September 7, 2012

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

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Dear Sirs/Mesdames:

On behalf of the Canadian GIPS Council, we are pleased to provide our comments on the **Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*** (“NI 31-103”). The Canadian GIPS Council is the official sponsor of the global investment performance standards (GIPS) for the Canadian market. The Canadian GIPS Council wishes to comment specifically on the following aspects of the proposed amendments.

Thank you again for the opportunity to provide our comments.

Yours truly,

Karim Manaa
Chair, Canadian GIPS Council

Introduction

The focus of our letter is to examine the following areas of concerns/opportunities which we see related to the **Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*** ("NI 31-103"). The areas of focus in our response relate to:

- Performance reporting
    - Clients
    - Prospects
- Calculation methodology – time-weighted versus dollar-weighted
- Use of benchmarks
- Consolidated reporting
- Other issues for comment

Performance reporting to existing vs prospective clients

Underlying our comments will be the use of two widely-accepted methodologies for measuring investment returns: the money-weighted return (MWR) also referred to as the internal rate of return (IRR) and the time-weighted return (TWR). The MWR method will calculate the rate of return at which the present value of the cash outflows equals the present value of cash inflows - as such, external flows that occur during different time periods bear a material effect on the calculated return. On the other hand, the key characteristic of the TWR method is that the effect of these cash flows on the calculated return is eliminated. The accepted implication of these methodology differences is that MWR is better suited to measure the performance of the investment, whereas TWR is more optimal to measure the performance of the manager, who does not usually have control of external cash flows.

We understand that one of the reasons that motivated the CSA in selecting the dollar weighted rate of return versus the time-weighted rate of return is that the former applies to existing clients while the latter is focused on prospective clients. To date, the perception has always been that time-weighted rates of return ensured fair comparisons between investment management firms presenting to prospective investors. We agree that manager monitoring is an essential benefit from the time-weighted rate of return. However, we believe that manager monitoring is of great interest to existing clients as well.

The decision to either remain with or terminate a manager is heavily influenced by the returns an investor is receiving. Investors receive a significant amount if not all of their information through client performance reporting. As mentioned in the amendment itself, the best way to measure the performance of the manager is using the TWR as it gives a precise indication of the manager's performance independently from the cash invested in or out by the investor.

We believe that both existing and potential investors benefit from the TWR as it allows them to measure their performance and also make investment decisions. This should also achieve several benefits including consistent reporting to existing and potential investors across multiple portfolios. This explains the extension made by the GIPS Executive Committee to ensure the application of the GIPS Standards to existing clients.

The MWR or IRR can be deemed a measure more applicable to individual assets where the cash flows are self-contained from the investment. When multiple asset types are involved in a portfolio and the cash flow decisions are directed by the client, rather than the manager, then the TWR would be more applicable.

The MWR can also in some cases apply more specifically to retail investors who focus on individual assets/investments within their overall portfolios. Institutional firm investors may have broader assets and rebalancing targets and cash obligations that require the movement of cash on a regular basis. As a result of that decision, not within the portfolio manager's purview, the TWR would provide a more specific indication of the actual manager's skill and performance.

In conclusion, while we believe that requiring performance reporting on client statements is a positive step, we also believe that registered firms should be allowed to choose whether to present time-weighted or money weighted returns on client statements. Also, since some firms already show time weighted returns on existing client statements, the proposed requirement to show money weighted returns would likely cause confusion when clients see two sets of returns with performance results that could be significantly different from each other.

Performance surveys

It should also be noted that performance surveys that exist within the investment marketplace and identify manager rankings on the basis of performance results, utilize the TWR measures. The surveys seek to identify manager skill and ranking in investing and try to negate the impact of cash flows both in size and activities. The TWR best provides this form of comparative analysis for the survey purposes.

Money vs. Time-Weighted Rate of Return: A Practical Example

Although most of the time both TWR and MWR calculations will yield fairly similar results, in some market conditions and scenarios, the differences between these return types can lead to misleading conclusions and, in turn, to unfavourable investment decisions depending on what methodology is used. To illustrate this situation, an example is presented below.

