Investment
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September 13, 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

Attention: Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street *West*, Suite 1903, Box 55
Toronto, Ontario M5H 3S8
Email: jstevenson@osc.gov.on.ca

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
Email : consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

RE: Notice and Request for Comments on Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP dated June 14, 2012 (2"d Publication)- Cost Disclosure, Performance Reporting and Client Statements

Investment Planning Counsel Inc. (IPC) is a diversified financial services company, with over $16 billion in assets under administration on behalf of approximately 200,000 investors. Its subsidiaries include IPC Investment Corporation (IPCIC), an MFDA

regulated dealer with approximately 800 independent financial advisors and over $14 billion under administration, IPC Securities Corporation (IPC Securities), an IIROC member firm with $15 billion under administration, and Counsel Portfolio Services Inc., (Counsel), a mutual fund Manager with $2.9 billion under management. Because its subsidiaries operate as an MFDA regulated dealer, an IIROC regulated dealer, and a mutual fund manager, IPC is weil suited to provide feedback from a variety of perspectives, and we welcome the opportunity to provide comment on the Proposed Amendments.

Executive Summarv

While we continue to support the overall goal of the Amendments – providing clearer and more meaningful investment decision making information to investors on the cost and subsequent performance of their investments – we strongly believe that many elements of the proposai do not further this objective. What follows is a summary of the comments we have regarding the Amendments:

- The Amendments may lead to investor confusion and are unnecessary given the levet of continuous disclosure currently available;
- The Amendments will lead to unintended impressions about the levet of compensation earned on mutual funds possibly leading investors to pursue alternative investments that are unsuitable;
- The Amendments will pose significant implementation challenges and costs to both mutual fund managers and dealers that the CSA has failed to fully consider;
- The CSA should acknowledge that there are various approaches to dollar weighted calculations which should be permitted under the rule.
- The CSA should acknowledge there are challenges to using book cost in the calculation of performance.

Comments

1. Investor confusion caused by unnecessary amendments

i} Possible investor contusion

The Amendments will lead to investor confusion about the amount of sales commissions they pay. The prospectus already discloses the annual management fee payable by the unitholder. Prospectus disclosures are very clear that trailing commissions are paid out of the management fees collected by the manager. To require the separate disclosure of trailing commissions paid to the dealer on client statements is not only redundant but

may mislead investors into concluding that they are paying trailing commissions over and above the management fees already charged to unitholders.

ii) Unnecessarv additional disclosures

The CSA indicates that its research suggests fund investors do not understand trailing commissions and do not realize that they are being indirectly charged trailing commissions on an ongoing basis.

The prospectus disclosures regarding sales commissions are already robust and detailed. It is weil understood that *National Instrument 81-101 Mutual Fund Prospectus Disclosure Form 81-101F1 Contents of Simplified Prospectus* currently prescribes plain language disclosure pertaining to Sales Commissions, Trailing Commissions and ether forms of Dealer Compensation. Therefore, the above noted CSA research conclusions are either flawed or they suggest that investors are already overwhelmed by disclosures which they receive. In this case, mandating additional continuous disclosures is not necessary and will not achieve the goal of better investor protection. The CSA's efforts should allow for the various phases of the Fund Facts (Point of Sale) initiative to be fully and completely digested by investors in order to determine, at that time, if additional or different disclosures are necessary.

Competitive forces in the Canadian mutual fund industry have worked weil historically to keep management fees contained to a reasonable level. The result is that, on balance, mutual sales commissions and trailing commissions are very similar for the average mutual fund in the same investment category. Once again; these commissions are weil disclosed to the investor within the prospectus and on the fund facts document. We submit that the "fundamental information that investors need in arder to make informed investment decisions" is already available in a format that investors can use to compare one potential mutual fund investment to another. We assert that the ex-post provision of trailing commissions earned by an advisor on an account statement does nothing to further the *CSA's* goal of ensuring investors have available to them the "fundamental information that [they] need in arder to make informed investment decisions". Only the provision of ex-ante information is useful in that regard.

The CSA states in its notice of June 14th, 2012 that its research shows investors often don't know the answers to two basic questions about their investments (1) what did you pay? and; (2) How did your investments perform? We submit that the first question is fully and clearly addressed by bath the mandatory prospectus and fund facts disclosure requirements. Bath documents provide plain language disclosure about a fund's past performance and detailed disclosures related to sales, charges, fund expenses and trailing commissions bath in absolute dollar terms as weil as in relative percentage terms. We assert that by mandating the production and delivery of Fund Facts to investors, the CSA is meeting its objective of providing meaningful information to investors about what they pay for a mutual fund.

