per year in an ETF's interim MRFP, which must be filed within 60 days after an ETF's second quarter-end. Since most ETFs have a December 31 year-end, each year most ETFs report MER and TER (as of December 31) in or about the end of March and MER and TER (as of June 30) in or about the end of August. ETF facts documents are required to disclose the MER and TER figures as disclosed in the most recently filed MRFP.

The requirement that an IFM must not rely on previously publicly disclosed MER and TER information if it is outdated or if the IFM reasonably believes doing so would cause the information in the statement or report to be misleading should be struck. As a result of the regulated MRFP disclosure intervals discussed above, at the time dealers and advisers prepare their December 31 client statements, the most recent MER and TER figures available for most ETFs will be as of the previous June 30 (i.e. six months old).

Consequently, the requirement would, in some circumstances, require IFMs to revise the MER and TER figures for an ETF between already regulated disclosure intervals. For example, performance fees can cause the MER of an ETF to change depending on when the performance fee is paid. Further, if a certain expense is eliminated between regulated disclosure intervals, such elimination will not be accounted for. In such instances, the proposed rule would require IFMs to revise MER and TER between regulated disclosure intervals to account for these changes. This is an unnecessary additional regulatory burden.

We also note that TER is driven by portfolio transactions executed by ETFs. The number of portfolio transactions will vary from year to year and it is not possible for an IFM to determine at any point whether the current TER will be the same as the publicly disclosed TER.

5. Annual reporting may be more appropriate than monthly or quarterly reporting.

As discussed above, current regulation requires ETFs to report MER and TER twice per year in the ETF's annual and interim MRFPs. Requiring monthly/ quarterly reporting of FER, MER and/or TER in account statements and additional statements is burdensome and could be misleading. Monthly or quarterly statements are intended to disclose transaction activity and do not contain cost information. Including cost information on these statements may not provide a complete picture of all costs. For example, an ETF's FER, MER and/or TER may not reflect all fees paid by the investor (e.g. adviser fees that are paid outside the fund). As a result, the investor may be misled as to the total costs they are paying. Conversely, disclosing FER, MER and/or TER in the annual report would align with investors' expectations that such report contains information on the costs associated with their investment. For this reason, annual reporting of FER, MER and/ or TER may be more meaningful for investors.

Thank you for this opportunity to express our comments about the Proposed Securities Amendments.

If you have any questions or if we can be of any other assistance, please do not hesitate to contact Pat Dunwoody, Executive Director of the CETFA, at (647) 256-6637 or at patdunwoody@cetfa.ca.

Yours truly,

CANADIAN ETF ASSOCIATION

By: _____

Pat Dunwoody
Executive Director
Canadian ETF Association
patdunwoody@cetfa.ca



July 27, 2022

BY E-MAIL

Me Philippe Lebel

Corporate Secretary and Executive Director, Legal Affairs

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Ontario Securities Commission

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Object: Draft Regulation to amend *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations* - Total Cost Reporting for Investment Funds and Segregated Funds

Dear Sirs/Mesdames,

We are sending you this comment letter in response to the publication of the draft Regulation to amend *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations* - Total Cost Reporting for Investment Funds and Segregated Funds (hereafter the “**Draft Regulation**”) published in the notice of consultation dated April 28, 2022 (hereafter the “**Notice of Consultation**”). This letter is sent to you on behalf of National Bank of Canada, as well as its subsidiaries: National Bank Financial, National Bank Independent Network, National Bank Investments, National Bank Direct Brokerage and National Bank Trust, which will be impacted in different ways as dealers, advisors, investment fund managers and service providers.

We appreciate the opportunity to provide you with comments before the adoption of this Draft Regulation. First, we would like to bring to your attention some elements outlined below with regards to the proposed amendments that will impact the securities sector. Second, you will also find herein our comments to the questions posed in the Notice of Consultation.

While we agree with the principle of the proposed amendments of ensuring enhanced transparency on total costs to investors, and especially ensuring the client's best interests, we see some practical concerns with the implementation of certain elements listed below e.g., Account Statement and particularly the proposed timeline. We participated in the IIAC and IFIC working groups pertaining to the Draft Regulation and we generally support their comments.

Account Statement Proposals

We submit that the obligation to include the fund expense ratio in periodic account statements is duplicative and does not add significant value, compared to the publication by investment fund managers of the data required in the fund facts or ETF facts documents, for example. The quantity of data provided in each statement is more likely to cause confusion than anything else, by diluting the information included in the periodic statement, the primary objective of which is to consolidate activity for the period. Any investor who wants to know what fees are applicable for a fund can refer to different documents that are already available. The complexity of the changes required to provide accurate information in a timely manner within the broad spectrum of the systems used by investment fund managers, dealers and advisers, far exceeds the benefits that could result from them. We believe it is sufficient to present this information in the annual reports on charges and other compensation.

Particular Challenges

As you know, information about certain types of funds is not always readily accessible or even available; this is particularly true for foreign investment funds. We wonder about the feasibility of, and the time required for, obtaining this information.

We believe that the Draft Regulation should be amended, namely, to provide the following:

- A maximum period of time, reasonable for all stakeholders, for investment fund managers to provide information to dealers/advisers;
- Dealers/advisers should be able to rely on the information provided to them without having to make additional validations. The information provided by investment fund managers should be relied on; there is no reason for dealers/advisors to believe it is incomplete or that it would be misleading.

Deployment Timeframe

Considering that these changes imply, among other things, significant changes to various IT systems owned by third parties, we have serious concerns about the proposed transition period of 18 months. We believe that an additional period of at least 12 to 18 months is required to properly implement the proposed changes under the Proposed Regulation. Labor shortage issues, and the very high number of regulatory changes to be deployed (which are not limited to changes promulgated by the CSA), do not allow us to accelerate the pace to begin work before the adoption of the final rules, as the CSA have suggested. Moreover, doing so would eliminate the relevance of the current regulatory consultation exercise which is critical to the success of regulatory improvements, and we are surprised by this suggestion.

Investor Education

We believe that to achieve the objective sought by this Draft Regulation, namely the enhancement of investor protection and awareness, investors must first have access to greater literacy in this area. As you pointed out in the Notice of Consultation, investors seem to have a poor understanding of the costs associated with owning investment funds. We believe that the success of the Draft Regulation is intrinsically linked to the understanding of the new information that will be communicated to them.

Therefore, the implementation of new mass education initiatives on the benefits of savings, including the creation of new education materials, is essential; in fact, investors must be able to put the costs related to investment funds into perspective given their performance. Failure of investors to properly understand this information could, in our view, have the opposite effect to that sought by the Draft Regulation.

Comments to Questions Asked in Appendix A – Specific Questions About the Proposed Securities Amendments

1. Do you anticipate implementation issues related to the inclusion of the following in the Draft Securities Amendments,

- (a) exchange-traded funds,*
- (b) prospectus-exempt investment funds,*
- (c) scholarship plans,*
- (d) labour-sponsored funds,*
- (e) foreign investment funds?*

Yes; foreign investment funds may pose the greatest challenge, given that many of their investment fund managers will not be subject to the corresponding obligation

to provide the information. Each of the foregoing will bring its own specific challenges that need to be assessed in detail.

The frequency with which the information would be required for inclusion in periodic statements would pose a significant challenge. We therefore submit that the inclusion of this information in the annual report on charges and other compensation would make the exercise more feasible.

2. Would you consider it acceptable if, instead of information about each investments fund's expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

For ease of understanding, we believe that the use of the MER would be acceptable to properly inform investors. As previously stated, we believe that adding such information in the periodic statements may cause confusion. Investors who wish to know what fees apply to a fund can refer to existing documents to obtain them. The complexity of the changes required to all the systems of investment fund managers, dealers and advisers, in order to be able to provide accurate information in a timely manner, far exceeds the benefits that could result from them. We believe it is sufficient to present the information in question in the annual reports on charges and other compensation.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

We are of the view that using market value would be appropriate.

4. Do you anticipate any other implementation issues related to the Draft Securities Amendments?

The tremendous variety of unique cases will make this exercise excessively complex, on an ongoing basis. For example; the management fee rebate programs of each investment fund manager or the case of investment funds which are not yet a year old and whose the operating costs have not yet been established.

We foresee significant difficulties due to the sheer number of elements to take into account in order to provide adequate data and minimize the risk of error to avoid creating confusion or inadvertently misleading investors.

5. *Do you anticipate any issues specifically related to the proposed transition period?*

As stated above, considering that these changes imply, among other things, significant changes to various IT systems, we have concerns about the proposed transition period. We suggest an additional lead time of at least 12 to 18 months.

We thank you once again for giving us the opportunity to comment on this Draft Regulation. If you need any further information or have any concerns regarding the above, please do not hesitate to contact us.

Yours truly,

NATIONAL BANK OF CANADA

A handwritten signature in black ink, appearing to read 'M. Gagnon', with a long horizontal stroke extending to the right.

Per:

Martin Gagnon
Executive Vice-President
Wealth Management

FASKEN

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July 27, 2022

BY E-MAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumers Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Dear Canadian Securities Administrators:

Re: **Comments on proposed Total Cost Reporting for Investment Funds**

Thank you for providing us with the opportunity to comment on the proposed amendments (the **Proposed Amendments**) to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) and Companion Policy 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* published by the CSA on April 28, 2022 to introduce total cost reporting (**TCR**) for investment funds.

Our comments below reflect the views of the authors of this letter and certain other individual members of our firm that participated in the preparation of this letter. Our comments do not necessarily reflect the views of our firm or of our clients, and are submitted without prejudice to any position that may in the future be taken by our firm on its own behalf or on behalf of any client.

Background to our comments

Fasken Martineau DuMoulin LLP (**Fasken**) is a leading Canadian law firm that provides advice to investment fund managers, portfolio advisers, dealers and service providers across Canada. Currently, eleven partners at Fasken devote a substantial portion of their practice to advising clients on structuring, offering and managing investment fund products and related services, and are supported by further partners with expertise in specific fields including tax, derivatives and

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financial institution regulation. Fasken is one of the largest Canadian legal practices in the investment products and wealth management area. Our client base includes managers of retail mutual funds, exchange-traded funds, alternative mutual funds, closed-end funds, hedge funds, pooled funds, segregated funds, private equity funds and separately managed account services. We regularly assist clients with developing innovative investment products including, where necessary, obtaining novel discretionary relief under Canadian securities legislation and advance tax rulings to accommodate those products.

Our comments below are based mainly on our experience advising clients in the investment funds industry. Prior to submitting this letter, we also consulted with a number of industry participants specifically about the Proposed Amendments. Though the comments in this letter are those of Fasken alone, we have taken into consideration the feedback we received from those we consulted.

Substantive Issues

Below are certain fundamental questions regarding TCR that we believe should be addressed before the Canadian Securities Administrators (the **CSA**) proceed further with this initiative.

1. *Please clarify why TCR is needed.*

It is unclear to us from the CSA's notice (the **Notice**) accompanying the Proposed Amendments what is the policy objective of the CSA behind TCR, and whether TCR is the best course of action for achieving that objective. The Notice states:

Research carried out by the Ontario Securities Commission (**OSC**) Investor Office and the Behavioral Insights Team in connection with the adoption of CRM2 shows that Canadian investors presented with a sample annual charges and compensation report, assumed that it included embedded fees associated with investment funds, when it does not include such fees.

We believe it is important that investors and policyholder be aware of all of the costs associated with the investment funds and segregated funds they hold as these fees can impact their returns and have a compounding effect over time.

TCR disregards the existing securities regulatory framework and the protections it provides for investors

Investment funds and the distribution channels through which they are made available are complex products and services. It is not surprising that there are aspects of these products and services that are not fully understood by retail investors. This is why investment funds and the firms and individuals that distribute them are subject to perhaps the most extensive regulation under Canadian securities laws. The default expectation of Canadian securities laws is that every retail investor will purchase investment funds based on the advice of a registered dealing representative who must satisfy extensive proficiency requirements, and comply with ongoing obligations to recommend only investments that are suitable for their clients. These obligation were recently enhanced by the Client Focused Reforms which (among other matters) expressly added (i) a "know-your-product" obligation on dealing representatives that includes understanding the

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embedded costs of the investment funds they recommend, and (ii) the cost structure of an investment fund as a factor of suitability.

In light of this regulatory framework and the specific protections it provides to investors, it is not clear to us why TCR is needed. We suggest that it is unrealistic to expect that retail investors, through TCR, will achieve the same level of understanding as dealing representatives regarding the cost structures of investment funds. We believe that the CSA's concern regarding the misunderstanding of some retail investors is adequately addressed simply by providing the narrative disclosure contemplated by proposed section 14.14(5)(h), rather than the numerical data contemplated by TCR (most of which is not explained). Investors also can be directed to contact their dealing representative should they wish more information regarding fund expenses.

The CSA's concern with "competition" is not explained

The Notice also states:

Furthermore, transparency about costs may encourage more competition, which would benefit investors and policyholders.

The foregoing statement suggests that current fund expenses are higher than necessary due to a lack of competition. We are unaware of a basis for this concern, and would ask the CSA to provide data regarding such a concern. Further, we believe that any change in the future selection of investment funds based on cost structures is likely to result from dealing representatives taking into account the cost structures of investment funds under the enhanced obligations summarized above, rather than the actions of individual retail investors. Dealing representatives do not require TCR in order to perform such an analysis.

2. *Please clarify the behavior to be modified by TCR.*

The Notice cites the previous research carried out by the OSC Investor Office and the Behavioral Insights Team. However, it does not identify whether the misunderstanding of some retail investors regarding fund expenses has resulted in inappropriate investment decisions. Behavioral science seeks to identify impediments causing irrational decision-making and remove those impediments. Often, those impediments arise from the manner in which information is presented which, if corrected, will lead to more rational decision-making. The Notice does not indicate how TCR is intended to change investor behavior.

In fact, TCR may make no difference to the investment funds selected by investors who focus primarily on past performance (after deduction of fund expenses) when making their investment decisions. In this respect, we analogize to real estate investment trusts (**REITs**) and mortgage investment corporations (**MICs**) which are popular alternate investments for retail investors. We suggest that, for both such types of issuers, investors focus their decision based almost entirely on the returns generated by the issuer and the volatility of the trading price of its securities, rather than the operating expenses incurred by the issuer that reduce its returns, even though in many cases such issuers are charged management fees similar to investment funds. We believe that investors use a similar approach when assessing the merits of investment funds such that fund

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expenses are largely irrelevant to their investment decisions. The higher fund expenses of an investment fund are likely to be disregarded by investors where the performance of the investment fund exceeds that of its peers. We therefore question whether TCR will change investment decision-making.

Before proceeding further, we suggest that the OSC Investor Office and the Behavioral Insights Team conduct further research to confirm whether TCR will change investment decision-making patterns by retail investors.

3. ***Please clarify whether the CSA have identified and considered possible unintended consequences from TCR.***

As noted above, it is unclear what investor behavior the CSA seek to change through TCR. If the CSA's expectation is that TCR may lead investors to select investment funds with lower fund expenses, this also could lead to undesirable changes in investor behavior. For example:

- (a) Investors may begin selecting investment funds with lower fund expenses without taking into account the effect of the selection on the risk-return profile of the investor's portfolio.
- (b) Investors may shift in greater numbers to order execution only dealerships simply to purchase series of securities which do not include a cost of compensation to the dealers and dealing representatives that provide investment advice.
- (c) Investors may reallocate assets from investment products to savings instruments which, to the investor, have no embedded costs since the opportunity cost of savings instruments is not disclosed to, or understood by, retail investors.

We suggest that each of the foregoing could be an undesirable consequence of TCR. Before proceeding further, we suggest that the OSC Investor Office and the Behavioral Insights Team conduct further research to assess whether TCR could cause retail investors to make undesirable changes to their investment decision-making.

4. ***Please clarify the CSA's view on the potential benefits of TCR compared to its anticipated costs.***

The Notice does not state whether the CSA believe the anticipated benefits of TCR will exceed its anticipated costs

Implementing TCR will result in significant costs to the investment funds industry. We anticipate that there will be both initial transition costs to set-up new systems for calculating and communicating the additional data contemplated by TCR, as well as ongoing costs to maintain those systems. The Notice did not state a view of the CSA on the anticipated benefits relative to the anticipated costs. We believe that the CSA objective of reducing unnecessary regulatory burden on market participants includes determining whether new regulatory requirements are proportionate to the benefits sought.

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Absence of a quantitative analysis by the OSC

As well, we did not identify in Appendix I to the Notice a quantitative analysis by the OSC of the anticipated costs and benefits of TCR as required section 143.2(2)7 of the *Securities Act* (Ontario).

Accordingly, we recommend that TCR not proceed further until these views and analysis are provided, and affected parties are given an opportunity to review them.

5. ***Please reconsider the proposal to impose TCR on investment funds that are not reporting issuers under Canadian securities laws.***

We are concerned that the proposal to require TCR for Canadian investment funds that are not reporting issuers (**pooled funds**) is unduly onerous and uncertain, which may lead dealers to discontinue offering pooled funds to their clients. This will be particularly true for pooled funds of managers with smaller amounts of assets under management that may not have the same resources as larger investment fund managers to build and maintain the support for dealers to provide TCR regarding their pooled funds. Given that investors in pooled funds must be accredited investors or satisfy other criteria permitting them to invest in pooled funds without a prospectus, we do not see a policy imperative for extending TCR to pooled funds. Our comments above regarding the policy objective of TCR, the anticipated costs and benefits of TCR, and possible unintended consequences resulting from TCR are particularly relevant in the context of pooled funds.

Likewise, we are concerned that the proposal to require TCR for non-Canadian investment funds (**foreign funds**) can be equally onerous and uncertain if the non-Canadian managers of those foreign funds do not build and maintain support for Canadian dealers to provide TCR regarding their foreign funds. This too could lead dealers to discontinue making foreign funds available to their clients. Foreign funds can be purchased by retail investors in certain Canadian jurisdictions only if there has been no active solicitation of retail investors in that jurisdiction¹. Imposing TCR on those foreign funds expects a level of local activity by managers of foreign funds that is inconsistent with the unsolicited basis on which their foreign funds are available. Here too, our comments above regarding the policy objective of TCR, the anticipated costs and benefits of TCR, and possible unintended consequences resulting from TCR are particularly relevant in the context of foreign funds.

Technical Issues

In addition to the comments of a fundamental nature provided above, below are our comments of a more technical nature on the wording of the Proposed Amendments.

6. We note that “direct investment fund charges” are defined in the Proposed Amendments as amounts charged by the fund or its manager to the investor.

¹ Section 3(b) of Multilateral Instrument 32-102 *Registration Exemptions for Non-Resident Investment Fund Managers*.

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- (a) Other provisions in the Proposed Amendments refer to amounts charged by the fund, its manager “or any other party”². Please clarify whether amounts charged by other parties such as dealers, registered plan administrators and custodians are intended to be included since those “other parties” are not included in the definition of “direct investment fund charges”.
 - (b) If the response to the foregoing comment is positive, then we recommend that the definition of “direct investment fund charges” be amended to include “other parties”, and also provide clarification of any “other parties” not intended to be included.
- 7. We note that the amounts reportable under proposed section 14.17(1)(j) are described as direct investment fund charges charged “in relation to securities of investment funds owned by the client”.
 - (a) Please clarify whether this wording is intended to exclude amounts charged to the client’s account as a whole (such as fees of registered plan administrators and custodians).
 - (b) If the response to the foregoing comment is positive, please also clarify that such fees may be proportioned based on the value of investment fund securities versus non-investment fund securities in the account.
- 8. Please clarify whether the carve-out in the definition of “direct investment fund expenses” for amounts included in “the investment fund’s fund expenses” is intended to be the same as amounts included in its fund expense ratio (i.e., its management expense ratio plus trading expense ratio). If yes, then we recommend changing the words “investment fund’s fund expenses” (which are not defined) to the words “fund expense ratio” (which are defined).
- 9. Proposed section 14.17(6) prescribes the methodology for calculating the total fund expenses as the daily cost factor [MER+TER X NAVPU] X number of units.
 - (a) Please clarify whether this calculation is intended, as stated, to apply to all of section 14.17(1)(i), or only to the calculation in section 14.17(1)(i)(b). We note that section 14.17(6) provides a formula to be used where “A” cross-references section 14.1.1(2) which only includes the fund expense ratio. This would provide an accurate calculation for the amounts in section 14.17(1)(i)(b), but we do not believe it would be correct for expenses charged directly to the investor described in section 14.17(1)(i)(a). If the intention is to cover both items of section 14.17(1)(i), we suggest a formula equivalent to section 14.1.1(2) may need to be added for the portion of the total amount of fund expenses derived from direct investment fund charges.

² See proposed sections 14.17(1)(i)(a) and 14.17(1)(j).

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- (b) Please also clarify whether sections 14.17(1)(i)(a) and (b) are intended to be conjunctive (“and” versus “or”)? As currently drafted, it appears that the total amount of fund expenses is one or the other item, rather than the sum of both items.
- (c) We note that section 14.17(6) states that these amounts are to be “added together ... for each day that the client owned” the investment fund. For greater clarity, we suggest that the Proposed Amendments include a defined term for such daily amounts, such as a “daily total fund expense”, and reword section 14.17(6) to refer to the sum of all the daily total fund expenses.
10. The prescribed narrative disclosure in proposed section 14.17(1)(n) regarding deferred sales charges cross-references the redemption fee schedule in the investment fund’s prospectus or fund facts. However, the current simplified prospectus and fund facts will not include this disclosure now that deferred sales charge options are no longer offered. As well, deferred sales charge schedules sometimes change. We recommend that this section instead cross-reference the prospectus or fund facts “at the time you purchased your units or shares”.

* * * * *

Thank you in advance for your consideration of the above commentary. Should you have any questions or wish to discuss the above commentary, please contact the undersigned.

Yours truly,

(signed) “Garth Foster”

Garth Foster, Partner
416-868-3422
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(signed) “Élise Renaud”

Élise Renaud, Partner
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(signed) “John Kruk”

John Kruk, Partner
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July 27, 2022

VIA EMAIL ONLY

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Care of;

Me Philippe Lebel

Corporate Secretary and Executive Director, Legal Affairs
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The Secretary

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RE: Total Cost Reporting for Investment Funds and Segregated Funds

The Federation of Mutual Fund Dealers ("Federation") has been, since 1996, Canada's only dedicated voice of mutual fund dealers. We currently represent dealer firms with over \$124 billion of assets under administration and greater than 24 thousand licensed advisors that provide financial services to over 3.8 million Canadians and their families. As such we have a keen interest in all that impacts the dealer community, its advisors, and their clients.

The Federation is pleased to provide comments on the proposed amendments to NI 31-103 and 31-103 CP.

General comments

The Federation supports providing additional clarity to investors on the costs of providing them with professionally managed products and advice. Our association and industry more broadly have diligently worked hand in hand with regulators to successfully implement many changes and enhancements for more than two decades, and we are pleased to continue to do so.

We have no comments upon the Proposed Insurance Guidance, other than to note the requirements should be harmonized both between all insurers, and between segregated and mutual fund guidance to the extent practicable.

We have found with changes throughout the years that some are procedural, and some are technical; while others can require extensive project management and outsourced programming, presenting extensive cost and standardization challenges. This is one of the latter, and we appreciate your thoughtful interaction and patience as we all work through the details of how the benefits of these proposals can be realized successfully.

We briefly note for parties casting aspersions at industry that it would reflect positively to instead contribute towards the enormous collaborative effort involved in bringing new regulatory requests to fruition.

SPECIFIC QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments, (a) exchange-traded funds, (b) prospectus-exempt investment funds, (c) scholarship plans, (d) labour-sponsored funds, (e) foreign investment funds?

Regarding the listed product types, there will be additional issues insofar as they don't transact with Fundserv. There is currently no mechanism to support ETF and the transactions of other product categories, or to provide their Fund Expense Ratio data to dealers via the Fundserv network.

Non-Fundserv products may be challenged in providing data, necessitating a 'many-to-many' approach from manufacturers to dealers resulting in a significant data consolidation requirement. Dealers may need to decide between purchasing 3rd party data (if it exists, or becomes available) and removing products. We expect some non-Fundco products to be deleted from product shelves, particularly non-Canadian products.

Products that do enjoy the advantages of using Fundserv will be subject to its timeline to modify the platform, as will dealerships. We understand Fundserv may not currently have the ability to accommodate the necessary changes, and will need to undertake development according to their tried and tested process that prevents failures on this critical platform. Integrating with these development changes will be needed for all mutual and segregated fund providers.

The new values also need to successfully cascade step by step throughout service and statement providers, dealer systems, online portals, print providers, etc. Many will need to be modified, all at some cost.

We are optimistic that major fund companies will be able to develop software solutions to provide compliant data for their mutual funds, and presuppose they could leverage those learnings to work towards solutions for their ETFs, assuming it becomes possible to do so, given that ETF manufacturers are not necessarily in possession of unitholder information.

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

We would consider this acceptable, although not preferable, as it may create a need for dealer and advisor support to explain the differences to clients.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

We don't have a preference, and defer to manufacturers as to what is most accurate and reasonable to implement for this requirement. We do wish to see a harmonized value used for equivalent products to reduce the possibility of errors in assessing, describing and evaluating them.

4. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

We have no additional remarks on implementation issues at this time.

5. Do you anticipate any issues specifically related to the proposed transition period?

There are simultaneous significant regulatory requirements coming due in 2024. While we agree that fee disclosure is an important initiative, we request the flexibility to allow our collective staffs to focus on T+1 until the expected implementation in (or before) September 2024, and have some additional time to stagger this project's completion date. This may align more closely with Fundserv's development processes and allow industry to fully dedicate the capital and staffing required for the disclosure enhancement to launch as flawlessly as possible.

In conclusion, during a time of fast paced and extensive regulatory change across all facets of the securities industry, from product and conflicts, CE, Titles, Privacy, Cybersecurity, SRO consolidation, and T+1 planning, testing and implementation - the last thing the industry wants

in its ongoing relationship with regulators is to under-estimate the challenge of implementing this initiative. It would be worthwhile for all parties to take the necessary time to probe and fully evaluate the depth of changes and costs required for a robust and reliable rollout.

We trust that we can all continue to work together between the regulators and industry to successfully implement this regulatory change. We are only requesting a timeline that is practical from a project management, testing, and cost perspective.

Respectfully,

MATTHEW LATIMER
Executive Director

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July 27, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Care of:

The Secretary
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M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
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And to:

Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
National Regulatory Coordination Branch
25 Sheppard Avenue West, Suite 100
Toronto, Ontario M2N 6S6
ccir-ccra@fsrao.ca



Dear Sirs/Mesdames,

**Re: Canadian Securities Administrators (CSA)
Canadian Council of Insurance Regulators (CCIR)
Total Cost Reporting for Investment Funds and Segregated Funds**

On behalf of Advocis, The Financial Advisors Association of Canada, we are pleased to provide the following comments on Total Cost Reporting for Investment Funds and Segregated Funds. Advocis shares the CSA and CCIR's goal of improving disclosure for clients.

1. ABOUT ADVOCIS

Advocis is the association of choice for financial advisors and planners. With over 17,000 member-clients across the country, we are the definitive voice of the profession. Advocis champions professionalism, consumer protection, and the value of financial advice. We advocate for an environment where all Canadians have access to the professional advice they need.

Advocis members advise consumers on wealth management; risk management; estate, retirement and tax planning; employee benefits; and life, accident and sickness, critical illness and disability insurance. In doing so, Advocis members help consumers make sound financial decisions, ultimately leading to greater financial stability and independence. In all that they do, our members are driven by Advocis' motto: *non solis nobis* – not for ourselves alone.

2. OUR COMMENTS

Advocis believes that regulatory requirements should centre on the client experience. The goals of total cost reporting can best be achieved through a simple and easily understood disclosure process.

At the same time, for regulatory requirements to be effective, obligations must be imposed on entities that have the capacity to fulfill those obligations. Registered dealers and advisors are entirely reliant upon the information provided by fund managers in providing disclosure to their clients. The proposal places obligations on securities dealers and advisors that they are unable to discharge.

We would also appreciate clarification around the meaning of significant costs when a policyholder withdraws the full market value of the segregated fund.



a. Effective, Simple Disclosure

When an investor considers a financial product, they need to understand two fundamental concepts in relation to the investment: the risk and the reward. To be useful, both initial and ongoing disclosure must provide the investor with the information needed to assess the risk and reward of the financial product in a straightforward and understandable manner. Fees are important because they impact a product's risk/reward characteristics.

The regulatory objective must be to provide the investor with the information needed to assess risk/reward in the most accessible way possible.

We know that consumers do not read lengthy contracts or disclosure documents.¹ To be effective, disclosure must be short, clear, and written in plain language. Unnecessary or redundant information should be eliminated.

The Ontario Securities Commission's Behavioural Insights Team has specifically examined barriers which prevent investors from understanding and acting upon fee disclosure information.²

Among several concrete recommendations, the Behavioural Insights Team suggests:

"Eliminate non-essential or redundant information. One way to reduce cognitive load is by eliminating non-essential or redundant information presented in the Annual Fee Report."³

Although the Behavioural Insights Team did not find any significant benefit from removing disaggregated fee information,⁴ the current proposal calls for even more information fields to be provided to investors. We worry that this additional disaggregated information may form a barrier to investor comprehension.

The Behavioural Insights Team also recommends using plain language and presenting important information up front.⁵

¹ For instance, one study found that only 1-2 retail consumers out of 1,000 (0.1-0.2%) accessed the license agreement when purchasing software and even fewer read more than a small portion of the document; see: Yannis Bakos, Florencia Marotta-Wurgler, and David R. Trossen, "Does Anyone Read the Fine Print? Consumer Attention to Standard Form Contracts," *Journal of Legal Studies* 43:1 (2014).

² OSC Staff Notice 11-787: "Improving Fee Disclosure Through Behavioural Insights," (2019), available here: https://www.osc.ca/sites/default/files/pdfs/irps/sn_20190819_11-787_improving-fee-disclosure-through-behavioural-insights.pdf

³ *Ibid*, at pg. 14.

⁴ *Ibid*.

⁵ *Ibid*, at pgs. 12-14.



Taking these insights into account, Advocis believes that a simple, direct approach to disclosure will most effectively inform and protect investors.

Investors should receive a clear, easily understood bottom-line number which encompasses all the costs of holding the particular investment fund.

However, this information should not be presented in isolation. Fees are only part of the picture. Contextual information about the benefits associated with the product—such as the rate of return and, for segregated funds, the guarantee—should also be included up front so that investors can easily understand the risks and rewards associated with their holdings.

This contextual information is essential. Investors need to understand both the costs they pay and the returns of their investments. When faced with fee information in isolation, investors may be discouraged from investing their money, thereby undermining their future financial security.

Advocis supports providing additional disaggregated fee information, as contemplated in the proposal. However, this additional information must not distract from the key considerations for investors. Instead, the additional breakdown should be in place to supplement the primary simplified disclosure.

We believe that a simplified approach will assist retail investors by removing barriers which stand in the way of their understanding of the fundamental features of their investments. To help illustrate this point, we have prepared a sample cost disclosure document, attached as an appendix to these submissions.

b. Securities: Registered Dealer Obligations regarding Information Quality

The proposed amendments to National Instrument 31-103 impose a significant obligation on registered firms regarding the quality of fee information reported to the client. Specifically, the proposed section 14.17.1 provides:

...

(2) Subject to subsection (3), if no information is provided under section 14.1.1, or the registered firm reasonably believes that any part of the information provided pursuant to section 14.1.1 is incomplete or that relying on it would cause information required to be delivered to a client to be misleading, the registered firm must rely on the most recent information disclosed in the relevant fund facts document, ETF facts document, prospectus or management report of fund performance, as applicable;



(3) If there is no publicly available information or if the information referred to in subsection (2) was disclosed more than 12 months before the end of the period covered by the statement or report required to be delivered to the client, or the registered firm reasonably believes that relying on the publicly available information would cause information required to be delivered to the client to be misleading, the registered firm must not rely on the publicly available information and must

(a) make reasonable efforts to obtain the information referred to in subsection (1) by other means, and

(b) subject to subsection (4), rely on the information obtained under paragraph (a).

(4) If the registered firm reasonably believes it cannot obtain information under paragraph (3) that is not misleading, the registered firm must exclude the information, from the calculation of the amount of fund expenses or of the direct investment fund charges reported to the client, as the case may be, or, in the case of a fund expense ratio, must not report the fund expense ratio, and must disclose the fact that the information is excluded or not reported in the relevant statement or report.

In practice, registered dealers are entirely reliant upon the information supplied by fund managers to provide the required disclosure for their clients. Registered dealers are unable to verify information provided by fund managers regarding the fees associated with their products, particularly trading expenses.

However, the proposal imposes an obligation on registered dealers by requiring them to determine whether the information is incomplete or potentially misleading. Since registered dealers rely entirely on fund managers for the information, regulators should not attempt to impose such an obligation. Registered dealers are simply not able to fulfill this obligation. Instead, regulators should focus on ensuring that fund managers provide the timely and accurate information.

Further, the proposal may harm investors. If the amendment is adopted, investors will believe that registered firms independently verify the fee information contained in the disclosure. However, since registered dealers rely on fund managers for this information and cannot independently verify it, this confidence is unwarranted.

We appreciate the effort by the regulators to protect investor interests by making all industry participants responsible for fee disclosure. However, in this case, the fund manager is the only party with access to complete underlying information. Therefore, the obligation to ensure timely and accurate disclosure of this information should fall on the fund manager.



As part of their “Know Your Product” obligation, registered dealers must ensure that fee information is available. If no fee information is available, registered dealers should carefully consider whether the product fulfills the enhanced suitability requirements in the best interests of the client, particularly when fee information is available for alternative products. This would be another example of putting the onus of a regulatory obligation on the actor that is best positioned to discharge it.

c. Insurance: Significant Costs on Withdrawal

The proposed segregated fund guidance indicates that costs incurred from withdrawing the full market value of the segregated fund should be explained in a plain-language notice if these costs are “significant”.

While we support the transition towards principles-based, outcomes-focused regulation, we believe that the use of the word “significant” in this context is needlessly ambiguous.

In particular, the subsequent statement—that deferred sales charges are significant—suggests that some costs are significant due to their nature, regardless of their magnitude.

We would therefore appreciate greater clarity from the CCIR regarding when a cost is considered significant. Can a bright-line test be applied? Or are there other costs that would, by definition, be significant?

Greater clarity on this point would assist the industry in complying with the proposed guidance.

3. CONCLUSION

We welcome the work that the CSA and the CCIR have undertaken to improve cost disclosure in for investment funds and segregated funds. Where appropriate, disclosure standards for these products should be harmonized. However, regulation must also recognize the unique features of these products.

We support effective, simple disclosure for investors. We believe that the best protection for investors comes from understandable and accessible disclosure.

We believe that regulatory obligations should fall on those best able to fulfill them. For this reason, we submit that the obligations on registered dealers related to the quality of information provided by fund managers is misplaced. Instead, the regulatory framework should focus on the obligation of fund managers to provide timely and accurate information to registered dealers.



We would also appreciate greater conceptual clarity around the meaning of significant costs in the context of withdrawals from a segregated fund.

We would welcome the opportunity to further discuss this initiative with you. Should you have any questions, please do not hesitate to contact the undersigned, or James Ryu, Vice-President, Advocacy and General Counsel at jryu@advocis.ca.

Sincerely,

Original signed by

Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO

Original signed by

Catherine Wood, CFP, CLU, TEP, CHS, MBA, MIST, ICD.D.
Chair, National Board of Directors

APPENDIX - SAMPLE COST REPORTING

Dealer ABC Inc.

Your Account Number: **123-4567**

All values as of **December 31, 2021**

Total Book Cost of Your Account (what you invested¹):

\$36,500.00

Total Market Value of Your Account (what your investments are worth²):

\$42,000.00

Your Current Gains or Losses are:

\$5,500.00

Your Gains or Losses in the last year are:

\$2,500.00

Your Total Cost of Investing in the last year was:

\$815.00

A detailed itemization of these costs can be found in the remainder of this report.

¹ Book cost is the original price you paid for your investments plus transaction costs, adjusted for any reinvested dividends, corporate reorganizations, and distributions.

² Market value is the value of your investments on the market. However, this value does not reflect any transaction costs or redemption fees which may be triggered if you sell your investments. All values in this report are as of market close on December 31, 2021.



Your Cost of Investing and Our Compensation

This report shows for 2021:

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses. Your total cost of investing was **\$815** last year.

