September 7th 2012

BY ELECTRONIC MAIL: comments@oas.gov.on.ca consultation-en-cours@lautorite.qc.ca

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

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: Notice and Request for Comment on 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* June 14, 2012 (2nd Publication) Cost Disclosure, Performance Reporting and Client Statements

The Federation of Mutual Fund Dealers (the "Federation") is an association of Canadian mutual fund dealers and affiliates whose members, since 1996, have been working to be the voice of independent mutual fund dealers. We currently represent 30 dealer firms with over

$114 billion of assets under administration and 17,000 licensed advisors that provide financial services to over 3.5 million Canadians and their families.

The Federation is writing to provide comments with respect to the above captioned Proposed Amendments ("Proposals").

The Federation submitted a comment letter on September 23rd 2011 responding to the initial consultation on amendments proposed last summer. We are attaching that letter as Appendix A for reference and continue to support the sentiments in that letter.

General

We believe that the CSA's frame of reference is too narrow. If a client is comparing products they should be provided with the same information on each product in order to make a truly informed decision. If your primary interest is in the investing public's best interests, it is imperative that you ensure that all cost and performance disclosure is provided in a harmonized manner.

Additionally, the information provided to investors should be the same regardless of how dealer compensation to their advisors is structured. This is about cost of ownership; if your objective is to educate the client and avoid client confusion, you should ensure that the client receives the same cost and performance information about each product they are considering for purchase regardless of how or where they purchased the product.

You state in your Proposal "We do not believe it is in the interests of clients to receive unreliable information." We agree and by the same token believe that it is not in the interests of clients to receive confusing information and information that they cannot use on a harmonized comparative basis.

1. Key issues and decisions since the 2011 Proposal

i. Disclosure of Trailing Commissions

Although the Proposal does not present an "Issue for Comment" at this heading, we have the following comments:

In this section you say "We acknowledge the potential costs to industry, but believe that informing the investing public is worth this cost.". This seems a rather dismissive statement given the concerns expressed by industry participants who commented previously. Our own letter addresses these concerns under the heading *Disclosure Duplication, Cost Burden & the Consultative Process* in Appendix A attached.

In addition we believe that this statement does not satisfy (at the very least) the Ontario Securities Commissions obligations under s.143.2(1)7 of the *Ontario Securities Act* which requires that the published notice of a proposed rule must include "A description of the anticipated costs and benefits of the proposed rule."

We believe that it would be contrary to the public interest not to conduct this quantitative analysis. We also believe that the investing public would be astounded as the costs versus the information being delivered. Dealers have already, and continue, to re-engineer their systems to deliver quarterly statements efficiently, with fund facts to come, and they will have to re-engineer again to deliver this annual statement with the proposed expanded disclosure.

This further contributes to an unlevel playing field against for e.g. the banks and exempt market dealers and it is unfair to continue to disadvantage the mutual fund dealer industry.

ii. **Disclosure of fixed-income commissions**

Issue for comment: In the interest of making fixed-income transactions more transparent, we invite comments on whether it is feasible and appropriate to mandate the disclosure of all of the compensation and/or income earned by registered firms from fixed-income transactions. This would include disclosure of commissions earned by dealing representatives as well as profits earned by dealers on the desk spread and through any other means.

Although this does not apply to mutual fund dealers we thought it important to discuss what we consider to be the misuse of the word "profit". Profit is a complicated computation and should not be considered simply the difference between what the dealer receives and the amount the dealer passes on to the representative…

iii. **Expanded client statement**

Issue for comment: We understand that all securities transactions are carried out through an account, even when the securities are not held in that account. We have drafted the Rule on this understanding and invite comments on the practicality of this or other approaches to including the securities listed in s.14.145(5.1) in client statements and performance reports.

In and of itself we do not see these requirements to be overly onerous however, prior to any change in the content of client statements we would refer you to our comments above with respect to a cost/benefit analysis.

Exempt-market securities

The Proposal states that "Investors in the exempt market that we surveyed are generally satisfied with the level of reporting they receive and understand how their investments are held. Our research also suggests that many of these investors do not expect the amount of information about exempt market securities in their client statements to be the same as it is for

publicly traded securities if they do not have an ongoing relationship with the registrant that sold them the securities, as is sometimes the case with exempt market dealers."

