Investors Group

Murray J. Taylor
President and Chief Executive Officer

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

The Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, Ontario 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: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*- Cost Disclosure, Performance Reporting and Client Statements

We are writing in respect of the request for comments issued by the Canadian Securities Administrators (CSA) on the second publication of proposed amendments (Amendments) to National Instrument 31-103 *Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) regarding cost disclosure, performance reporting and client statements, which were published on June 14, 2012.

lnvestors Group lnc., is a diversified financial services company and one of Canada's largest managers and distributors of mutual funds, with assets under management of over $58.6 billion at August 31, 2012. We are greatly interested in these Amendments since its subsidiaries include an investment fund manager and portfolio advisers, as weil as members of the lnvestment lndustry Regulatory Organization of Canada (IIROC} and the Mutual Fund Dealers Association of Canada (MFDA) that will be significantly affected by this initiative.

A. General Comments

While we continue to support the overall goal of the Amendments- providing clearer and more meaningful information to investors on the cost and performance of their investments – we strongly believe that many elements of the proposai do not further this objective. ln reviewing the Amendments we note that most of the comments we made in our submission last September on the previous version of this initiative have been ignored in this version. Several of concerns we have with the Amendments go to their core, as follows:

1. Proposed Cost and Compensation Disclosure Treats Similar Capital Market Participants and Products Differentl y and Unfairly

One of the most significant elements of the proposed 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 NI 31-103 only applies to a portion of the investment industry, namely securities registrants. 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. ln particular:

(i) Dissimilar Treatment of Similar Products

Mutual funds are not the only financial products with 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 lnvestors.

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 fundL bonds and guaranteed investment certificates (GICs} are but three examples of this. GICs and

bonds have (undisclosed) spreads built into their pricing[1] while segregated funds have commission arrangements that are virtually identical to mutual funds.

However, the disclosure provided to investors is not the same for ali of these 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 ether 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 ether 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.

Even worse, investors may start aggregating the proposed trailer fees charges disclosed on the statement with the already published management expense ratios and give clients the erroneous impression that they are paying twice for amounts that have already being reported elsewhere (in Fund Facts or Management Reports on Fund Performance).

This problem is aggravated by the fact that these competing products- bonds, GICs and segregated funds[2] – often ali 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 ether investment vehicles will see compensation disclosure only regarding their mutual fund positions and not on the ethers. Consequently the impression that may be left is that only the one product- mutual funds- has these costs while the ether does not. Disclosure such as this, which is misleading to investors, cannet be in their best interests.

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[1] The CSA had proposed in earlier versions of the client relationship model that spreads on bond trades be disclosed as providing useful information to investors but concluded that doing so would be too complicated and costly and in the Amendments simply proposes that any commissions paid on a bond trade be itemized. But these comments do not even address GIC spreads whatsoever.

[2] 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.

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 Canadian. This proposed requirement in the Amendments does not meet that standard.

(ii) Dissimilar Treatment of Different Distribution Channels

If the Amendments contain a fatal flaw in the way they apply to only a subset of investment *products,* they are equally unfair in that they only apply to certain distribution *channels.* For example, the Amendments would require that the dollar amount of the trailer fees or compensation paid to an adviser at an independent MFDA or IIROC member be disclosed. **However, an individual with the same securities registration located in a branch of a financial institution, who are generally paid on the basis of a salary and bonus determined by a number of factors that would include incentives to sell mutual funds, no such disclosure would be required.** Given that the rationale for the disclosure of trailer fee payments on a dollar basis is that the CSA believe this information is relevant is to ensure that clients are aware of ali of the incentives advisers have to recommend products to them, requiring it in one case and not the other – which is what the Amendments would do – leads to an untenable regulatory result. The net effect is that clients will be misled in that the compensation that the adviser located within a financial institution is entitled to will be understated.

As noted, with the relatively recent adoption of the Fund Facts document as part of the Point of Sale initiative and the new Relationship Disclosure requirements, the compensation disclosure provided to clients for investment funds and securities dealers is already robust. Going further and mandating, as the proposed Amendments would do, the itemization of trailer fees, referral fees and other forms of compensation in dollar terms would be unfair to mutual fund manufacturers and securities dealers and misleading to investors, since it would only give an incomplete picture, lead to unwarranted conclusions about competing vehicles and potentially steer investors towards investment products that may be unsuitable.

2. 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 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 trailer fee information at the account level and would have to be completely rebuilt

- referral fee reporting at the account level will require significant systems development and data feeds

- an expanded client statement that includes both client name and nominee name positions will require extensive systems development[3]

No attempt has been made in the publication of the proposed 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. lnstead 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.

3. 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 and concur that this is the most appropriate method for client rates of return, 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 both recognized dollar weighted calculations and should be permitted under the rule.

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[3] In this regard, consolidation of nominee name and client name should not be required if the positions are held in separate accounts. The Amendments are currently unclear as to whether this is the CSA's intention and this should be clarified.

B. The Setter Approach to Performance Reporting and Cost and Compensation Disclosure

Our view is that some of the key objectives underlying this initiative can – and should – be addressed in an effective and cost efficient way, based on the following:

- the approach should be incrementai. Certain items, such as providing clear disclosure to clients as to whether their accounts have made money, which was a key element of the now suspended MFDA rule changes, could be introduced fairly quickly. In our view, this is the most important information investors would like to have but do not receive. Other elements could follow, even if more time was required to assess what is both meaningful and possible based on a true cost benefit analysis. A staged approach of this kind proved effective in the case of the Point of Sale initiative and is equally weil suited to this situation.

- different distribution channels and investment products must be treated fairly and consistently. Rules that result in selective disclosure on costs and compensation can only mislead clients.

- while dollar weighted performance reporting is appropriate, flexibility should be provided to firms to choose an appropriate methodology, including suitable approximation techniques.

We appreciate having this opportunity to share our views regarding the proposed Amendments and would be pleased to discuss any of these concerns with you at your convenience. If you would like to do *so,* please either contact myself or David Cheop at (204}956-8444 or david.cheop@investorsgroup.com.

Yours truly,

INVESTORS GROUP INC.

Murray J. Taylor
President and Chief Executive Officer