What you paid

Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.	
Account administration and operating fees - you pay these fees to us each year	\$100.00
Trading fees - you pay these fees to us when you buy or sell some investments	\$20.00
Total you paid to us	\$120.00
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.	
Fund Expenses - See the fund expenses % shown in the holdings section of your account statement ³	\$645.00
Redemption fees on deferred sales charge (DSC) investments ⁴	\$50.00
Amount you paid to investment fund companies	\$695.00
Your total cost of investing	\$815.00

³ **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

⁴ **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.



Our Compensation

What we received

Total you paid us, as indicated above	\$120.00
Trailing commissions ⁵ paid to us by investment fund companies	\$342.00
<i>Total we received for advice and services we provided to you</i>	<i>\$462.00</i>

⁵ **Trailing commissions.** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

July 27, 2022

VIA EMAIL

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Me Philippe Lebel
Corporate Secretary and Executive
Director, Legal Affairs
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Mr. Tony Toy, Policy Manager
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Re: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds (the “Proposals”)

The Canadian Advocacy Council of CFA Societies Canada¹ (the “CAC”) appreciates the opportunity to provide the following comments on the Proposals.

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 19,000 Canadian CFA Charterholders. The council includes investment

As CFA Charterholders, we support rules that foster clear, transparent and comparable disclosure to investors about the costs of investing. We applaud the CCIR for its proposed framework with respect to individual variable insurance contracts. In our view, this framework will represent a significant step forward for investors in those products. It will empower them to make informed decisions about the products in which they invest.

We also believe total cost reporting for securities products is long overdue. We recognize the need for a reasonable transition period after the Proposals are finalized, but we do not see a need for the kind of extended transition period called for by some stakeholders. In this regard, we note that total cost reporting has been on the regulatory agenda for almost 20 years,² and understand that significant technological and reporting innovation has been undertaken by registrants in service to the needs of their clients that exceed minimum regulatory standards.

Given the amount of time that has been spent considering this issue, we also expected to see more leadership from the CSA in the Proposals, and that the CSA would draw a far clearer connection between available evidence and the design of the cost reporting templates included by the CSA in the Proposals. The balance of this letter outlines key principles that, if followed, would better align the scope of the Proposals and the design of the CSA's disclosure templates with the reasonable expectations and needs of retail investors.

1. Scope of the CSA Proposals

In our view, the CSA's approach to cost reporting should be guided by the same principle that guides performance disclosure under the Global Investment Performance Standards (GIPS®): information should be calculated and presented "in a *fair* and *comparable* format that provides *full disclosure*".³

Below, we note several missed opportunities to foster comparability across disclosures and product types. We also highlight how presenting management fees and trading expenses as a single, combined metric obscures the differences between these costs, denies investors full disclosure about their costs of investing, is not adequately

professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 180,000 CFA Charterholders worldwide in 160 markets. CFA Institute has nine offices worldwide and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on LinkedIn and Twitter at @CFAINstitute.

² See *The Fair Dealing Model: Concept Paper of the Ontario Securities Commission* (January 2004) at pp. 72–73, www.osc.ca/sites/default/files/pdfs/irps/cp_33-901_20040129_fdm.pdf.

³ CFA Institute, *Global Investment Performance Standards (GIPS®) Handbook*, 3rd ed (2012) at p. 2 (emphasis added). GIPS® is a registered trademark owned by CFA Institute.

supportive of enabling value-for-money analysis by investors, and impairs comparability across different investment funds.

(a) Cost Disclosures and Point-of-Sale Disclosures Should be Considered Together

Point-of-sale disclosures and ongoing disclosures such as cost and performance reports are used by the same investors, for the same goals: to assess what they are paying for their investments and related advice, what they are getting for those payments, and what they should do if they have questions or are not satisfied with what they are getting. Accordingly, these disclosures should not be designed in isolation. Designing these disclosures with reference to one another—for example, by taking care to employ common metrics and common design features—should leave investors in a better position to use these disclosures to understand the full story behind their investments' performance, costs, and other characteristics.

Given how long the current Fund Facts point-of-sale disclosures have been in circulation, this would have a more than appropriate time to review these disclosures for effectiveness and potential refinements. We note that in the lead-up to the publication of the Proposals, we pointed CSA staff to the European Union's Key Investor Information Document ("KIID") as a potential model for updated point-of-sale disclosures. KIID employs standardized metrics and disclosure design to help investors compare investment products. It presents clearly defined cost elements, including broken out transaction cost disclosure, as well as clear performance presentations made using plain language.

It is unfortunate that the CSA did not use this opportunity to undertake a long overdue review of its point-of-sale disclosures and ensure comparability across point-of-sale and ongoing disclosures. In light of the concerns raised in the Proposals about regulatory burden, we add that ensuring coherence and consistency among related disclosures should also reduce unnecessary regulatory burden.

(b) Cost Disclosures Should be More Prescriptive

Following the KIID model, as well as the CSA's own point-of-sale disclosures, we expected the CSA would be more prescriptive in setting cost disclosure requirements. More prescriptive disclosures would have allowed for greater comparability for investors, both between different cost disclosures and between cost and point-of-sale disclosures. It also would promote these disclosures' ease of use by addressing the risk that service providers will act on incentives to be less than clear in disclosing fees to clients.

(c) Cost Disclosures Should be Comparable Across Products

We note one obvious missed opportunity to ensure standardized cost reporting across different types of investment products. The Proposals only relate to cost disclosure for *direct* investments in covered investment products, even though it is just as likely that certain types of investors will gain exposure to the same products through a segregated managed account. As such, the Proposals will be of no help to an investor who wants to compare (i) the total fees payable for an investment in mutual fund units

held through a segregated account with (ii) the total fees payable for a direct subscription in units of the same mutual fund.

(d) Cost Measures Should be Decision-Useful

Investors should be able to use the cost measures presented to them to ask informed questions and make informed decisions about their investments. In our view, the decision reflected in the Proposals to combine the Trading Expense Ratio (“**TER**”) and Management Expense Ratio (“**MER**”) into one metric, with no breakdown of these ratios, does not achieve this objective.

MER is readily useful in comparing the costs of different investment funds. It reflects what funds have agreed to pay investment fund managers for the services these managers provide, and can include embedded fees paid back to providers of advice on fund classes with embedded commissions. TER is less useful in this regard, as it represents a cost of business for the investment fund rather than a source of revenue for the fund manager or advice provider, varies by investment strategy/asset class, and can vary over time depending on asset class volatility. In our view, disclosure should allow investors to use MER to compare the compensation to investment fund managers (and providers of advice through embedded commissions where applicable) in respect of different funds while also alerting them to the impact of TER as a cost of their investments. Neither expense measure should be presented in isolation, just as in our view they should not be conflated or combined without subtotalling in disclosure materials.

In our view, it would be more useful for investors’ annual cost reports and account statements include a breakdown of the management fees and other costs reflected in MER and the trading expenses reflected in TER, with clear, separate explanations of what these each of these measures and their underlying expenses represent.

(e) Performance Reporting Should Support Comparability Between Funds

We were disappointed that the Proposals did not take the opportunity to examine investment funds’ and dealers’ initial/point-of-sale and ongoing performance presentation and reporting requirements to better enable ‘Value For Money’⁴ determinations by investors for their investments, when considered alongside improved expense/cost reporting. Specifically, we would (again) urge the CSA to consider requiring the inclusion and explanation of time-weighted rates of return (“**TWRR**”) alongside the existing requirement for money-weighted rates of return (“**MWRR**”) (including tested and prescribed disclosure on the differences between the two performance measures and the utility of each to investors) in the annual investment performance reporting requirements of Part 14 of NI 31-103. TWRR is a critical element in enabling the comparability of investment performance, free from the effects of the timing of investor decisions and related advice (as captured in MWRR), and the utility of

⁴ See CFA Society United Kingdom, “Value For Money, A Framework for Assessment” (November 2018), <https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/3-research-and-position-papers/value-for-money--a-framework-for-assessment.pdf>.

its presentation is enhanced when considered alongside comparable costs of various investment funds (and more broadly, investment choices).

2. Design of the CSA Templates

Disclosures intended for retail investors should be designed with care, making use of international best practices and empirical evidence showing that the disclosure is easy to use. The evidence relied on also should be made available to stakeholders, so that they can see how that evidence connects to the design choices made by regulators, and comment on whether they believe regulators got that connection right.

We are disappointed that the CSA templates presented in the Proposals do not meet this standard. Below, we suggest ways the CSA could quickly bring the templates up to this standard.

(a) International Best Practices Should be Considered

The United Kingdom and European Union adopted their own total cost reporting regime over four years ago.⁵ We are surprised that the Proposals disclose no attempt by the CSA to learn from the experience of these jurisdictions. Discussion with these jurisdictions could have yielded insights into, for example, how technology could be used to provide more effective and interactive disclosure to retail investors, as well as methods of integrating accessibility principles into the design of these disclosures.⁶

(b) Behavioural Insights Research Should Factor into Disclosure Design

We also expected to see a stronger relationship between the CSA disclosure templates included in the Proposals and published behavioural insights research on fee disclosure.

The Proposals do not explain how the templates reflect the findings of the research published by the OSC in [2019](#) or the MFDA in [2021](#), and we see little resemblance between the templates in the Proposals and the top-performing templates tested in that research. What is more, a cursory look at the templates reveals multiple potential sources of investor confusion:

- A client might erroneously assume that the new percentage figures listed under “Fund Expenses” in the template Account Statement reflect percentages of the client’s entire portfolio (like the percentage figures in the column immediately to the right). The MFDA study mitigated this risk in its [disclosure templates](#) by separating these figures.

⁵ See UK Financial Conduct Authority, “MiFID II costs and charges disclosures review findings” (28 February 2019), www.fca.org.uk/publications/multi-firm-reviews/mifid-ii-costs-and-charges-disclosures-review-findings.

⁶ We note that technology can foster “more information and better transparency” in disclosures, “improving investor understanding and confidence in markets”. *Enhancing Investors’ Trust: 2022 CFA Institute Investor Trust Survey*, at p. 9, trust.cfainstitute.org/wp-content/uploads/2022/04/Enhancing-Investors-Trust-Report_2022_Online.pdf.



- Footnote 1 in both templates opens by listing three categories of fund expenses (“management fee, operating expenses and trading costs”) but later reduces these categories to two, reframing fund expenses as “the sum of the fund’s management expense ratio (MER) and trading expense ratio (TER)”. Apparently, it is assumed that clients will know that operating expenses count toward MER, as opposed to TER or some other unmentioned ratio. We add that figures for MER and TER appear nowhere in the templates. We discuss solutions above, in section 1(d).
- Rather than depicting embedded commissions as a cost of investing, the template Annual Charges and Compensation Report presents “Your Cost of Investing” and “Our Compensation” separately, leaving the client to piece together the different meanings of these concepts from footnote disclosure. It is unclear to us why the templates do not make use of the [much more direct](#) depictions of the relationship between embedded commissions and total costs of investing tested (with success) by the MFDA.

(c) Disclosures Should be Designed Based on Publicly Available Evidence

We are not prepared to give weight to the unpublished OSC research cited in the Proposals as being reflected in the templates, as OSC staff have refused to share this research with stakeholders. If the CSA has enough confidence in this research for it to form a basis for proposed rules, it should have enough confidence to share it with stakeholders.

We note that this appears to be the first time that the OSC has proposed rules in reliance on a significant unpublished study and refused to share information about the findings of that study with stakeholders.⁷ This is an unwelcome precedent. The statutory requirement to disclose reliance on unpublished studies was imposed when the OSC was granted rulemaking authority.⁸ Its aim was to ensure stakeholders could gain access to the information they need to participate meaningfully in the rulemaking process.⁹

We acknowledge that in rare cases it may not be possible to fully translate study findings into publishable form at the time rule proposals are published. This was the case for proposed amendments to NI 24-101 – Institutional Trade Matching, published in 2009,

⁷ We are aware of three previous instances in which rules have been proposed in reliance on unpublished studies. In each case, the OSC or CSA either published key information about these studies’ findings or made this information available to stakeholders on request. See Proposed OSC Rule and Policy – Insider Bids, Issuer Bids, Going Private Transactions and Related Party Transactions (1996); Proposed MI NT 33-107 – Proficiency Requirements for Registrants Holding Themselves Out as Providing Financial Planning Advice (1999); Proposed Amendments to NI 24-101 – Institutional Trade Matching and Settlement and Companion Policy 24-101CP – Institutional Trade Matching and Settlement (2009).

⁸ See *Securities Amendment Act, 1994* (Ontario).

⁹ See *Responsibility and Responsiveness – Final Report of the Ontario Task Force on Securities Regulation* (1994), 17 OSC Bulletin 3208 at p. 3258.

which relied on a review of institutional trade matching data across Canadian equity and debt markets. However, these proposed amendments included extensive discussion of staff's preliminary findings from this review, and promised that full findings would be published in the near future—a promise staff delivered on.¹⁰ We see no reason why the CSA could not at least have followed this approach with respect to the (we expect, far less complex) study referred to in the Proposals.

Accordingly, and given the long history of engagement and openness on the part of OSC and other CSA staff in their dealings with us on a range of other policy issues, we are surprised by the lack of transparency we have observed with respect to the Proposals.

Concluding Remarks

We support the CCIR's efforts to enhance cost disclosure in the insurance sector. We also believe that total cost reporting in the securities sector is long overdue. But we had expected the CSA to do more to ensure the disclosures retail investors would receive under the Proposals are easy to understand and act on. Given the importance of this issue for investor protection, and the resulting need to move swiftly with adoption and implementation, we hope the CSA corrects course sooner rather than later.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council of
CFA Societies Canada*

**The Canadian Advocacy Council of
CFA Societies Canada**

¹⁰ See Proposed Amendments to NI 24-101 – Institutional Trade Matching and Settlement and Companion Policy 24-101CP – Institutional Trade Matching and Settlement (2009); CSA Staff Report on Industry Compliance with NI 24-101 (2010).

July 27, 2022

Attention : comments@osc.gov.on.ca

I am pleased that the CSA is consulting on this socially important matter. On March 30, Morningstar published its Global Investor Experience report around fees and expenses. In this report, Canada received an overall grade of Below Average when compared with 26 other jurisdictions. This suggests our fees can be reduced with appropriate regulation and industry initiative.

According to SPIVA reports, most actively-managed mutual funds generally fail to meet benchmark returns (after fees) over the long term . With approximately \$2 Trillion in assets, these funds constitute a major proportion of Canadian savings. This makes investing costs, one of the most important determinants of retirement (or child education) savings. Investing costs include all product costs, account related costs and peripheral charges like early redemption penalties of DSC mutual funds or short term trading fees. Cumulatively, these costs eat away at savings due to compounding over time.

The Client focussed reforms (CFR) are a positive step in the right direction, which otherwise would be a cause for concern given the vertically integrated nature of the Canadian financial-services industry. It remains to be seen if CFR will contain dealer malpractices. Better cost reporting will help level the playing field.

In Canada, fees for advice and distribution are predominantly bundled in with the overall commission charged on the majority of mutual fund assets, making it hard for Main Street investors to assess value for costs incurred. Advice providers are not fiduciaries and conflicts of interest are not prohibited. Investors must therefore be on alert for overcharges in addition to conflicted advice.

A number of leading Firms already provide quality reporting so care should be exercised if fixed formats are legislated.

Clients should have the option of receiving statements/reports per account or on a consolidated portfolio basis.

The key point concerning these reports is **that** they should be in a format that enables the average retail investor to ask the right questions and take corrective measures if needed.

The CSA Total cost reporting proposal, if implemented, would empower retail investors to make better decisions and achieve better financial outcomes. I urge the CSA to proceed with uncharacteristic high speed to implement these important proposals faster than the published dates. Industry opposition , which could be significant, should be met with regulatory resolve in the Public interest. In the end, we will end up with a competitive financial services industry and satisfied clients.

Regulators must treat failures of cost disclosure and suitability with meaningful sanctions and corrective actions to prevent recurrence. We don't need any more double billing scandals.

Permission is granted for public posting of this comment letter.

Respectfully,

Peter Whitehouse

Financial consumer Advocate



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July 27, 2022

VIA EMAIL

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attention:

M^e Phillippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers

The Secretary
Ontario Securities Commission

consultation-en-cours@lautorite.qc.ca

comments@osc.gov.on.ca

Dear Sirs/Mesdames,

Re: CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Related Proposed Consequential Amendments and Changes, and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

INCLUDES COMMENT LETTERS RECEIVED

Introduction

We are writing to provide our comments on the CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Related Proposed Consequential Amendments and Changes and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds (the “**Consultation**”). Thank you for the opportunity to submit comments.

Invesco Canada Ltd. (“**Invesco Canada**”) is a wholly-owned subsidiary of Invesco Ltd. (“**Invesco**”). Invesco is a leading independent global investment management company, dedicated to delivering an investment experience that helps people get more out of life. As of March 31, 2022, Invesco and its operating subsidiaries had assets under management of approximately USD \$1.6 trillion. Invesco operates in more than 20 countries in North America, Europe and Asia. Invesco Canada operates Invesco’s Canadian business and maintains offices in Toronto, Montreal, Vancouver and Charlottetown.

General Comments

Invesco Canada is supportive of regulatory efforts to provide investors with better and clearer disclosure of the costs associated with investing in investment funds. We believe, however, that the proposals as currently set out in the Consultation may result in certain unintended and undesirable outcomes, the most important of which is a potential reduction of product choice for investors as dealers will likely shrink their product offerings to reduce the significant burden placed upon them. Our comments try to balance the important objective of providing investors with better ongoing total cost disclosure while being less onerous on industry participants so as to not inadvertently limit choice.

We have reviewed the Investment Funds Institute of Canada’s (“**IFIC**”) response to the Consultation and strongly endorse all of their views. Separately, we would like to highlight specific concerns relating to: (a) the dealer’s obligation to vet total cost reporting information provided by an investment fund manager (“**IFM**”); (b) total cost reporting being imposed on foreign investment funds; (c) the data to be provided by IFMs; (d) total cost disclosures in account statements; and (e) implementation timelines.

Dealer’s obligations regarding vetting total cost reporting information provided by IFMs

Sections 14.17.1(2) and (3) require dealers to determine whether the total cost data provided by IFMs is complete or accurate. If the dealer determines it is incomplete or inaccurate, or if the information provided is stale or if it is not provided at all, the dealer is required to make reasonable efforts to find the information by other means. Only if this is not possible are dealers permitted to exclude the information.

In our view these requirements impose a significant burden and potential liability on dealers as a dealer will be required to vet the total cost data provided by IFMs. This is problematic for a number of reasons:

- The dealer’s obligation to vet total cost information arises not only with respect to every series of every investment fund that it has sold to clients but also this vetting may need to occur frequently as we understand that total cost data will be provided to dealers on a daily basis;

- Given that dealers have no involvement in the management of an investment fund and they have no access to fund data relating to operating expenses or trading expenses of an investment fund, it will likely be challenging for dealers to vet the total cost data provided by IFMs.

We are concerned that the vetting requirement will encourage dealers to reduce the number of investment funds on their product shelves. Of greater concern, it is also possible that dealers conclude that using proprietary products is less costly or challenging than offering independent products, since the MERs and TERs of proprietary products will have already been vetted through shared operations, compliance and audit functions. Accordingly, dealers will have significantly more comfort with total cost data provided by proprietary products. In our view, this is not desirable as it may materially reduce investor choice and inadvertently undermines an important regulatory initiative under the Client Focused Reforms.

We recommend that dealers be provided comfort that they are able to fully rely on total cost information provided to them by IFMs. If an IFM fails to provide total cost information then a dealer should be entitled to not disclose that information for that fund. In such situations, the IFM will be in breach of securities legislation.

Foreign investment funds

There are a number of reasons why Canadian investors may purchase foreign investment funds, namely the strategy may not exist in Canada or the strategy exists but the fund is not as well diversified or may have lower assets under management which may impact the costs associated with investing in the fund. Foreign investment funds are subject to their local regulations and practices. These practices may or may not require the calculation of MERs or TERs and if these calculations are required they may not be done in a manner that is identical to Canadian regulations and practices. Foreign investment funds may be reluctant to calculate MERs and TERs that are consistent with Canadian regulations because such funds may be required to disclose those ratios to their local investors which may be confusing.

Foreign investment funds do not trade on Fundserv. As such, there is no existing platform through which total cost reporting may be transmitted from IFMs to dealers. Accordingly, infrastructure will need to be built between the IFM and the dealer which will be time consuming and costly. Given that Canadian investors constitute a very small percentage of the overall investor base for such foreign investment funds, our concern is that foreign investment funds will cease to offer their products to Canadians as a result of the new requirements. Dealers are already undertaking significant expense and time with respect to achieving total cost reporting through Fundserv for all Canadian investment funds that trade on Fundserv. Dealers are currently also working on infrastructure to deal with total cost reporting for Canadian-based exchange traded funds (“ETFs”) and other Canadian based investment funds that do not trade on Fundserv. Dealers may be hesitant to explore building alternate infrastructure for foreign investment funds. As such, dealers may reduce their product shelves or alternatively, lead dealers to favour proprietary products as data feeds may already exist or may be easier to implement between affiliated entities.

We recommend that foreign investment funds be exempt from the total cost reporting requirements.

Data to be provided by IFMs

The Consultation is unclear as to when an IFM should use publicly available MERs and TERs rather than providing an approximation. The Consultation indicates that if an IFM provides an approximation that the approximation must be based on the publicly available MERs and TERs unless the IFM deems it misleading. Accordingly, it appears that IFMs should use publicly available MERs and TERs unless they are misleading.

TERs are calculated using trading expenses incurred over a period. Trading expenses are driven by trading decisions made by the portfolio managers of an investment fund. Trading in securities occurs sporadically and as opportunities arise. Trading is also impacted by purchases and redemptions from an investment fund. As a result, it is challenging for IFMs to determine whether the publicly disclosed TERs are consistent with trading costs incurred in the current period.

For these reasons, we submit that IFMs should be required to provide MERs and TERs that are publicly available unless those MERs and TERs are not available, for example new funds. In those situations, IFMs should be permitted to use approximations.

Account statements

Account statements currently disclose portfolio holdings, prices and current value. The account statements do not disclose any fees or expenses payable by an investor with respect to their holdings or account. The inclusion of total cost reporting in account statements may lead a reasonable investor to believe that the total cost for investment funds as disclosed in the account statements, constitutes the entire cost for that investment fund which is wholly inaccurate. For certain accounts, for example series F securities holders, the total cost as proposed will understate the cost of holding the investment fund as the account statement will not disclose the dealer's fees. For other accounts, for example those series of funds where a rebate is paid, the total cost as proposed will overstate the cost of holding the investment fund as the account statement will not disclose the management fee rebate paid to the investor.

Accordingly, we submit that total cost reporting should not be included in the account statements. Costs associated with holdings and an account are mandated under the report on charges and other compensation and it is appropriate for that report to include total cost reporting for investment funds as it contains all fees and expenses payable with respect to portfolio holdings and the account.

Implementation concerns

We are concerned that the implementation timeframes are too tight for these initiatives, specifically with respect to ETFs that do not trade through Fundserv. ETFs trade on a stock exchange and it is unlikely that stock exchanges are able to transmit total cost reporting between ETFs and dealers because trading on a stock exchange occurs between two dealers and not between a dealer and an ETF. ETFs and other investment funds that do not trade on Fundserv will need to work on an alternate method of transmission of total cost data. Service providers will need to be vetted and infrastructure will need to be established which will take time.

For funds that trade on Fundserv, implementation concerns arise for the reasons set out in IFIC's response letter.

Conclusion

We would be pleased to discuss our responses in greater detail at your convenience. Thank you for the opportunity to comment on this important matter.

Yours truly,

Invesco Canada Ltd.

Per: (Signed) "Caroline Mingfok"

Name: Caroline Mingfok

Title: Vice-President, Legal

Per: (Signed) "Shalomi Abraham"

Name: *Shalomi Abraham*

Title: Senior Vice-President, Head
of Legal - Canada

cc. John Zerr, President & CEO, Invesco Canada Ltd.

The Bank of Nova Scotia
Executive Offices, Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1



July 27, 2022

SUBMITTED VIA EMAIL

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Ontario Securities Commission
Superintendent of Securities, Dept. of Justice and Public Safety, Prince Edward Island

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
comment@osc.gov.on.ca

M^e Philippe Lebel, Corporate Secretary
and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
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consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 - Total Cost Reporting for Investment Funds and Segregated Funds

We are writing on behalf of Scotia Capital Inc.¹, Scotia Securities Inc.², and 1832 Asset Management L.P.³ (collectively, “Scotiabank” or “we”) with respect to the CSA and CCIR

¹ Scotia Capital Inc. is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada. Its divisions include ScotiaMcLeod, and Scotia iTRADE.

² Scotia Securities Inc. is a mutual dealer and a member of the Mutual Fund Dealers Association of Canada.

³ 1832 Asset Management L.P. is registered as a portfolio manager, exempt market dealer and/or an investment fund manager with securities commissions in certain provinces of Canada.

Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance* –Total Cost Reporting for Investment Funds and Segregated Funds (together, the “Proposals”).

Scotiabank is supportive of the Proposals’ rationale and objectives. We believe that providing complete and transparent information relating to the total costs of owning investment funds will allow investors to make informed decisions, and deliver investing outcomes that are consistent with their expectations.

We have participated in and generally support the comment letters submitted by the Investment Industry Association of Canada (“IIAC”) and the Investment Funds Institute of Canada (“IFIC”), and appreciate the opportunity to supplement certain key themes which are of specific importance to Scotiabank.

Account Statements

While we fully support expanded cost disclosure to clients, we believe the inclusion of the proposed Fund Expense Ratio (FER) on monthly or quarterly statements will not meet the CSA’s goal of improving clients’ understanding of their investment costs.

Simply put, by providing a mid-year FER without distribution expenses, the statements will leave clients with a distorted view of costs, where Series F funds or passive ETFs may appear more expensive than a money manager overseeing an identical component of a client’s portfolio – and lead to client requests that may or may not be suitable. It is an advisor’s obligation to recommend the product that is in the client’s best interest, but in circumstances where asymmetric, interim cost reporting nudges clients towards a pre-formed conclusion of a product – it creates a challenge for the advisor to explain comparative merits of other products, and steer clients towards our best recommendation.

Scotiabank believes that all investors should be equipped to choose between investments (and advisors) based on costs and benefits of their options, but we submit that an account statement which displays a cost of owning a fund in mid-year, without the benefit of a holistic CRM2 view on annual returns and full distribution costs, does a material disservice to that investor.

Implementation Period

We also write to relay our concerns around the proposed implementation timeframe. The level of complexity for portions of the proposal are significantly higher than that for CRM2, as it would require fund managers, intermediaries, dealers, and third-party

vendors (involved in cost calculations and report creation) to align on technical requirements, ownership of work items, sequencing, and delivery – all before there is finality regarding key aspects of the proposed rule. All parties would then have to be in concurrent synchronous development of interconnecting solutions. Certain types of funds, such as Exchange Traded Funds, will require the deployment of entirely new industry-wide infrastructure.

And all this would need to take place when the expertise of internal teams most knowledgeable about trading mechanics will be occupied with implementing the move toward another important regulatory initiative, T+1 settlement.

We believe in ambitious goals, and we consistently seek to exceed regulatory expectations; however, we are mindful of realistic timelines for achieving those goals while ensuring that business operations continue to function seamlessly. Accordingly, we ask the CSA to work with industry and key vendors to develop a collective timeframe for implementation to ensure that this critical reporting is effectively developed.

We thank you for this opportunity to provide our comments, and look forward to continuing to work with the CSA to achieve the important goals articulated in the Proposals.

Yours truly,



Neal Kerr
Senior Vice-President and Head,
Asset Management
The Bank of Nova Scotia



Todd Barnes
Senior Vice-President and Head,
ScotiaMcLeod
The Bank of Nova Scotia

July 27, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission of New Brunswick
Office of the Superintendent of Securities, Digital Government and Services, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Nunavut
Ontario Securities Commission
Prince Edward Island Office of the Superintendent of Securities
Financial and Consumer Affairs Authority of Saskatchewan
Office of the Yukon Superintendent of Securities

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario
M5H 3S8

Raymond James Ltd. CSA Response – Enhanced Total Cost Reporting Requirements

Raymond James Ltd. (NRD # 8240) (“RJL”) would like to thank the Canadian Securities Administrators (CSA) for the opportunity to comment on Proposals to enhance total cost reporting for investment funds and segregated funds scheduled to come into effect in September 2024, pursuant to the *CSA and CCIR* (Canadian Council of Insurance Regulators) *Joint Notice and Request for Comment* published on April 28, 2022, for proposed amendments to National Instrument 31-103 and Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

The primary goal of the Proposals is as an extension to previous efforts from Client Relationship Model, Phase 2 (CRM2) to provide enhanced cost transparency for investors and policy holders, improve fee and performance reporting, and as a response to research indicating that investors can potentially believe that the statements they receive from their dealer or advisor provide them with all fee-related costs of investing, including those paid indirectly through investments in funds.

There remains uncertainty about how specific requirements included in the Proposals will provide added value or benefit to investors, in particular, the requirement to update account statements to include fund expense ratio (FER). The inclusion of FER, stated as a percentage, does not provide substantive additional context related to fees generally, and provides neither meaningful information nor a clear investor benefit to clients.

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Additionally, Fund Facts include management expense ratio (MER) and TER details as a percentage, which are provided to clients prior to investment fund purchases. The industry has an existing regulatory obligation to provide clear point-of-sale disclosure to investors related to fees and expenses, as well as continuous disclosure. These factors need to be considered as part of the Proposals' assumptions about investor needs. The addition of this information on subsequent statements will potentially serve to exacerbate the perceived issue of client confusion that the Proposals aim to eliminate.

An important consideration for a September 2024 implementation should be the allotment of reasonable and defined timelines, both pre- and post-entry into force. There remain significant challenges for investment fund managers (IFMs) and their ability to deliver the information outlined in the Proposals. Development of a timeframe for reporting the prescribed information, while also factoring information delivery considerations from vendors, each with their own operational costs and projects, is crucial.

Dealers are reliant on IFMs and vendors to receive and adapt the information into satisfactory reporting data. The proposed transition periods for both securities and insurance sector reporting may not be operationally achievable, irrespective of firm-level review of systems and resources.

We also encourage the Joint Regulators, Project Committee, and stakeholders to consider additional regulatory change initiatives scheduled for implementation in the coming 24 months, including, but not limited to, trade settlement and cycle transition to T+1.

Lastly, RJL supports the recommendations put forth by the Investment Industry Association of Canada (IIAC) concerning additional considerations and challenges as part of the Proposals, including recommendations on what should be included on account statements, dealer reliance on IFM information, standardization of data requirements, challenges related to new investment fund products and ETFs, the proposal for an enhanced disclosure stakeholder committee to ensure a timely transition, and the need for a more fulsome cost-benefit analysis of the Proposals at large.

Yours sincerely,

Jamie Coulter
Chief Executive Officer
Raymond James Ltd.

Jason Enouy
Chief Compliance Officer
Raymond James Ltd.

RAYMOND JAMES®



July 27, 2022

Submitted via email

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Superintendent of Securities, Nunavut
Ontario Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attention:

Me Philippe Lebel
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Re: CSA and CCIR Request for Comment – Total Cost Disclosure Reporting Requirements

Dear Sirs and Mesdames:

The Investment Industry Association of Canada (the “IIAC”)¹ welcomes the opportunity to provide feedback on the CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Proposed CCIR *Individual Variable Insurance Contract Ongoing Disclosure Guidance* Total Cost Reporting for Investment Funds and Segregated Funds (together, the “Initial Proposals”).

The IIAC is the leading national association representing investment firms that provide products and services to Canadian retail and institutional investors. Our members manufacture and distribute a variety of securities such as mutual funds, exchange-traded funds, segregated fund contracts and other managed equity and fixed income funds, and provide a diverse array of portfolio management, advisory and non-advisory services.

The Initial Proposals require various components of the financial industry to develop coordinated solutions. Consequently, the IIAC has ensured our comments reflect a holistic response from the investment industry, and specifically represents the views of investment fund managers (“IFM”), investment dealers, and insurance intermediaries.

GENERAL COMMENTS

The IIAC and our members support the objective of improving investors’ understanding of their investments and, specifically, providing meaningful cost disclosure associated with investing. The Initial Proposals represent the CSA’s first written proposal for stakeholders to review and provide comments. The investment dealer community, which would be responsible for the majority of systems builds to produce the client disclosures, has not been previously consulted by the CSA on the potential impact to their clients and their operations².

We do not believe that the CSA’s policy objectives can be achieved through the Initial Proposals, and as currently conceived, they may result in significant harm to investors and the capital markets.

In order to develop appropriate total cost reporting requirements, the CSA should complete a comprehensive cost-benefit analysis that takes into consideration the financial costs to industry participants, which will ultimately be passed on to shareholders and investors and outlines the unintended consequences of proceeding with the Initial Proposals reflecting feedback from the comment process. The analysis should align with the joint IOSCO-OECD recommendation³ that

“...regulators gain a full understanding of the problem that consumers or investors face before designing a solution; taking the context of financial decision making into account; conducting small-scale pilot and field tests before implementing and scaling up initiatives; evaluating outcomes rigorously...”.

We believe obtaining this information prior to proceeding further is critical and therefore the IIAC would be pleased to lead the effort to collect industry costs that would be incurred to implement the Initial Proposals. We would also appreciate the opportunity to work with the CSA to capture investor feedback

¹ See www.iiac.ca for more information.

² The IIAC responded to the MFDA’s 2018 consultation but has not been consulted otherwise on the total cost reporting.

³ The Application of Behavioural Insights to Financial Literacy and Investor Education Programmes and Initiatives, IOSCO-OECD report, May 20, 2018

that is meaningful and includes the value of the additional disclosure information weighed against the financial costs they and/or shareholders would incur to have this information.

We also ask the CSA to publish its latest Behavioural Insights research that was used to inform the CSA's Initial Proposals. The CSA's Initial Proposals appear to contradict earlier public behavioural research on the value of certain additional financial information disclosure. Specifically, research⁴ conducted by the Ontario Securities Commission Investor Office which has clearly cited that, "...relying on extensive disclosure to achieve better consumer outcomes was a flawed approach." The research continues, stating that "even when traditional regulation successfully identified a problem...it frequently used ineffective measures (such as very detailed disclosure to correct market flaws) to address them."

Further, we believe the international experiences are instructive regarding the difficulties incurred by the financial industry to comply with third-party cost disclosure. In the U.S., the SEC considered adopting similar disclosure requirements, however, after consideration of the implementation challenges and financial costs for both industry and to investors, the SEC proceeded with an alternative approach to enhancing investment fund disclosure⁵. In the UK, firms were required under MIFID II to provide third-party costs and charges, however, during post-rule reviews, the Financial Conduct Authority ("FCA") noted firms were seeking to comply, but the required third-party data was not always available. The Australian Securities & Investment Commission ("ASIC") noted their legislative framework for fees and cost disclosure was designed to strike a balance between: (a) ensuring that consumers and market professionals have useful information; and (b) you [firms] being able to practically comply with the fees and costs disclosure requirements⁶.

KEY RECOMMENDATIONS

1. The CSA should conduct a robust cost-benefit analysis considering the costs to investors and industry participants and the unintended consequences of proceeding with the proposed disclosure reflecting feedback from the comment process.
2. Revise section 14.14¹ to remove the requirement to disclose the fund expense ratio on the Account Statements.
3. Dealers must be able to rely on information provided by the IFMs.
4. The CSA should develop a Total Cost Disclosure Stakeholder Committee to facilitate timely dialogue between the regulators, and stakeholders to support rule finalization.
5. The CSA should work with stakeholders to develop achievable implementation timelines to ensure clients are provided with accurate and meaningful information.

⁴ Behavioural Insights, Key Concepts, Applications and Regulatory Considerations, OSC Staff Notice 11-778, March 29, 2017

⁵ Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004).

⁶ ASIC RG97 <https://download.asic.gov.au/media/5801438/rg97-published-28-september-2020.pdf>

PROPOSED SECURITIES AMENDMENTS

The Initial Proposals for the securities sector (the “Proposed Securities Amendments”) would require new elements to be included in the Account Statement and Annual Report on Charges and Other Compensation (“Annual Cost Report”). We will be discussing these two deliverables separately, as we have specific comments related to each client disclosure document.