2. Proposed Cast and Compensation Disclosure Treats Similar Capital Market Participants and Products Different/y and Unfairly

i) Product Arbitrage

One of the most significant elements of the Amendments is on disclosure of the compensation paid to dealers and their advisors. The rationale for this is that mutual funds "...have complex compensation structures that are potentially difficult to understand." However, other financial services providers, including banks and insurance companies, are not within the scope of NI 31-103, meaning the compensation disclosure requirements would not apply to them or the investment products they offer. The result of this is that if the Amendments, if adopted, would require detailed disclosure of trailer fees and other compensation paid on mutual funds but would not on competing vehicles. The result would be both misleading to investors and unfair to industry participants who offer mutual funds. An unintended consequence of these Amendments may lead to product arbitrage, in that investors purchase other products instead of mutual funds.

ii) Competing Financial Products Treated Different/y

Mutual funds are not the only financial products that have complex compensation arrangements. Many other financial products have distribution costs built into their product structure. And these vehicles compete directly with mutual funds for the investment dollars of Canadian Investors.

Other competing vehicles have embedded fees or sophisticated payment arrangements to advisers that in sorne cases are arguably more complicated than mutual funds, and certainly subject to less disclosure even at this time. Segregated funds (an insurance product that is generally sold as an equivalent vehicle to mutual fund), is but one example of this. Segregated funds have commission arrangements that are virtually identical to mutual funds.

However, the disclosure provided to investors is not the same for ali competing products. A client who purchases a mutual fund receives detailed information not only on what that fund has returned, but also on many of the costs relating to that investment, including management expenses, trailers fees and similar charges (in the Simplified Prospectus, Fund Facts and Management Report on Fund Performance). The Amendments would go further and require actual disclosure of the dollar amount of compensation paid be provided as weil, However a client who, through the same adviser and dealer, invests in a GIC does not receive any disclosure of the spread earned by the financial institution on the GIC, which often provides for various forms of distribution compensation. This means that investors may reach the incorrect conclusion that mutual funds have costs associated with them where a GIC (or an insurance product) does not.

The inevitable result is that investors would be left with the impression that mutual funds are more costly than other insurance or banking products or that compensation is paid in the former case but not the latter when this is not in fact true. This may cause clients to believe they are being overcharged for mutual fund products relative to other vehicles, 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 disclosure is not required.

This is problem is aggravated by the fact that these competing products – GICs and segregated funds[1] – often all appear on the same account statements issued by securities dealers. This means that a client who holds mutual funds and one or more of these other investment vehicles will see compensation disclosure only regarding their mutual fund positions and not on the others. Consequently the impression that may be left is that only the one product – mutual funds - has these costs while the other does not. Disclosure such as this, which is misleading to investors, cannot be in their best interests.

In the response to the comments on the previous version of the Amendments to NI 31-103, the CSA stated that while it was not their intention to unduly single out mutual funds, that they can only make rules that are in their jurisdiction. Unfortunately this ignores the reality that investors may not appreciate the subtleties of the regulatory regime governing similar investment products, particularly when they appear on the same account statement, with detailed compensation disclosure for one but not for the other. Although the CSA can only make rules that are in their jurisdiction, the impact of such rules on the industry and the investing public as a whole must nevertheless be taken into consideration. Full, true and plain disclosure is the cornerstone principal of securities law in Canada. This proposed requirement in the Amendments does not meet that standard.

We urge the CSA to initiate discussions with other regulators in Canada to prompt them, on behalf of the investors they collectively represent to strive for homogeneous continuous disclosure standards. Such standards would level the disclosure playing field and allow investors to make investment decisions on the merits and suitability of the investment rather than having those decisions influenced by the relative volume of disclosures received from investment distributors across different industries.