We would be prepared to debate this point depending upon the nature of the questions posed to these investors. If you asked an exempt market investor and a mutual fund investor if they want more paper – neither would say yes. If you asked them if they wanted accurate, relevant and comparable information for all securities we suspect they would likely say yes.

Book Cost Information

The Proposal states that "Under the 2012 Proposal, investors would see the book cost information for each security position included in the client statement, and would be able to assess how well individual securities are performing by comparing their book cost to their current market value. A definition of book cost is included in the Rule. This is a change from the 2011 Proposal, where we had proposed that original cost be provided as the comparator for market value. We made the change because original cost is not adjusted for reinvested earnings, returns of capital or corporate reorganizations. We have found that original cost is not a term that is familiar to most investors and it would be potentially confusing for registrants to have to explain the uses and limits of the original cost measurement to their clients. Book cost is a more widely used measure, familiar already to some investors, that takes the adjustments noted above into consideration."

Based on our experience in dealing with many thousands of clients, we disagree strongly that the average investor understands "book cost". Our Members who, as noted above, represent some 17,000 advisors and over 3.5 million investors tell us repeatedly that what they really want to see on a statement is simply 'what did I invest and what is it worth today'. It is the advisor's responsibility to educate the client as to what factors contribute to the latter amount. This service is in part, what the trailing commission pays for – ongoing service of a client's account.

iv. ***Common baseline requirements for registrants***

We would encourage the CSA, IIROC and the MFDA to continue to work together to ensure arriving at a harmonized approach to the provision of this information to clients. The investing public deserves a regulatory framework that is harmonized and consistent nationally. Anything less will contribute to clients' loss of confidence in the capital markets in Canada.

v. ***Percentage return calculation method***

Issue for comment: We invite comments on the benefits and constraints of the proposal to mandate the use of the dollar-weighted method, in particular as they relate to providing meaningful information to investors.

Clients compare their client name statements to what they receive from the fund company. If you mandate a standard, this must be consistently applied – i.e. fund company statement and dealer statement.

vi. ***Market valuation methodology***

The Notice states that "The 2012 Proposal sets out a methodology for registrants to use to determine the market value of securities in client reports. This replaces the guidance that was proposed in the 2011 Proposals and would ensure that consistent and reliable standards will apply in client reports."

We would recommend that research be undertaken regarding the various pricing policies in the industry. If pricing policies differ from one product to another it makes the provision of "consistent and reliable standards" problematic.

vii. ***Issues related to reporting***

The Proposal amends the Rule making it clear that advisors must deliver client statements. The Rules of the Mutual Fund Dealers Association ("MFDA") specify that only the dealer can and should deliver a document referred to as a "statement" to a client. All dealers and their advisors have amended their practices accordingly. We would recommend that this deviation be reviewed with a view to clarifying and harmonizing the requirement so as not to confuse dealers and their advisors.

2. Investor research and industry consultations

Industry Consultations

We are disappointed that the CSA did not include the Federation in this last round of consultations in light of the fact that we represent mutual fund dealers' interests solely and that we submitted a comment letter in 2011.

3. Transition

We recommend that the transition period be reflective of the final outcome of these consultations and the resulting policy.

4. Impact on SRO Members

As noted above we encourage the CSA to work with the SROs to ensure that all Rules and Policies are harmonized.

7. Anticipated costs and benefits

We do not believe that there is necessarily a direct correlation between investor protection and additional disclosure. We believe that it is imperative that clients be provided with meaningful, easy to comprehend information and we do not believe that these proposals represent this. We recommend that the CSA reconsider the comments made previously regarding the value of the information provided to clients.

We would recommend that all of the disclosure required to be provided to clients be reviewed to ensure that the information is not duplicative and is of real value. We believe that disclosure has reached the point where the integrity of the industry is at stake and the Proposals will only serve to confuse clients rather than educate them.

As well, we have a real concern that the onerous requirements that these Proposals represent will trigger further product arbitrage and that advisors and clients will move away from mutual funds in order to sell and invest, other products that carry lesser regulatory requirements, information overload and paper weight.

In light of our concerns we have forwarded our response to these Proposals, under separate cover, to the Ministers responsible for securities regulation in each jurisdiction as well as Minister Flaherty.

We appreciate the opportunity to provide comments and hope that the various commissions will consider our comments prior to finalizing these amendments.