Unlike CRM2, which was a large-scale development requiring significant human and financial investment by dealers, the Proposed Securities Amendments require the dealer to provide data to their clients that they do not manage or control. This reality informs our comments.

The cost and effort required to implement the Proposed Securities Amendments will be far more complicated than it was for CRM2, given the obligation for dealers to obtain accurate data outside of their sphere of control.

ACCOUNT STATEMENTS

Recommendation: Remove the requirement in section 14.14 to disclose the fund expense ratio (“FER”), stated as a percentage, on the Account Statements.

We do not believe that the proposed new elements for Account Statements outlined in section 14.14 provide meaningful information to investors. The Account Statements are designed to provide clients with pertinent information about their trading activity during the month or quarter, as applicable. The CSA has not articulated the investor benefit of including the fund expense ratio, stated as a percentage, on the Account Statement, nor has the CSA balanced the potential benefits against the financial costs.

The FER is based on a yearly ratio and does not align with monthly or quarterly disclosure. As a result, we do not believe including the FER on Account Statements will increase client comprehension, and in fact risks creating further investor confusion. The proposed required information would not include critical context to the fees (i.e. is that percentage average?) and the client would not be able to determine if the FER provided value in relation to the fund’s performance.

Disclosure of ongoing cost information is most beneficial when an investor is making purchase decisions. Fund Facts provide detailed MER and TER data and are required to be provided to clients in advance of a purchase of an investment fund. For those clients with an advisor, section 14.2.1 *Pre-trade disclosure of charges*, requires the advisor to disclose to the investor if there are investment fund management expense fees or other ongoing fees that the client may incur. As well, ongoing costs are a factor the advisor must take into consideration when making a suitability determination under section 13.3.

It is not clear from the Initial Proposals if a cost-benefit analysis was completed that takes into consideration the various cost disclosure information currently contemplated by the Initial Proposals. With respect to the Account Statements, we do not believe there are sufficient benefits to justify the significant financial costs of implementation. The MFDA’s 2021 *Improving Fee Disclosures for Canadian Investors*⁷ research found that “adding a column with MER to account holdings tables does not have an

⁷ Click [here](#) for the MFDA’s June 2021 Research Report.

impact on core comprehension” and that overall, “our research suggests that including the MER in account statements *may have a small* positive impact on investor comprehension”.

We believe the inclusion of the FER, stated as a percentage, could have negative unintended consequences. The prominence of investment funds’ ongoing fees, when costs for other products are not included, and no performance information is included, could negatively influence investor behaviour. Clients may consider selling products that are providing meaningful returns and contribute to the client’s ability to achieve their financial objectives. A suitable portfolio could include a variety of products, such as passive ETFs, actively managed funds, individual securities etc., and associated costs for the products will necessarily be different. Without this context and performance data, the client may focus on cost, to the exclusion of other relevant factors when evaluating their portfolio, which will not lead to informed financial decisions.

In addition to the lack of clear investor benefit, the percentage will not necessarily be accurate at the individual client level. A series of funds does not have a uniform daily cost of ownership. The MER may be overstated as clients may qualify for a reduced MER based on householding, or a management fee rebate. Further, fee-based products would have a lower MER than what is disclosed as the fund’s overall MER. As well, since the MER and TER are annualized ratios, applying them daily will not necessarily be representative of how the fund is incurring expenses over time (e.g., trading expenses may be heavier in some months and lighter in others). The MER and TER are disclosed at least 60 days after the period end. The daily cost per unit would be based on these ratios and applied to units held by clients for a different period. Therefore, the calculated cost may not be a reasonable approximation of the actual cost incurred.

The proposed data elements may be operationally prohibitive for IFMs to provide to dealers within a time period required to produce monthly or quarterly statements. In many instances there may be thousands of data points individual IFMs have to transmit daily to dealers based on the number of funds and series they manufacture. We believe monthly or quarterly statements should be based solely on data elements that are within the control of the dealer.

Finally, the inclusion of the FER on the account statements is unnecessary, as the more precise dollar amount is proposed to be included in the Annual Cost Report, where there is performance context and comparison to other products’ expenses such that clients can more fairly determine value.

We recommend that the requirement in section 14.14 be revised to require the Account Statement include a notation, similar to the example in Annex G, footnote 1, referencing the indirect costs of investment fund ownership and directing investors to refer to Fund Facts, MRFPs and/or Financial Statements that are all publicly available for more information. This will serve as a fee reminder and the documents referenced will have explanations of the fees in plain language and can provide some historical performance information for context. Further, the ongoing fee reminder will not impact the dealer’s ability to provide accurate and timely Account Statements to their clients.

ANNUAL COST REPORT

The IIAC supports the principle of providing clients with additional investment fund expenses information on the Annual Cost Report. However, there are a number of issues that must be addressed in order for the IFMs and dealers to be able to provide streamlined, accurate information to clients.

1. Dealer Reliance on IFM Information

Recommendation: Dealers must be able to rely on information provided by registered IFMs. Proposed section 14.17.1 and the corresponding 31-103CP language should be removed.

It is the IFM who has direct access to accurate and complete data required to determine the fund expenses required in the Initial Proposals and it is the dealer who must provide that information on the Annual Cost Report. A core requirement in the Initial Proposals must be total dealer reliance on fund expense information provided by a registered IFM. The IIAC agrees with the language in the 31-103CP stating that “dealers are required to rely on information provided by registered investment fund managers pursuant to 14.1.1.” The IIAC strongly supports the inclusion of this requirement in section 14.1.1, *Duty to provide information*.

Despite the statements indicating that dealers can rely on information provided by IFMs, proposed section 14.17.1 (2) would reverse that onus. Dealers would have to assess all data provided from registered IFMs for completeness and reasonableness to ensure it is not misleading to a client.

Complying with 14.17.1(2) would be extremely onerous for dealers and require significant resources, as it would require a manual assessment of all information before it is inputted in the Annual Cost Report. For example, if dealers were required to compare a static percentage of the MER on a Fund Facts or ETF Facts where available, against the information provided by the IFM that may be in dollars and client specific.

The CSA must also consider this requirement against the number of products and thousands of accounts that dealers have, as well as the backdrop of reporting timelines to complete the Annual Cost Report.

If information is provided by a registered IFM, who has obligations under NI 31-103, and is regulated by the CSA, the dealer must be able to have confidence that it is the most accurate information and is compliant with the Initial Proposal.

If the required information is not provided by an IFM, there is no registered IFM, or the IFM is a non-Canadian investment fund, then a disclosure should be provided in the Annual Cost Report noting that no information is available, as the dealer cannot reasonably research its accuracy.

Further, the Initial Proposals should be revised to add a safe harbour for dealers relying on information provided by registered IFMs.

2. Prescribed Reporting Timelines

While we appreciate the intention of the flexibility in section 14.1.1. for IFMs with respect to the delivery of the required information provided in the Initial Proposals, it is not operationally feasible for IFMs and dealers to potentially have individually set dates to distribute information. We do recognize that there may be variation based on the product as to how the information is delivered to dealers (i.e. Fundserv, CDS, other vendors, etc.) but there must be a uniform standard of what information is required to be provided by the IFM to the dealer, and when that information must be delivered. The requirement for IFMs to provide accurate and timely data to dealers must take into consideration dealers’ current timelines for reporting to avoid disruption of the dealer’s current infrastructure, as dealer production of Annual Cost Reports is not segmented based on products held by customers. Any delay by IFMs to deliver

the complete and accurate information to meet production timeframes would impact delivery of all client reporting, including for those that did not invest in investment funds.

The IIAC would like to work with the CSA to develop a standardized timeframe for reporting prescribed information which reflects the recommended changes.

3. Standardized Data

We recommend the 31-103CP *Division 1 Investment Fund Manager* section be revised to remove reference to “An investment fund manager must work with the dealers and advisers who distribute fund products to determine what information they need from their investment fund manager in order to satisfy their client reporting obligations.”

The rules must set out the required data that IFMs need to provide dealers. There cannot be discrepancies between what information IFMs provide. While there may be a need for variation based on investment fund product type (i.e. conventional mutual funds, ETFs, prospectus-exempt funds, scholarship plans and labour-sponsored funds), there must be consistency for the same products. Further, the client will benefit from having standardized data elements.

The IIAC would like to work with the CSA and other stakeholders to standardize the form of data to be provided to dealers.

4. Fund Expense Ratio

Recommendation: We recommend that the MER alone be used to calculate the fund expenses for the purposes of the Annual Cost Report.

IIAC members understand the objective of the Initial Proposals is to provide enhanced cost disclosure to clients. In response to Annex A, Question 2, we believe in most instances, the MER is the most significant ongoing investment fund cost. We support the use of the MER.

The TER is typically a small portion of fund expenses and fluctuates periodically due to the fund’s trading activity. It is important to understand that the TER is not applicable to all investment funds, such as fixed income funds, as trading costs are captured in bond selling prices and are not charged separately as a commission. Thus, all bond fund TERs are reported as nil in Fund Facts reports, and the MER would equal the proposed FER. Further, some products are not valued daily – if there is no NAV calculated, the TER cannot be calculated. For ETFs, closing price is dictated by the secondary market. As a result, closing price could be at a discount from NAV or a premium of NAV.

In addition, the Initial Proposals would mandate that the FER calculation to be the same regardless of the type of investment fund product. However, the proposed required disclosure does not work for all products; for example, for foreign funds (i.e. Luxembourg funds that are distributed in Canada) costs are not comparable, due to fund currency and other considerations.

While we do appreciate the desire for consistent calculation methodologies, the Initial Proposals must be responsive to necessary variations by product type to ensure there is accurate, timely data.

With respect Annex A, Question 4, we support the use of NAV in the calculations. Further, we believe the NAV input, which is net of fees and expenses, is the fair and accurate representation of true cost.

5. New Investment Fund Products

The rules should not apply to new investment fund products until they have operated for 12-months and there is an established MER and TER. Since there would be no MER available, it would be extremely onerous to require the IFM to determine cost information prior to the 12-month period. New, innovative products should be encouraged. Costly administratively burdensome requirements for the IFM to determine the fund expense ratio, prior to an accurate MER, will lead to a reluctance to launch the products and limit innovation.

Further, under NI 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance*, performance is not to be reported for funds less than 12 months' old and the data would be without this vital context.

6. ETFs (and closed-end funds)

The Initial Proposals should differentiate between conventional mutual funds and ETFs in terms of what information is required to be provided to the dealer.

ETF IFMs have stated they are only able to provide historical average MER and TER figures. However, there is no current infrastructure through which the ETF IFMs can provide even this limited data to the dealers. These products are traded on an exchange and information is not transferred between parties on Fundserv, which serves to transmit information for mutual fund transactions. ETF IFMs and dealers will need to coordinate to develop new infrastructure through a third-party vendor, not subject to regulatory oversight. This is a significant, costly undertaking that will need to be co-ordinated by potentially hundreds of individual parties (all dealers and ETF manufacturers). Once a vendor is selected, then the parties will be able to establish an accurate implementation timeline.

In addition, dealers would also have to build additional infrastructure to automate calculations to determine the personalized ongoing costs for the client and coordinate with their own vendors who produce the client reports. This is another significant build for dealers and their vendors. Dealers and vendors are unable to estimate the scope of the project as it is unknown how and in what format the information will be passed on by the ETF IFMs.

There is no clear precedent for the builds contemplated in this proposal to provide the required information for ETFs. Consequently, we strongly question the feasibility of the proposed implementation dates.

As discussed below, the IIAC would like to work with the CSA (through a Total Cost Disclosure Stakeholder Committee) to discuss realistic timelines.

7. Other products listed in Annex A Question 1 (excluding ETFs)

There are currently also unique challenges for IFMs and dealers to provide the required information for prospectus-exempt investment funds, scholarship plans, and labour-sponsored funds outlined in Annex A, Question 1.,

Prospectus-exempt investment funds: We believe prospectus-exempt investment funds should be excluded from the scope of the Initial Proposals. There is no requirement pursuant to NI 81-106 for prospectus-exempt mutual funds to calculate the MER. It would be burdensome to require these funds

to produce reporting that they have been specifically exempted from to produce MERs to comply with the proposed requirements. There is concern that additional administrative costs for these small funds would result in higher MERs. In addition, dealers would not currently have access to the required information and as noted in previously our response, are unable to determine IFM data points such as MER.

Scholarship plans, and labour-sponsored funds: Information for products such as scholarship plans, and labour-sponsored funds is generally not transmitted through Fundserv and dealers do not have current access to the data. We understand that members of Fundserv are considering adding these products to the Fundserv build, to facilitate information exchange between the IFMs and dealers for compliance with the Initial Proposals. If accurate information to dealers in a timely and accessible manner can be provided through Fundserv, then we support inclusion of these products.

However, as noted, there is no current infrastructure to support the transmission of data between the IFM and dealer and if these products are not included on Fundserv, the dealer will not have access to the required information. As noted above, the dealer must be able to rely on information provided by the IFM and it is not feasible for the dealer to conduct due diligence to gather data. If the IFM is unable to transmit the information, the dealer cannot be required to report on the products.

The reference to foreign investment funds is not clear. If the intent is to refer to IFMs that are not unregistered (i.e. that the CSA does not have jurisdiction to mandate compliance with NI 31-103), then we believe products distributed by those IFMs should be excluded. The dealer must have reliable, accurate data to include on client reports.

8. Non-individual Permitted Clients

The IIAC appreciates the continuation of the existing exemptions for non-individual permitted clients (i.e. institutional investors under IIROC rules). We believe that the exemptions in 14.14.1(6) and 14.17(5) should be expanded to include “overflow accounts” where a non-individual permitted client opens additional related accounts, however, these “overflow accounts” would not satisfy the financial threshold required.

In addition, we suggest that certain accounts be captured in the exemptions, including but not limited to:

- Health and welfare trusts (distinct entities under the *Income Tax Act* (Canada));
- Unions and union-related benefit plans;
- Multi-employer benefit plans;
- Some foundations and registered charities;
- Some overflow pension accounts (associated with pension plans, but not pension plans themselves);
- Supplemental employee retirement plans;
- Disability plans;
- First Nations trust vehicles (i.e., for government monies); and
- Retirement Compensation Arrangements.

PROPOSED INSURANCE GUIDANCE

The IIAC agrees with the distinctions made between the Proposed Securities Amendments and Proposed Insurance Guidance with respect to the role of registrants/insurers. It is appropriate for the insurer to provide the reporting to the clients (policyholder) directly. As noted in Appendix K, the insurer already provides certain cost and performance information directly to the client (policyholder). While many IIAC dealers are considered insurance intermediaries, in numerous cases there is no intermediary equivalent that could provide the information to the client. To ensure consistency, it is preferable for the insurer to provide the information in all instances.

IIAC's insurance intermediaries believe this standardized disclosure will be beneficial for clients. We are encouraged by the commitment for insurance and securities registrants to implement in lockstep as many clients have both insurance and securities products in their portfolios.

We do not have comments on Annex B or the template reports, as the insurance intermediaries do not have the data or the requirement to produce the client reports.

TOTAL COST DISCLOSURE STAKEHOLDER COMMITTEE

Recommendation: Create a Total Cost Disclosure Stakeholder Committee to facilitate timely dialogue between the regulators, stakeholders and vendors to develop a final rule.

Given the significant operational challenges associated with the Initial Proposals, the number of different registrants impacted, and the infrastructure required to be developed, it is imperative to have an industry stakeholder committee that can engage in problem solving dialogue with the regulators. We believe this committee should be struck prior to rule finalization to discuss critical data elements and timelines. We also recommend including the Investment Funds branches of the AMF, BCSC, OSC and other provinces who are involved with fund and ETF disclosure. Once rules are finalized, discussions will need to continue as operational challenges arise during the build and development phase.

IMPLEMENTATION CONSIDERATIONS

Recommendation: The CSA should work with stakeholders to develop achievable timelines to ensure clients are provided with accurate, meaningful information.

While IFMs, dealers and vendors are currently examining what is required to implement the Initial Proposals, there are still various unknowns with respect to critical data elements and it is not possible to begin meaningful systems builds until rules are finalized. The costs associated with system changes are significant and it is not responsible to incur those costs until feasible, attainable requirements are determined.

Further, there are several complex initiatives that will impact the availability of human resources required for the related IT system builds. For example:

1. Shortening the settlement cycle to T+1
2. CDS Modernization Project (potentially impacting transmission of ETF data)
3. Fundserv Development Project

July 27, 2022

It is not only a matter of dealers, IFMs or vendors expending more capital to meet a deadline. Rather, there are a limited number of qualified experts to manage and run these projects.

Thank you for your consideration of the concerns raised in this response.

Sincerely,

Laura Paglia
President & CEO



Advancing Standards™

VIA E-MAIL

July 27, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Ontario Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Department of Justice and Public Safety, Prince
Edward Island
Superintendent of Securities, Nunavut

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Re: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and Proposed CCIR *Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds*

OVERVIEW

The Portfolio Management Association of Canada (**PMAC**), is pleased to have the opportunity to submit the following comments regarding the Canadian Securities Administrators (**CSA**) and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, and Proposed CCIR *Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds* (the **Consultation**). All capitalized terms used but not defined in this letter shall have the meaning given to them in the Consultation.

PMAC represents over [310 investment management firms](#) registered to do business in Canada as portfolio managers (**PMs**) with the members of the CSA. In addition to this primary registration, 70% of our members are also registered as investment fund managers (**IFMs**) and/or exempt market dealers (**EMDs**). Some member firms manage large mutual funds or pooled products, and others manage separately managed accounts on behalf of private clients or institutions such as pension plans and foundations. PMAC's members encompass both large and small firms and manage total assets in excess of \$3 trillion.

KEY RECOMMENDATIONS

- 1. Provide investors with total cost information.** We believe that investors want to know three key pieces of information: (1) what their investments are worth today; (2) how much their value increased (or decreased) over time; and (3) how much it cost them to get from A to B. In simple terms, it is about performance versus cost. The easiest way to express the costs is to combine all costs and fees and present them as a percentage of the client's assets. We strongly support reporting all costs of investing as a simple percentage. The Client Focused Reforms include a requirement to consider product costs when selecting products to offer to clients. The importance of communicating about investment costs to clients should continue to be emphasized, and advisers and dealing representatives should receive training on product and total costs, including how to take them into account when making investment decisions and recommending products to clients.
- 2. Consult with independent behavioural science experts to test any reporting templates prior to moving forward.** Investor disclosure should highlight key information: value of investments; performance over time; and cost of investing - preferably on the first page. Additional details can be included in subsequent pages, or on a website. The CSA should determine the

minimum information to be included in client disclosure, and suggest a presentation template based on behavioural research. The presentation of the information will be critical to the success of Total Cost Reporting (TCR).

- 3. Provide investors with information that is consistent and comparable to allow them to evaluate investment advice and services.** There is a gap in the current reporting that needs to be filled to enable a proper comparison between dealers and advisers, and between and among funds and other products. In order for transparency about costs to encourage competition, investors must be able to compare the costs of the products and services they receive so that the comparisons are valid. It is key that the total costs for advice and services be expressed as a percentage, and that the presentation of the information be understandable. Dollars will fluctuate from month to month, year to year, and account to account. Additionally, the dollar amount of costs will be higher as the account value increases. The only constant is the percentage of client assets paid in fees and costs for the products and services received. PMAC believes that including the total costs for advice and services as a percentage, in a format that is understandable to investors, will encourage competition.
- 4. Exclude certain non-individual institutional clients from the proposal.** Certain non-individual institutional clients that do not qualify as permitted clients should be excluded from TCR. These clients have unique reporting requirements that are different from retail investors and this reporting may or may not include TCR. We believe that an exemption is warranted for these types of sophisticated investors, which can negotiate their own terms, and that providing an exemption would balance the regulatory burden in a way that is consistent with the CSA's policy rationale for implementing TCR.
- 5. Revise the implementation plan following consultation with stakeholders.** We believe that TCR should be implemented as soon as possible but acknowledge that significant technological and systems changes are necessary. We do not believe these can be achieved within the timeframe proposed in the Consultation. These changes will require an investment of money and time for registrants and service providers. As described below, we believe that some aspects of the proposals could be simplified to facilitate a faster transition. We believe that it would be advisable to strike an industry working group with representatives from various issuers, dealers, advisers, and service providers to provide additional feedback before the amendments are finalized and to assist with the implementation process.

GENERAL COMMENTS

We support moving forward with full TCR across the industry, and believe that from a policy perspective, the proposed changes are a step in the right direction.

We are delighted and encouraged that the CSA and CCIR are aligned on this initiative. Bringing the disclosure standards for segregated funds up to the same level as investment funds, recognizing the differences in products and distribution channels, is long overdue. This includes the upcoming CCIR response to embedded commissions for segregated funds.

We agree with the objective stated in the Consultation of encouraging competition through increased transparency about costs. Cost transparency will also benefit investors and policyholders. We agree that, consistent with the research carried out by the OSC's Investor Office, the current disclosure does not give investors the full picture of the embedded costs associated with owning investment funds, and is therefore misleading. We believe that clients should receive a single report on an annual basis that includes all fees and costs (the embedded costs of funds and other products, the fees charged by the dealer and any other costs paid by the client) expressed as a combined percentage. In our view this is the only way for investors to truly understand what they are paying for their investment products and services and to enable comparison.

We know from behavioural research that investors do not always read their account statements, and often struggle to understand them. While regulators continue to consider how best to achieve TCR, it is important that advisers and dealing representatives effectively communicate with clients, including with respect to the total costs of products and services. The Client Focused Reforms include a requirement to consider product costs when selecting products to offer to clients. The importance of communicating about investment costs to clients should continue to be emphasized, and advisers and dealing representatives should receive training on product and total costs, and how to take them into account when making investment decisions and recommending products to clients.

We discuss our key recommendations and respond to the specific consultation questions below.

Provide investors with total cost information

Extensive behavioural science research has been published on the topic of account statements. In our view, this research is fundamental to the Consultation and merits additional consideration to assist the CSA and CCIR in achieving the Consultation's desired outcomes.

Most investors want to know, in plain language: (1) what their investments are worth today; (2) how much their value increased (or decreased) over time; and (3) how much it cost them to get from A to B. In simple terms, it is about performance versus cost. The easiest way to express the costs is as a percentage of client assets.

If this information can be reported with reasonable accuracy, we believe it should be. We reiterate that all costs should be included: embedded costs of funds and other products, fees paid to the dealer and all other costs, preferably combined, and reported as a percentage of client assets. Reporting only the embedded costs of investment funds on a monthly/quarterly basis does not give the investor the full picture of what they are paying. The information should be included in the Annual Report on Charges and Compensation so that all costs are reported in one place.

In discussions with our members and other industry associations, it is clear that due to the time and costs involved in implementation, monthly/quarterly reporting will not be possible within the time frames proposed in the Consultation. We therefore recommend annual reporting in a single report (the Annual Report on Charges and Compensation).

Consult with independent behavioural science experts to test any reporting templates prior to moving forward.

Behavioural science research should be leveraged to determine how the information can best be presented, and whether investors will read, understand, and respond by taking action when they receive their account statements and disclosure.

The key information (value of investments, performance over time and cost of investing) should be highlighted in investor disclosure, preferably on the first page. A small percentage of investors will want more details, which can be included in subsequent pages, or on a website. The presentation of this information will be critical to the success of TCR.

We therefore urge the CSA and CCIR to consult with independent behavioural science experts to test any reporting templates prior to implementation. We believe it is preferable for investors, market participants and regulators that this be done right the first time to avoid the confusion and costs of creating multiple versions of reporting templates. Investing the time up front to design the most user-friendly format for these reports will pay dividends going forward. It is confusing to investors to receive new client disclosure. It is also time-consuming and costly for firms and service providers to continually update their client statements and reports. It would be advisable to assess the impact of CRM2 before disclosures are changed again. Adding more pages to client reporting is not the solution. Clear, plain-language information distilled on page one in a way that investors can understand is critical.

Review the international experience

The impacts and outcome of additional disclosure and the format of presentation in other jurisdictions should be studied to determine what lessons can be drawn and improvements made when it comes to a Canadian solution. We encourage a review of the international experience with TCR, including in jurisdictions such as the U.S. and U.K.

We understand that reporting on total costs of ownership (including transaction costs) is required by MiFID II, and that the disclosures are quite standardized. Many UCITS distributors provide total costs of ownership information to clients. Investment advisers must provide costs and charges information to clients at the commencement of the relationship and on a periodic basis thereafter. The information goes beyond the information required in the Canadian FundFacts document and includes all investment service costs and investment product costs. The costs are aggregated and expressed as a percentage of client assets and as a dollar amount. Many firms also provide the breakdown of these costs in addition to the aggregate amount. The information must be obtained from the fund manufacturer by the adviser in order to report to clients. Any third-party costs are itemized separately. The statement is also required to include an illustration of the effects of costs and charges on the client's investment return. However, we also understand that a review of the MiFID II disclosures by the U.K. Financial Conduct Authority (**FCA**) raised many challenges with the disclosures, including with respect to technology upgrades, "it was difficult to get all the required data", and registrants "weren't confident about the accuracy and delivery of the data". These challenges should be considered before implementing the Consultation proposals.¹

Provide investors with information that is consistent and comparable to allow them to compare investment advice and services

Many PMAC members managing segregated accounts for private clients typically charge a management fee at the account or household level, which is a percentage of the client's total assets. For example, the fee may be 1.25% of client assets. This percentage includes all expenses, including pooled fund expenses, which are paid by the manager. The client receives a statement setting out the fees paid to the portfolio manager, expressed as a percentage of their assets, and the performance of the portfolio. We would be happy to provide samples of such statements which provide excellent transparency on performance and costs.

As indicated by the behavioural research cited in the Consultation, in many cases investors are unaware of the embedded costs of the various products they own because these are not included in the Annual Report on Charges and Compensation. It is difficult to compare the fees charged by a portfolio manager to the costs of owning various investments through a dealer. While CRM2 has improved the disclosure in the investment industry, the existing reporting does not allow the client to easily understand what percentage of their assets is going to fees and costs and does not permit a simple comparison between various registrants, insurers, and products.

In order for transparency about costs to encourage competition, investors must be able to compare "apples to apples". We believe that providing investors with the fund-

¹ Please see <https://www.fca.org.uk/publications/multi-firm-reviews/mifid-ii-costs-and-charges-disclosures-review-findings>

level Management Expense Ratio (**MER**) and individual investment costs expressed as a percentage for each investment fund held by the investor will give investors clear and useful information. We are concerned that investors may not understand the significance of the Trading Expense Ratio (**TER**) without additional context. We believe that further consultation on this is warranted.

It is key that the total costs for advice and services be expressed as a percentage. Dollars will fluctuate from month to month, year to year, and account to account. The only constant is the percentage of client assets paid in fees and costs for the products and services received. This is a gap in the current reporting that needs to be filled to allow investors to conduct a useful comparison, which will encourage competition.

We are aware that some dealers already present the total cost information in this manner. Steadyhand, for example, a registered PM/IFM and MFDA dealer, presents the total costs of its funds, expressed as a percentage of client assets, in monthly, quarterly and annual client statements. A sample statement is attached as **Appendix A** (please note that this is not an actual statement, and this version includes additional highlights of the features of the statement). Steadyhand is somewhat unique because they use proprietary product and operate on an “one simple fee” basis, similar to the all-inclusive fees described above for a portfolio manager.

Scope of the proposal

PMAC does not see the rational for including certain non-individual institutional clients that do not qualify as permitted clients in the TCR proposals. The Permitted Client definition does not capture several non-individual clients that PMAC considers to be “institutional” clients because they meet other criteria common to institutional clients. Based on exemptive relief granted in the past, we believe that the CSA also agrees that these types of non-individual non-permitted clients warrant exemptions for this type of reporting. Examples include:

- Health and welfare trusts (distinct entities under the *Income Tax Act* (Canada);
- Unions and union-related benefit plans;
- Multi-employer benefit plans;
- Some foundations and registered charities;
- Some overflow pension accounts (associated with pension plans, but not pension plans themselves);
- Supplemental employee retirement plans;
- Disability Plans;
- First Nations trust vehicles (i.e., for government monies); and
- Retirement Compensation Arrangements.

These clients have unique reporting requirements that are different from retail investors, which may or may not include TCR, and we believe that an exemption is warranted for these types of sophisticated investors. This exemption will allow

investment firms to tailor reporting to the client's needs or impose a reporting template suitable for retail clients.

Revise the implementation plan following consultation with stakeholders and simplify some requirements

We believe that there will inevitably be implementation issues with respect to the proposals generally. While these issues are not insurmountable, they will require significant technology builds, resources and time. We believe that further consultation on the proposals and the implementation plan will be required to develop an achievable timeframe for implementation.

We have several recommendations that will provide investors with the information they need while simplifying the process of implementing the proposals:

1. Only require annual reporting

As noted above, we do not believe that monthly/quarterly reporting will be possible within the transition period noted in the Consultation. We therefore recommend requiring annual reporting at this time, and suggest the reporting should be included in the Annual Report on Charges and Compensation.

2. Allow IFMs to rely on public disclosure documents and financial statements

We believe that providing information based on the investment fund's most recent Fund Facts/ETF Facts document, prospectus, or management report of fund performance (**MRFP**) (as reported in the fund's Financial Statements) would provide adequate information to investors while mitigating the burden on investment funds of providing the information. We request that the proposals be amended to only require IFMs to use a "reasonable approximation," in situations such as new funds or funds which charge performance fees.

The amount reported to investors based on these disclosures will be an estimate, since the TER, in particular, may change from day to day based on the volume of trading in the fund. The disclosure could be paired with a note indicating to the investor that the amount is an estimate based on expenses for the previous year as reported in the MRFP, and not the actual amount. We believe that this estimate is sufficient for investors to understand the cost and value of the investment advice and services they are receiving.

3. Remove the requirement that the disclosures not be "misleading"

IFMs are already subject to an obligation not to provide misleading information to investors. We believe that the use of the term "misleading" in section 14.1.1(3)(b) places too high a burden that will lead to additional time and expense without significant corresponding investor benefit. Section 14.1.1(3)(b) provides that the fund manager must not rely on the information if to do so "would cause the information disclosed in the statement or report to be misleading". The word "misleading" is subjective and places a significant legal obligation on the IFM to

accurately report the information rather than permitting the use of estimates. We believe this is too high of an expectation that will lead to additional time and expense without significant corresponding investor benefit.

Given that the reported Fund Expense Ratio (**FER**) may be based on information in the previous disclosure, it will be an estimate and not the actual amount paid by each investor. We believe that this estimate is sufficient for investors to understand the cost and value of the investment advice and services they are receiving. The previously disclosed information is the most objective information available, which will provide a measure of consistency, predictability and comparability.

Given that the FER will be an estimate and not the actual amount paid by the investor, the proposed notification language in section 14.17(1)(m) should be changed. As noted above, we urge you to require reporting as a percentage, rather than a dollar amount. We suggest the following changes to the second paragraph:

The number shown here is the **estimated total dollar amount (as a percentage of the value of your account)** you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the **estimated** fund expenses as a percentage for each fund you hold.

4. Allow the dealer or adviser to rely on the information provided by the IFM and/or available in the IFM's disclosure documents

We agree that the dealer or adviser should be entitled to rely on information in the most recent disclosure documents, as permitted by section 14.17.1(2). However, we do not believe the dealer or adviser should be required to determine whether the information provided under section 14.1.1 is incomplete or would cause information delivered to the client to be misleading, or that the registrant should be required to take steps to obtain the information "by other means". This puts too much responsibility and legal risk on the dealer.

We suggest:

- (a) The dealer or adviser be permitted to rely exclusively on information provided by the IFM and/or information in the IFM disclosure documents; and,
- (b) If the information is not provided or publicly available, no information should be reported and the dealer should be required to indicate the fact that the information is excluded or not reported in the relevant report (similar to section 14.17.1(4) but removing the requirement for the dealer to make a determination as to whether the information is misleading).

This will remove the regulatory burden and legal risk from the dealer of reporting information that will not be 100% accurate and the burden of sourcing information

where none is provided. There is a risk that if the onus is on the dealer to obtain the information, they will decide that the burden is too high and take steps to limit their product shelf to proprietary or related funds, where they can have more insight into the accuracy of the information. We believe this would be an unintended consequence of the Consultation that is detrimental to investor choice and that can be avoided.

We believe that these suggested changes will streamline the process by which information is delivered and will remove some of the regulatory burden imposed by the proposals, as drafted. Given that the information builds on disclosures that are already required to be made, it may allow implementation to proceed at a faster pace.

SPECIFIC CONSULTATION QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,
 - a. exchange-traded funds,
 - b. prospectus-exempt investment funds,
 - c. scholarship plans,
 - d. labour-sponsored funds,
 - e. foreign investment funds?

The CSA's regulatory expectations regarding the cost disclosure for these various types of funds must be clearly expressed and finalized before the implementation process can begin. As noted above, we do not believe that implementation of the proposals can be achieved within the timeframe proposed in the Consultation. Significant technology builds, resources and time will be needed. We believe that it would be advisable to strike an industry working group with representatives from various issuers, dealers, advisers, and service providers to provide additional feedback before the amendments are finalized and to assist with the implementation process.

Although NI 81-102 funds were not included in the consultation question, the following are some issues that have been raised with respect to the proposal for these funds:

Data transmission and technology

Most retail investment funds are currently sold via the Fundserv platform. It is not clear whether Fundserv is the only mechanism by which the FER information can be transmitted, but it may be one option. We note that not all funds are sold through Fundserv, and so more than one solution may be required, including the use of manual processes.

Building solutions and processes for the exchange of the FER information between IFMs and the dealers or advisers has significant time and cost implications. Some commentators have suggested that a 30-month period would be required to build out

these systems.² Although the CSA has made it clear that it expects firms to work on a solution ahead of the proposals being finalized, this does not seem efficient. It is not reasonable to expect firms to spend valuable resources on building a system until the proposals are finalized. We also note that many corporate processes require a rule to be finalized prior to granting budget to work towards implementation.

We also note that many segregated funds invest in mutual funds. It is not clear how the TCR disclosure will be made in this scenario (or by whom). These are details that need to be determined before the mechanism can be established and we believe the industry working group we proposed could be instrumental in crafting a solution.

Trading Expense Ratio

While we believe in full cost transparency, we are uncertain as to whether the TER disclosure will be meaningful and understandable to investors. Because the trading costs are dependent on the fund strategy and other factors, they have a unique impact on performance (more trading may be required to meet the fund's goals and/or achieve better performance and therefore is not necessarily a "negative" cost). We believe that further consultation and study may be warranted to determine how best to present and contextualize this information for investors.

As noted above, including the TER in the FER formula may be problematic for interim statements, as trading expenses can vary from one quarter to the next. From a practical point of view, using the last publicly available information will be less onerous, but will require the use of estimates.

Performance fees

Performance fees may create a distortion in the approximation of the MER. The performance from the previous year may not re-occur and may inappropriately inflate the MER used in the calculation of the FER in the current quarter. We suggest that the CSA provide guidance allowing appropriate adjustments to the FER calculation to account for variation of the performance fee from one year to another. Removing the "misleading" concept and allowing IFMs to rely on the most recently published MER and TER will also help to resolve this issue.

New funds

New funds that do not have the data to report expenses for prior periods will not be able to provide the reporting. One solution may be to not require reporting for new funds until year two.

² See <https://www.investmentexecutive.com/inside-track /paul-bourque/successful-rule-implementation-requires-industry-collaboration/>

a. exchange-traded funds

The considerations above also apply to exchange traded funds (**ETFs**). A consistent calculation methodology should also be developed to calculate the full cost of owning an ETF. Another issue is that IFMs do not have visibility as to the identity of individual ETF unitholders. It is therefore not possible to calculate costs at the individual level. As discussed below with respect to prospectus-exempt funds, there is currently no mechanism to transmit information from IFMs to dealers with respect to ETFs, and therefore a new system would need to be created to do so.

b. prospectus-exempt investment funds

We believe that investors should be provided with TCR, regardless of the product or registrant they are dealing with. As noted above, many portfolio managers managing segregated accounts for private clients use a simple percentage fee structure and do not charge embedded costs in their pooled funds. For these portfolio managers, TCR will not be problematic. However, given the wide variety of prospectus-exempt fund structures and features, it is difficult to ascertain whether the proposals can be implemented as drafted for these types of funds. It is also not clear how the information would be transmitted to the dealer and/or adviser for reporting to the client if there are no existing mechanisms. It may be necessary to extend the implementation timeline for certain of these more unique fund structures in order to consult further with issuers, dealers/advisers and service providers such as fund administrators on how TCR can best be achieved.

e. foreign investment funds

Members noted that many funds purchase foreign ETFs (such as U.S. ETFs, which are also commonly sold directly to Canadian investors). These ETFs do not necessarily calculate daily TERs, and their TER and MER calculation methodology would not be the same as the NI 81-106 methodology. Getting the necessary data from non-Canadian funds will be a challenge. If funds are unable to obtain this information from the underlying non-Canadian fund managers, they will not be able to accurately report the expenses for the Canadian fund. This is another example where there is a risk that if the onus is on the dealer to obtain the information, they could decide that the burden is too high and close their shelf to these funds.

