

September 14, 2012

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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  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Superintendent of Securities, Northwest Territories  
Superintendent of Securities, Yukon  
Superintendent of Securities, Nunavut

**Attention:** The Secretary  
Ontario Securities Commission  
20 Queen Street West, Suite 1903, Box 55  
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

**Re: CSA Notice and Request for Comment on Proposed Amendments to  
National Instrument 31-103: Cost Disclosure and Performance Reporting  
(the "Proposai")**

## **Background**

Capital International Asset Management (Canada), Inc. ("CIAM") is part of The Capital Group Companies, Inc., a global investment management firm originated in 1931. CIAM serves as the manager and trustee to the Capital International mutual funds, which are subadvised by our affiliates, Capital Research and Management Company and Capital Guardian Trust Company (part of Capital Group International, Inc.), two of the world's largest providers of global/international equity investment services. The companies within these affiliates manage equity assets through various investment groups that operate independently from one another. Capital International funds are distributed primarily through third-party distributors in Canada.

CIAM is currently registered as an investment fund manager and portfolio manager in Ontario as well as an exempt market dealer in the provinces of Ontario, Quebec, Alberta, British Columbia and Nova Scotia. Our comments below on the Proposai will have an impact on all of our business activities.

## **General Comments**

CIAM is pleased to have the opportunity to present comments on the Proposai. CIAM believes that it is in investors' best interests to receive fair and transparent disclosure on performance, fees and charges for all types of investment vehicles. While we support the CSA's intent to give investors fundamental information that they can use to better assess their investments, we are concerned with the approach the CSA has proposed to achieve this objective.

CIAM generally supports the positions asserted in the Investment Funds Institute of Canada comment letter (the "IFIC letter") dated August 29, 2012 as submitted to the CSA in response to the current Proposai.

Like the Investment Funds Institute of Canada, CIAM is concerned with the following aspects of the Proposai:

1. **Direct costs.** The changes required to comply with the Proposai will incur significant initial and ongoing operational costs and will therefore increase the cost to own mutual funds. There is insufficient evidence that the potential benefits outweigh the costs of compliance.

In addition to the significant initial costs, registrants will be subject to ongoing costs in order to ensure compliance with the Proposai. Compliance by fund managers and dealer firms with the proposed requirements will include, among other things, ongoing training, documentation, systems checks and upgrades and privacy considerations further adding to the costs of the enhanced compliance infrastructure. The two report templates proposed by the CSA to report annual charges and compensation and investment performance are currently four pages

2. **Indirect costs.** We believe the CSA's proposal for registered firms to disclose the dollar amount of trailing commissions will incur certain indirect costs to investors.

Investors can make informed decisions about investments only when they have access to similar information about all investments in their portfolios. If the CSA's proposal leads investors to believe that there are costs for mutual funds that do not exist for other investments, they may develop an unfair bias against mutual funds. Providing investors with detailed information about one investment, while other investments do not have similar requirements, does not help investors make informed decisions. It may also dissuade them from investing in mutual funds that are designed to help them meet long-term financial goals.

We appreciate the fact that the CSA can make rules only within its own jurisdiction. We urge the CSA to coordinate with other regulatory bodies to promote streamlined, consistent disclosures across all investments.

3. **Duplication of available information.** The information outlined in the Proposal is currently available or attainable from existing disclosures.

Costs and commissions are currently clearly disclosed in the Fund Facts document and in other disclosure documents. Additional disclosures will be duplicative and will not help to simplify or clarify information for investors.

**Specific concerns with the CSA's proposed changes are summarized below:**

#### **Disclosure of Charges and Other Compensation**

CIAM shares IFIC's concerns regarding the unfair treatment of mutual funds and the severe burdens that will be imposed on fund managers and dealers under the trailing commission disclosures in the Proposal.

Disclosure of dollar amount of trailing commissions paid creates an unlevel playing field as this does not apply to other investments. This type of disclosure will also impose significant costs on fund managers and dealers due to systems implementation requirements. Ultimately, such incremental costs will be borne by investors. According to the "Performance Reporting and Cost Disclosure" report dated September 17, 2010 ("research study") as prepared for the CSA, we note that two-thirds of investors are willing to pay for more detailed information with most willing to pay \$25 or less; whereas, two-thirds of those wanting more frequent reporting are "unwilling to pay." Most retail mutual fund investors are conscious of costs particularly in the current market environment. We are

concerned that the proposed changes will exacerbate such concerns and unfairly influence investor perception of mutual fund products.

The research study also indicates that trailer fees are only one of the "common terms" that are less understood by investors and reveals a more significant finding that "15% of investors don't understand any of these terms well" [i.e. DSC, wrap fees, buy/sell commissions, etc.]. We are in agreement with this finding and support the existing disclosure requirements in the Fund Facts documents, which clearly define trailing commissions and how they impact fund expenses. It is our understanding that the research study had no evidence to support the addition of specific dollar amount disclosure of trailers at the account level. In our own experience serving advisors and investors over the past ten years, we are aware of only one inquiry from an advisor requesting a dollar breakdown of trailer commissions on client statements.