Regards,

Federation of Mutual Fund Dealers

Sandra L. Kegie
Executive Director

APPENDIX A

September 23rd 2011

BY ELECTRONIC MAIL: jstevenson@osc.gov.on.ca consultation-en-cours@lautorite.qc.ca

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
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Dear Sirs / Mesdames:

RE: Proposed Amendments to NI 31-103 Registration Requirements and Exemptions – Cost Disclosure and Performance Reporting

The Federation of Mutual Fund Dealers (the "Federation") is an association of Canadian mutual fund dealers and affiliates whose members, since 1996, have been working to be the voice of independent mutual fund dealers. We currently represent 30 dealer firms with over $114 billion of assets under administration and 17 thousand licensed advisors that provide financial services to over 3.5 million Canadians and their families.

The Federation is writing to provide comments with respect to the above captioned Proposed Amendments ("Proposed Amendments").

Disclosure Duplication, Cost Burden & the Consultative Process

While we support the general principles of proposals to provide clients with clear and transparent reporting on performance and costs, we are curious as to why the Canadian Securities Administrators ("CSA") would release proposals that we believe are now duplicative, promote misleading cost comparisons with products that do not require similar disclosures, go beyond the new requirements they are now actively working to adopt at great resource and financial cost, and will ultimately serve to confuse the client.

And we agree with the concerns expressed in comment letters already submitted in that these proposals appear to indicate a disregard for the Client Relationship Model ("CRM") consultative process under the Registration Reform project where performance reporting and cost disclosure were delegated to the Investment Industry Regulatory Organization ("IIROC") and the Mutual Fund Dealers Association ("MFDA") for rule development and then readdressed in the current Proposals – with respect we believe this draws into question the integrity of the consultative process.

The MFDA and IIROC have been engaged in extensive consultations with stakeholders over the last five years; both have developed rules addressing performance reporting and cost disclosure. The MFDA developed their Rule 5.3.5 which represents a balance of interests, provides for a simple measure, flexibility to provide annual gain/loss information or percentage return and aligns well with the expressed needs of clients, was approved by the CSA in June of last year for implementation by July 2012 and MFDA Members are now in the process of redesigning client statements and building or rebuilding systems for compliance with that Rule.

In addition to the costs being incurred by dealers, fund companies and FundSERV will be impacted as their systems will require a reengineering in order to record the annual amount of trailer commissions payable per account in a year and to deliver this data to dealers in such a way that the dealers will then be able to provide it to clients.

Ultimately, higher costs are passed on to the client and we believe in addition to other suggestions, that a cost benefit analysis should be undertaken before further amendments are imposed on existing requirements.

If adopted without change we believe that these amendments will create a further imbalance in the mutual fund dealer industry resulting in an undue and unparalleled regulatory burden which will undoubtedly contribute to the further decline in the number of mutual fund dealer registrations which has already dropped by over 50% in the last ten years.

Echoing another comment, we are concerned that conclusions reached following the public consultation by the MFDA as reflected in MFDA Rule 5.3.5 mentioned above, are balanced in their application and believe that they should not be set aside by the current Proposals. We agree that this would undermine the value of the extensive and valuable work contributed by those who participated over the last seven years of public consultations, and would place at risk the credibility of the public consultation process itself.

We suggest the CSA allow the SROs to develop rules for the regulation of performance reporting and cost disclosure of their members, and exempt SRO members from compliance with the Proposals.

There appears to be a significant overlap with the Point of Sale (POS) disclosure requirements and we believe that disclosure of mutual fund information should be mandated through changes to NI 81-101, not additionally mandated in advance of Phase 3 of POS through changes to NI 31-103.

Within the discussion of pre-trade and annual proposed mandatory disclosure no reference was made to existing and readily available continuous disclosure documents regarding an investment fund which provide cost and performance information.

The abundance of repetitive cost disclosures found in the Proposal will confuse investors and may lead them to draw misleading cost comparisons which call into serious question their value. The proposed emphasis on aggregating charges and disclosing fees such as trailer fees may cause investors to double count charges that have already been assessed on their investments and disclosed elsewhere. This misleading practice may cause investors to believe their mutual fund investments are being overcharged relative to other products, and lead them away from suitable mutual fund investments to less suitable and less transparent investment options in the banking and insurance sectors where such detailed requirements are not required.