One solution would be to provide an exemption from the TCR to allow the NI 81-102 fund to report the total cost, excluding the U.S. ETF (i.e. the total cost would be accompanied by a note indicating that it does not include foreign investment fund total cost, as this is not available). Other reporting exemptions may also be appropriate for individual investors who are directly invested in non-Canadian funds.

2. Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

To the extent possible, all expenses should be disclosed to the investor. The key is presenting the information in a manner that is understandable and meaningful. As noted above, we believe that further consultation is warranted with respect to the presentation of TER information to investors. We believe that investors should be educated with respect to the relationship between the fund expenses and fund performance. As suggested in the Consultation, contextual information regarding the impact of these expenses on fund performance should be provided. We believe that allowing IFMs to rely on the last publicly available MER and TER information is appropriate.

3. For the purposes of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use the market value or another input? Would it be better to use different inputs for different types of funds?

We believe that the net asset value is appropriate. For many funds, this information is readily available – it is used for investor transactions and audited annually. Fund accounting firms should be able to provide relevant information based on the NAV. To the extent possible, the same information should be required for all funds, to allow for comparability.

We acknowledge that different inputs may be required for some types of funds that do not have NAV information available, but this should only involve exceptional cases where there is no "one-size-fits-all" solution.

4. There is a lack of clarity with respect to the calculations required for fund of funds and the availability of the expense information for these structures. Do you anticipate any other implementation issues related to the Proposed Securities Amendments?

Please see our comments above regarding implementation. We also note that the Consultation's proposed timeline coincides with other regulatory initiatives including the move to T+1 settlement and the TMX/CDS modernization initiatives. This timing will stretch registrants' resources, including with respect to developing new technology solutions.

5. Do you anticipate any issues specifically related to the proposed transition period?

We believe that TCR is an important initiative; however, there is a need to balance the provision of helpful information for investors with the costs of producing and delivering the information. We have provided a number of suggestions to streamline

and/or phase in the transition to TCR which we believe will make the process more efficient, but we do not think it is likely that implementation can occur within the timelines stated in the Consultation.

SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

We have no specific comments on this portion of the Consultation.

CONCLUSION

The TCR proposals present an excellent opportunity for the investment and insurance industry to get reporting right for the benefit of investors. Expressing all costs as a combined percentage of client assets is the most effective method to achieve the desired outcomes of the Consultation. A simple report that allows investors to understand their costs of investing and to make an “apples-to-apples” comparison between investment products and services will go a long way to providing desired transparency and competition in the investment industry. In the meantime, advisers and dealing representatives must continue to effectively communicate with clients regarding the costs of investment products and services, and take these costs into account when making investment decisions, in accordance with the Client Focused Reforms.

We value the work of the CSA and CCIR to continually improve existing frameworks to provide transparency and comparability to investors, and we appreciate the opportunity to provide feedback on these proposals.

Please do not hesitate to contact Katie Walmsley at (416) 504-7018 if you have any questions or would like to discuss our comments in more detail.

Yours truly,

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

"Katie Walmsley"

Katie Walmsley

President
Portfolio Management Association of
Canada

"Margaret Gunawan"

Margaret Gunawan

Chair, PMAC Industry, Regulation and
Tax Committee

Managing Director – Head of Canada
Legal & Compliance,
BlackRock Asset Management Canada
Limited

cc. Mr. Tony Toy, Policy Manager
Canadian Council of Insurance Regulators
ccir-ccrra@fsrao.ca

PMAC - Appendix "A"

Steadyhand

Smith Family Sample Consolidated Portfolio
278 BRANT ST
BURLINGTON, ON
L7S1X4

Client Since: June 21, 2007

You've been a client for more than ten years, which means we've reduced your fees by 14 %

Thanking you
for your loyalty
with lower fees!

PORTFOLIO STATEMENT

Period from January 1, 2021 to March 31, 2021

STEADYHAND INVESTMENT FUNDS INC.
1747 W. 3RD AVE
VANCOUVER, BC, V6J 1K7
PHONE: 1-888-888-3147
FAX: 1-888-888-3148
http://steadyhand.com

Your Accounts

Number	Owner	Type	Market Value as of March 31, 2021 (\$)
9211030	JANE SMITH	RRSP	119,006.21
9321200	JIM SMITH	RRSP	275,356.66
9321548	JANE SMITH	NON-REG	51,044.75
9383446	JIM SMITH and JANE SMITH	NON-REG	10,022.00
9621548	JANE SMITH	TFSA	125,209.47
			\$ 580,639.09



The household view

Consolidated Holdings

Fund	Market Value as of March 31, 2021 (\$)	% of Total	One Simple Fee (%)	Your Fee (%)	Your Fee in Period (\$)
Steadyhand Savings Fund	20,225.07	3.5	0.20	0.13	6.54
Steadyhand Income Fund	57,548.77	9.9	1.04	0.69	94.53
Steadyhand Equity Fund	195,622.64	33.7	1.42	0.94	447.91
Steadyhand Global Equity Fund	62,958.37	10.8	1.78	1.18	177.79
Steadyhand Small-Cap Equity Fund	128,476.74	22.1	1.78	1.18	351.73
Steadyhand Global Small-Cap Equity Fund	115,807.51	19.9	1.78	1.18	329.73
	\$ 580,639.09	100.0 %	1.53 %	1.01 %	\$ 1,408.24

Reinvested Fee Reductions in Period: **\$ 723.86**

Your all-in fee!
• No other charges
• Taxes included
• After all rebates

Notes:

(1) 'One Simple Fee' is our standard fee before reductions, as a percentage of holdings. 'Your Fee' is the net fee (after rebates) you paid during the statement period. Fee percentage totals are weighted by average AUM of each fund over the period. Fee reduction distributions are reinvested in additional units of the funds you hold. Steadyhand does not charge any administration, transaction, or account servicing fees.

(2) The stated fees cannot be deducted by you for income tax purposes as they have been deducted against income generated within the funds, thereby reducing taxable distributions.

Steadyhand

Holdings by Asset Class

Asset Class	Market Value (\$)	% of Total
Cash & Cash Equivalents	43,994.19	7.6
Fixed Income	40,750.28	7.0
Canadian Equity	219,805.21	37.9
U.S. Equity	136,004.38	23.4
Overseas Equity	140,085.02	24.1
	\$ 580,639.09	100.00 %

14.6 %

85.4 %

Your mix of
stocks and
bonds - hugely
IMPORTANT!

Consolidated Performance

Performance Period	Rate of return (%)
3 Months	3.3
1 Year	38.0
2 Years	9.9
3 Years	6.4
5 Years	8.5
10 Years	8.1
Since Inception	6.9

All performance figures are net of fees. Annualized compound rates of return shown on periods over one year. Consolidated performance is calculated using the money-weighted return method for the accounts in the portfolio.

Note: performance numbers are for illustrative purposes only.

PORTFOLIO STATEMENT Period from January 1, 2021 to March 31, 2021

Portfolio Activity

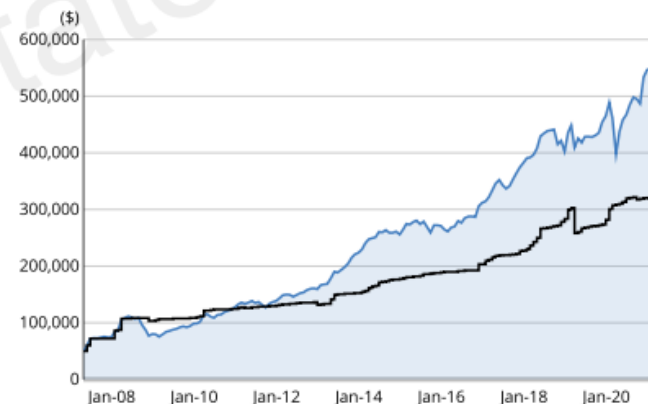
	Current Period	YTD	Since Inception
Beginning Value	546,406.42	546,406.42	0.00
Net Contributions*	15,870.01	15,870.01	336,276.03
Gain/Loss	18,362.66	18,362.66	244,363.06
Ending Value	\$ 580,639.09	\$ 580,639.09	\$ 580,639.09

*Net Contributions = contributions - redemptions

Showing you
the money!
(How much
you've made)



Portfolio History



Market Value

Net Contributions

Performance numbers are based on a consistent industry-wide calculation known as the "money-weighted" method. This method is the best way to understand how your investments have performed because it takes in to account the timing of your personal withdrawals and deposits. The "Rate of return" means the cumulative realized and unrealized capital gains and losses of an investment, plus income from the investment, over a specified period of time, expressed as a percentage.



180 Queen Street West, 16th Floor, Toronto, Ontario M5V 3K1

July 27, 2022

Delivered by email: comment@osc.gov.on.ca

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor, Box 55
Toronto, ON M5H 3S8

**Re: Proposed Amendments to NI 31-103 and to Companion Policy 31-103CP
and Proposed CCIR Individual Variable Insurance Contract Ongoing
Disclosure Guidance Total Cost Reporting for Investment Funds and
Segregated Funds**

We are pleased to provide comments on behalf of IGM Financial Inc. ("IGM") in response to the request for comments and feedback by the Canadian Securities Administrators ("CSA") and the Canadian Counsel of Insurance Regulators ("CCIR") on Proposed Amendments to NI 31-103 and to Companion Policy 31-103CP and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Total Cost Reporting for Investment Funds and Segregated Funds (the "Proposals").

Our Company

IGM, a member of the Power Financial group of companies, is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors throughout North American, Europe and Asia. Through its operating companies, IGM provides a broad range of financial planning and investment management services to help Canadians meet their financial goals. Our services are carried out principally through our subsidiaries; IG Wealth Management ("IGWM"), Mackenzie Investments ("Mackenzie"), and Investment Planning Counsel Inc. ("IPC"). Each company operates distinctly within the wealth asset management segments of the financial services industry.

IGWM is one of Canada's largest managers and distributors of investment funds. IGWM carries out its asset management activities through its subsidiary IG Investment Management Ltd. and its distribution activities through its subsidiaries Investors Group Financial Services Inc. and Investors Group Securities Inc., which are members of the Mutual Fund Dealers Association of Canada ("MFDA") and the Investment Industry Regulatory Organization of Canada ("IIROC"), respectively.

Mackenzie is a leading investment management firm providing investment advisory and related services to retail and institutional clients. Mackenzie primarily distributes its retail investment products through approximately 175 dealers and more than 30,000 independent financial advisors across Canada.

IPC provides Canadians both financial products and advice through its network of independent financial advisors. Its subsidiaries include IPC Investment Corporation, an MFDA member firm and IPC Securities Corporation, an IIROC member firm.

General Comments

We are very supportive of providing clients with a single view of their total costs of investing and therefore welcome the CSA's efforts to expand cost reporting to include ongoing costs of investment fund ownership. We are also pleased that the use of management expense ratio ("MER") and trading expense ratio ("TER") as inputs to the process of determining the Fund Expense Ratio ("FER") will allow for investment fund managers to use the MER and TER disclosed in the most recently published Fund Facts, ETF Facts, prospectus or MRFP. Further, we welcome that similar, competing investment products to investment funds, such as segregated funds, will be treated consistently when it comes to cost reporting, to assist client decision making. It is from this viewpoint that we provide our feedback on the proposals.

We believe that for expanded cost reporting to be effective, it must be presented to clients with the appropriate context, in an accessible and easy to understand format, that will inform investment decision making. Overall, we agree that clients will be well served to have a single view of the total cost of investing including both direct and indirect costs, expressed in dollar terms, included in their Annual Report on Charges and other Compensation (the "Annual Report"). However, we see less usefulness in the information proposed to be added to the Quarterly, Monthly and/or Additional Statements, as further discussed below. We strongly encourage the CSA to undertake focus group document testing of the prototype disclosure documents before proceeding, as was done as part of the introduction of the fund facts¹, particularly on the Quarterly, Monthly and/or Additional Statements, for insight into whether or not the expanded cost reporting will achieve the desired result.

Also critical to the introduction of expanded cost reporting will be the need for a standardized approach, both in terms of timing of delivery of information and format of delivery. The expanded cost reporting requirements raise operational and implementation challenges for both dealers and investment fund managers that will need to be addressed before the proposals come into effect. Dealers will be collecting information from many investment fund managers, while investment fund managers will be delivering information, in some cases, to a very large number of dealers across Canada. Currently, draft subsection 14.1.1(1) states that investment fund managers would be required to provide the required information necessary for dealers to satisfy their obligations within "a reasonable period of time". In our view, without the ability to rely on a set date by which information must be received, dealers will not have certainty regarding the ability to meet deadlines to deliver statements and reports. In terms of format, it is imperative that the data being delivered by investment fund managers have a mandated uniform format, in order for dealers to be able to design and build a system that can be used to ingest the information and produce client level reporting. As was the case with the recent CSA implementation of the OEO trailer ban, we believe it will be essential for the CSA and

¹ See: CSA Point of Sale Disclosure Project: Fund Facts Document Testing, prepared by Allen Research Corporation, September 2012.

CCIR to work collaboratively with industry associations to develop industry-wide processes and standards.

In addition, while we are very pleased that the CSA has proposed to allow investment fund managers to determine the FER using an approximation based on information disclosed in the most recently filed fund facts document, ETF facts document, prospectus or MRFP, we note that new funds that have not yet filed an MRFP do not calculate a MER or TER, and are prohibited from including such information in a fund facts or ETF facts document. As a result, we recommend that new investment funds should be excluded from these requirements, until such time as they have filed an MRFP and have a published MER and TER to maintain consistency in the disclosure provided to clients. Finally, more clarity will be needed with respect to the Proposals as they relate to non-Canadian investment fund managers and non-Canadian based funds, or foreign funds. We recommend specific guidance be provided for dealers as to how they can obtain and rely on information from investment fund managers not registered under NI 31-103.

Quarterly, Monthly Accounts Statements and Additional Statements

As noted above, in the absence of investor document testing, we question the cost benefit of adding the FER alone to Quarterly/Monthly and/or additional statements (the "Statements"). Investment fund managers today generally only calculate MER and TER twice annually, in preparation for the filing of financial statements and MRFPs. As a result, the inclusion of a stand-alone FER on each Statement, for each mutual fund series, will result in new additional operational costs and processes for investment fund managers as well as the dealers receiving such information without, in our view, a corresponding benefit to clients.

We note that the sample statement in Annex G uses the FER as the approximation of the total costs of ownership of investment funds. However, the FER only covers the costs of fund ownership, not the portion of the cost of advisor service fees when a client holds an unbundled fee series. As a result, the FER without such contextual information may cause confusion or be misleading to clients, as it will appear as if the cost of ownership of an embedded fee series is significantly more expensive than cost of ownership of an unbundled series when in fact, the management fees and advisor compensation may be charged outside of the fund and the overall cost of ownership may be similar when direct dealer compensation is factored in. For embedded fee series, there is additionally no explanation that a portion of the MER is paid to the dealer as a trailing commission.

In addition, unlike the fund facts, this singular view of the FER as proposed in the Statements is also missing performance information related to the fund, which provides additional context to clients that explains why fee differences may exist across different types of products. For example, a money market fund will have a significantly lower FER than a global equity fund. In the absence of corresponding performance information, an FER alone may lead clients to draw incomplete conclusions about the value proposition of particular investment fund holdings.

Accordingly, we strongly recommend that as an alternative to adding the FER in the Statements, disclosure is included to direct clients as to where they can find the most recently filed fund facts or MRFPs for the funds that they own, containing the most up-to-date MER and TER (and the sum of the two). We believe this approach is consistent with

the CSA's objective of reducing regulatory burden, while still providing investors with the information that they need to inform investment decisions. Finally, if the CSA and CCIR still wish to include the FER in total cost reporting, we propose that the more appropriate place for such disclosure be in the Annual Report, which will significantly reduce costs, duplication and most importantly, ensure clients have the contextual information, including dealer compensation and fund performance, to better understand what the FER represents.

Annual Report on Charges and other Compensation

As stated above, we are very supportive of providing clients with a single view of the total costs of investment ownership and believe that the Annual Report is the most appropriate place to include such information.

A single view of the total cost of investing that includes both direct and indirect costs, expressed in dollar terms, as proposed to be included in the Annual Report will allow clients to compare the cost of ownership of different investments as well as allow them to see, in one place, how much they paid to earn a particular return.

However, as we have indicated, to provide this type of customized view to clients will take significant cost, resources, and time for both investment fund managers and dealers to develop.

For mutual funds, managers currently publish a daily Net Asset Value (NAV) of each series of each fund on a net basis after deducting fees and expenses. In order for the calculation proposed in s. 14.1.1(2) to provide the dollar cost per unit in a way that does not double count fees, it is necessary to specify that the daily NAV to be used is the gross NAV rather than the net NAV that is generally published by investment funds. In order to complete these calculations for each series of each fund, investment fund managers will have to build systems to automate and store an enormous amount of data.

On the dealer side, systems will need to be built to ingest the data from every investment fund manager that has funds on its shelf, and further create systems to take the factors delivered by investment fund managers and perform the calculation contemplated by s. 14.17(6). Furthermore, because NAV fluctuates daily, each daily number determined by the formula set out in s. 14.1.1(2) will have to be matched by date, with the specific days on the calendar in which each client held the fund before it can be totalled up to arrive at the cost per fund, per client.

While we understand that some dealers may want investment fund managers to provide them with final numbers (including the calculation set out in s. 14.17(6)), this will not be possible for ETF managers since they will not have direct access to the information necessary to identify ETF unitholders given that the units are publicly traded on a stock exchange.

While we are very supportive of providing this information in the Annual Report for clients, we envision the new requirements will require, as noted, significant system builds and data storage upgrades for both investment fund manufacturers and dealers, as well as for industry service providers. Again, we believe the CSA and CCIR must work collaboratively

with industry associations to ensure implementation is completed in a timely and consistent way.

Prototype Disclosure for Annual Report

We have reviewed the sample prototype disclosure document for the Annual Report in Annex G of the Proposals. In our view, the separate table titled “Our Compensation” showing a separate total for the administration and trading fees plus the amount of the trailing commission received from investment fund managers may be confusing to clients. It is important to show clients in as simple a way as possible that trailing commissions are *deducted* from the “amount paid to investment fund companies” and are not new amounts. We are supportive of the changes proposed in the IFIC sample alternative prototype Annual Report on Charges, included as Appendix C of IFIC’s Comment Letter. We believe IFIC’s alternative sample removes the concern noted above that clients may mistakenly view the amounts shown in the “Our Compensation” table as additive to the amounts shown under “What you Paid”.

Timing Challenges

The CSA has stated that it does not expect the final rules to be published until mid-year in 2023, and the first Statement should cover the period ending December 31, 2024 and the first Annual Report should cover the period ending December 31, 2025. We believe that both dealers and investment fund managers will be extremely challenged to meet this timeline.

As noted, it will be critical that industry-wide solutions be developed in order to facilitate the exchange of information between investment fund managers and dealers. This would allow investment fund managers to deliver the information using a uniform format so that information delivered by investment fund managers to dealers is able to be ingested by the systems that dealers will be required to build. It is necessary that both investment fund managers and dealers know what that format will be in advance, so that they can build their systems accordingly. This may require a staggered approach to implementation timelines.

For example, we understand that for mutual funds, Fundserv will likely be used as the conduit to pass the data from investment fund managers to dealers. Fundserv has indicated in early consultations it will need time to design the technical solution to facilitate this process and that, based on the estimated final rule publication date, it will only be able to publish the technical solution in October 2024. Based on this estimate, dealers and investment fund managers would only be able to start their projects in November 2024 and will need to plan the project, perform development, internal testing and industry testing via Fundserv. This timeline alone casts doubt on the ability of investment fund managers and dealers to have completed systems work in time to start exchanging relevant information beginning January 1, 2025 to deliver a Report for the period ending December 31, 2025.

Furthermore, for ETFs, there is currently no infrastructure that exists to support the transmission of data between investment fund managers and dealers. To develop and build an industry-wide solution, with the support of the CSA, will take time.

For most industry participants, including ourselves, it is not possible to begin work on the technical builds needed for the Proposals before the publication of the final amendments. The technical development and resources required will have to be based on clear and extremely detailed requirements, and there needs to be certainty in these requirements before budgets and resources can be identified and assigned. Even at an extremely accelerated pace, we believe it will not be realistic to be able to deliver an Annual Report to clients before December 31, 2026.

Summary

We reiterate our support for the Proposals. We believe that including this information in the Annual Report is the most appropriate way to ensure that clients can view their total costs of investing with the contextual information necessary to provide them with a complete picture. Ultimately, we believe that expanding cost reporting in this way is in the best interests of our clients.

We appreciate the opportunity to provide you with our comments. We would welcome the opportunity to engage with you further on this topic. Please feel free to contact either Joanna Barsky at Jbarsky@mackenzieinvestments.com or myself, at Rhonda.goldberg@igmfinancial.com if you wish to discuss our feedback further or require additional information.

Yours truly,

IGM FINANCIAL INC.



Rhonda Goldberg
Executive Vice-President & General Counsel
IGM Financial Inc.



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D'INVESTISSEMENT
DU CANADA

IFIC Submission

Re: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (31-103CP) and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds (collectively, Total Cost Reporting)

July 27, 2022





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July 27, 2022

Delivered By Email: consultation-en-cours@lautorite.qc.ca, comments@osc.gov.on.ca

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

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Corporate Secretary and Executive Director,
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Dear Sirs and Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (31-103CP) and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds (collectively, Total Cost Reporting)

The Investment Funds Institute of Canada (IFIC) appreciates the opportunity to comment on the consultation for Total Cost Reporting. This comment letter will focus specifically on the Canadian Securities Administrators' (CSA) proposals for the securities sector (**Proposed Securities Amendments**) in the proposed amendments to NI 31-103 and 31-103CP.

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level

committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

Summary

IFIC continues to support expanded cost reporting to investors. IFIC initially indicated its support for expanding annual cost reporting to investors in 2017 so that costs related to fund management fees and operating expenses were more visible to investors. This position has since been supported by research findings. While annual fee and performance statements are received and largely read (91% of investors report receiving a statement of either performance or cost of their investments and 69% state that they read all or most of the statements),¹ many investors mistakenly believe that current annual fee summaries show the total cost of investing, and that the vast majority of investors would prefer total cost reporting.² IFIC's position on this remains the same as stated in its 2018 MFDA submission³ and since then in several public communications with the regulators and the media. IFIC has consistently supported enhanced disclosure of embedded costs in relation to expanding the annual report on charges and other compensation (**Annual Report on Charges**).

However, IFIC does not support the type of expanded cost reporting proposed for quarterly (potentially monthly) client account statements (**Account Statements**). Research by Pricewaterhouse Coopers LLP (**PwC**), which examined the Proposed Securities Amendments, concluded in its report (**PwC Report**) that including investment fund fees in account statements, that are not individualized, not in dollar terms, and not in the context of appropriate performance information, risks confusion and sub-optimal investor choices.⁴ In **Appendix E**, we provide a copy of the PwC Report. Through the proposed changes to the Annual Report on Charges under the Proposed Securities Amendments, investors will obtain information on investment funds' embedded fees, properly presented in dollars, broken out at the investor level and contextualized. IFIC believes that investors would prefer to receive this more appropriate expanded cost reporting information in annual rather than quarterly reporting. From the PwC Report, we note that a recent US study suggests the majority of investors would prefer annual rather than quarterly fee reporting.⁵ The proposed changes to the Account Statements are not consistent with the theme of regulatory burden reduction that has been adopted by the CSA. There are a number of other aspects of the Proposed Securities Amendments that are not consistent with regulatory burden reduction and those aspects are addressed in this submission, as applicable.

This submission sets out the material elements of IFIC's concerns with the Proposed Securities Amendments for Total Cost Reporting. Also, in **Appendix A**, we respond to the CSA's five specific questions regarding the Proposed Securities Amendments either by cross-references to applicable comments in this submission or directly in Appendix A. In **Appendix D** we summarize the challenges with including the TER in the Annual Report on Charges and Account Statements.

Our feedback is focused on the following key points:

- IFIC is supportive of expanded cost disclosure in the Annual Report on Charges;
- IFIC recommends that the Proposed Securities Amendments not include the proposed changes to the Account Statements because they could be misleading, confusing and/or counter productive for investors;

¹ Innovative Research Group, Inc. (2019). *CRM2/POS 3-year tracking study, September 2019 Report*.

² Behavioural Insights Team. (2021). *Improving Fee Disclosures for Canadian Mutual Fund Investors*.

³ The IFIC submission to the MFDA's consultation on Expanded Cost Reporting is available [here](https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=20193&lang=en_CA).
https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=20193&lang=en_CA

⁴ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 32.

⁵ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 32.

- The CSA's proposed transition period is inadequate and, if not extended, would introduce significant risks for stakeholders;
- IFIC recommends that the CSA provide a minimum of a 3.5 year implementation timeline, being at least the same timeline that was provided for the introduction of CRM2. Accordingly, the final amendments would come into effect in September 2025 instead of September 2024 (assuming a Q2 2023 final publication and ministerial approvals);
- IFIC recommends that investment fund managers should be permitted to provide dealers with cost information derived solely from their most recent public disclosure documents, and dealers should be permitted to rely solely on such information for providing enhanced cost disclosure, and
- IFIC would be pleased to work collaboratively with the CSA to address IFIC's foregoing recommendation regarding the proposed implementation timeline, and operational and other issues.

IFIC's principal concerns with the CSA proposal are the proposed Account Statement requirements and the unrealistic implementation timeline. To understand this argument, it is necessary to describe fund and client account systems and reporting issues in detail. We hope this detailed information demonstrates the importance for investors of getting expanded cost reporting right by allowing a realistic implementation period.

Quarterly (or monthly) Account Statement Requirements

As stated above, IFIC has consistently indicated its support for expanded cost reporting so that costs related to fund management fees and operating expenses are set out in annual reporting to investors, specifically as enhanced disclosure in the Annual Report on Charges.

The Proposed Securities Amendments would require the fund expense ratio (**FER**), which is the sum of the management expense ratio (**MER**) and the trading expense ratio (**TER**), to be disclosed as a percentage in the Account Statements for each individual investment held in the account.

IFIC's view is that including the FER as a percentage in Account Statements is not desirable or supported by IFIC because, from an investor's perspective, it could be misleading, confusing and/or counter productive. The Proposed Securities Amendments for Account Statements would result in the provision of mismatched data that is difficult to understand and not properly contextualized, all of which could have negative implications for investors, for the following reasons:

- The inclusion of FER would not necessarily be specific to an investor's circumstances and, therefore, could be incorrect. For example, it would not reflect any management fee rebates/discounts that result from tiered fees based on the investor's individual holdings or aggregate household holdings; rather, the FER information would be determined at the fund series/class level. All other information in Account Statements is personalized to investors. In IFIC's view, meaningful investor FER disclosure should reflect an amount specific to the investor after taking into account all management fee rebates/discounts. This will be accomplished by the enhanced Annual Report on Charges under the Proposed Securities Amendments.
- The requirement to include the FER as a percentage would not be easily understood/put in context by investors, considering the book cost and market value disclosures in their Account Statements are in dollars. The measurements of performance (dollars) and cost (percentage) do not align. Investors typically compare the book cost and market value dollar amounts to determine the aggregate performance return, in dollars. Such aggregate performance will be over a time frame that is short, medium, or long term (depending how long the client has had the account

at the reporting registrant). However, the FER is only for one year. Therefore, the performance period and the FER period do not align. Investors cannot be expected to convert each of performance and cost values on the one hand, and the time periods on the other, to draw their own conclusions regarding, for example, the relationship between annual percentage performance and annual cost. Research suggests that when it comes to percentages, investors tend to neglect small amounts and have a tendency to misinterpret percentages when making decisions around fees and returns.⁶

- The inclusion of the FER for a fund series/class without corresponding annual performance information stated as a percentage for that series/class, lacks proper context and could result in investors drawing incorrect conclusions about the FER. It is IFIC's view that it is misleading to investors to provide them with FER information without investors having the opportunity to consider the information in context. More specifically, the absence of relevant annual performance information stated as a percentage does not enable investors to draw any conclusion about the value proposition of each investment fund holding.
- Investors are well served when provided with the full direct and indirect costs of investing and the performance of their investments. Under the Proposed Securities Amendments, this will be achieved by the enhanced Annual Report on Charges. Therefore, it does not serve an investor's interest to provide less meaningful data, such as the FER on a stand-alone basis in their Account Statements, when more complete cost information will be provided in the Annual Report on Charges, delivered together with the annual investment performance report.
- We note that current Account Statements do not contain any full cost information. The inclusion of FER into those statements would, in certain situations, only reflect part of the cost of investment, which would also make such disclosure potentially misleading. By way of example, for Series F securities of funds, the Account Statements as proposed would reflect the FER, but not the account-based fees charged by advisors outside the fund. This may lead investors to believe that they do not pay any fees related to the fund holding other than the FER. The advisors' account-based fee attributable to Series F securities would only be reflected in the Annual Report on Charges disclosure. Another example would be where short-term trading fees are not reflected in the FER. These too would only be reflected in the Annual Report on Charges.
- IFIC is also concerned about the negative investor outcomes that could result if the proposed amendments to the Account Statements proceed. The PwC Report concluded that, while quarterly reminders of the existence of fees would be effective, they could potentially encourage negative investor behaviors. The PwC Report provides that the saliency of presenting fee information (i.e. losses) on its own can negatively skew investors to become overly focused on the costs, leading to loss aversion or fee aversion.⁷ A narrow focus on cost could inappropriately affect the comparison of a fund, to other funds, and banking and other products. So, the stand-alone FER cost information, presented without any context (as described above), could cause investors to unduly focus on costs and lead investors to make counter productive decisions to exit certain fund holdings based solely on the FER information. This could have negative consequences for the investors' investment returns and attaining their long-term investment goals.
- The proposed amendments to the Account Statements would entail a significant

⁶ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 25.

⁷ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 31.

increase in costs and time for system enhancements for fund managers and dealers. Consistent with the theme of regulatory burden reduction, this type of endeavor should only be undertaken where there are clear, significant, and demonstrable benefits to investors. IFIC does not believe this to be the case in relation to the proposed changes to the Account Statements and considers there to be an imbalance between relatively few potential investor benefits and the related cost and time of implementation. According to PwC, no comparable jurisdictions require quarterly fee disclosures.⁸ The PwC Report indicates that PwC did not find strong evidence that the proposal for quarterly disclosures would significantly benefit investors above and beyond what would be included in the Annual Report on Charges. The PwC Report provides that this may be the reason that comparable jurisdictions have not adopted quarterly disclosures of the type contemplated by the Proposed Securities Amendments.⁹

- Securities regulatory authorities have succeeded in creating a very robust disclosure regime for investment funds. At point of sale, investors can readily access MER and TER information about any investment fund in Fund Facts and/or ETF Facts documents. An abundance of research has demonstrated that investors make use of mutual fund and ETF documents, including the CSA-sponsored CRM2/Point of Sale Three-Year Investor Tracking Survey. This survey showed that 69% of investors reviewed Fund Facts with their advisors before making a purchase and that investors rated every section of the Fund Facts document as important for making an investment decision with fee importance at 93%.¹⁰ After the point of sale, investors can also access MER and TER information about any investment fund in the investment funds' Management Report of Fund Performance (MRFP). Fund managers are required to have websites to retain Fund Facts and/or ETF Facts, and MRFP documents. So, the MER and TER of any fund is already publicly available, which makes the proposed new Account Statement reporting redundant. IFIC believes that in terms of receiving after point of sale MER and TER fee information, investors would prefer to receive such information in annual rather than quarterly reporting. A recent US study suggests the majority of investors would prefer annual rather than quarterly fee reporting.¹¹
- The FER is not a number that appears in continuous disclosure materials. If the FER is included in the Account Statements, there would be an inconsistency between Account Statements and continuous disclosure materials. We also note that quarterly (or potentially monthly) reporting of FERs would be at a different reporting cycle than MER and TER disclosures in the MRFPs. It is unclear as to why this should be the case, given that the current semi-annual continuous disclosure cycle has always been considered to be adequate. These factors are not in keeping with the concept of regulatory burden reduction. The CSA should not overlay the policy principles of the continuous disclosure regime onto investors' personalized Account Statements. If the regulators' policy concerns behind proposing the addition of the same MER and TER information that is already publicly available in many forms is the immediacy, frequency, and investors' ease of access of such information after the point of sale, see our recommendation below for an alternative solution to that proposed in the Proposed Securities Amendments.

Recommendations: IFIC recommends that the Proposed Securities Amendments do not include the proposed changes to the Account Statements. Through the proposed changes to the

⁸ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 11.

⁹ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 32.

¹⁰ Innovative Research Group, Inc. (2019). *CRM2/POS 3-year tracking study, September 2019 Report*, pp. 74-76.

¹¹ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 32.

Annual Report on Charges under the Proposed Securities Amendments, investors will obtain applicable information on investment funds' embedded fees, presented in dollars, broken out at the investor level and contextualized. The enhanced Annual Report on Charges will more accurately reflect the investors' actual fees (after management fee rebates and/or householding discounts), personalized to investors' actual circumstances, and presented together with the investors' investment performance reporting.

IFIC also recommends that the CSA instead consider whether their intended purposes for this proposed change to the account statement requirements (i.e. assuming the regulators' concern is the immediacy, frequency, and investors' ease of access of such information after the point of sale) can alternatively be achieved through the CSA's access equals delivery model under review for the investment funds industry. For example, if access equals delivery is implemented, all investment funds' continuous disclosure materials will be posted on their fund managers' websites in an easy to find location. After the point-of-sale transactions of investment funds, investors can be provided reminders that they can find the MERs and TERs for their fund holdings by going to the fund managers' websites (i.e. the same locations that would serve for access equals delivery rules). A blanket reminder could be added to the Account Statements by a future amendment to NI 31-103 should access equals delivery for the investments funds industry be implemented. As a related matter, we note that because of the January 2022 amendments to NI 81-106 *Investment Fund Continuous Disclosure*, investments funds must have a designated website on which investment funds intend to post regulatory disclosure. In the notice publishing the amendments, the CSA stated, "*This requirement provides future opportunities for investment funds to leverage their websites to reduce regulatory burden, while also improving investor access to disclosure.*"¹² As a related matter, once SEDAR+ is fully implemented, SEDAR will also serve as easily accessible source for investors to find offering and continuous disclosure materials, such as Fund Facts and ETF Facts documents and MRFPs.

Practical Implementation Timeline Implications

The Proposed Securities Amendments would require registrants to provide investors with the newly required information in the first quarterly account statements for the period ending December 2024 and in the first Annual Report on Charges for the period ending December 2025. This assumes the CSA's final publication of the amendments would occur and ministerial approvals be obtained by Q2 2023 with a September 2024 effective date. In the consultation notice, the CSA states this equates to a proposed transition period of 18 months (1.5 years) from the date of the final published version to the effective date of the Proposed Securities Amendments. In relation to the CSA's proposed expectation to complete delivery of the first Annual Report on Charges for the period ending December 2025, IFIC notes the CSA's transition period contemplates one incremental year from the proposed effective date (i.e. from September 2024 to December 2025) which we assume recognizes the need for registrants to collect, calculate daily, and store one full year's worth of data for each client to fulfill the client's annual reporting for the Annual Report on Charges (i.e. in total, first delivery of newly required annual information to clients occurs a minimum of 2.5 years from the final published rule (Q2 2023 to December 2025)).