Let's consider a portfolio managed by an active manager for a 3 month timeframe and YTD return is reported to the investor as of March 31st, 2011. The investor starts with a portfolio market value of $250,000 on January 1st 2011 and then makes a contribution of $105,000 on February 14th, 2011, followed by a withdrawal of $2,000 on March 10th 2011. The ending portfolio value on March 31st 2011 is $360,000.

Exhibit 1 below demonstrates the IRR calculation: the return is calculated using Microsoft Excel's XIRR function, which yields an annualized internal rate of return. As there are only 3 months in the reporting timeframe, the annualized return is "de-annualized": *[((ROR factor+1)^(90/365))-1]*100*

Exhibit 1

DATE	CF	Type
1-Jan-11	(250,000)	BMV
14-Feb-11	(105,000)	Contribution
10-Mar-11	2,000	Withdrawal
31-Mar-11	360,000	EMV

Annualized IRR (XIRR):	9.80%
De-Annualized IRR:	2.34%

The IRR calculation thus yields a positive YTD return of 2.34%, which leads the investor to believe that the active manager has positively contributed to his or her portfolio.

Now, let's consider a Time Weighted Return calculation applied to the same scenario illustrated in *Exhibit* 2 below.

Exhibit 2

DATE	EMV	BMV	CF	TWR	TWR
31-Dec-10	250,000				
31-Jan-11	255,000	250,000		2.00%	2.0%
14-Feb-11	315,000	210,000	**105,000**	-17.65%	
28-Feb-11	288,000	315,000		-8.57%	-24.7%
10-Mar-11	336,000	338,000	(2,000)	17.36%	
31-Mar-11	360,000	336,000		7.14%	25.7%
				Cumulative:	**-3.43%**

The time-weighted calculation isolates the performance of the investment by removing the timing effect of cash contributions and withdrawals from the investment's ending value, thus effectively measuring how well the manager has performed.

As we can see from the above example, the periodic monthly returns are geometrically cumulated to yield a negative YTD return of -3.43%, suggesting that the manager has in reality negatively contributed to the portfolio return during the course of the first quarter of 2011.

Use of benchmarks

We noted that the proposal did not include a requirement for registered firms to include benchmark information in the performance reports provided to clients, and we disagree with this. We feel that the use of benchmarks will provide retail investors with a viable comparable against which they will be able to assess performance of their respective account, and it should be encouraged, rather than discouraged. In our exhibits 1 and 2 illustrated above, without a benchmark to provide a context on the returns calculated, an investor will not be able to assess whether the account performance is adequate relative to the market.

We do acknowledge there will be greater need for investor education to better understand benchmarks and we feel that the value is far greater than the effort to educate investors. However, we do believe that having a 5-year GIC rate as the only benchmark is not sufficient and including an equity benchmark, such as the TSX would not only be useful, but in fact, may be more relevant, depending on the client's investment strategy. It is widely recognized in Canada and reflects the broad based index that the investors understand. Therefore, we would propose including a broad equity benchmark as well.

Consolidated reporting

Regarding consolidated reporting for a client made up of more than one account, the performance should be reported at the overall portfolio level as that would be the most meaningful to the client, as opposed to the performance of individual accounts only. We agree that the investor should be able to see both the individual accounts and total portfolio returns. The concern we have which is not addressed in your proposal is the methodology prescribed for the calculation of the overall portfolio return. Looking to the GIPS standards, there is guidance provided as part of the composite return calculation, which is what you are proposing. We recommend you use this guidance when determining how to present consolidated reporting.

Other issues for comment

During the review of the proposed amendments, there were requests for comments and we thought it useful to opine on these as well. The first was on making fixed-income transactions more transparent, by disclosing all of the compensation and/or income earned by registered firms from fixed-income transactions.

We agree this disclosure would be useful to investors. As with equities, we believe this information should be disclosed to enhance transparency of reporting. If this information is easily accessible, then it should be disclosed as well.

The second was on the inclusion in client statements and performance reports for all securities transactions that are carried out through an account, even when the securities are not held in that account. We believe that all client transaction information is included on the client statement, even those transactions which may have been made on behalf of the client. We agree that this is the best approach, and would anticipate that there will be adequate capabilities of ensuring the client information is complete. We do not foresee an issue with this request.