The business processes and system changes required to implement account-level tracking of trailer compensation would be significant. We feel strongly that a detailed cost-benefit analysis by the CSA is warranted prior to implementing such changes.

### **Duplication of Disclosures**

We commend the CSA's efforts of streamlining and simplifying disclosures in the Fund Facts documents. We believe these documents adequately serve investors' disclosure needs. In addition to the point of sale documents, there are duplicate or similar, more detailed disclosures prescribed in the funds' MRFPs, financials and simplified prospectuses. Investors have access to a wealth of information of which they are currently not taking advantage. This is evident in a recent response rate of 1.5% with respect to our opt-in mailing requests for the MRFPs/annual reports. Similarly, our website usage reports show that few investors are accessing electronic versions of these materials. As only a small percentage of investors wish to receive or access these reports, we are concerned about inundating them with additional information they may not find useful.

### **Time vs. Dollar-Weighted Performance Reporting**

We are concerned with the CSA Proposal requiring registrants to report performance using a dollar-weighted method of return calculation. We believe that both calculation methods have their own merits and can be used to report performance. As an example, CIAM uses time-weighted calculations for the purposes of reporting results in the funds' financials and marketing materials while dollar-weighted return calculations may be helpful to show investors the

firms need flexibility to report performance using either or both methods of performance reporting so long as the methodology is clearly disclosed.

### **Switch or Change Fees**

We support the eSA's concerns regarding inappropriate switch transactions and agree with additional disclosure to help investors understand the implications of such transactions.

We wish to clarify the application of such disclosure in circumstances where certain switches have a corresponding benefit for investors. As an example, our ~~ose~~ option automatically converts into a lower management fee option upon the expiry of the ~~ose~~ schedule, resulting in reduced overall costs to the investor. This is a fund-initiated transaction versus an advisor initiated switch and is disclosed in our simplified prospectus and Fund Facts. We believe this type of transaction does not require further disclosure as it is a clear investor benefit of a lower management fee solution.

### **Benchmarks**

The proposed Companion Policy states that registered firms are encouraged to include historical 5-year ~~Gle~~ rates in performance reports for comparison purposes to show how a "low risk alternative" relates to a client's portfolio. We believe this comparison is not meaningful and is potentially misleading as it does not compare like products. It also omits meaningful information such as the impact of inflation rates, taxes and reinvestment risk, among other factors.

Additionally, as mentioned in our previous comment letter dated September 6, 2012 regarding Stage 2 of the Point of Sale proposal, we are concerned that such a comparison undermines the clear intention of section 13.1(7) in the Companion Policy to NI 81-102 which requires the performance of a mutual fund to be compared to another investment or benchmark if the comparison clearly sets out the factors that are necessary to ensure that the comparison is fair and not misleading.

### **Certain Permitted Client Exemptions**

We are pleased that the eSA has recognized and exempted certain permitted clients (who are not individuals) from receiving certain types of reporting and disclosures contained in the Proposal. In this regard, it is unclear why this exemption would not extend to all types of permitted clients (whether or not they are individuals). By virtue of the *tact* that they are permitted clients, as defined in NI 31-103, all such clients can currently waive certain KYC and suitability

requirements contained in this instrument. We believe the same treatment should consistently apply to the proposed enhanced disclosures in recognition of the fact that such clients are generally sophisticated investors and do not necessarily require such detailed disclosures.

## **Conclusion**

The CSA has confirmed that this is "substantial undertaking" and has accordingly proposed to lengthen the transition period to allow for systems' builds and training of personnel. While we are pleased that the CSA has acknowledged the significant impact of this Proposal, we are concerned that it has not considered the magnitude of additional direct and indirect costs that will ultimately be borne by mutual fund investors as firms implement the changes and on an ongoing basis. We feel strongly that a detailed cost-benefit analysis by the CSA is warranted prior to implementing such changes.

Mutual funds are considered by the CSA to have evolved into "complex compensation structures that are potentially difficult to understand". It is our view that adding an additional four pages to investor materials detailing specific charges and performance data unnecessarily encourages such a perception of complexity. This also significantly increases ongoing costs. The potential benefits to investors do not outweigh the costs and drawbacks of this Proposal, especially since investors are unlikely to realize meaningful benefits from the additional disclosures.

For fairness to investors, disclosure standards should be uniform across all investment services.

We strongly urge the CSA to consider the above comments as well as the IFIC letter prior to finalizing the rule. We appreciate the opportunity to comment on this Proposal. Thank you.

Yours truly,

CAPITAL INTERNATIONAL ASSET MANAGEMENT  
(CANADA), INC.

*(signed) "Mark Tiffin"*

Mark Tiffin  
President