IFIC's view is that the proposed transition period of 18 months is neither reasonable nor practical. The investment fund industry's service provider, Fundserv, and its members (i.e. mutual fund dealers and investment fund managers), have delineated a timeline for necessary procedures and processes for effecting system changes to meet these regulatory amendments and this timeline is longer than the proposed transition period. Based on past experience, these procedures and processes are not flexible. See **Appendix B** for the prototype Fundserv timeline. It sets out a detailed breakdown for the CSA's, Fundserv's, dealers' and fund companies' roles

¹² Page 3 of CSA Notice issued October 7, 2021, contained in OSCB publishing the amendments (8 workstreams) that came into force January 6, 2022.
https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf

along with steps to implement a dollar-based or percent-based FER in reporting. This implementation timeline is consistent with previous positions IFIC submitted to securities regulators about practical expectations for an implementation timeline.¹³ The version set out in Appendix B is an aggressive transition period timeline – it leaves very little margin for error in the Fundserv and industry's system changes and testing and leaves little incremental time to resolve unanticipated and/or particularly difficult issues.

It is critical to understand that neither Fundserv nor dealers and fund managers can start working on any of their respective system changes until after the final version of the amendments to NI 31-103 is published by the CSA. ***Based on the prototype Fundserv timeline, assuming Q2 2023 for the final published amendments, the shortest possible timeline for registrants to be ready to implement the new requirements (regardless of whether for the Account Statements or the Annual Report on Charges) would be a transition period of a minimum of 2.5 years from the date of the final published version to the effective date of the Proposed Securities Amendments, plus one year for collecting and storing one full year's worth of data required for reporting the newly required information in the Annual Report on Charges (i.e. in total, first delivery of newly required information to clients would occur a minimum of 3.5 years from the date of the final published rule (Q2 2023 to December 2026).*** This transition period would not change, regardless of whether the CSA proceeds with the proposed amendments to the Account Statements.

The CSA's proposed transition period is inadequate and, if not extended, would introduce significant risks for stakeholders for the following reasons:

- It is unreasonable and impractical for any stakeholder who will be involved in the project work required to implement the new client reporting requirements for Total Cost Reporting to begin work before the publication of the final amendments. Technology builds require final, clear and detailed mapped out business requirements, which cannot realistically be started until the final rule is published. In order to prioritize a technology build relative to other projects, final rules need to be in place. Further, no system costing can begin until after the business requirements are finalized. Expecting registrants to start their operational and technology change process and system coding with proposed (not final) rule amendments presents the risk that some of the proposed amendments are not adopted or changed in the final rule. These types of changes would result in revising the business requirements document and redoing some or all of previously undertaken coding. This could result in taking more time overall to correct course/revise/recode than starting with the final published requirements, which introduces a higher level of potential operational error. It would also significantly escalate costs compared to starting with the final published requirements. Technology builds also require budget approvals that follow typical corporate governance approval processes. Budget estimates for any regulatory change project, including technology system changes, cannot get approved if they are based on requirements that are not final.
- The PwC Report, reflecting its research findings and examination of the Proposed Securities Amendments, supports IFIC's concern. In particular, PwC observes that in its experience, and from what it heard in stakeholder interviews it conducted with industry participants, budgets for detailed development spends do not reach approval stage until regulations are finalized, particularly where cost estimates are expected to be substantial.¹⁴ Based on PwC's interviews with stakeholders, it estimates that dealer costs to be in the hundreds of thousands of dollars for smaller firms and up to several

¹³ For example, see IFIC's 2018 submission to the MFDA provided by the link in footnote 3. Also, in our pre-consultation communications with the Joint CSA and CCIR Committee, both in writing and in Joint Forum meetings, IFIC consistently shared the same information.

¹⁴ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, pp. 39

million dollars for larger firms.¹⁵ The European Securities and Market Authority (**ESMA**) reviewed expanded fee disclosure requirements in Europe. While overall more complex, the costs were thought to be significant and were referred to as “very costly” in ESMA’s report.¹⁶

- Implementing the Proposed Securities Amendments would require providing and storing new daily factor, both MER and TER, data elements that do not currently exist within dealers, fund managers or their third-party service providers (i.e. to determine FER, expressed as a percentage, at the fund series/class level, and FER, expressed in dollars, at the account level). To implement requirements that involve one or both of the MER and TER new daily factor data elements that are not already part of an existing data file will require material system enhancements across various stakeholders. These system enhancements are both time consuming and expensive, and also present significant operational risk relating to the data and client reporting. It is important to understand that the material system enhancements required by the various stakeholders must be carried out sequentially, and cannot be designed, coded, and published simultaneously or in parallel by each of Fundserv, fund managers, dealers, and third-party service providers.
- The following explains why such material system changes can only be sequentially implemented by each of the industry stakeholders, and is illustrated by the prototype Fundserv timeline provided in Appendix B.
 - Fundserv has set timeframes in which it designs, codes, and publishes system changes. These set timeframes are what largely dictate the practical timelines in which dealers and fund companies could reasonably be expected to carry out their respective necessary system changes to implement expanded cost reporting that includes calculating, storing and reporting FER, expressed as a percentage, at the fund series/class level, and FER, expressed in dollars, at the account level.
 - It is not possible to know what the final Fundserv technical solution is until it is published. Based on the CSA’s proposed Q2 2023 publication date of the final amendments to NI 31-103, the earliest for Fundserv to have its final published technical solution (V35 BRD) is in October 2024.
 - Only after that, can dealers and fund managers start in November 2024 to plan their project, perform development, and perform internal testing and re-engineering to be ready to begin industry testing via Fundserv in early March 2025 until December 2025. Overall, this means it takes a minimum of one year (i.e. from November 2024 to December 2025) for fund companies and dealers working with Fundserv to carry out project planning and development, testing and re-engineering to implement technical enhancements and new procedures.
 - Fundserv would be ready for production in June 2025 and the new enhancements would become operational by December 31, 2025. With Fundserv’s activation by December 31, 2025, the fund managers can begin January 1, 2026, to send daily factors to dealers and dealers can begin to store the data daily until December 31, 2026. This allows for one full year’s worth of data for each client for dealers to complete the final calculations necessary for client level reporting in the Annual Report on Charges for the period ending December 31, 2026.
- Providing new FER data is a major undertaking because it does not exist on the fund

¹⁵ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators’ enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 38

¹⁶ ESMA’s *Final Report* from March 2020, para. 188,
https://www.esma.europa.eu/sites/default/files/library/esma35-43-2126_technical_advice_on_inducements_and_costs_and_charges_disclosures.pdf

managers' transfer agency system, and certainly not at the fund level per investor. It can be calculated only at the fund level on fund accounting systems. Fundserv data standards do not have a file for this data point to be transmitted. Fundserv will need to design and code system programming changes to support fund managers' communication of the daily price files to dealer firms. From a dealer perspective, they do not have or store this data, and certainly not at the fund level per investor. Dealers would have to program to receive and store the new file from Fundserv and to calculate at an investor account level the dollar cost of the FER and then aggregate amounts for each investment fund holding. FER requirements for the Annual Report on Charges will entail numerous variations at each fund and series/class level to take into account management fee rebates and/or householding discounts to create thousands upon thousands of daily price files. Further, dealers will need to redo their entire existing Annual Report on Charges statements to build in the newly required information (i.e. a complete redesign of the table) and adding more definitions to assist investors to better understand the reporting.

- For ETF providers and dealers that sell ETFs, the CSA's proposed transition period could be more challenging because there is currently no infrastructure for the required ETF data transmission, such as Fundserv. Currently, there is uncertainty about how ETF fund managers will communicate the necessary information to dealers whose clients hold ETFs and how such dealers will obtain and store the information. The same problems exist for other types of investment funds such as prospectus-exempt funds, scholarship plans, labour-sponsored funds and foreign investment funds. The need for dealers to resolve and program the necessary data transmission and retention solutions further complicates their overall system builds and programming. This could be a factor in considering the breadth of product shelves. Dealers will wish to commence the system builds only when solutions are available for mutual fund, ETF, and all other types of investment funds at the same time. This could further exacerbate the dealers' implementation timing challenges.
- Unlike CRM2, the changes required to meet the Proposed Securities Amendments for Total Cost Reporting requires new FER data to be created. The CRM2 requirements for two new annual reports did not require new data to be created. All the information already existed, meaning no new calculations or formulas needed to be programmed. The trailer fee information provided by fund managers to dealers was already accounted for and totaled monthly, which meant creating one new field for fund managers to communicate through Fundserv to dealers, at most, twelve times per year. Considering that under CRM2 the CSA provided registrants with a total transition period of 3.5 years (for most registrants – see breakdown in footnote¹⁷) to implement the two new annual report requirements, it is not unreasonable to consider that industry would need no less than that transition period to implement the Proposed Securities Amendments for Total Cost Reporting. In fact, given the greater complexity of

¹⁷Description of the CRM2 effective date and transition period:

The CRM2 amendments came into effect on July 15, 2013 with a transition period for the two new annual reports requirements to come into effect July 15, 2016.

Although the effective date for the two new annual report requirements, technically, was July 15, 2016, by the CRM2 FAQs, the CSA explained that so long as the date July 15, 2016 falls within the start and end date of the 12-month period of the two new annual reports period, the registrant satisfies the July 15, 2016 effective date.

Overall, the result is that because most firms (not all though) decided to report on a calendar year basis (i.e., its first reports covered the period January 1, 2016 to December 31, 2016), that meant most firms delivered their first reports to clients in January 2017. Considering this, from July 15, 2013 to December 31, 2016 means registrants had **3.5 years** to implement the CRM2 annual report requirements from the published date of final rules (i.e. 2.5 years for system changes/statement design and 1 year to collect the data needed for the reporting). However, there were some firms who decided to have their first reports cover the period from July 15, 2016 to July 14, 2017, and in such cases, those registrants had **4 years** to implement the CRM2 annual report requirements (i.e. July 15, 2013 to July 14, 2017)

- implementing Total Cost Reporting, the investment funds industry would be accomplishing far more than what was required to implement CRM2 in the same amount of time that was allocated for implementing CRM2 (a minimum of 3.5 years).
- The practical implications when adding new data elements are impacted by the interdependent roles of Fundserv, fund managers, dealers, print vendors and other service providers. They are as follows:
 - Fundserv: Fundserv will need to add new data fields to be able to exchange information between fund managers, dealers and service providers. Upon the CSA's publication of the final amendments, Fundserv starts Fundserv/industry group meetings to complete writing the draft technical requirements, followed by the Fundserv approval process before publishing the draft technical requirements for industry comments. Once the draft technical requirements are agreed, Fundserv currently operates on a one-year implementation schedule where Fundserv enhancements/new system requirements are completed in draft by July, published in draft for industry comment for the month of August, published in a final business requirement document (BRD) in October, and ready for production in the following June each year. For example, to add any new data fields into the June 2024 final production release, Fundserv would need to complete writing the proposed draft technical requirements (based on a final published rule) by June 2023 (one year in advance). In the case of a project with the size of development that the Total Cost Reporting requirements will take, the final development will take longer than the typical October to June period. Accordingly, Fundserv anticipates the activation of the final production will take additional incremental time (from October 2024 until December 31, 2025).
 - Fund Managers: The complexity of the fund manager changes required will depend on the nature of the requirements under the new rules. For example, to provide either basic fund MER or FER data similar to the disclosure contained in the Fund Facts will require a process to populate the data in back-office systems and transmit it to Fundserv. Following the initial change to data files, a process will be required to maintain or update the data as needed.
 - Dealers: Dealer systems will need to be updated to be able to accept, retain, use and periodically update the new data elements. Changes will be required to the data file that contains the inventory of securities available on the dealer's platform with the associated security details (security master). Changes will be required to the dealer's statement files.
 - Print Vendors and Other Service Providers: Print vendors will need to update their systems to be able to accept and use the new data files. Changes will be required to the statement layout and design. Other service providers may need to adapt functionality to accept new data points and provide calculation services, as deemed necessary. Bottlenecks could arise at major third-party service providers that will be undertaking changes for significant portions of the investment funds industry all at once. Since some of these changes will also need to be done sequentially, it will be particularly important that the implementation period provides sufficient time to build and test the enhanced functionality.
 - The CSA's proposed effective date of September 2024 could create a significant operational burden for the industry as it could be dealing with implementing two massive operational change projects to be carried out in parallel. The securities industry in Canada has generally indicated it will follow the SEC's proposed change to move the securities settlement cycle from T+2 to T+1. The move to T+1 for the Canadian securities industry is proposed to be effective the Labour Day weekend in September 2024; now substantially coinciding with the same period proposed for the Total Cost Reporting effective date. The announcement of the US's move to T+1 came before the proposed amendments for Total Cost Reporting. The Canadian investment funds industry is only a subset of the entire US and Canadian securities industry and

therefore had little to no influence on the effective date for the move to T+1 initiative.

- Dealing with only one, let alone two, very massive operational change projects, requires significant technology system and process changes. This entails ongoing system developments and modifications, all of which is onerous and resource intensive/constrained. This can create significant risk to a successful implementation. This also presents significant elevated reputational, litigation, client-experience and/or operational risk and a potentially undesirable outcome for investors, fund managers, dealers, and securities regulators if inadvertent inaccuracies occur due to an inappropriately compressed implementation period. Should these risks come to fruition, the remediation measures necessary would be inconvenient and confusing for investors and expensive and time consuming for the investment industry.

Recommendations: IFIC's view is that the work described above cannot begin until the regulatory requirements are finalized. As a result, IFIC recommends that the CSA provide a transition period that is a minimum of one year more than is currently proposed, such that final amendments would come into effect in September 2025 (assuming a Q2 2023 final publication and ministerial approvals). This would mean the total implementation timeline would be about a minimum of 3.5 years:

- a minimum of 2.5 years following publication of the final rule to develop, test and implement systems required to calculate the ongoing indirect costs, in dollars, at the investor level, of owning an investment fund and make it available to dealers,
- one additional year thereafter, to allow for the collection of data for a full year prior to the first reporting date. See bolded portion of third paragraph in section *Practical Implementation Timeline Implications* above for a detailed explanation of IFIC's proposed transition period timeline. In practical terms, this would mean that investors would receive the first Annual Report on Charges containing the newly required information for the reporting period ending December 31, 2026.

This is a reasonable transition period timeline, which is necessary to provide adequate time to develop the technology plan and implement it, assuming unforeseen circumstances. IFIC would be pleased to work collaboratively with the CSA to address this proposed implementation timeline and operational and other issues, and recommends that discussions among CSA and industry representatives occur to that end.

Requirement to Include TER

The Proposed Securities Amendments would require combining the TER with the MER for the FER value used in the calculation to derive the total fund expenses, expressed in dollars, disclosed in the Annual Report on Charges, and to disclose the FER, expressed as a percentage, in the Account Statements

IFIC recognizes that including the TER fulfills the purpose of 'total cost reporting' for the enhanced reporting requirements. In **Appendix D** we summarize the challenges with including the TER in the Annual Report on Charges and Account Statements. The most significant challenges with TERs are that they are highly variable, distorted by significant cash flows, and not typically a significant ratio for investors or a material absolute number.

Recommendations: IFIC recommends that the CSA re-consider using the MER alone for calculating fund expenses, rather than the aggregate MER and TER, for the purposes of the Annual Report on Charges. If the TER is included, IFIC supports a single FER ratio for the formula calculation into dollars, and does not support the separate reporting of MER and TER ratios.

As indicated above, IFIC does not support including the TER, MER or FER in Account Statements.

Duty to Provide Information - Investment Fund Managers

Subsection 14.1.1(3) of the Proposed Securities Amendments require, under their duty to provide a dealer/adviser with the newly required information, that if a registered investment fund manager provides an approximation, the approximation must be determined based on information disclosed in an investment fund's most recently disclosed Fund Facts document, ETF Facts document, prospectus or management report of fund performance, making any reasonable assumptions, unless the factors in subsections (a) or (b) exist.

IFIC's concerns with this subsection 14.1.1(3) are the following:

- Subsection 14.1.1(3) of the Proposed Securities Amendments should set out an objective requirement for investment fund managers which is not dependent on subjective determinations (i.e. the provision should not use "if a fund manager provides an approximation, the approximation must be determined based on..."). Also, subsection 14.1.1 (3) (b) introduces subjectivity and should be deleted for the same reason. An objective approach that is consistent with the disclosure requirements in NI 81-101 [*Mutual Fund Prospectus Disclosure*] should be utilized. If this approach is acceptable for offering documents, including Fund Facts documents at the point of sale, it should also be acceptable in the context of determining the information for the dealers to include in the enhanced client reporting. This approach would not require off-cycle data calculations. Consistent with regulatory burden reduction, it would substantially streamline the data collection process and, potentially, system requirements, while reducing litigation risk. It would also make disclosure documents and client enhanced reporting more consistent, thereby reducing unnecessary complexity and investor confusion.
- In an investment fund's initial year of operation, there will be no MER or TER information (unless either or both is capped) until the first MRFP is filed. Accordingly, the first FER would not be available until after that time. This means there is an information gap. For example, for a fund with a December 31 year end, its first annual (December 31) FER would typically only be available 90 days after the fund's year-end (or by March 31), which is after the Annual Report on Charges would be produced.

Recommendations: IFIC recommends that this subsection 14.1.1(3) (a) and (b) should be amended as follows:

~~"For the purposes of subsection (1), and paragraph 14.14(5)(c.1) or 14.14.1(2)(c.1), if a registered investment fund manager provides an approximation, the approximation must be determined based on information disclosed in an investment fund's most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, unless a registered investment fund manager must provide information that uses information disclosed in an investment fund's most recently disclosed fund facts document, ETF facts document, prospectus or management report of fund performance, unless: (a) [insert same wording as proposed amendments] or (b) the investment fund manager reasonably believes that doing so would cause the information disclosed in the statement or report to be misleading. If the information is unavailable for an investment fund class or series, such as for a period prior to the first filing of the applicable MRFP information, an investment fund manager must use the fund management fee, administrative fee, and any other fund fees quantified and disclosed in the fund's most recent prospectus to determine the FER."~~

This issue, described in the second bullet above, also exists for the Account Statements reporting.

Disclosure to Describe any Approximations or Other Assumptions

The Proposed Securities Amendments would require dealers to disclose a description of any assumptions or approximations used by fund managers to calculate the FER (subsections 14.14(5)(c.2) [*account statements*] and 14.14.1(2)(c.2) [*additional statements*]) or the total amount of fund expenses in relation to securities investment funds owned by the client and the total amount of direct investment fund charges (subsections 14.17(1)(p) [*report on charges and other compensation*]).

IFIC's view is that it is not reasonably possible for dealers to obtain from fund managers all the various types of assumptions or approximations fund managers may use in determining the information they provide for each fund, and to provide customized and up to date disclosure to clients for each series or class of each fund held in a client's account. This could mean multiple versions of disclosure which could take up too much or a disproportionate amount of space on client statements and be too much information for clients to understand and for dealers to accurately obtain, store, and disclose considering it may change quarterly and annually. It would end up being in the tens or hundreds of versions of disclosure considering it may differ for every class or series of a fund. Such detailed disclosure of assumptions and approximations would likely be incomprehensible and overwhelming to investors. A short standardized explanatory note would be far more likely to be understood.

Approximations or assumptions used by investment fund managers would need to be standardized through rules before it would be reasonable for dealers to be able to provide such disclosure to their clients. Investors that hold fund investments from more than one investment fund manager would likely become confused if there are different disclosures about approximations and assumptions in respect of each fund holding. Moreover, there is often limited space on the Account Statements, which makes multiple disclosures untenable and such disclosures would need to be weighed against the need for other types of statement messages that must be included in a particular account statement cycle, such as regulatory notices for example. If standardized approaches are established, a fund manager could provide one standard description for dealers to include in disclosure statements. A standard description would also be easier for dealing representatives to explain to clients should clients question the disclosure, as opposed to more bespoke and differing disclosures across funds in the client's account.

Recommendations: IFIC recommends that the CSA remove this disclosure obligation in each of the three subsections where it is proposed under the Proposed Securities Amendments (i.e. those referred to in the first paragraph of this section). Instead, the CSA should substitute a generic *explain/disclaim* disclosure statement for dealers to include in the same or substantially similar language for the Annual Report on Charges. Some suggested wording is the following:

"This information uses data provided by the investment fund managers and is calculated using the investment funds' most recently published information. It may not reflect the actual charges you have indirectly incurred but is a required calculation that is intended to be an approximation."

As indicated above, IFIC does not support the proposed changes to the Account Statements. In any event, the above suggested wording should also be considered a reasonable approach.

Unreasonableness of Dealer Expectations Under New Section 14.17.1

The Proposed Securities Amendments add an entirely new section 14.17.1 [*Reporting of fund expenses and direct investment fund charges*] which, under subsection (2) and (3), shift the obligation on dealer firms to obtain on their own the information which fund managers are obligated to provide under section 14.1.1 [*Duty to provide information – investment fund managers*] if the information the fund manager provides is incomplete or relying on it would be

misleading to clients. Dealers are expected to obtain such information by relying on the most recent publicly available information disclosed (i.e. Fund Facts, ETF Facts, prospectus, or MRFP) and if there is no publicly available information or it is more than 12 months old, to make reasonable efforts to obtain the information by other means.

IFIC's view is that section 14.17.1 is overly and unnecessarily burdensome on dealers and advisers, who cannot be expected to be responsible for obtaining and assessing the information which belongs to investment fund managers. Furthermore, it places unreasonable liability on dealers to be responsible for reporting data that they did not create or validate, which ultimately may impact the investor if the information is inaccurate. This could also be a factor in considering the breadth of product shelves. Reasons for our concerns include the following:

- Dealers do not have the tools/information to assess whether information provided by fund managers is misleading.
- It is unclear whether, under subsection 14.17.1(2), dealers are expected to complete the calculations which the fund managers are expected to do using the formula in subsection 14.1.1(2) to derive the daily cost per unit or share of the relevant class or series of an investment fund in dollars and, if so, what is required if reliance on the stated documents would result in potentially misleading information.
- The responsibilities for fund managers as presented under section 14.1.1 [*duty to provide information – investment fund manager*] are diminished by this section.
- The timeliness of information provided by fund managers impacts statement production. There is significant client pressure to deliver statements on time. Therefore, dealers will need a reliable and consistent data source and should not be liable for acquiring information by themselves when caught short by a fund manager's failure of its obligations.
- Fund managers should be responsible for providing the FER related data required by dealers.

Recommendations: IFIC recommends that both subsections 14.17.1(2) and (3) be deleted entirely. Subsection 14.17.1 (4) should be revised so it also provides that if the registrant has not obtained the information from a registered investment fund manager within a reasonable period of time, the information must be excluded from the applicable calculations and reporting. In the case where dealers would need to rely on a foreign investment fund manager for the required information, the dealers should also be able to rely on subsection 14.17.1 (4).

Report on Charges and Other Compensation Requirements

The Proposed Securities Amendments would require in the Annual Report on Charges, for the account as a whole:

the aggregate amount of fund expenses, in dollars, for all investment funds held during the year, and

the aggregate amount of any direct investment fund charges (e.g. short-term trading fees or redemption fees), in dollars.

IFIC is supportive of expanded cost disclosure in the Annual Report on Charges. However, IFIC has the following recommendations:

Recommendations:

If the TER is included in the calculation, IFIC recommends that the MER and TER be combined to reflect a single dollar amount, the FER (rather than the separate reporting of each ratio).

Deleting the requirement for dealers to disclose individual, non-standard, descriptions of any assumptions or approximations used by fund managers to calculate the total amount of fund expenses in relation to investment fund units or shares owned by clients and the total amount of direct investment fund charges (subsections 14.17(1)(p) [*report on charges and other compensation*]. See our comments about this on page 13 above under *Disclosure to Describe any Approximations or Other Assumptions*. IFIC's recommendation is the same as that provided on page 13 under *Disclosure to Describe any Approximations or Other Assumptions* above; that a generic *explain/disclaim* disclosure statement for dealers be prescribed to include the same or substantially similar language for the Annual Report on Charges. Suggested wording is provided in the same section on page 13 above.

Other General Comments

SRO Rules Permitting Combined Account Statements and Annual Reports

MFDA Rule 5.3.5 (Delivery of Report on Charges and Other Compensation and Performance Report) allows for the combining of the account statement, performance report and annual report on charges. Some dealers may be reporting charges and other compensation quarterly, combined with the account statement. Clarity is required as to whether this rule will be retained under the consolidated SRO.

CSA's Sample Prototype Report (Annex G of the consultation materials)

IFIC is supportive of the CSA not making it mandatory for registrants to use the sample prototype of the Annual Report on Charges provided in Annex G of the consultation materials. There should be flexibility for dealers on the presentation of this material. Dealers will be building on their existing forms of such report, which they previously created and designed under CRM2 and with which clients are already accustomed. It would be more time consuming and costly, and potentially confusing to clients if dealers were required to completely redo the approach and style of their existing reports to conform to a mandatory form. Flexibility is consistent with the fact that firms of various sizes and models have tailored their disclosure to be most helpful to their respective client bases. Also, their registered representatives are familiar with their existing forms and have been trained to discuss them with their clients.

Nevertheless, IFIC has some concerns with the CSA's sample prototype of the Annual Report on Charges. While the information in the tables is correct, the presentation could be misleading. The presentation raises the issue of potential double counting because a client could add the prominently displayed "Your total cost of investing" amount in the "What you paid" table and the "Total we received for advice and services we provided to you" amount in the "Our Compensation" table. This could lead to an incorrect perception that results in a perceived overstatement of the total cost of investing. Specifically, this stems from one over-riding concern, which is using two tables to separate the cost reporting (i.e. Your Cost of Investing, in terms of "What you paid") from the "Our Compensation" (i.e. what the client paid to the dealer) as the inter-relationship between the two tables is unclear. More specifically, it would be unclear to some investors that Fund Expenses includes the trailing commissions and, given that trailing commissions are reported in the "Our Compensation" table, there would likely be some double counting of the trailing commissions. This could lead to negative consequences for investors that act on erroneous beliefs.

See **Appendix C** for IFIC's proposed alternative prototype Annual Report on Charges which is a modified version of the IFIC prototype included in the IFIC 2018 Submission to the MFDA's Discussion Paper on Expanded Cost Reporting.¹⁸ This prototype assumes MER alone reporting. It is for illustrative purposes only and could be one of many forms used. It creates a single "Costs and Compensation Report" which breaks down all client costs, both direct and indirect, into two

¹⁸ See footnote 3.

groupings: costs paid indirectly to the investment fund manager(s) and/or the investment fund; and costs or compensation paid directly and indirectly to the dealer. The total of these groupings represents the full cost of investing to the client. It removes the concern of an investor mistakenly overstating the total costs by adding totals from two separate tables together. This approach provides better disclosure by separating the elements of investment management fees, fund operating expenses and miscellaneous costs on the one hand and dealer related costs on the other.

Costs of the Proposed Amendments

As the CSA noted in 6.(b) of Annex I in the consultation materials, the anticipated cost of the Proposed Securities Amendments includes “investment fund companies or, possibly, dealers and advisers, may seek to pass implementation costs on to investors by increasing management fees or introducing some kind of new fee”.

Recommendation for Future Complex Rule Implementation

Rule implementation in the investment funds industry can be an extremely complex undertaking, including complicated technology builds. Proposals like CRM2, the order execution trail ban and total cost reporting highlight the importance of identifying implementation barriers and assessing solutions in a timely way.

IFIC recommends that the CSA establish an implementation standing committee (**ISC**) for complex rule changes. The ISC would not debate the regulatory objectives. Rather it would focus on the technology and operational issues. The ISC would be comprised of CSA and industry experts. Industry expertise would be recruited from the operations and technology groups of investment fund managers and dealers as well as third party service providers that make up the overall technology ecosystem. The role of the ISC would be to expeditiously review the new regulatory proposals to identify the technology constraints, barriers, realistic implementation timelines.

Ultimately the CSA will decide the implementation timeline but only after a careful review by the ISC. In this way the CSA and the industry will less likely be at odds publicly over timelines. Furthermore, the timeline would have the support of those who will have responsibility to actually ensure the regulatory objective as proposed by the CSA is achieved

* * * * *

IFIC appreciates this opportunity to provide our input to the CSA on this important initiative. Please feel free to contact me by email at pbourque@ifc.ca or by phone 416-309-2300. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Paul C. Bourque, Q.C, ICD.D
President and CEO

APPENDIX A

CSA's Five Specific Questions for Comment for the Securities Sector

1. *Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments, (a) exchange-traded funds, (b) prospectus-exempt investment funds, (c) scholarship plans, (d) labour-sponsored funds, (e) foreign investment funds?*

Yes, see IFIC's comments in the submission in the first bullet/middle page 9 and page 14 (in the recommendations) for issues related to foreign investment funds, and in the first bullet/middle page 9 for issues related to ETFs.

2. *Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?*

Yes. See IFIC's comments and recommendations on page 11 above in the submission under the section *Requirement to Include TER* and Appendix D.

3. *For the purpose of subsection 14.1.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?*

Yes, the use of net asset value is more appropriate to use, for both mutual funds and ETFs.

4. *Do you anticipate any other implementation issues related to the Proposed Securities Amendments?*

Yes, see all of IFIC comments and recommendations in the submission above.

5. *Do you anticipate any issues specifically related to the proposed transition period?*

Yes. See IFIC's comments and recommendations on pages 6 – 11 in the submission under the section *Practical Implementation Timeline Implications*.

APPENDIX B

Prototype Fundserv Schedule for CSA, Fundserv, and Dealers & Fund Companies to Implement a Dollar-Based or Percent-Based MER in Reporting

	July 2022	Q2 2023	July 2023	August to Jan 2024	Feb to April 2024	June 2024	July 2024	August 2024	Sept 2024	Oct 2024	Nov 2024	March 2025 to Dec 2025	June 2025 to Dec 2025	Jan. 1 to Dec. 31 2026
CSA	End of 90 Day comment period	Incorporate comments, get royal assent and Publish Final												
Fundserv			Call for Working Group Members	Six months Working Group meetings	Advisory Councils and SSC Review Solution for Fit	Annual SSC Vote on full Scope for V35 June 2025 implementation	Fundserv completes writing technical requirements For V35	Publish Draft V35 BRD for 30 Day Comment Period	Incorporate feedback and SSC approve revised V35 BRD	Publish Final V35 BRD	V35 Project Planning and Dev begin	Support Industry-wide UAT testing	Fundserv Ready for Production June 2025, and activates by Dec 31 2025	
Dealers & Fund Co's		Review Final	Join Working Group	Working Group				Members and Service Providers provide feedback			V35 Project Planning and Dev and Process Re-engineering begin with vendors begin	V35 UAT Testing and Procedure Process Re-engineering	Implement Technical Enhancements and new procedures	Fund Co's begin to send daily factors. Dealers store and ready for client level reporting for period ending Dec 31 st , 2026

Challenge for Dealers and Fund Companies (Fundserv Members): Technical systems solutioning cannot begin until final amendments are published. Based on CSA's publication of the final amendments sometime in Q2 2023, the dealers and fund companies won't know what the final Fundserv technical solution is until Fundserv publishes it – earliest is October 2024. That means dealers and fund companies can only start their projects in November 2024 to then plan their project, perform development, perform internal UAT and then get ready to begin industry UAT via Fundserv to be ready for Fundserv Production to activate December 31, 2025. Only once Fundserv activation is in place by Dec 31, 2025, fund companies can then begin to send daily factors to dealers and dealers will need to store the data from January 1 to December 31, 2026 to collect data for a full reporting year. Early feedback from members is that this is an extremely large development. The data does not exist on the fund company transfer agency system at the investor fund position level. It is only calculated at the fund level on their fund accounting systems. Fundserv data standards do not have a file for this data point to be transmitted. From a dealer perspective, they do not have or store this data. They would have to program to ingest the new file from Fundserv and then calculate at an investor account level the dollar cost of the MER by summing it from the various fund companies. **Hence, although Fundserv would likely be ready by June 2025 and activates by December 31, 2025, dealers and fund companies would need some incremental time from January 1 to December 31, 2026 to collect data for a full reporting year, implement technical enhancements and procedures, project plan, develop, internally test, and finalize production for client account level reporting requirements.**

APPENDIX C

IFIC Prototype Annual Report on Charges and Other Compensation [modified version of the IFIC prototype included in the IFIC 2018 Submission to the MFDA's Discussion Paper on Expanded Cost Reporting]

Liberty Financial Annual Report on Costs and Compensation For the period ended December 31, 2026

Jane Q Public
123 Main Street
Chatham, ON
Canada N3T 8A9

Your RRSP Account 12345678

Your Total Costs to invest during 2026: **\$796.99**

This report provides a breakdown of your total costs to invest during the year. These costs are paid directly and indirectly to us (Liberty Financial) for administrative costs and services, including financial advice, and indirectly, through the investment funds you invest in, to parties such as the investment fund companies that manage the investment funds you own.

	Cost (\$)
Amounts you indirectly paid to Investment Fund Manager(s) and / or Investment Fund(s)	
Investment management fees and expenses ("MER") ¹	\$671.78
Less: management fee rebates	\$(44.79)
Less: trailing commissions paid to Liberty Financial ²	\$(298.57)
Net management fees & expenses	\$328.42
Short-term trading fees paid on the sale of investments	\$20.00
Redemption fees paid on the sale of deferred sales charge investments ³	\$50.00
Net paid to Investment Fund Manager(s) and/or your Investment Fund(s)	\$398.42
Amounts paid to Liberty Financial	
Trailing commissions received from investment fund manager(s) ²	\$298.57
Account administration and operating fees	\$60.00
Front-end sales commissions	\$25.00
Switch fees	\$15.00
Net paid to Liberty Financial	\$398.57
Total costs to invest during 2021	\$796.99

¹ **Fund Expenses:** Fund expenses are made up of the management fee and operating expenses. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

² **Trailing commissions:** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

³ **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.

[insert if applicable and included in table above] **Direct investment fund charges:** [insert description of such charges]

This information uses data provided by the investment fund managers and is calculated using the investment funds' most recently published information. It may not reflect the actual charges you have indirectly incurred but is a required calculation that is intended to be an approximation.

APPENDIX D
Issues with Reporting TER

- i. Unlike MERs, TERs will change when a fund makes changes to its investments for any reason, including to invest net cash inflows, fund net cash outflows and change portfolio holdings. As such, the TER could change daily or frequently, whereas MERs are typically stable year over year. Accordingly, using the most recently published TER is inherently less precise than using the most recently published MER. In any event, calculating TERs at the investor account level would be extremely difficult as it requires tracking daily trading activity of both investors and funds and allocating the TER to each investor based on the most recently published information.
- ii. Applying a current TER calculated as at a point in time (e.g. month or quarter end) would lack precision as well. For example, investor A and B purchase securities of a fund on February 1 and March 15, respectively. The fund only trades its portfolio on February 25. The actual TERs for Investor A and B are different at the end of the quarter as there has been no trading in the fund while B has been invested (March 15 - March 31) and accordingly B's TER is 0%, whereas investor A's TER will be the full cost of the trade on February 25. While this example is simple as we have assumed two investors and only one trade by the fund over the period, it is far more challenging to calculate a customized TER for thousands of clients and thousands of fund trades, each of which change over time. While it may be possible to take the average TER of the fund over the quarter and report that to investors, that would be inaccurate. As in our example of client B, the client would not pay any trading expenses, but the average TER would result in his or her investment reflecting an inaccurate trading cost.
- iii. The TER could be far more influenced by fund flows which can be highly variable than by typical portfolio trading, and therefore, IFIC questions the meaningfulness of the data for the investor.
- iv. TERs can be distorted by significant cash flows, such as in a fund's early year(s) of operation, when large cash inflows relative to existing assets are invested or when there are large redemptions relative to existing assets. Therefore, the inclusion of the TER would distort the FER values where a client's holdings are in a fund's early year(s) of operation. In fact, in an investment fund's first year of operation, there would be no historic TER.
- v. The required TER data is not available for underlying US and European investment fund holdings, which would be an impediment to calculating top funds' TERs.
- vi. TERs are not typically a significant ratio for investors or a material absolute number. Breaking out TERs and MERs separately would likely be confusing to many investors. According to the PwC Report, percentage information is generally poorly understood by investors¹⁹. Creating additional percentage factors would likely compound this comprehension issue for investors.
- vii. The need for potential daily tracking of trading commissions and allocation at the account level could add material complexity and costs to systems development, for little marginal value to investors, particularly given the potential for lack of precision.

¹⁹ PricewaterhouseCoopers LLP, *Assessment of the Joint Regulators' enhanced fee disclosure proposal*, July 2022, annexed as Appendix E to this letter, p. 25.