We believe that MFDA dealers should be exempt from having to report the trailer fees earned as this would be a duplication of the disclosure provided in the simplified prospectus, the Point of Sale Disclosure and the Client Relationship Document.

As well, it is not clear whether the proposed cost and performance disclosure is to be provided by account or on a consolidated basis, further clarity on this point would be required.

The proposed amendments require a dealer to provide a trade confirmation that will include information about any deferred sales charge (“DSC”) that will be charged in respect of the transaction. This is information that is disclosed in the Fund Facts and the prospectus and we do not believe there is value in providing it on the confirmation, on the contrary we believe it will contribute to client confusion.

Transition Periods

Some provisions are proposed to become effective on the date the amendments come into force, others are subject to one or two year transition periods for compliance. Generally we believe that there should be a transition period for compliance with any change and in particular the changes being considered here and would suggest that a transition period be provided for where currently there is none contemplated; for example where a registered firm dealer (registered firm) must provide a client before each trade (purchase or sale) or recommendation provided to a client for a non-managed account (orally and possible also in writing):

- Information about the "operating charges" and "transaction charges" that the client will pay in respect of the transaction
- Information about DSCs if the client is investing in a DSC fund; and
- Information about the "trailing commissions" the dealer will receive in respect of the client's investments

Another example would be where, if adopted, the amendments could impact a dealer's current Relationship Disclosure Information ("RDI") which would necessitate print, systems and procedural changes and with no transition period provided could lead to implementation challenges.

Product Arbitrage

We are concerned that proposed amendments will further encourage financial advisors to recommend segregated funds and other products to their clients, in place of mutual fund investments. The recommendation of a product with less onerous regulatory requirements will be an attractive option to a dually licensed financial advisor.

Additionally the proposed amendments focus on mutual funds and fixed income products which gives rise to an undue and unwarranted emphasis on the costs of investing in mutual funds over other types of investments.

Client Confusion

Further to the points made in the IFIC comment submission, we agree that an overemphasis on the disclosure of fees and compensation that are encompassed in the MER and included in net return reporting could be misleading to mutual fund investors.

MFDA dealers have already invested many resources into these disclosures, and it is our belief that providing clients with yet another disclosure will inadvertently give clients the impression that mutual fund investments are more expensive than other similar but unregulated products.

While we agree with comments regarding the importance of providing clients with meaningful information on their account statements we are concerned with information overload and do not agree with duplicated information and information that goes beyond what a client considers useful to the point that the client will not read the statement because it is too dense.

Moving 10% Free to Front-End No Load

We do not agree with comments regarding advisors moving the 10% DSC free units to the sales charge option of the same fund. As these 'free' units become available on an annual basis, if they are not moved into a front end version of the same fund those eligible units are lost from a free transfer and could be subject to a fee should the client request a subsequent redemption. While transferring these units may result in a higher trailer fee for the dealer and advisor it is cost neutral to the client provided that the dealer/advisor does not charge a front-end load on the transfer of units. We would recommend therefore that the commission and SRO's continue to allow dealers to monitor these activities from a compliance perspective.

Request for Clarity

With respect to the pre-trade/recommendation disclosure proposal it is not clear whether this disclosure is required to be provided in writing.

The proposals require a trade confirmation to disclose the yield of any fixed income security however "yield" is not defined. We would recommend that a definition be provided.

The proposals require trade confirmations to provide specific disclosure regarding dealer "charges" with respect to the purchase or sale of fixed income securities but no definition of "charges" is provided. We would recommend that a definition be provided.

Timing of Release of Proposals

This is not the first regulatory proposal that has been released for comment at the beginning of summer and as such this will not be the first comment to be submitted criticizing this timing. While 90 days is not normally an unreasonable amount of time, given that it spanned the summer months we believe a longer period would have been more appropriate. Past publications that have garnered few comment letters have subsequently been determined of little importance to the industry they affect and we would not like the same thing to happen with respect to these proposals.

We appreciate the opportunity to provide comments and hope that the various commissions will consider our comments prior to finalizing these amendments. We agree and support the comments made by the Investment Funds Institute of Canada and we are pleased to provide our points.

Regards,

Federation of Mutual Fund Dealers

Sandra L. Kegie
Executive Director