3. Amendments Do Not Consider Implementation Challenges and Costs

The scope of the Amendments is extremely broad. They go far beyond the rules adopted by the MFDA and IIROC regarding cost, compensation and performance disclosure, which were developed and refined over the course of several years after

[1] Transactions in segregated funds that can be settled through FundServ and held in nominee name appear on that securities account statements for many MFDA and IIROC members.

extensive and comprehensive consultation with the industry and the public. However the CSA does not seem to appreciate the implementation challenges that the changes contemplated by the Amendments would involve, both in terms of expense and effort, beyond acknowledging "...that there will be a potentially significant cost to the industry...". The proposais would require massive systems development or changes, creation of new or modified data feeds and extensive changes to business processes. The following are *some*, but by no means ali, of the elements of this:

- current systems are not designed to provide traiter fee information at the account levet and would have to be completely rebuilt
- mutual fund managers and dealers will have to confirm and verify that information provided by a manufacturer for an account on the manufacturer's books and records has associated with it the correct account number at the dealer so that when the dealer aggregates ali of the information for an account on its books and records there is a complete matching. The complexity of this exercise grows for each additional series of each fund from each fund company held within a unique client account. This is extremely data intensive and fraught with error risk for both the manufacturer and the dealer.
- current systems of dealers are not designed to accept information at the account levet and would have to be completely rebuilt
- the manufacturers and the dealers would have to work extensively with FundServ to design and create an industry standard for the electronic communication of such data
- alternative solutions would have to be designed and created by those manufacturers who are not on FundServ

The Amendments contemplate client statements having three distinct sections: one for transactions, one for client name accounts and one for nominee accounts. We do not see the purpose or benefit of requiring this. We are also not aware of any dealer operating in a client name and nominee environment (not a carrying dealer relationship) who would have the same client account for both nominee and client name purposes. As such we question the basis for and the benefit for this requirement. We suggest that the Companion Policy clearly specify that for nominee accounts carried by a carrying dealer that it is the carrying dealer only who has to issue the account statement and annual performance reporting.

No attempt has been made in the publication of the Amendments to quantify what these costs *are,* even in the most general terms. Further, no assessment has been conducted to determine whether the benefits the CSA believes will result from the Amendments exceed those costs. Instead it comments that proposed requirements "...represent the addition of fundamental information that investors need in order to make informed investment decisions." This is an opinion, not analysis. Further, stating as the CSA does that these concerns have been addressed by extending the transition

period from two years to three, misses the point. In our view there is no evidence that the benefits of this initiative exceed its costs, regardless of the time period over which they are spread.

We urge the CSA to tully consider the industry costs and operational impacts relative to the benefits derived by investors from the Amendments.

4. Performance Reporting

We note that in the most recent publication of the Amendments the CSA has moved from its previous position that would permit either dollar weighted or time weighted methodologies to mandating the former. While we support the adoption of a dollar weighted performance reporting process, there are a number of different methods for making those calculations and we believe it is important to make it clear that any of those would be acceptable. For example, internai rate of return methodologies and a modified Deitz approach are bath recognized dollar weighted calculations and should be permitted under the rule.

S. Original Cost vs. Book Cost

We note that in the most recent publication of the Amendments the CSA is proposing a requirement to disclose the book cast of securities, which is defined as "...the total amount paid for a security, including any transaction charges related to its purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations." While we support the concept of a unified definition of cast to be presented on client statements, there are bath systems and logistical limitations that hinder a dealer's ability to accurately present book cast. The most significant of these issues is the fact that a dealer has no means of determining what a client's book cast is upon a client transferring their account from another dealer. The receiving dealer can only determine and report the original cast of the client's investment at the time of the transfer and is unable to determine the client's book cost as recorded by the previous dealer. As a result, we are of the view that dealers continue to be allowed to report the original cast of the investments at the time they are transferred to the dealer, unless the dealer has the means and capabilities of properly tacking the client's actual book cast.

Conclusion

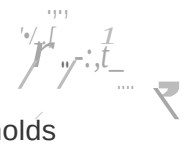
We believe that the Amendments at this stage are premature. The Fund Facts document is not yet being widely delivered in lieu of a simplified prospectus, and investors have not had sufficient experience to formulate any meaningful assessment of the Fund Facts' usefulness or the degree to which it satisfactorily addresses the CSA's objectives. The CSA should take steps to have the Fund Facts sent to clients with the trade confirmation so that investors begin to have experience with it. Once there is a real basis to determine how useful investment fund purchasers find Fund Facts, a more

meaningful assessment can be made as to what statement content changes are warranted.

We welcome having this opportunity to provide you with our comments on the Amendments and would be pleased to discuss with you in more detail any of the above suggestions, or anYd ther questions you may have about this submission.

Sincerely,

Investrlnent Plannfng Counsellnc.



Chreynolds
President and Chief Executive Officer