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Assessment of the Joint Regulators' enhanced fee disclosure proposal

July 2022



pwc

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Executive summary

PwC was engaged to assess the Joint Regulators' enhanced fee disclosure proposal

On April 28, 2022, the Joint Regulators of the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) ("the Joint Regulators") issued a notice of proposed amendments to fee disclosure requirements in Canada. This report focuses specifically on the proposals to the securities sector (the "Amendments"), and not the insurance sector.

The regulators are proposing the Amendments in order to address concerns they have identified in the current disclosure requirements. The Amendments are proposed to come into effect in September 2024 and are designed to enhance investor protection by increasing investors' awareness of fees.

The Amendments require adding the following key elements to existing fee disclosures:

- in a quarterly account statement (or additional statement as appropriate), the fund expense ratio (the sum of the management fund expense ratio (MER) and trading expense ratio (TER)), stated as a percentage for each investment fund held by the client; and
- in the annual report on charges and other compensation ("Annual Report") for the account as a whole:
- the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
- the aggregate amount of any direct investment fund charges (e.g. short-term trading fees or redemption fees), in dollars.

The Joint Regulators are requesting comment on the Amendments described above. The Investment Funds Institute of Canada (IFIC) has engaged PricewaterhouseCoopers LLC ("PwC," "we," or "us") to conduct research that will inform IFIC's response to the Joint Regulators. Below we present our key findings.

Behavioural research suggests that investors will benefit from enhanced fee disclosure, especially in annual reporting

We reviewed available behavioural economics research and surveys to assess how investors may respond to the proposed disclosure enhancements. Overall, the evidence suggests that the Amendments will increase investors' awareness and understanding of fees. In particular, the following factors included in the Amendments will be beneficial for investors:

- clear descriptions of fees and their purpose will help to improve awareness;
- simplified language in explanatory notes are necessary to reduce cognitive costs;
- unpacking embedded investment fees from the total cost will improve transparency and comprehension; and
- In the eyes of investors, dollars feel more concrete than percentages, making them more likely to be factored into investment decisions.

In our view, the Joint Regulators should consider adding the following elements to help better achieve their goals of enhancing investors' understanding of fees:

- cost disclaimers and educational statements about the relationship between fees and returns, which will help direct investors' attention to fee importance; and
- visualization to help facilitate the understanding between fees and other account information such as returns, as well as to make fund net returns comparisons over time.

We did not identify strong evidence in favour of quarterly fee disclosure

Quarterly statements would be effective reminders about the existence of fees, but have the potential of encouraging negative investor behaviours. Overall, we did not find strong evidence that the Joint Regulators' proposal for quarterly disclosures would significantly benefit investors above and beyond what would be included in the Annual Reports. We also note that no other country requires quarterly fee disclosures.

Executive summary

In comparison, fee disclosures in Annual Reports would bring greater benefits to investor comprehension because of the opportunity to contextualize fees. Annual Reports are an ideal medium for fee disclosure due to the presence and completeness of other fund or account-level information that is provided together with client account-level performance reporting, and this helps reduce the likelihood of loss aversion and fee aversion for investors. Investors have also been found to have a preference for annual over quarterly reporting (61% versus 34%). Jurisdictions that currently require annual fee reporting are not requiring such quarterly reporting, which further supports the notion that quarterly reporting is not considered to provide net benefits to investors.

EU and UK experiences provide insight on the impacts of disclosing investor-level fees and trading fees

The EU and UK, which are largely governed by the same regulatory framework, are the only markets we identified globally as having similar disclosure requirements to the annual disclosures proposed by the Joint Regulators. In particular, these markets require investor-level disclosures in dollar terms, and disclosure of trading expenses, and can therefore be informative on the potential impacts of the Amendments in Canada. Through our consultation with the EU and UK industry, we found that investor-level disclosure has benefitted investors by creating more fee transparency.

The Amendments go beyond what is required annually in Australia and the US

Australia has similar annual disclosure requirements to the Amendments, in that disclosure is required at the investor level in Dollar terms. Furthermore, while it is not a requirement to explicitly disclose trading expenses in Australia at the investor level, the “buy/sell spread” of the product is disclosed as part of the periodic statement requirement for Annual Reports.

Meanwhile, the US currently has no Annual Report requirement for such fee disclosure.

Investors are sensitive to changes in fees

In terms of investor-level fee disclosure, industry representatives in the Reviewed Jurisdictions noted that the only significant change in the behaviour of retail investors resulting from this disclosure was a broader sensitivity to fees. According to these representatives this has led to a shift away from higher-fee funds, which may ignore the funds’ performance (net of fees) and its value to investors. We note that this is not a product of the disclosure per se, but wider attitudes toward fees. Industry representatives noted that trading expenses were difficult for investors to interpret, and that they could be misleading when added together with other fees.

Industry will incur costs in adopting the Amendments

We held discussions with industry participants to understand how they expect to be impacted by the Amendments. Costs to industry are an important consideration because, ultimately, these costs are often passed onto investors to some degree. Although the MER and TER information required for the new disclosure calculations exists in the Fund Facts and ETF Facts documents, developing the new statements proposed will require significant changes in data processes, particularly for Annual Reports.

These Amendments will affect fund manufacturers, third party providers such as Fundserv, and dealers, as well as the ecosystem of service providers and outsource agents for the industry; however, we found that the majority of the cost and operational impacts will be shouldered by dealers. Dealers expect that the changes will be substantial, and that they will depend on the size of the dealer, the number of products they have and other complexities.

Greater impacts are anticipated for dealers using exchange-traded funds (ETFs) because, unlike mutual funds, a different data process will be required as a result of different intermediary participants and as of yet no clear solution has been proposed to enable the data process.

Executive summary

Industry members anticipate that the required system changes across the industry from Mutual Fund Manager through to dealer would likely take up to two years when including time for finalizing data protocols, system build, testing, and finalization. This is because no process currently exists and would have to be developed. Additionally, after the system changes have been put in production, the new systems will need to collect a calendar year of data in real time in order to prepare the initial Annual Reports. In total, adopting the Amendments may take approximately three years, and some industry participants expected that the timeline could extend as long as four years following regulations being finalized. As noted above, ETFs face additional complications in adoption and may require more time for implementation timelines as a result.

While no direct comparisons are available for the timelines in implementation of the Amendments, the industry can look at the time taken to implement CRM2 as guidance. According to the Ontario Securities Commission (OSC), the CRM2 Amendments¹ came into force in July 2013, with them coming into effect for the new Annual Report requirements in July 2016.² Furthermore, given most firms were reporting on a calendar-year basis, the first time these amendments were passed onto clients was in January 2017 (reflecting the January 1 - December 31, 2016 year). This means that in practical terms, three and a half years passed (for most firms) between the published date of the finalized rules and the implementation of CRM2.³

We also note that industry will not be able to begin to implement the transition until the regulatory proposals are finalized. Our experience with regulatory change, as well as what we have heard from our industry interviews, is that budgets for the detailed development spend do not reach approval stage until regulations are finalized and therefore no longer subject to change, particularly where cost estimates are expected to be substantial. As a result, detailed progress on building solutions is only likely to commence after that point.

¹ Defined by OSC as "National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and its Companion Policy (CP) relating to cost disclosure, performance reporting and client statements".

² OSC (2014) Planning tips for implementing the "CRM2" amendments to NI 31-103 registration requirements, exemptions and ongoing registrant obligations, Available at: https://www.osc.ca/sites/default/files/2021-11/eb_20140307_crm2-faq-published.pdf

³ OSC (2016) CSA Staff Notice 31-345 - Cost Disclosure, Performance Reporting and Client Statements - Frequently Asked Questions and Additional Guidance, Available at: <https://www.osc.ca/en/securities-law/instruments-rules-policies/3/31-345/csa-staff-notice-31-345-cost-disclosure-performance-reporting-and-client-statements-frequently>



Introduction

Background

On April 28, 2022, the Joint Regulators of the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) (“the Joint Regulators”) issued a notice of proposed amendments to the fee disclosure requirements in Canada. This report will focus specifically on the proposals to the securities sector and not the insurance sector (the “Amendments”).

The regulators are proposing the Amendments in order to address concerns they have identified in the current disclosure and performance requirements. Specifically the regulatory notice describes regulators’ concerns about the following:

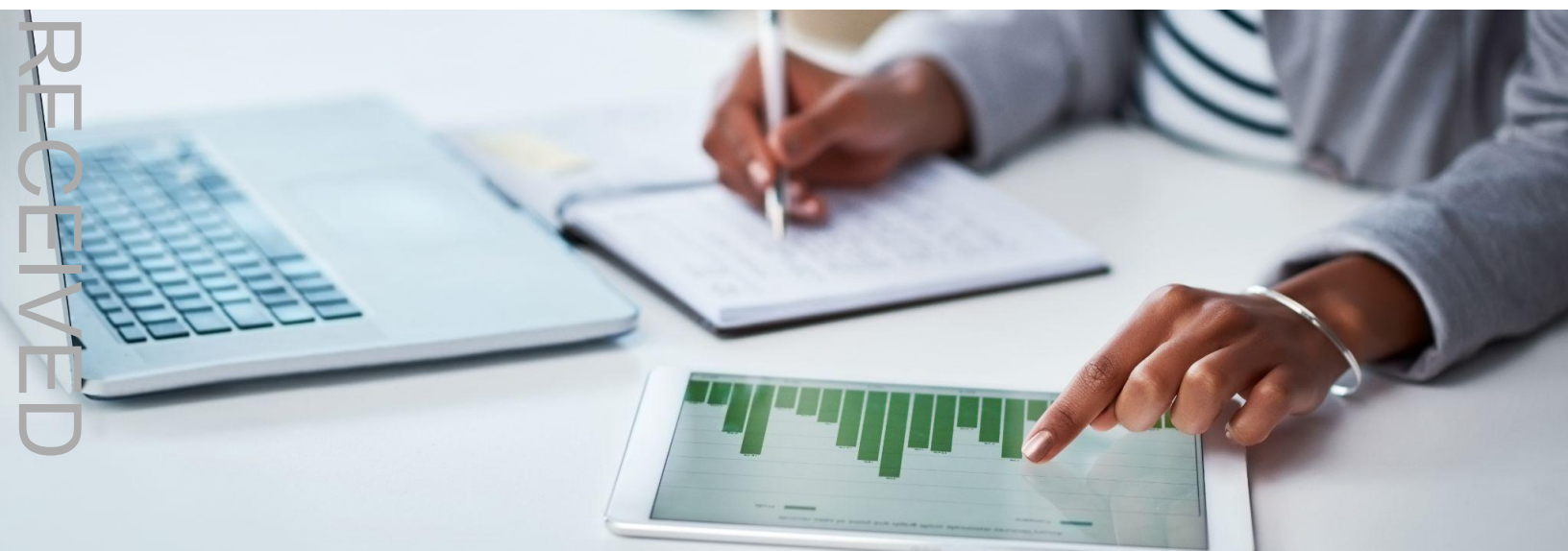
- There are no current requirements for the securities industry to provide ongoing reporting to investors on the costs after the initial sale of the investment product, in a form which is specific to the individual’s holdings and easily understandable.
- There are concerns, based on research by the Ontario Securities Commission’s (OSC) Investor Office and the Behavioural Insights Team, a social-purpose company part-owned by the U.K. Government, that Canadian investors assume that investment funds’ embedded fees are included in the sample Annual Charges and Compensation Report, when this is not the case.⁴ This is based on evidence from CRM2 adoption.⁵
- It is also suggested that more cost transparency in the industry may encourage more competition, which would benefit investors.

The Amendments are proposed to come into effect in September 2024 and are designed to enhance investor protection by increasing investors’ awareness of fees. The Amendments recommend adding the following key elements to existing fee disclosures:

- in a quarterly account statement (or additional statement as appropriate), the fund expense ratio (FER) (the sum of the management fund expense ratio (MER) and trading expense ratio (TER)), stated as a percentage for each investment fund held by the client; and
- in the annual report on charges and other compensation (“Annual Report”) for the account as a whole:
 - the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
 - the aggregate amount of any direct investment fund charges (e.g. short-term trading fees or redemption fees), in dollars.

⁴ According to the OSC report, this sample annual fee report was “included as Appendix D to Companion Policy 31-103CP, Registration Requirements and Exemptions (31-103CP).” The OSC study is available at: https://www.osc.ca/sites/default/files/pdfs/irps/sn_20190819_11-787_improving-fee-disclosure-through-behavioural-insights.pdf

⁵ CRM2, or Client Relationship Model 2, is a set of rules for Canadian investment dealers and advisors that was implemented in 2017.



Introduction

Scope and methodology

The regulators are requesting comment on the Amendments described above. The Investment Funds Institute of Canada (IFIC) has engaged PricewaterhouseCoopers LLC ("PwC," "we," or "us" "our") to conduct research that will inform IFIC's response to the regulators. PwC's scope is divided into three elements. The table below presents the scope and methodology for each element.

Table 1: Our scope and approach

Scope	Our approach
Jurisdictional review: Compare Canada's current and proposed fee disclosure requirements with major securities markets globally, focusing on the UK, Europe, US, and Australia.	<ul style="list-style-type: none"> Reviewed materials relating to the subject matter. Performed additional secondary research, to provide a comprehensive picture of requirements in all jurisdictions included. Undertook interviews with IFIC's counterparts in different jurisdictions and specialists from PwC's international network firms to confirm and augment our understanding of fee disclosure requirements.
Impact on investors: Summarize existing research on how the Amendments may impact investors' understanding of fees and behaviour.	<ul style="list-style-type: none"> Reviewed findings on disclosure practices from behavioural science organizations. Canvassed government reports, industry white papers, and surveys about investors, fees, and disclosures. Examined peer-reviewed academic journal articles concerning investor behaviour and fee disclosures
Impact on industry operations: Assess at a high level the potential impacts of the Amendments on industry operations.	<ul style="list-style-type: none"> Interviewed Fund Managers (i.e. Mutual Fund Managers and ETF Managers), dealers, and service providers to understand potential impacts on industry. Performed additional secondary research, such as on industry impacts from previous changes in legislation.

Limitations

Our findings are subject to the methodology and assumptions described in this report, and the limitations described in Appendix B: Limitations. This report has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with IFIC. IFIC may share this report with third parties only in its entirety. No person or entity shall place any reliance upon the accuracy or completeness of the statements made herein. In no event shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by IFIC or any other person.

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Jurisdictional review

Jurisdictional review

Introduction

As described in the introduction, the Joint Regulators are proposing additional disclosure requirements for retail investors in funds in two documents: Quarterly account statements and Annual Reports. In this section, we compare the current and proposed disclosure requirements in Canada to the disclosure requirements globally. To this end, we reviewed the following jurisdictions: Australia, the European Union (EU), the United Kingdom (UK) and the United States (US), for both quarterly account statements and Annual Reports (referred to in this report as the “Reviewed Jurisdictions”). We complemented this review with a high-level assessment of other global securities markets, but our focus was mainly on the Reviewed Jurisdictions.

In consultation with IFIC, we selected the Reviewed Jurisdictions because they represent countries with developed financial systems, for which reliable sources of information exist.

Our jurisdictional review consisted of interviews with industry specialists from our PwC network in the UK, US, Australia and the EU, as well as IFIC counterparts in the UK (the Investment Association) and the EU (EFAMA). We supplemented this with secondary research.

Key findings

Currently, no quarterly fee reporting is required in Canada. This is aligned with the Reviewed Jurisdictions: none of these countries require fee disclosure on a more frequent basis than annually, except in situations where fees have changed. Therefore, the Amendments would mean that the Canadian securities market would be the only global market requiring quarterly FER reporting.

For annual fee disclosures, the Amendments would align Canadian requirements to the UK and the EU, where trading expenses are reported on an annual basis at the investor level. Current Canadian requirements go beyond what is required in the US, where there are no requirements to disclose annual fees.

In terms of investor-level fee disclosure, industry representatives in the Reviewed Jurisdictions noted that the only significant change in the behaviour of retail investors resulting from this disclosure was a broader sensitivity to fees. According to these representatives this has led to a shift away from higher-fee funds, which may ignore the funds’ performance (net of fees) and its value to investors. We note that this is not a product of the disclosure per se, but wider attitudes towards fees. Industry representatives noted that trading expenses were difficult for investors to interpret, and that they could be misleading when added together with other fees.

Quarterly statements jurisdictional review

Current and proposed requirements in Canada

According to the current legislation, Canadian dealers and advisors are required to send account statements to their clients. This is typically done on a quarterly basis, but can also be monthly. Information should include the: “book cost and current market value of each security in the account and the total book cost and market value of all securities in the account, as well as any cash balance and a notification on any security that might be subject to a deferred sales charge if sold.”⁶

⁶ CSA and CCIR Joint Notice and Request for Comment, Available at: <https://www.ccir-ccra.org/Documents/View/3700>

Jurisdictional review

The Joint Regulators are proposing to require an additional account disclosure of fees to investors on a quarterly basis. The new account disclosures would include Fund Expenses (MER+TER), in percentage terms for each individual investment with embedded fees.

The information required for the new disclosure calculations (MER and TER) exists in Fund Facts documents, which are widely used by consumers. However, while Fund Facts present MER and TER at the fund level as a point of sale document, the Amendments require disclosure on an ongoing basis, and thus aim to use the regular quarterly statement process to achieve this. This is further explored in the Impact on Investor section.

The Figure below shows a sample prototype quarterly statement for the securities sector, from Annex G of the Joint Notice.

Figure 1: Sample prototype quarterly statement for the securities sector (highlighting shows new information)

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account
On December 31, 2020

Portfolio Assets

Description	Shares Owned	Book Cost	Market Value	Current gain or loss	Fund Expenses ¹	% of your holdings
Investment Funds						
ABC Management Monthly Income Fund, Series A FE	250.00	\$17,000.00	\$19,500.00	\$2,500.00	1.00%	41.49%
ABC Management Canadian Equity, Series A FE	450.00	\$19,500.00	\$22,500.00	\$3,000.00	2.00%	47.87%
Equities						
Company A N/A	100.00	\$2,000.00	\$3,000.00	\$1,000.00		6.88%
Company B N/A	50.00	\$1,500.00	\$2,000.00	\$500.00		4.26%
Totals		\$40,000.00	\$47,000.00			100.00%

1. Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

Source: CSA and CCIR Joint Notice and Request for Comment

Jurisdictional review

Comparison of Canada to the Reviewed Jurisdictions

The table below outlines the differences in the types of fees between Canada's quarterly account disclosure requirements and the Reviewed Jurisdictions.

Table 2: Quarterly investor-level product fee disclosure requirements by jurisdiction

Cost type	Canada (present)	Canada (proposed)	Australia	EU	UK	US
Monthly or quarterly investor-level product fee reporting required?	No	Yes	No	Only following a change in fees	Only following a change in fees	No

As shown in Table 2, quarterly or monthly fee disclosure is not currently a requirement in any of the Reviewed Jurisdictions. As a result, we are not able to analyze the experience of the Reviewed Jurisdictions with respect to quarterly disclosures.

In the US, which is the world's largest securities market, while investment advisors typically bill for their advice services on a quarterly basis, there is no quarterly requirement to disclose fees for investment products in an investor's portfolio.

Other global markets

Globally, based on our review of the Morningstar 2020 Global Investor Experience Study, and other secondary sources, we identified no other examples of quarterly fee disclosure requirements at the investor level.

Annual Reports jurisdictional review

Current and proposed requirements in Canada

Currently, Canadian dealers are required to deliver Annual Reports to each of their clients containing the aggregate amounts (in dollars) paid to them for their services (e.g. trading fees and account operating charges). They are also required to disclose any additional compensation paid to the firm by third parties in relation to the client's account (e.g. trailing commissions paid by Mutual Fund Managers).

The Joint Committee is proposing an expansion of the fee disclosure requirements to retail fund investors. The additional information required by the Amendments includes:

- Aggregate Fund Expenses (MER+TER), in dollars at the account level (or "investor level");
- other fees (e.g. short-term trading fee or redemption fee), aggregated in dollars; and
- total costs amount at the investor level, which includes the above.

The Figure below shows a sample prototype Annual Report for the securities sector, from Annex G of the Joint Notice.

Jurisdictional review

Figure 2: Sample prototype Annual Report for the securities sector (highlighting shows new information).

Dealer ABC Inc.

Your Account Number: 123-4567

Your Cost of Investing and Our Compensation

This report shows for 2021

- your cost of investing, including what you paid to us and to investment fund companies
- our compensation

Your Cost of Investing

Costs reduce your profits and increase your losses

Your total cost of investing was \$815 last year

What you paid

Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.	
Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
Total you paid to us	\$120.00
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.	
Fund Expenses – See the fund expenses % shown in the holdings section of your account statement ¹	\$645.00
Redemption fees on deferred sales charge (DSC) investments ²	\$50.00
Amount you paid to investment fund companies	\$695.00
Your total cost of investing	\$815.00

Our Compensation

What we received	
Total you paid us, as indicated above	\$120.00
Trailing commissions ³ paid to us by investment fund companies	\$342.00
Total we received for advice and services we provided to you	\$462.00

1. **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

2. **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.

Source: CSA and CCIR Joint Notice and Request for Comment

The table below outlines the differences between Canada currently, the Amendments, and the Reviewed Jurisdictions in terms of requirements for the Annual Report.

Table 3: Annual investor level fee disclosure requirements by jurisdiction

Cost type	Canada (present)	Canada (proposed)	Australia	EU	UK	US
Disclosures required?	Yes ⁷	Yes	Yes	Yes	Yes	No
Reports Trading Expense Ratio?	No	Yes	No ⁸	Yes ⁹	Yes ¹⁰	-
Fees reported in dollars or percentages?	Dollars	Dollars	Both	Both	Both	-

⁷ Under CRM2, fee disclosures at the investor level are required for fees paid directly or indirectly to the dealer

⁸ While a trading expense ratio is not reported, "Other fees and costs" are required to include the impact of the buy/sell spread for the product.

⁹ While the EU does report the Trading Expense Ratio, the methodology for calculation differs significantly to the proposed calculations in the Amendments as the EU also includes implicit costs and slippage, i.e. the difference between the expected price of a trade and the price at which the trade is executed.

¹⁰ See above footnote.

Jurisdictional review

EU and UK

The EU and UK are governed by a similar regulatory framework, with the main difference being that the UK (along with the Netherlands) has banned embedded, or trailer, commissions.

In the EU and UK, firms are required to comply with three directives:

- Markets in Financial Instruments Directive (MiFID), which governs investor-level disclosures. MiFID II was implemented in 2018 and requires all direct and indirect costs to be disclosed to the client annually. MiFID II disclosures are required to be updated annually unless there is a change to fees.
- Undertakings for the Collective Investment in Transferable Securities (UCITS), which governs fund-level disclosures. UCITS requires firms to produce a Key Investor Information Document (UCITS KIID), which is updated on an annual basis.
- Packaged retail investment and insurance products (PRIIPs), which governs fund-level disclosures. PRIIPs is similar to and overlaps with MiFID II, and also requires the production of a Key Information Document (PRIIPs KID), which is updated annually for each fund and share class.

MiFID II requires annual cost and charges disclosures at the investor level. Based on our review, these requirements are the closest to the Joint Regulators' Amendments, due to inclusion of transaction charges and investor portfolio-specific fee disclosure. See Figure 3 as example Statements of Cost and Charges in the EU. Figure 4 shows an example UK Charge Summary.



Jurisdictional review

Figure 3: EU Statement of Costs and Charges and EU Statement of the Cumulative Effect of Costs and Charges on investments

A Client Esq

Statement of Costs and Charges paid in the period 01 January 2018 to 31 December 2018

			Sterling
Cost and Charge Type	Amount	VAT (where applicable)	Total
Costs and charges paid to Rathbone Investment Management Ltd	3,581.98	389.75	3,971.73
Rathbones Management Fees	1,948.75	389.75	2,338.50
Rathbones Management Fee	1,948.75	389.75	2,338.50
Rathbones Transaction Charges	1,633.23	0.00	1,633.23
Dealing Commission	1,633.23	0.00	1,633.23
Other Costs and Charges paid to Third Parties	1,795.13	0.00	1,795.13
Transaction Costs	85.68	0.00	85.68
HMRC Stamp Duty	85.68	0.00	85.68
Ongoing Third Party Charges (e.g. Unit Trusts)	1,709.45	0.00	1,709.45
Ongoing Fund Charge ¹	1,709.45	0.00	1,709.45
Total	5,377.11	389.75	5,766.86
Average Value of Portfolio Over the Period			301,730.60
Total Costs and Charges as a Percentage of the Average Value of Portfolio Over the Period			1.91%

This statement shows all the costs and charges that are deducted from your fund(s) included in this valuation pack in the past year (or part year where applicable) that relate to the management and administration of your investments. It includes Rathbones' charges as well as charges levied by third parties.

Where we facilitate a payment to a financial adviser on your behalf, or you pay for Rathbones' services other than the management and administration of your investments out of your fund(s), the amount paid is not reflected above and will appear separately in the statement of cash movements.

The average value of portfolio over the period is calculated by reference to the gross portfolio value before any costs and charges.

¹ = please see the notes on the previous page for information about using third party investments and ongoing fund charges.

Rathbone Investment Management - Portfolio Valuation

A Client Esq

Statement of the Cumulative Effect of Costs and Charges on your investments in the period 01 January 2018 to 31 December 2018

								Sterling
Fund	Fund Name	Start Date Value	End Date Value	Risk Level	Gross Return %	Net Return %	Cumulative Effect of Cost and Charges on Investment Returns %	
111111	A Client Esq	118,047	116,746	4	2.11	-0.97	-3.02	
222222	A Client Esq ISA	173,018	196,129	4	2.50	1.31	-1.16	

This statement shows the annualised effect of costs and charges on the performance of the individual funds within your portfolio.

Gross return is the return before all costs and charges; net return is the return after deduction of all costs and charges.

We have not included data for accounts opened in the last quarter due to timing differences.

Rathbones management fees are charged quarterly in arrears and are debited after the quarter end date. The calculation shown here is based only on the fees debited in the reporting period.

Where management fees or other charges are transferred to another fund to be paid they will appear in the calculation for the paying fund rather than for the fund in which the charges were incurred.

Rathbone Investment Management - Portfolio Valuation

Source: Rathbone Investment Management

Jurisdictional review

Figure 4: Example Charges Summary as seen in UK Cost Disclosure Statements

Charges Summary

Charge Type	Service Costs		Product Costs		Third party payments		Total Costs and Charges	
	Amount	%	Amount	%	Amount	%	Amount	%
One-off charges	£0.00	0.00%	£0.00	0.00%	£0.00	0.00%	£0.00	0.00%
Ongoing charges	N/A		£44.20	0.70%	N/A		£44.20	0.70%
Transaction costs	£10.00	0.16%	£2.12	0.03%	N/A		£12.12	0.19%
Government charges / stock exchange levies	£16.25	0.26%	N/A		N/A		£16.25	0.26%
Ancillary services	N/A		£0.00	0.00%	N/A		£0.00	0.00%
Incidental costs	N/A		£0.00	0.00%	N/A		£0.00	0.00%
Total costs and charges	£26.25	0.42%	£46.32	0.74%	£00.00	0.00%	£72.57	1.16%

Source: UK Cost Disclosures Statement Example and Help-Sheet, Interactive Investor

EU and UK: impact on industry and investors

To understand the requirements of the EU and UK markets, which we have considered to be closest to the Amendments, we conducted interviews with IFIC counterparts in the EU and UK and industry experts across the PwC network. We supplemented this with secondary research.

The introduction of MiFID II in 2018 allowed industry participants to see the “before and after” impact of adding enhanced disclosure requirements. Based on that, there are lessons learned for Canada about how enhanced disclosure may affect industry and investors.

We did not identify research on the impacts of expanded disclosure in annual reporting on investors. Our interviews provided conflicting viewpoints on this issue: some of those interviewed felt that, based on anecdotal evidence, retail investors were generally not factoring cost information into their purchasing decisions even with enhanced fee disclosure, and were more focused on their net gains or losses. On the other hand, in other cases it was noted that retail investors sensitive to fees had shifted to lower-fee passive funds, compared to higher-fee active funds.

Furthermore, those we interviewed noted that professionals selecting funds had also changed their behaviour in response to heightened sensitivity around fees. Industry participants are concerned that in Europe there is too great a focus on fees outside the broader context of returns and the value of advice received. Those selecting funds, aware of the sensitivity towards fees, have a tendency to screen out higher-fee funds, regardless of value, because they are perceived poorly by the overall market. It is important to note that these impacts are largely products of investor and industry attitudes towards fees, and it is difficult to say to what extent the disclosure itself contributes.

Industry participants in Europe and the UK raised the issue of investors’ ability to understand and contextualize trading expenses. They noted that trading expenses are difficult for investors to understand because the size of these costs can be significantly influenced by the fund’s strategy, and so they need to be contextualized by the type of fund purchased and that fund’s performance outcomes. There is a concern that adding all costs together (as the Joint Regulators propose to do) obscures understanding of these issues.

Jurisdictional review

Participants we spoke with were not able to quantify the impact of complying with new disclosure requirements on the industry; however, they noted that impacts had been “significant” both in terms of setup and ongoing costs, which is also echoed in an ESMA report in March 2020.¹¹ It is important to note that one significant element of these costs is related to the way that trading expenses are calculated at the fund level, which is not comparable to what the Joint Regulators are proposing in Canada. In the EU and UK, the trading expenses calculation methodology includes bid/ask spreads and estimation of market impact costs as reflected by price before and after a transaction. This methodology is somewhat controversial because, among other issues, it can lead to negative trading expenses. It is also costly to implement in terms of data collection and calculation, and accounts for a substantial share of the overall cost of disclosure. Therefore, it is not possible to infer potential cost impacts for Canadian industry.

US

In the US, there is currently no annual or quarterly statement requirement for fee disclosure at the investor level. The disclosure regime includes items such as fund fee ratios in the fund financial statements, trade execution costs on trade confirmations, disclosure that the advisor receives a trailer fee as well as the most recent Form CRS relationship summary document.¹² Despite there being no formal requirements for disclosure along the lines of Canada’s proposed Amendments, US research performed by FINRA found that when asked “How clear of an understanding do you have of the fees you pay for your non-retirement investment account(s)?” 62% of those surveyed reported a clear understanding.¹³

Australia

Our interviews with industry participants in Australia suggest that its requirements are somewhat comparable to the Amendments and the UK/EU, although they do not require trading expenses to be disclosed. Additionally, product structures and distribution are not fully comparable with the Canadian markets, making direct comparisons somewhat challenging. Fee disclosure statements (FDS), for which the latest requirements were introduced in July 2021, require Annual Reports, in dollar amounts, at the investor level, focused on the cost of advice. Figure 5 shows a sample of an FDS.

¹¹ See para 188 of ESMA’s Final Report from March 2020. Available at:

https://www.esma.europa.eu/sites/default/files/library/esma35-43-2126_technical_advice_on_inducements_and_costs_and_charges_disclosures.pdf

¹² SEC (2019) Form CRS Relationship Summary; Amendments to Form ADV, Available at:

<https://www.sec.gov/info/smallbus/secg/form-crs-relationship-summary>

¹³ FINRA (2016) Investors in the United States 2016, Available at: https://www.usfinancialcapability.org/downloads/NFCS_2015_Inv_Survey_Full_Report.pdf



Jurisdictional review

Figure 5: Sample Fee Disclosure (FDS) Statement¹⁴

ABC FINANCIAL PLANNING

Fee Disclosure Statement

Mr and Ms Client Name
100 Any Street
Sydney NSW 2000
1 July, 2017

Client identification number: 00000-00000

This Fee Disclosure Statement (FDS) is provided to inform you about the services that you have received and paid for under your ongoing fee arrangement with us in the last 12 months.

It is provided to you in accordance with the requirements of the Financial Planning Association of Australia Professional Ongoing Fees Code.

Ongoing Services you were entitled to receive 01/08/2017 to 01/07/2018	Fees you paid
Ongoing management of your investment portfolio:	\$
• Monitoring your portfolio investments in respect of performance, income and outlook;	
• Making investment recommendations (where changes deemed appropriate) including discussion with you explaining the basis of advice;	
• Annual review meeting;	
• Reasonable time spent discussing financial queries/matters via phone, email and post.	
	\$

Ongoing Services you received 01/08/2017 to 01/07/2018
Monitoring your portfolio investments in respect of performance, income and outlook.
Annual review meeting.

Important information

An FDS is not an invoice. No payment is required.

This FDS includes the fees that you have paid in relation to your client services agreement with us. It does not include financial services that we have provided outside of the client services agreement. We have not received any commissions from any product provider or any other party in connection with our services under your agreement with us.

Source: Financial Planning Association of Australia

In addition, Regulatory Guide 97 (RG97) is guidance from the Australian Securities and Investments Commission (ASIC) on how issuers of (“Super”)¹⁵ and managed investment products (“non-Super”) disclose fees and costs. Specifically, RG97 includes “periodic statement” disclosure requirements for investors, for both Super and non-Super products, which include how fees and costs should be disclosed. In both cases, the periodic statement must include:

- the amount of “Fees deducted directly from your account” and the approximate amount of “Fees and costs deducted from your investment”; and
- the total of all fees and costs disclosed in the periodic statement (“Total fees and costs you paid”).¹⁶

Total fees and costs you paid is thus the summary of both directly paid amounts and indirect amounts. As shown in the below Figures, although trading expenses are not disclosed, the “Other fees and costs (investment options)” category includes the “buy/sell spread” of the product disclosed as part of the periodic statement requirement for both Super and non-Super Annual Reports. Furthermore, the “additional explanation of fees and costs” section of the report for Super products requires detailed disclosure of any advice fees that were incurred by the member during the period, if not already included in another part of the periodic statement.¹⁷

¹⁴ Available at: https://fpa.com.au/wp-content/uploads/2017/04/FPA_Sample-Fee-Disclosure-Statement_factsheet.pdf

¹⁵ ATO (2021) Super, Available at: <https://www.ato.gov.au/individuals/super/#Whatissuper>

¹⁶ ASIC (2020) RG97: *Disclosing fees and costs in PDSs and periodic statements*, Available at: <https://download.asic.gov.au/media/5801438/rq97-published-28-september-2020.pdf>, p31 and p53

¹⁷ ASIC (2020) RG97: *Disclosing fees and costs in PDSs and periodic statements*, Available at: <https://download.asic.gov.au/media/5801438/rq97-published-28-september-2020.pdf>, p36

Jurisdictional review

Figure 6: Fees and costs summary in sample Non-Super periodic statement

Fees and costs summary

Description	Amount
Fees deducted directly from your account	\$6438.54
This amount has been deducted directly from your account (reflected in the transactions listed on this statement). It includes the insurance premiums you paid.	
Fees and costs deducted from your investment	\$6.11
This approximate amount has been deducted from your investment. It covers amounts that have reduced the return on your investment and are not reflected as transactions listed on this statement or in the Additional explanation of fees and costs. This amount is the Transaction Account fee only. This amount does not include the Other Fees and Costs below related to your selected investment options.	
Total fees and costs you paid	\$6,444.65
This approximate amount includes all the fees and costs that affected your investment during the period.	
Other fees and costs (investment options)	\$1,285.65
This approximate amount has been deducted from the investment options you have chosen and has reduced the return on these investments but is not charged to you directly as a fee.	
These fees and costs include management fees and costs, performance fees, transaction costs and buy/sell spreads associated with your selected investment options.	
Total fees and costs you paid - with investment options fees and costs	\$7,730.30
This approximate amount includes the total fees and costs you paid and the other fees and costs associated with your selected investment options during the reporting period.	
Additional explanation of fees and costs	
Generally the benefit of any tax deduction to which the Fund is entitled will be passed on to members in the form of reduced fees or costs.	
If your account balance is less than \$6,000 on 30 June or at time of exit, the fees and costs charged to your superannuation account, excluding Other fees and costs (Investment Options) above, are capped at 3% of your account balance. Any amount in excess of that cap will be refunded to your account.	
The fees and costs information shown above may not include all the fees and costs in relation to your underlying investments. For more information regarding the fees and costs of the underlying investment options available through the Product, refer to the product disclosure statement or other disclosure document for the relevant investment option, which may be obtained free of charge online by logging in to your account, on request from your adviser (if you have one) or by contacting us.	

Figure 7: Fees and costs summary in sample Super periodic statement

Fees and costs summary

Description	Amount
Fees deducted directly from your account	\$1,493.85
This amount has been deducted directly from your account (reflected in the transactions listed on this statement). It includes the insurance premiums you paid.	
Fees and costs deducted from your investment	\$0.00
This approximate amount has been deducted from your investment. It covers amounts that have reduced the return on your investment and are not reflected as transactions listed on this statement or in the Additional explanation of fees and costs. This amount is the Transaction Account fee only. This amount does not include the Other Fees and Costs below related to your selected investment options.	
Total fees and costs you paid	\$1,493.85
This approximate amount includes all the fees and costs that affected your investment during the period.	
Other fees and costs (investment options)	\$3,301.58
This approximate amount has been deducted from the investment options you have chosen and has reduced the return on these investments but is not charged to you directly as a fee.	
These fees and costs include management fees and costs, performance fees, transaction costs and buy/sell spreads associated with your selected investment options.	
Total fees and costs you paid - with investment options fees and costs	\$4,795.43
This approximate amount includes the total fees and costs you paid and the other fees and costs associated with your selected investment options during the reporting period.	
Additional explanation of fees and costs	
The fees and costs information shown above may not include all the fees and costs in relation to your underlying investments. For more information regarding the fees and costs of the underlying investment options available through the Product, refer to the product disclosure statement or other disclosure document for the relevant investment option, which may be obtained free of charge online by logging in to your account, on request from your adviser (if you have one) or by contacting us.	

INCLUDES COMMENT LETTERS RECEIVED

Impacts on investors

Impacts on investors

Introduction

Through the Amendments, the Joint Regulators aim to enhance investor protection through improving the visibility and explanations of ongoing fees. Our discussion of the Amendments' potential impacts on investors is as follows:

1. Current state of disclosure in Canada and the Amendments
 - We summarize the current requirements for fee disclosure in Canada and the proposed fee disclosure changes for the securities sector.
2. Literature review
 - We provide evidence from academic, government, and industry sources that support aspects of the Amendments: fee definitions and purpose, the merits of including MER, dollar framing, cost breakdowns, contextualizing fee suggestions, and visualizations.
3. The frequency discussion
 - We examine the impacts that quarterly versus annual fee reporting may have on investor protection.

With some exceptions, we find that overall the evidence from past research and surveys corroborates the idea that the Amendments will help improve investors' experience with comprehending and factoring fees into their decisions. We also highlight improvements that could be integrated into disclosure implementation, which, in our view, would improve the prospects of achieving the regulators' goals. Where appropriate, we use external examples and make references to prototypes from the Amendments to support our analysis.¹⁸ A summary framework of the behavioural principles for fee disclosures that informed our analysis are outlined in Appendix C.

Key findings

The following elements are captured in the Amendments and in our view will benefit investors in any frequency of fee reporting:

- clear descriptions of fees and their purpose will help to improve awareness;
- simplified language in explanatory notes will help to reduce cognitive costs;
- unpacking embedded investment fees from the total cost will help to improve transparency and comprehension; and
- dollars will feel more concrete than percentages, making them more likely to be factored into investment decisions and for investors to more easily derive a meaningful value specific to their investment fund holdings.

We identified two additional opportunities that would support investors' contextualization of the value of fees in their investments:

- cost disclaimers and educational statements about the relationship between fees and returns to help direct investors' attention to fee importance; and
- visualization to help facilitate the understanding between fees and other account information such as returns, as well as to make fund comparisons over time.

¹⁸ CSA and CCIR Joint Notice and Request for Comment, Annexes

Impacts on investors

Quarterly statements would be effective reminders about the existence of fees, but have the potential of encouraging negative investor behaviours. Overall, we did not find strong evidence that the Joint Regulators' proposal for quarterly disclosures would significantly benefit investors above and beyond what would be achieved by the Annual Reports. This may be the reason that no other country has introduced this requirement. We have not identified studies that assessed the impacts of quarterly or monthly reporting (versus annual); however, broader behavioural research suggests the following:

- since quarterly statements lack other account information, such as performance returns, investors will have challenges with contextualizing the value of fees in their holdings;
- the saliency of presenting fee information (i.e. losses) on its own can negatively skew investors to become overly focused on the costs, leading to loss aversion or fee aversion; and
- as a result, if quarterly fee reporting is introduced, there should be the inclusion of value-based fee framing to better articulate why fees exist and the value they bring to investors; this would be especially pertinent so that investors do not overly focus on costs.

In comparison, fee disclosures in Annual Reports would likely bring greater benefits to investor comprehension because of the opportunity to contextualize fees.

- Annual Reports are an ideal medium for fee disclosure due to the presence and completeness of other account information. This context helps reduce the likelihood of loss aversion and fee aversion for investors.
- Investors have also been noted to have a greater preference for annual over quarterly reporting (61% versus 34%)¹⁹ and several jurisdictions currently require annual but not quarterly reporting, suggesting a greater benefit for investors at the former frequency.

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Current state of disclosure in Canada and the Amendments

Currently, fund product costs (MER and TER) are available to investors at the fund level through Fund Facts and ETF Facts documents that are provided when funds are purchased, and can be accessed at any time. However, there are no requirements for the securities industry to provide ongoing reporting to investors on the costs after the initial sale of the investment product, in a form that is specific to an individual's holdings and easily understandable. Canadian dealers and advisors are required to send account statements to clients on either a quarterly or monthly basis, but are not required to provide ongoing fee disclosure at this frequency. Canadian dealers are also required to deliver Annual Reports to clients containing the aggregate amounts paid to them for their services, as well as any additional compensation that is paid to the firm by third parties. For these annual investor-level fee disclosures, fund product costs (both MER and TER) are not currently required and fees are represented in dollar amounts.

The Joint Regulators see opportunity in the current landscape to further improve cost transparency. As noted previously, the proposed fee disclosure changes for the securities sector from the current state include the following:

- in a quarterly account statement (or additional statement as appropriate), the fund expense ratio (the sum of the management fund expense ratios (MER) and trading expense ratios (TER)), stated as a percentage for each investment fund held by the client; and
- in the Annual Report for the account as a whole:
 - the aggregate amount of fund expenses, in dollars, for all investment funds held during the year; and
 - the aggregate amount of any direct investment fund charges (e.g. short-term trading fees or redemption fees), in dollars.

¹⁹ United States Government Accountability Office. (2021). *Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them*.

Impacts on investors

This cost transparency is expected by the Joint Regulators to help enhance investor protection through improving investors' ongoing awareness and comprehension of fees, the costs of their holdings, the effects of fees on returns, and the compounding effect over time. In addition, we note that according to economic theory a perfectly competitive market requires perfect information of buyers and sellers. It follows that in a given market, buyers who become more informed will make that market more competitive. Thus if the Amendments would result in more informed investors, they will also enhance the competitiveness of the market.

In the following, we assess the potential impacts of the Amendments on investors by first providing a literature review that has informed our assessment and then providing our assessment as it relates to the requirements for annual and quarterly reporting. We finish with what we believe should be considered in implementing the Amendments.

Literature review

Fee definitions and purpose

A stated goal of the Amendments is to increase investors' awareness of fees, and this begins with improving understanding. According to a Canadian study published in 2021, investors generally have strong knowledge of mutual fund and ETF investing: 85% of mutual fund investors reported that they believed themselves to be somewhat to very knowledgeable about investing in mutual funds, and 86% felt somewhat to very knowledgeable about ETFs. When it comes to fees, 84% of investors have reported that their advisors discuss at least one aspect of fees at some point, but only 64% of investors report discussing the management expense ratio (MER) and only 59% reported having had discussions about fees paid to the firm.²⁰

Moreover, research from Broadridge has highlighted that 88% of investors are aware of Fund Facts and ETF facts, and that 86% of investors find them to be helpful when comparing investments, regardless of whether investors own one fund or more than ten funds. However, the findings also highlighted that 34% of investors were not aware of the information contained in management reports of fund performance (MRFPs) and financial statements; yet, when shown, investors found the information about fees, performance, and holdings to be especially important. In particular, 81% of investors found the section about management fees to be very important in MRFPs, but 42% found MRFPs and financial statements difficult to understand.²¹

Finally, in a longitudinal assessment of CRM2 disclosure, a large majority of investors self-reported having a good or an excellent understanding about the information in costs and performance statements, including the overall rate of returns and market value. Specific to fees, 79% of investors reported having a good understanding of the types of fees charged to them, but only 39% reported understanding the impact of fees on investment. In line with the purpose of the Amendments, 82% of investors agreed that having a further improved understanding of different types of fees would help them make more informed investment decisions.²²

One of the first considerations in ongoing fee disclosures is that investors may not be as aware as they could be of the fact that differences in fees exist, that the expense ratio does not necessarily reflect all fees, that fees implicitly compound over time, or where to find fee information. More specifically, investors have trouble understanding disclosures about fees due to their narrative complexity; this can lead investors to dismiss the importance of fees and the act of contextualization with net returns when assessing funds.

²⁰ Pollara Strategic Insights. (2021). *Canadian Mutual Fund & Exchange Traded Fund Investor Survey*.

²¹ Broadridge. (2021). *Canada Investor Quantitative Report*.

²² Innovative Research Group, Inc. (2019). *CRM2/POS 3-year tracking study, September 2019 Report - Annual Tracking*.

Impacts on investors

To mitigate challenges to fee understanding, simplified disclosures have been shown to improve investor awareness and be factored into fund decisions.²³ As human cognitive bandwidth is typically limited, it is important to keep these descriptions short and simple; the more complex information becomes, the more difficult it is to process and understand, and the more likely investors will disengage. Upon reviewing the Joint Regulators' proposed text descriptions, it is evident that there is an explicit endeavour to bring fees and their purposes into visibility. This description makes fund expenses more transparent and would help investors be aware that there are different fees associated with their investments. It is also consolidated in one paragraph for investors and uses short sentences to better hold investors' attention when they are reading about fund expenses.

Figure 8: Proposed fund expense description

"Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments"

Source: CSA and CCIR Joint Notice and Request for Comment, Annex C

Investors often have a poor comprehension of the terms related to fees. This can stem from a failure of disclosures defining the terms in the first place. Even if they are defined, they tend to be described in complex language which increases cognitive costs for investors and this results in investors being unlikely to take investment fees into account.²⁴ It can be helpful to offer investors a summary document that simplifies the fund and fee information. In a study from the Behavioural Insights Team, investors who self-identify as being less knowledgeable about investing indicated they would not review anything in detail beyond summary-level information. In contrast, 81% of investors reported that they would like to receive cost information that is not currently provided through fee summaries.²⁵ So, while investors may desire more information to inform their decision-making, it is important for the information itself to be disclosed in an understandable form so that it can be used.

Therefore, simplified terminology is a key avenue to reducing misunderstanding and to promoting the factoring of fees into investment decisions.²⁶ The Amendments propose explanatory notes (e.g. trailing commissions and redemption fees on DSC investments, shown in Figure 9) to supplement account statements, in addition to an optional call-to-action should the investor be interested in further information. These inclusions will improve investor protection due to enhanced fee visibility and clarity.

²³ DeHaan, E., Song, Y., Xie, C., & Zhu, C. (2021). *Obfuscation in mutual funds*. Journal of Accounting and Economics, 72(2-3), 101429.

²⁴ Pontari, B. A., Stanaland, A. J., & Smythe, T. (2009). *Regulating information disclosure in mutual fund advertising in the United States: Will consumers utilize cost information?* Journal of Consumer Policy, 32(4), 333-351.

²⁵ Behavioural Insights Team. (2021). *Improving Fee Disclosures for Canadian Mutual Fund Investors*.

²⁶ Behavioural Insights Team. (2021). *Improving Fee Disclosures for Canadian Mutual Fund Investors*.

Impacts on investors

Figure 9: Explanatory notes from sample prototype

2. **Redemption fees on DSC investments:** You paid this cost because you redeemed your units or shares of a fund purchased under a deferred sales charge option (DSC) before the end of the redemption fee schedule and a redemption fee was payable to the investment fund company. Information about these and other fees can be found in the prospectus or fund facts document for each investment fund. The redemption fee was deducted from the redemption amount you received.
3. **Trailing commissions.** Investment funds pay investment fund companies a fee for managing their funds. Investment fund companies pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission for each fund depends on the sales charge option you chose when you purchased the fund. You are not directly charged for trailing commissions. They are paid to us by investment fund companies.

Information about fund expenses, MERs, trading expenses and other investment fund company charges, as well as trailing commissions, is also included in the prospectus or fund facts document for each fund you own.

Source: CSA and CCIR Joint Notice and Request for Comment, Annex D

Merits of including MER

A key outcome of disclosing fee information for investors is the opportunity that they have to better make fund comparisons through the presence of additional information. In the following, we discuss whether it would be beneficial to disclose MER in account statements and additional statements.

We are of the view that investors would benefit from the inclusion so long as MER is accurately described. When the MER is disclosed in statements, there should be one clear definition or associated explanatory note of its purpose in the context of the investment. Our view is informed by behavioural principles and two studies that touched on this issue.

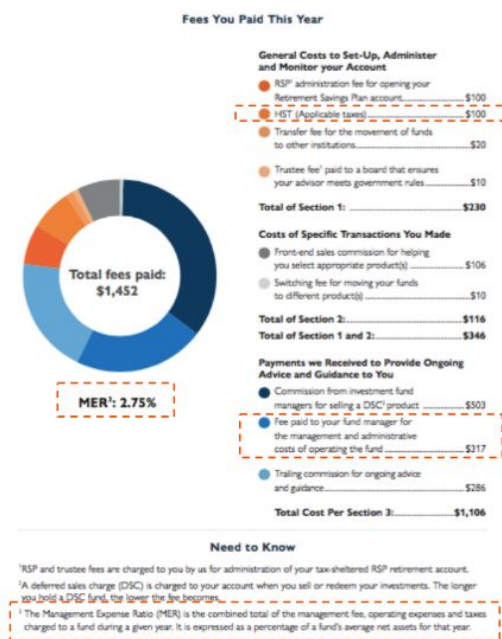
An unpublished behavioural economics study conducted by BEworks had participants examine a mock account statement that included MER to understand whether the expanded cost disclosure would help investors think about fees. When MER was made salient in the disclosure shown in Figure 10, investors felt less confident about their understanding of the statement.²⁷ However, this mock Annual Report only described MER in percentage terms and it appeared unclear whether investors may have been distracted by two different mentions of management fees in the lower half of the mock report. Removing information that is not needed and providing fees with accurate explanatory notes would be expected to be more effective; both these considerations are captured in the Amendments prototypes.

²⁷ Beworks. (2019). *Behavioural Economics Applied to Enhance Disclosure Practices and Investor Outcomes*.



Impacts on investors

Figure 10: Sample statement of expanded cost disclosure



Source: BEworks

In a contrasting research finding from the Behavioural Insights Team, including the MER in the account holdings section of Annual Reports was found to better help investors with identifying the actions that they should take upon learning about fees.²⁸ This suggests that including MER in reporting with one clear definition of its purpose can help investors better realize that MER is a key fee that differs across funds. This realization would help investors reconcile the impact of fees, and encourage them to think about the course of investment actions they could take and reevaluate their investments accordingly. However, it is important to note that investors would best understand costs in the context of returns, and that this would be best achieved in Annual Reports.

Therefore, including the listing of MER in account and additional statements would demarcate the presence of the management fees, compared to not having it listed at all. Investors would be able to make use of the additional disclosed fee information, to make fund comparisons. Once again, the benefit to investors would be best realized when there is contextualization of the cost information with other pertinent fund and account information, which would be found in Annual Reports, to facilitate investor understanding of the overall fund's value.

Dollar framing

Research suggests that when it comes to percentages, investors tend to neglect small amounts, long-term costs, and the exponential growth of fees' impact over time. This percentage neglect is further amplified by the fact that individuals have a tendency to misinterpret and incorrectly add/subtract percentages when making decisions around fees and returns.²⁹ This can lead investors to misjudge future gains and losses because the challenge associated with making financial calculations is magnified, hindering their comprehension of what they pay in fees.

²⁸ Behavioural Insights Team. (2021). *Improving Fee Disclosures for Canadian Mutual Fund Investors*.

²⁹ Parker, K. N. (2017). *Numeric Data Frames and Probabilistic Judgments in Complex Real-World Environments* (Doctoral dissertation, UCL (University College London)).

Impacts on investors

Percentage information is so poorly understood that it may not even be weighted in decision-making: Investors have been found to underreact to fees as if they are only half the size than they actually are.³⁰ Percentages also do not create the same imagery for investors as dollars do, resulting in an overall devaluation of fees because they feel small.³¹ Reframing numbers as dollars helps increase and direct investors' attention to fees, helping them overcome the percentage neglect. Dollars are more likely to be weighted into decisions because they are better understood. In turn, investors would decide more effectively about investments when they consider fees in dollar units and be more likely to factor fee information into decisions because the information is more concrete.³²

The Amendments propose that for quarterly account statements, fees would be stated as a percentage for each held fund, while for annual reporting, dollars would be used to capture the total fund expenses, aggregated with all other costs. The annual prototypes summarize the total cost of investing using a table, in dollars; this presentation of fees (as further described in the next section about cost breakdowns) and dollar framing is optimal for investor comprehension of fees. The research cited above suggests that this change would help investors better understand fees, again, largely in the context of annual fee reporting. For the quarterly statements, where only percentages are included at the product level, the accompanying fee explanatory note will play a larger role in supporting investors' comprehension.

Cost breakdowns

A cost statement that saliently captures the total cost of investing, on top of a cost breakdown table, can effectively facilitate investor awareness and understanding without overwhelming investors with too much information. This is because if the fees are made salient (e.g. listing the fees at the top of the account statement page), investors are more likely to locate these fees amid other statement information, which would improve their comprehension.³³ Thus, the Amendments' focus on expanding cost information in a way that more clearly breaks down what fees are and what they mean for investors will be beneficial. Unnecessary or excess information should be removed to simplify the amount of content in an account statement.

As outlined in the following prototype from the Amendments, embedded fees would be expanded by only including relevant information for each line (i.e. the purpose of each specific fee). The summative total cost statement is bolded, highlighted, and in a large font. The cost breakdown table parses each fee contributing to the total of \$815. The presentation, which highlights the main takeaway at the beginning of the statement and then provides a breakdown of each fee by line items, will reduce cognitive barriers to understanding fees paid by the investor. This additional overlay improves transparency to each fee, compared to no overlay, and would support investors' increased comprehension of investment costs. Moreover, the simplified presentation is in line with the best practice of clearly presenting descriptions without unnecessary information.

³⁰ Kim, H. H., & Yang, W. (2022). *Inattention to mutual fund fees and the effect of fee disclosure policies*. Available at SSRN 3230081.

³¹ Newall, P. W., & Parker, K. N. (2019). *Improved mutual fund investment choice architecture*. *Journal of Behavioral Finance*, 20(1), 96-106.

³² Newall, P. W., & Love, B. C. (2015). *Nudging investors big and small toward better decisions*. *Decision*, 2(4), 319.

³³ Financial Conduct Authority. (2018). *Now you see it: Drawing attention to charges in the asset management industry*.

Impacts on investors

Figure 11: Cost summary table from prototype

Your total cost of investing was \$815 last year	
What you paid	
Our charges: Amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank.	
Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell some investments	\$20.00
Total you paid to us	\$120.00
Investment fund company fees: Amounts you paid to investment fund companies that operate the investment funds (e.g., mutual funds) in your account.	
Fund Expenses - See the fund expenses % shown in the holdings section of your account statement ¹	\$645.00
Redemption fees on deferred sales charge (DSC) investments ²	\$50.00
Amount you paid to investment fund companies	\$695.00
Your total cost of investing	\$815.00
Our Compensation	
What we received	
Total you paid us, as indicated above	\$120.00
Trailing commissions ³ paid to us by investment fund companies	\$342.00
Total we received for advice and services we provided to you	\$462.00

1. **Fund expenses.** Fund expenses are made up of the management fee, operating expenses and trading costs. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They correspond to the sum of the fund's management expense ratio (MER) and trading expense ratio (TER). These costs are already reflected in the current values reported for your fund investments.

The number shown here is the total dollar amount you paid in management fees, trading fees and operating expenses for all the investment funds you owned last year. This amount depends on each of your funds' fund expenses and the amount you invested in each fund. Your account statements show the fund expenses as a percentage for each fund you hold.

Source: CSA and CCIR Joint Notice and Request for Comment, Annex D

Contextualizing fee suggestions

Direct instructional suggestions can be used to make the relationship between fees and returns more salient and understandable for investors. While investors' neglect of fees is driven by the difficulty of processing percentages, it can also be due to the fact that investors have not been explicitly educated to pay attention to them.³⁴ For example, a Canada-wide survey of investors found that only 51% of investors say that the fees on their accounts have an impact on their investment returns.³⁵ This finding demonstrates low comprehension regarding the relationship between fees and returns. The Amendments could consider a statement like the following: "Within investment fund products, you may want to consider the fund's overall fees, as it can have a significant impact on its net return. In other words, you should ask yourself whether the fund you own provides a return that justifies the fees it charges you."

³⁴ Scholl, B., & Fontes, A. (2022). *Mutual fund knowledge assessment for policy and decision problems*. *Financial Services Review*, 30(1), 31-56.

³⁵ Innovative Research Group, Inc. (2019). *CRM2/POS 3-year tracking study, September 2019 Report - Annual Tracking*.

Impacts on investors

In the original research study, a version of the above suggestion to the investor has been found to encourage individuals to seek more information about fees because they now believe them to be more important.³⁶ Fee information was viewed 40% more often among those who were exposed to the suggestion compared to those who were not. Currently, there is no such type of suggestion in the statement prototypes of the Amendments. A suggestion of this type could be integrated at the top of account statements, as shown in Figure 12, or included in the footnotes for “Fund expenses” (see Figure 11), and be made more salient by bolding the text or breaking up the sentences.

Figure 12: Top of account statement from prototype

Dealer ABC Inc.						
Your Account Number: 123-4567						
Holdings in your account						
On December 31, 2020						
Portfolio Assets						
<u>Description</u>	Shares Owned	Book Cost	Market Value	Current gain or loss	Fund Expenses ¹	% of your holdings

Source: CSA and CCIR Joint Notice and Request for Comment, Annex D

Furthermore, financial literacy plays a part in fee comprehension. Highly literate investors are more likely to be aware of investment charges, be able to process large amounts of fund information, and be more sensitive to high-fee funds.³⁷ Those with lower financial literacy and investment experience are most susceptible to poor fund choices, so fee disclosure is especially valuable for them. For this latter group, disclaimers help draw attention to the specific actions that they need to take to set themselves up for better returns. This is important because this investor group is likely to be relying more on past returns to inform investment holdings. In one experimental research study, investors were assessed on the extent to which fees and returns information drove investment decisions. Investors were asked to choose between one low-fee fund and one high-fee fund across multiple trials. The returns of the two funds were stochastically generated and the fees were different between the funds. The two disclaimers were as follows:³⁸

- standard disclaimer: “Past performance does not guarantee future returns”; and
- social disclaimer: “Some people invest based on past performance, but funds with low fees have the highest future results.”

The social disclaimer that emphasizes the benefits of considering fees was more effective at motivating investors towards considering fees, especially those with lower financial literacy. A disclaimer like this could also be particularly effective in countering the belief that investors have about higher-fee funds relating to better performance.³⁹ We note that this experiment does not address the issue of overall fund value, including both fees and returns, and that the design was a single-choice paradigm.

³⁶ Fisch, J. E., & Wilkinson-Ryan, T. (2014). *Why do retail investors make costly mistakes? An experiment on mutual fund choice*. University of Pennsylvania Law Review, 162(3), 605-647.

³⁷ Jiang, J., Liao, L., Wang, Z., & Xiang, H. (2020). *Financial literacy and retail investors' financial welfare: Evidence from mutual fund investment outcomes in China*. Pacific-Basin Finance Journal, 59, 101242.

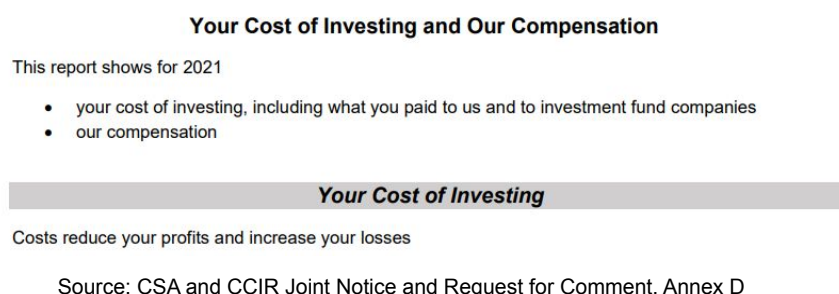
³⁸ Weiss-Cohen, L., Newall, P. W., & Ayton, P. (2021). *Persistence is futile: Chasing of past performance in repeated investment choices*. Journal of Experimental Psychology: Applied.

³⁹ The Brondesbury Group. (2015). *Mutual Fund Fee Research*.

Impacts on investors

In the Amendments, a similar disclaimer is suggested for the top of account statements (Figure 13): “Costs reduce your profits and increase your losses.” This statement would be expected to increase fee awareness, and could be further enhanced with a cost qualifier and framing that emphasizes positive outcomes from considering fees: “Lower costs increase your profits and decrease your losses.” However, we note that investors need to understand both fees and value (from returns and advice they receive) rather than fees alone, to make informed decisions. Thus statements need to emphasize the importance of net return in evaluating a fund performance. The importance of this context is discussed in more detail later in this report.

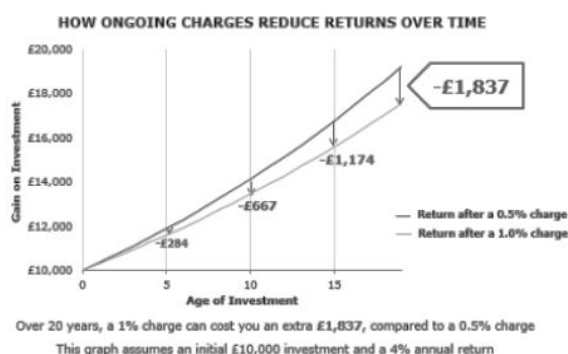
Figure 13: Disclaimer about costs from prototype



Visualizations with text descriptions

There are several visual design choices that can ease the cognitive barriers to comprehending fee impact and their relation to returns. Simple changes such as including ratings, metrics, and colour coding are helpful for investors when they assess overall fund and account information.⁴⁰ Research has also found that visualizing risk with return and fee information in an infographic helps reduce the amount of additional and preventable fees incurred from investments by up to 20%. The authors describe “preventable fees” as the excess fees that investors incur because they face difficulties in comparing the fees of different funds (e.g. a fully rational investor would minimize fees by allocating all wealth to the cheapest fund; again, we note that this behaviour does not properly contextualize the overall value of investment).⁴¹ This is because the visual nature of making costs salient relative to returns elevates the importance that investors place on fee impact; this sensitivity would be expected to translate across all types of fees.

Figure 14: Sample visualization of fee impact on returns



Source: Financial Conduct Authority

⁴⁰ IOSCO. (2019). *The Application of Behavioural Insights to Retail Investor Protection*.

⁴¹ Cox, R., de Goeij, P., & Van Campenhout, G. (2018). *Are pictures worth a thousand words? Infographics and investment decision making. Infographics and Investment Decision Making* (November 2, 2018).

Impacts on investors

Overall, investors consider themselves to have a better understanding of fees and how potential financial returns may be impacted when texts and visualizations are presented together; while we acknowledge that implementing graphical visualizations would be more complex than simpler design changes (e.g. colour coding), the combination with texts should be regarded as a highly effective route to improve comprehension about the temporal relationship between fees and returns.⁴² Solely adding infographics of visualized risk, return, and fees without a text description has been found to be insufficient in helping investors compare different funds.⁴³ Additionally, investors have been found to understand fee information when presented through text descriptions but prefer their actual costs of investing to be outlined in a table,⁴⁴ which is captured in the Amendments.

The frequency discussion

Quarterly statements

Investors cannot assess fee trade-offs of funds when fees are hidden; out of sight is out of mind, so an important consideration for fee visibility is when the fee information is provided to investors.⁴⁵ Currently, the Fund Facts document provided at the original point of sale is the main means of bringing fees to attention. The Amendments' inclusion of quarterly fee reporting in the account statement could be meaningful if the goal is to keep fees in investors' minds. In this context, the quarterly statements would likely serve as reminders and the likelihood of investors paying attention to them after the initial purchase may be slightly higher if investors actually review the quarterly statement to inform holdings.

Evidence suggests that investors do review Annual Reports received and would want more frequent information (i.e. quarterly) to be available, only if they are described in understandable language. In a 2019 Canadian investor survey, 69% of individuals who recalled receiving account statements about the performance or costs of investments reported that they read all or most of the content.⁴⁶ In a sample of American investors surveyed in 2021, 58% reported that they would be likely to obtain and review additional investment documents if they learned that fees could reduce the growth of their savings over time.⁴⁷ Finally, 47% of 2,000 self-directed investors surveyed by the Ontario Securities Commission in 2020 reported that they spend less than an hour each month viewing monthly and annual account statements. While we acknowledge that self-directed investors are only a small portion of the overall population of fund investors, 66% of these investors reported spending less than an hour each month reviewing the fees that they are charged (Figure 15).⁴⁸

⁴² Kozup, J., Howlett, E., & Pagano, M. (2008). *The effects of summary information on consumer perceptions of mutual fund characteristics*. *Journal of Consumer Affairs*, 42(1), 37-59.

⁴³ Cox, R., de Goeij, P., & Van Campenhout, G. (2018). *Are pictures worth a thousand words? Infographics and investment decision making*. *Infographics and Investment Decision Making* (November 2, 2018).

⁴⁴ United States Government Accountability Office. (2021). *Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them*.

⁴⁵ Barber, B. M., Odean, T., & Zheng, L. (2005). *Out of sight, out of mind: The effects of expenses on mutual fund flows*. *The Journal of Business*, 78(6), 2095-2120.

⁴⁶ Innovative Research Group, Inc. (2019). *CRM2/POS 3-year tracking study, September 2019 Report - Annual Tracking*.

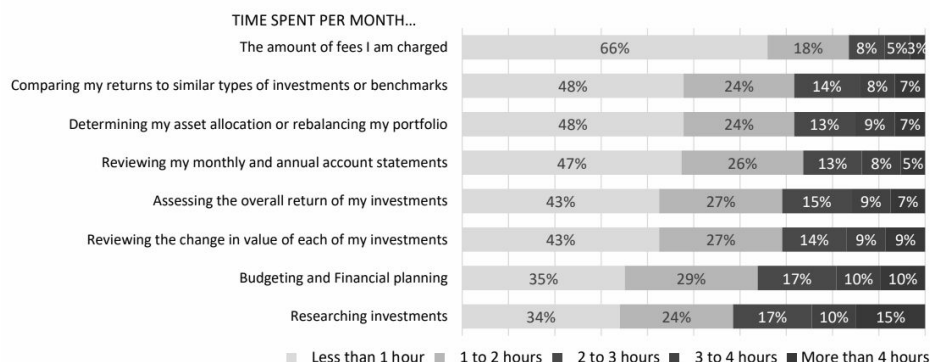
⁴⁷ United States Government Accountability Office. (2021). *Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them*.

⁴⁸ Ontario Securities Commission. (2021). *Self-directed investors: Insights and experiences*.

Impacts on investors

Figure 15: Findings from the OSC on self-directed investors

When it comes to spending time each month around their finances and managing their investments, at least seven-in-ten spend less than three hours each month on any specific activity. The most time is spent researching investments followed by budgeting and financial planning. Self-directed investors spend the least amount of time reviewing the amount of fees that they are charged.



Source: Ontario Securities Commission

When considering the contextualization of investment costs among other fund information, it is essential to take into account the fact that investors would see their fees alone in quarterly reports. If fees are presented alone, the overall costs to investing may be incorrectly assumed as being very high due to the lack of fund context. For example, an investor may not realize that a higher expense ratio is because of the differences in managing an equity fund compared to a fixed income fund. In another instance, if a fund has the trailer fee bundled in the management fee and this is not explained to the investor, the fund would look more expensive than an unbundled fund. Frequent fee reporting could lead to investors putting too much emphasis on fees because the costs are solely presented, thereby making them especially salient.⁴⁹

Because investors feel losses more strongly than gains (the pain of losing money is psychologically twice as powerful than gaining the same amount),⁵⁰ repeating fee information on its own could lead investors becoming highly sensitive to any degree of loss. They may become conservative in their investing such that they are overly focused on lower-fee funds and fail to consider the net value of their holdings. This follows from the fact that individuals pay more attention to and are more affected by negative than positive information.⁵¹ Given that investors would not get visibility into their returns in the quarterly statements, their immediate perception of investment progress could be skewed to the losses (i.e. costs) of investing, which does not demonstrate the values attached to fees, and they could become fee averse (i.e. avoid high-fee funds).

To mitigate the likelihood of investors negatively overweighting fee information due to information repetition, one option can be to omit fee disclosures in quarterly statements. In this case, investors could still obtain information about fund product costs upon request or through other sources such as MRFPs, financial statements, and fund managers' websites. Alternatively, if quarterly fee reporting is introduced, it would be helpful to leverage fee descriptions that positively convey fee purpose, so that investors do not become overly focused on just their costs. In the Amendments, there is the following phrasing: "The managers pay us ongoing trailing commissions for the services and advice we provide you" (p.30). An iteration of this phrasing, specific to MER and TER, could provide more explicit reference to the services that fees help to maintain and be framed with greater investor agency: for example, "The fund expenses that you pay contribute towards the ongoing professional management, operating costs and taxes of the fund that you have invested in." An analogous statement may help reduce the skewness that investors would experience when looking at fees alone in quarterly statements.

⁴⁹ Rosen, T. (2018). *Should US Companies Adopt Semi-Annual Reporting? An Analysis of Quarterly Reporting Requirements and the Practice of Earnings Guidance* (Doctoral dissertation, Brown University, Providence, Rhode Island).

⁵⁰ Novemsky, N., & Kahneman, D. (2005). *The boundaries of loss aversion*. Journal of Marketing Research, 42(2), 119-128.

⁵¹ Baumeister, R. F., Bratslavsky, E., Finkenauer, C., & Vohs, K. D. (2001). *Bad is stronger than good*. Review of General Psychology, 5(4), 323-370.

Impacts on investors

Annual Reports

When it comes to Annual Reports, research finds that investors are more likely to desire and use Annual Reports if financial information is described in less technical terms.⁵² This is already reflected in the Amendments, which is the inclusion of simpler text descriptions and explanatory notes.

In an evaluation of investor preference, the U.S. Government Accountability Office found that 61% of investors reported wanting fee information for comparing investment options annually while only 34% preferred it quarterly.⁵³ The greater preference for Annual Reports and their completeness in fund information make them more relevant for investors, their comprehension, and their investment-holding decisions.

For the Annual Reports where additional investment information is included, investors would be expected to be comparing the fees—which would be improved through clearer explanatory notes, cost breakdowns and dollar framing—with other fund information. The presence of information about returns and performance (i.e. the net gains) helps reduce the likelihood of loss aversion and fee aversion. Contextualization should then occur more intuitively and there should be a lower risk of investors being overly focused on the costs due to the availability of other fund and account information.

Suggested considerations for fee reporting frequency

The risks from ongoing fee disclosure in quarterly statements may be greater than the risks from disclosing them in Annual Reports. Given that quarterly statements would lack the fund information that help contextualize the value that fees bring to investments (e.g. information about returns), this frequency poses an increased risk for loss and fee aversion among investors because of the tendency to overweight negative information. Furthermore, the saliency of fees on their own in quarterly statements can also impact highly financially literate investors, who have been noted to actively avoid high-fee funds, as they become increasingly aware and focused on investment charges. Lastly, as described earlier, none of the Reviewed Jurisdictions require fee disclosure on a more frequent basis than annually, unless fees have changed at the investor level (i.e. EU, UK). This may suggest that there is limited evidence in favour of more recurrent fee disclosure beyond annual reporting.

For Annual Reports, there are two key elements that make them the more ideal medium to deliver fee disclosure. First, Annual Reports will contain other fund information alongside cost information. The availability of these insights helps investors contextualize their funds by reallocating their attention away from just the fees alone and instead, toward a higher-level evaluation of the net value that their holdings bring to them. Second, while captured in only one research survey, it was found that there is a greater number of investors who simply prefer fee information annually rather than quarterly. At minimum, this provides an early indication that fee disclosures in Annual Reports would benefit investors because positive preferences help facilitate action (i.e. investors would be more inclined to review and use the information in Annual Reports).

For these reasons, we suggest that Annual Reports would be the effective method for ongoing fee disclosure, compared to quarterly statements, to enhance investor protection. Annual disclosure should take precedence and quarterly fee reporting could be later considered if an investor knowledge gap is found due to a lack of frequent fee disclosure. The Annual Reports would summarize fees against the backdrop of goals and return over time, which will provide greater benefit to investors by supporting their ability to contextualize costs against gains. Annual fee reporting would also pose a lower risk for investors in terms of the propensity for loss aversion or fee aversion.

⁵² Epstein, M. J., & Pava, M. L. (1994). *Individual investors perceptions on the summary annual report: A survey approach*. Journal of Applied Business Research (JABR), 10(3), 60-67.

⁵³ United States Government Accountability Office. (2021). *Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them*.

Operational impacts for industry

Operational impacts for industry

Introduction

This section of the report assesses the efforts (cost and time) that would be incurred by the fund industry in adopting the Amendments. The costs involved are important to understand because they are often passed onto investors to some degree. To assess the expected cost and time, we held discussions with industry members to understand how they expect to be impacted by the Amendments.

While we are able to comment high-level on the industry implications, our scope does not include a detailed assessment of the proposed timelines and costs in complying with the Amendments. We also note that, through our consultations, industry members are reluctant to begin their cost planning until the intricacies on the Amendments are finalized.

Outline of new process requirements

The Amendments will require changes to the data flows between the Mutual Fund Managers and dealers, and thus will affect each of the entities involved in the process. Currently, MER and TER information is made available to investors at a fund level via the MRFP and Fund Facts documents. Investor-level information is compiled and provided to investors by the dealer in accordance with regulatory requirements, including those related to CRM2.

With the proposed changes, the following updates will be required to the data flow:

Quarterly statements: Mutual Fund Managers will compute and transmit MER, TER and fund expense ratio percentages to dealers, potentially through an industry intermediary such as Fundserv, which in turn will transmit the information to the dealers, or potentially through other data distributors such as Fundata. The dealers will then need to combine this information with the relevant fund investment shown in the quarterly statement provided to investors. MER and TER data is updated semi-annually in connection with annual and semi-annual filings of MRFP documents by Mutual Fund Managers for each fund. A process to capture updated information will therefore need to be built into the dealer's quarterly statement production process.

Annual Reports: Mutual Fund Managers will be required to compute daily cost factors (at the per unit per series/class level) and transmit these to Fundserv (or other intermediary) as part of their daily data feeds. Fundserv would then transmit this information to the dealers, who in turn would be required to store the daily investor- or unit-level information. For the purpose of annual cost reporting, the dealer will use the cost factors for each series/fund at an investor level to compute the cost based on the investor's units held, taking into account purchases, sales, re-investments, adjustments, etc.

Special considerations for ETFs: ETFs will require more significant process changes than mutual funds. Currently, it is not possible for ETF Managers to track investor-level information; therefore, daily cost factors would appear to be the required mechanism. As a result, the burden of tracking, collating and computing the investor-level costs is expected to fall squarely on the dealers. In addition, the processes, tracking and data flows for ETFs differ from those used for mutual funds: for example, the Canadian Depository for Securities (CDS) is involved in the existing process flow rather than Fundserv. As a result, we anticipate the potential for substantial incremental costs in developing a new solution and incorporating such different data flows.

Operational impacts for industry

Figure 16: Current data flow process

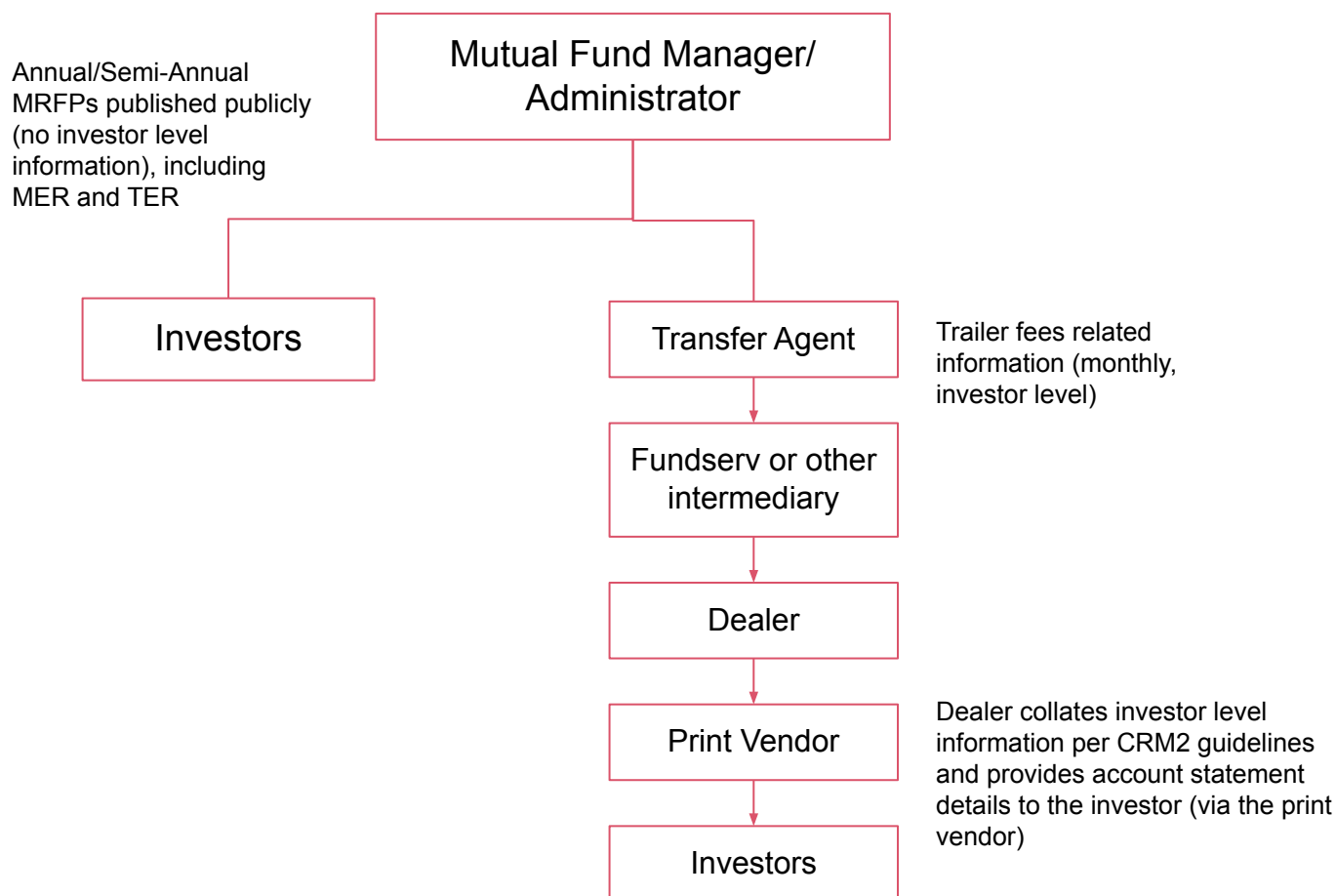
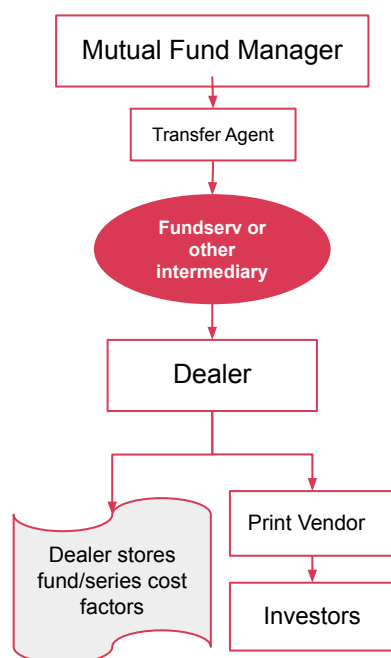


Figure 17: Data flow process under proposed disclosure requirements



Cost Reporting Process under proposed guidelines

Mutual Fund Managers to compute daily cost factors by series (based on MER and TER).

Fundserv (or other intermediary) to transmit cost factors and MER/TER percentages

Dealer stores fund/series cost factors and calculates total cost annually'

Dealer captures most recent MER and TER data to collate within quarterly statement

Operational impacts for industry

Impacts by stakeholder

In the following discussion, we provide a summary of the cost and time impacts of the Amendments on different industry stakeholders. We highlight the changes that are required, and provide a sense, where available, of the potential magnitude of cost. We also comment on the suggested timeframe for implementation.

The organizations we discuss are:

- Fund Managers (i.e. Mutual Fund Managers and ETF Managers)
- Dealers
- Fundserv
- Other key service providers, such as transfer agents and dealer systems providers.

In Canada, the MER and TER numbers, in percentage terms, are already being reported for investors semi-annually through the annual and semi-annual MRFPs and also through the Fund Facts and ETF Facts documents on at least an annual basis and whenever there is a material change. However, filtering these numbers through to the investor level will require some significant changes in the way data is collected and processed by industry participants, including aligning on the architectural approach to be employed.

This is primarily because any data on fund value and related cost per unit would need to be collected daily for every fund in every account to calculate the dollar figure of fees paid. This is a large amount of data to track that isn't currently being collected. The additional data requirement will be a complex process for industry, particularly for firms who have a high number of funds and/or use multiple series for their funds and more involved fee pricing with investors and for dealers with significant numbers of product codes. As is discussed below, the multi-stakeholder involvement and requirement for system development across industry participants is also a critical part of the change process.

In assessing anticipated impact on their operations, industry members often referred to their recent experience transitioning to the CRM2 framework. We have noted later in this section some of the similarities and differences in these two change processes as well as how the timelines and costs might compare.

Fund Managers

In order to comply with the quarterly disclosure requirements proposed in the Amendments, Mutual Fund Managers will need to add the MER/TER information to other data they already provide to their transfer agent, who then connects to Fundserv to pass on into the dealer system. This will require a change to data fields in the required file formats, and related programming to ensure the relevant data is properly captured on a timely basis.

For purposes of the annual disclosure requirements, the Joint Regulators propose that in addition to the current duties, investment fund managers will provide daily cost per unit or share of the relevant class or series of an investment fund calculated in dollars.

The suggested formula is $(A/365^*) \times B = C$, where:

- A = FER of the fund
- B = Unit price for the day of the fund
- C = Daily dollar cost per unit for the fund

*N.B. Every four years, the formula will require division by 366 days, due to the leap year.

Operational impacts for industry

While our interviews with industry members indicate that fund managers are expected to be tasked with the calculation and transmission to intermediaries of the daily cost factors and FER, as applicable, as a result of the Amendments, questions remain around how fee complexities will be dealt with, and also whether this is the most efficient process to use, as noted below.

One question relates to timing of availability of current MER and TER data that will make up the FER. Many fund products utilize a calendar year-end, and MER and TER data is published typically between 60 and 90 days after year-end. Thus for the annual cost disclosures, the daily cost factor being transmitted by fund managers for their reporting issuer-regulated funds will be based on the most recently available MER/TER, which will be lagged by up to approximately six months. Industry participants have noted that the calculated aggregate amount of fund expenses incurred by the investor will, as a result, be an estimate rather than an exact amount. Furthermore, in the first year of operations until financial statements are first issued, new funds do not have a published MER or TER, and it has been noted that initial TER calculations are often high and unrepresentative of an expected normal level of operations. Using such an unrepresentative TER, which, due to the previously mentioned time lag, would be applied to an investor's holdings in a period subsequent to the period in which it occurred, would add another potentially inappropriate estimate into the annual cost amount. Solving these types of data challenges are likely to cause additional process costs for fund managers and dealers.

Other considerations for fund managers, and ultimately dealers, include how fees will be calculated with more complex pricing structures in place, such as tiered pricing or account householding, adjustments to expenses on account of fee waivers or over/under accrual of expenses, and nuances for ETF products such as use of net asset value versus closing market value of a fund.

As previously noted, industry participants identified challenges with the prescribed nature of the CSA's suggested process for calculating the formula. In particular, this process determines who calculates the ultimate cost to the investor. For the mutual fund industry, an alternative process could see the transfer agent for the Mutual Fund Manager do the investor-level calculation and transfer that data point through Fundserv on a monthly basis, similar to the current process for trailer-fee costs. However, the current draft proposals do not appear to allow for that as a potential solution.

Fundserv

Mutual Fund Managers are expected to provide the required data through Fundserv or another intermediary.⁵⁴ Therefore, Fundserv and other intermediaries are expected to be an important part of implementing the Amendments. The largest expected change for Fundserv—which currently deals with over 100,000 fund codes in their system—will be the requirement to create a new file standard or amend existing files to send to the dealer, in order to include the daily cost factor information and MER/TER data for these fund codes. This requires establishing the data protocol with all stakeholders, through an industry working group, for the new or updated files. We corroborated the reasonability of industry members' contention that regulations must be in place before they begin system changes with PwC technology specialists, who see this step as foundational and thus requires very specific guidelines.

The new data requirements will have to be computed by the Mutual Fund Managers within their fund accounting function and initially passed to the transfer agency function (that is in many cases an outsourced function to the Mutual Fund Manager). Transfer agency systems will thus have to be adjusted to support this new data flow. This data will need to be programmed to be included in the new data fields and passed through Fundserv's system to be received and stored by the dealers. The most efficient solution to enable this data transfer will need to be finalized and may ultimately reflect different files being used for the two types of data (the relatively static FER, and the daily cost per unit amounts).

⁵⁴ We note that some of this information could end up being sent via a data distributor like Fundata or Morningstar. It should be recognized, however, that these entities have varying business models and currently may not serve all participants in the industry.

Operational impacts for industry

Given the nature of anticipated change and the large number of stakeholders (Mutual Fund Managers and dealers, transfer agents and dealer systems), it is expected to require a multi-year project, similar to previous CRM2 changes (that took over three years from issuance date to the effective date for the two new Annual Report requirements), including build, test and finalization phases plus collection of the initial year of data.

Dealers

In complying with the quarterly Amendments, dealers will need to extract the new FER data provided, store it as required, and then build an interface to input it into the investor statements, likely requiring coordination and programming changes with print vendors.

Complying with the Annual Report requirements will be more complex, as under the current proposals, dealers will need to take daily dollar costs for each series of each fund in each account and store this information. This information is not currently being tracked, so would require new systems and processes to be put in place. Industry participants have noted that they maintain thousands and, in some cases, tens of thousands of fund codes, which will significantly impact both complexity and cost to develop and maintain an appropriate storage and calculation process.

Fund codes vary depending on the fund's product design (reflecting multiple series as well as front-end, DSC or low-load options, etc). If the dealers are required to track significant numbers of these fund codes (which require a NAV x daily fee rate calculation), performed daily for the year and personalized for each client, this is likely to create a significant requirement of data storage and analysis, whether the calculation for each investor is done daily and accumulated, or calculated once at the end of the reporting period. Not all dealers have the databases and storage solutions to deal with these requirements, and the estimated cost to build these additional capabilities is expected to vary by size of dealer and is not currently estimated.

The Joint Regulators also suggest that when disclosing the FER of each fund as well as the total dollar amount of fund expense for an investor, there is a requirement for dealers to include a description of any assumptions or approximations made in the calculations. As more detailed solutions are developed, a greater sense of the likelihood of such assumptions will become apparent. Tracking any assumptions in order to ensure appropriate and sufficient disclosure will be an additional burden both in implementation and on an ongoing basis.

Another concern that was raised by some of the larger institutions, such as banks, was with having multiple distribution channels, which may not necessarily be linked with one another. Since systems vary across distribution channels, the operational challenge has greater complexity in supporting dealer reporting changes through multiple process and system changes.

According to our industry interviews, the dealer-side costs are roughly estimated to be in the hundreds of thousands of dollars for smaller firms and up to several million dollars for larger firms, although many interviewees had not yet started to consider a cost estimate. The main one-time implementation-related cost drivers are expected to be the required system changes, development of a storage solution and programming to capture the data, and the need to reprogram and redesign for both quarterly and Annual Report. Furthermore, as much of the industry is reliant on third party system providers (fund accounting, transfer agency, dealer systems and print vendors), charges from these vendors are currently very difficult to estimate.

While the estimates provided above are indicative only, the dealers are able to use the recent changes to CRM2 as a reference point for expected costs, although in that case the data points collected for investor-level trailer fees, for example, were generally only 12 monthly data points. Dealers we consulted with pointed to the changes in CRM2 as an example of the long "runway" required in implementing these system changes. Dealers will also have to bear additional recurring costs, relating to human resources, data storage and other operational costs.

Operational impacts for industry

Additionally, potential solutions have not yet been identified to deal with ETFs, a product type that is experiencing significant growth currently, as well as other fund products that may not be settled through the Fundserv platform such as scholarship plans. These will all add incrementally more cost to dealers that sell these products, together with uncertain timeline expectations to achieve compliance.

ETFs

ETFs provide unique challenges to the industry as, unlike mutual funds, the ETF manufacturers do not have transparency into who the unitholders are, nor is there the similar intermediary infrastructure provided by Fundserv for mutual funds. Nuances also exist for ETF series of mutual funds versus standalone ETF products. Therefore, and as noted above, dealers that sell ETF products will have to build a separate process with other intermediaries and potentially different infrastructure to collect, calculate and distribute the required data to investors.

Currently there is no immediate industry solution to support this data transfer. In addition, CDS, a key intermediary for the ETF industry, has significant projects currently underway related to post-trade modernization as well as the anticipated T+1 settlement change. While the full cost reporting implementation challenges will be felt across the ETF industry, we have heard from participants that it is likely that smaller dealers would be impacted most, which may create adverse consequences for product choice.

Timelines

The Joint Regulators outlined some potential dates for transition to the new legislation. The key dates proposed were:

- for the reporting period ending December 2024, investors will receive the newly required information in their quarterly account statements; and
- for the reporting period ending December 2025, investors will receive the newly required information in their annual account statements.

Industry members anticipate that the required system changes across the industry from Mutual Fund Manager through to dealer would likely take up to two years when including time for finalizing data protocols, system build, testing and finalization. This is because no process currently exists and would have to be developed. Additionally, after the system changes have been put in production, the new systems will need to collect a calendar year of data in real time in order to prepare the initial Annual Reports. In total, adopting the Amendments may take approximately three years, and some industry participants expected that the timeline could extend to as much as four years following regulations being finalized. As noted above, ETFs face additional complications in adoption and may require more time for implementation timelines as a result.

Furthermore, we note that the industry will not be able to begin to implement the transition until the regulatory proposals are finalized. Our experience with regulatory change, as well as what we have also heard from our industry interviews, is that budgets for the detailed development spend do not reach approval stage until regulations are finalized and therefore no longer subject to change, particularly where cost estimates are expected to be substantial. As a result, detailed progress on building solutions is only likely to commence after that point.

While no direct comparisons are available for the timelines in implementation of the Amendments, we believe that the industry can look at the time taken to implement CRM2 as a benchmark. According to the OSC, the CRM2 Amendments⁵⁵ came into force in July 2013, with them coming into effect for the new Annual Report requirements in July 2016.⁵⁶

⁵⁵ Defined by OSC as "National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103) and its Companion Policy (CP) relating to cost disclosure, performance reporting and client statements".

⁵⁶ OSC (2014) Planning tips for implementing the "CRM2" amendments to NI 31-103 registration requirements, exemptions and ongoing registrant obligations, Available at: https://www.osc.ca/sites/default/files/2021-11/eb_20140307_crm2-faq-published.pdf

Operational impacts for industry

Furthermore, given most firms were reporting on a calendar-year basis, the first time these amendments were passed onto clients was in January 2017 (reflecting the January 1 - December 31, 2016 year). This means that in practical terms, three and a half years passed (for most firms) between the published date of the finalized rules and the implementation of CRM2.⁵⁷

The following table provides a comparison of the key changes related to CRM2 and the Amendments, and demonstrates that there are similarities in terms of the areas that the changes apply to, notwithstanding that the calculations and method of implementation may be different, particularly given the data requirements from investment fund products like ETFs.

Table 4: Comparison between impacts of CRM2 and the Amendments

Area	CRM2	The Amendments
Quarterly statements	Yes - New data fields (position cost, market value, etc.)	Yes - New data field (FER ratio)
Annual reporting	Yes <ul style="list-style-type: none"> Annual performance report (new) Annual cost and compensation report (new) 	Yes - New data in Annual cost and compensation report
Trade confirmations	Yes - Additional disclosures	N/A

⁵⁷ OSC (2016) CSA Staff Notice 31-345 - Cost Disclosure, Performance Reporting and Client Statements - Frequently Asked Questions and Additional Guidance, Available at: <https://www.osc.ca/en/securities-law/instruments-rules-policies/31-345/csa-staff-notice-31-345-cost-disclosure-performance-reporting-and-client-statements-frequently>

Appendix A: Acronyms and other abbreviations

Term used in report	Definition
The Amendments	Proposed changes to the securities sector
Annual Report	The annual report on charges and other compensation
ASIC	Australian Securities and Investments Commission
CSA	Canadian Securities Administrators
CCIR	Canadian Council of Insurance Regulators
CDS	Canadian Depository for Securities
CRM2	Client Relationship Model 2
EFT	Exchange-traded fund
EU	The European Union
FDS	Fee disclosure statement
FER	Fund expense ratio
IFIC	The Investment Funds Institute of Canada
The Joint Regulators	The Joint Regulators of the Canadian Securities Administrators and the Canadian Council of Insurance Regulators
KIID	Key Investor Information Document
MER	Management expense ratio
MiFID	Markets in Financial Instruments Directive
Non-Super	Australian-managed investment products
OSC	Ontario Securities Commission
PRIIPs	Packaged retail investment and insurance products
PwC	PricewaterhouseCoopers LLC
Reviewed Jurisdictions	Australia, the US, the EU and the UK
Super	Australian superannuation products
TER	Trading expense ratio
UCITS	Undertakings for the Collective Investment in Transferable Securities
UK	The United Kingdom
US	The United States

Appendix B: Limitations

Our Services were performed and this Report was developed in accordance with our engagement letter dated May 25, 2022 and are subject to the terms and conditions included therein. Our role is advisory only. IFIC is responsible for all management functions and decisions relating to this engagement, including establishing and maintaining internal controls, evaluating and accepting the adequacy of the scope of the Services in addressing IFIC's needs and making decisions regarding whether to proceed with recommendations. IFIC is also responsible for the results achieved from using the Services or deliverables.

Receipt of new information: PwC reserves the right at its discretion to withdraw or revise this report should we receive additional information or be made aware of facts existing at the date of the report that were not known to us when we prepared this report. The findings are as of June, 2022 and PwC is under no obligation to advise any person of any change or matter brought to its attention after such date, which would affect our findings.

Reliance on third party data/information: We relied upon the completeness, accuracy and fair presentation of all the information, data, advice, opinion or representations obtained from third parties, public sources and IFIC, which are detailed under the references section (collectively, the "Information"). We have not conducted any audit or review of the Information, nor have we sought external verification of the Information. We accept no responsibility or liability for any losses occasioned by any party as a result of our reliance on the financial and non-financial information that was provided to us or found in the public domain.

Use limitations: This report has been prepared solely for the use and benefit of, and pursuant to a client relationship exclusively with IFIC. We understand that IFIC may share our report with third parties. IFIC can release this report to third parties only in its entirety and any commentary or interpretation in relation to this report that IFIC intends to release to the public either requires PwC's written consent or has to be clearly identified as IFIC's own interpretation of the report or IFIC is required to add a link to the full report. PwC accepts no duty of care, obligation or liability, if any, suffered by IFIC or any third party as a result of an interpretation made by IFIC of this report.

Further, no other person or entity shall place any reliance upon the accuracy or completeness of the statements made herein. In no event shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person other than IFIC.

This report and related analysis must be considered as a whole: Selecting only portions of the analysis or the factors considered by us, without considering all factors and analysis together, could create a misleading view of our findings. The preparation of our analysis is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. We note that significant deviations from the above listed major assumptions may result in a significant change to our analysis.

Appendix C: Behavioural principles for fee disclosure

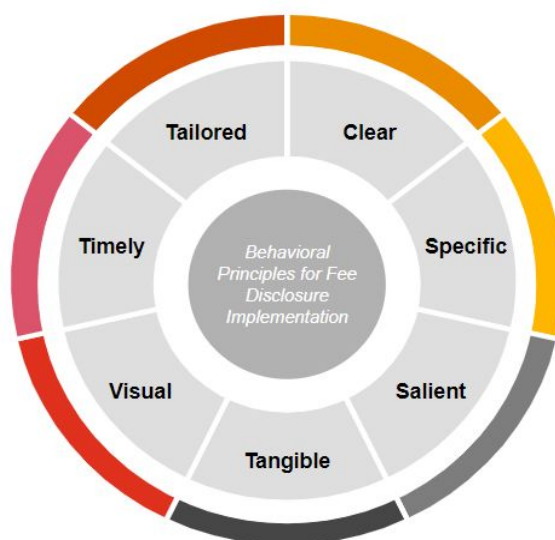
This appendix aggregates the key findings from the behavioural economics literature and research surveys into key principles that should be incorporated in fee disclosure to improve investors' understanding and decision-making.

The way fee disclosures are currently written in Canada makes them difficult for investors to interpret, and they are particularly bad at explaining and contextualizing fees:

- Investors have trouble understanding fees because disclosures use complex terms and jargon that are not accessible to most retail investors.
- The specific costs associated with fees are not clearly detailed in most disclosures, and investors lack supporting tools (e.g. summary tables) that would help them understand embedded fees.
- Many investors struggle to judge the magnitude of fees when presented as a percentage.
- Compared to other fund information, fees are not made salient and it can be difficult to contextualize all the information together in a way that still communicates fee value.
- The lack of visual tools to compare funds' fees and returns exacerbate contextualization difficulties.
- Overly repeating information that is solely about costs can negatively impact investor behaviour.

To overcome these barriers and enhance investor protection through the awareness of investment fees, seven behavioural principles are important for Regulators to embed in fee disclosure design and implementation. The principles will help facilitate transparency and investors are expected to have greater trust in the investment space.⁵⁸

Figure 18: Behavioural design principles for fee disclosure implementation



⁵⁸ Kanagaretnam, K., Mestelman, S., Nainar, S. K., & Shehata, M. (2010). *Trust and reciprocity with transparency and repeated interactions*. Journal of Business Research, 63(3), 241-247.

Appendix C: Behavioural principles for fee disclosure

Principle	Consideration for disclosure
Clear	Text descriptions will use simple terminology and active voice. All types of fees should be articulated using non-expert terms so that investors can comprehend and contextualize them.
Specific	Text descriptions will be concise. Where appropriate, direct callouts to fees should be made so that investors pay attention to them in the context of other statement information.
Salient	Highlighting, bolding, and information positioning (i.e. at the top of the statement) will be leveraged to increase fee visibility. Return information can be made salient with the fees.
Tangible	Dollar units will be used to represent fees, especially when paired with information about returns. This framing of fees is better suited than percentages for investor comprehension.
Visual	Infographics, charts, and tables should be applied to consolidate and summarize fee structures and their relation to returns. Fee disclosure should be visually and temporally represented by highlighting the impact of fees on returns so that investors can better understand the relationship.
Timely	Statements with fee disclosure should be delivered to investors at opportune times when they may be more interested and receptive to acting on the information. Since Annual Reports facilitate contextualization, this frequency likely brings more benefit to investors than quarterly statements.
Tailored	Statements should capture the true cost that investors have paid in fees for their investments (e.g. investor-level expense). Incorporating the investor's actual investment costs and invested amount reinforces the ability to comprehend the value of fees in their investments.



Act with
integrity



Make a
difference



Care



Work
together



Reimagine
the possible

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At PwC Canada, our more than 7,300 partners and staff in offices across the country are committed to delivering quality in assurance, tax, consulting and deals services. PwC Canada is a member of the PwC network of firms with more than 295,000 people in 156 countries.

Find out more by visiting us at: www.pwc.com/ca.

Our purpose, vision and values

At PwC Canada our culture is built upon two important building blocks: our purpose and our vision.

Our purpose is to build trust in society and solve important problems. Our purpose is what guides our decisions and shapes our conversations.

Our vision is 'creating leaders, inspiring people and bringing perspectives together to achieve what matters most'. Our vision reflects who we are and what we want to be.

To deliver on our purpose and realize our vision, we're guided by our values which are: Act with integrity, Make a difference, Care, Work together, and Reimagine the possible. Our values are what we have in common and define how we behave and work with our clients, communities and each other.

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August 8, 2022

Alberta Securities Commission Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Me Philippe Lebel
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Grace Knakowski
Secretary Ontario Securities Commission
20 Queen Street West 22nd Floor Toronto, Ontario M5H 3S8
Delivered by e-mail: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations and to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds (collectively the “Notice”)

This comment letter is submitted on behalf of Citibank Canada Investment Funds Limited (“CCIFL”, “we” or “us”) to provide our comments to you on the legislative proposals referred to above.

About CCIFL

CCIFL is a wholly owned subsidiary of Citibank Canada, a Canadian chartered bank, which is in turn an indirect subsidiary of Citigroup, Inc. CCIFL is a registered portfolio manager and exempt market dealer in eight of the provinces of Canada, and a registered mutual fund dealer in Ontario and British Columbia. CCIFL sells securities of pooled investment funds to institutional and high net worth individual clients of Citibank Canada on a private placement basis and through accounts managed by CCIFL under the terms of an investment management agreement.

Comments

We are writing in response to the Notice and appreciate the opportunity to share our views on the proposed amendments ("**Proposed Amendments**") to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("**NI 31-103**") set out therein. We are particularly appreciative of your willingness to consider this comment letter, notwithstanding that it is being submitted after the expiry of the comment period. Our comments are focused on the investment funds aspect of the Notice. We do not have any comments on the segregated funds aspects as we do not offer this product to our clients.

Our overarching comment is that the new requirements proposed in the Notice should not apply in respect of securities of non-Canadian investment funds that are distributed on a prospectus exempt basis to, and held in accounts for, permitted clients, including individual permitted clients that satisfy the threshold set out in clause (o) of the definition of a "permitted client", i.e., "an individual who beneficially owns financial assets ... having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$5 million." For convenience, in this letter we will refer to such securities as "**Exempt Foreign Fund Securities.**"

The requirements to include fund expense, fund expense ratio and direct investment fund charges information on account statements and reports provided by registrants should not be imposed for Exempt Foreign Fund Securities. It is fundamentally inconsistent with the regime under which Exempt Foreign Fund Securities are typically distributed in Canada, and registrants, such as CCIFL, generally will not have access to the information required to reliably provide this information.

Exempt Foreign Fund Securities are, in our experience, more usually distributed to Canadian permitted clients by non-Canadian market participants that are not generally subject to NI 31-103 (or Canadian securities legislation more generally) and would not be impacted by the Proposed Amendments.

Non-Canadian dealers routinely distribute Exempt Foreign Fund Securities to Canadian permitted clients (including individual permitted clients) under the "international dealer" exemption in section 8.18 of NI 31-103. Non-Canadian portfolio managers routinely advise Canadian permitted clients (including individual permitted clients) in respect of Exempt Foreign Fund Securities under the "international adviser" and "international sub-adviser" exemptions in sections 8.26 and 8.26.1 of NI 31-103, respectively. Securities of investment funds sponsored by non-Canadian investment fund managers are permitted to be distributed to permitted clients (including individual permitted clients) in Ontario, Quebec and Newfoundland and Labrador, provided that the investment fund manager complies with the registration exemption set out in Multilateral Instrument 32-102 *Registration Exemptions for Non-Resident Investment Fund Managers*. Finally, the "wrapper exemptions" from Canadian private placement disclosure requirements relating to underwriter conflicts of interest and statutory rights of action generally would be available for a distribution of

Exempt Foreign Fund Securities to Canadian permitted clients (including individual permitted clients).

This is the regime that non-Canadian dealers and fund managers are subject to in respect of Exempt Foreign Fund Securities. It does not include any requirement to provide “fund expense”, “fund expense ratio” or “direct investment fund charges” information on account statements or in similar documents. Indeed, our discussions with our non-Canadian affiliates that distribute alternative funds (private equity funds, hedge funds, real estate funds, multi-strategy funds, etc.) globally (including, in some cases, to Canadians) indicate that such foreign affiliates are not required under their home jurisdiction rules to provide this information or anything similar to clients on account statements.

Requiring these additional disclosures will, therefore, put registered Canadian firms, such as CCIFL, at a disadvantage to their non-Canadian competitors that can provide the same products to Canadian permitted clients without incurring any similar regulatory obligation to provide the client reporting information that will be mandated by the Proposed Amendments.

The other important consideration is that the information required by the Proposed Amendments generally will not be easily or reliably available for Exempt Foreign Fund Securities. Issuers of Exempt Foreign Fund Securities generally will not, in our experience, voluntarily provide any information that they are not required to in order to comply with the regulatory requirements of their home jurisdiction or certain larger capital markets jurisdictions (e.g., the U.S., Europe, etc.).

The changes to NI 31-103’s companion policy included in the Proposed Amendments suggest the following options for registrants that are not able to obtain “fund expense”, “fund expense ratio” and “direct investment fund charge” information from the investment fund manager:

“... the registered firm must make reasonable efforts to obtain information about the investment fund’s fund expenses, fund expense ratio or direct investment fund charges by other means. Those other means may include:

- relying on information disclosed in disclosure documents of the investment fund other than [Canadian public disclosure documents], including documents prepared according to the reporting requirements applicable in a foreign jurisdiction,*
- requesting that the information be provided in writing by the investment fund or investment fund manager, or*
- relying on information reported by a reliable third-party service provider.*

We expect registered firms to use their professional judgement in determining what other means of obtaining the information would be appropriate, notably taking into account that doing so must not cause the information reported to clients to be misleading.”

We do not expect that we generally will be able to rely on information included in foreign disclosure documents. Indeed, our experience is that such information is not included in foreign offering documents or other foreign fund materials. We similarly do not expect that non-Canadian investment fund managers or third-party service providers will provide the required information.

Accordingly, it is our firm expectation that, if the Proposed Amendments are enacted as proposed, CCIFL will be required to undertake a significant, ongoing diligence exercise that, in a significant

majority of cases, will simply result in a determination that it cannot reliably provide fund expense, fund expense ratio and direct investment fund charges information for an Exempt Foreign Fund Security, and must therefore provide disclosure to its clients that such information is excluded from the relevant statement/report.

We respectfully submit that it would be out of keeping with the securities regulators' recent burden reduction initiatives to impose a regulatory burden such as this on a Canadian business, especially when the resulting benefit is unclear (at best), and the class of Canadian investors being protected in respect of Exempt Foreign Fund Securities – "permitted clients" – are assumed by other areas of the Canadian securities regulatory framework to be sophisticated and financially literate enough to understand the risks, rewards and structures (including cost structures) of the alternative investment vehicles that they invest in, and to ask questions where they deem it necessary.

Comments on Existing Requirements

We would also like to take this opportunity to provide comments on certain of NI 31-103's existing client reporting requirements. Specifically, sections 14.14.2 [*Security position cost information*] and 14.18 [*Investment performance report*].

Our experience working with these provisions is that, given the nature of the securities our clients' investments – privately distributed interests in alternative investment vehicles with relatively detailed capital call, carry, redemption and distribution provisions - compliance with section 14.14.2 and section 14.18 is costly and labor-intensive, and provides reporting that, we understand, generally is not useful to our clients. The cost/burden associated with this reporting is partly a result of Citi's global affiliates (whose systems and expertise we leverage in order to provide our Canadian private banking platform) not being required to provide, and not providing, similar reporting to clients in their home jurisdictions.

In light of this, we would like the CSA to consider adding waiver provisions to sections 14.14.2 and 14.18, such that permitted clients (including individual permitted clients) may waive, in writing, a registered firm's compliance with these sections. This approach is appropriate given the sophistication and relative negotiating power of our client base (permitted clients) and will allow us, and other similarly situated registrants, to properly tailor the reporting our clients receive to the nature of their investments (privately distributed alternative investment vehicles) and our existing global client reporting structures.

* * * * *

CCIFL appreciates the opportunity to submit these comments to the CSA. If CSA staff has any questions concerning the matters discussed in this letter, please contact Robert McGuire, Chief Executive Officer, at (416) 947-4147 or robertjmcguire@citi.com.

Yours truly,

rm73538

Digitally signed by rm73538
Date: 2022.08.08 15:44:49
+0400'

Robert J. McGuire
Chief Executive Officer