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September 14<sup>th</sup>, 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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**Re: Proposed Amendments to National Instrument 31-103: Cost Disclosure and Performance Reporting**

We are writing to provide comments with respect to the 2012 proposed amendments to *National Instrument 31-103 Registration Requirements and Exemptions: Cost Disclosure and Performance Reporting* (the "Proposals").

Quadrus Investment Services Ltd. ("Quadrus") is one of the largest mutual fund dealers in Canada with more than 3400 registered investment representatives. It is the exclusive mutual fund dealer for London Life Insurance Company and preferred mutual fund dealer for the Gold Key investment representatives of The Great-West Life Assurance Company.

The 2012 Proposal is aimed at the disclosure of compensation and the reporting of investments. The premise for this direction came from research conducted by the CSA which shows that 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? If this research is accurate, then the Proposal should deal directly with providing investors with an answer to these questions. It is the opinion of Quadrus that the current Proposal fails in answering the first question, but does satisfactorily address the second question.

In trying to answer the question of – (1) What did you pay? Quadrus agrees with the Proposal's own wording that the disclosure should be "complete, upfront and understandable to the average investor." However, where we feel the Proposal has gone wrong is in the belief that it is solely the area of compensation that requires disclosure which is "complete, upfront and understandable to the average investor." This response seems to be a response to a different question – "what was your dealer paid" – rather than "what did you pay". In our view, if the investor is unable to understand what they paid, then any disclosure in this area should detail what the investor actually paid in total, not just one portion of what they paid for. We believe that this information is already readily available to clients through the management expense ratio (MER).

Suggesting that "what you paid" is somehow limited to the amount paid to the dealer is, at best, misleading and incomplete. The Proposal could be vastly improved by taking the proposed approach to disclosure of trailing commissions and simply applying this to the total cost of the investment. This better answers the question of – (1) What did you pay? Such a solution would attain the ultimate CSA goal of "providing real transparency." Focusing on only one expense is likely to mislead clients as to the cost of their investment.

The Proposal creates an environment where the client has a better understanding of a portion of their costs than of their total costs. We do not believe that this is in the best interests of Canadians as the information is incomplete and will be commonly misunderstood as to what level of the total costs the disclosed amounts make up.

Our recommendation that any cost disclosure reflect total costs is not without significant expense for registered firms and investment fund managers, however, given a sufficient notice period, firms could develop processes which would be compliant with a modified Proposal built around the principles of total cost disclosure.

We are also very concerned at the possible unintended consequences of the Proposal. Firms which are vertically integrated, with control of both manufacturing and distribution, have the opportunity to restructure their models to reduce and/or potentially eliminate the compensation paid to the dealer. This approach could apply in situations where the sales force of the dealer are paid by salary, for example. The fund manufacturer could structure things to retain a higher, or total, portion of the MER and pass nothing in the way of compensation to the dealer. Dividend, capital contributions and other approaches could be used to fund the dealer to ensure that employees are paid, but no compensation need be flowed to the dealer on proprietary sales in this model. In the eyes of the Canadian consumer it would seem as if the internally manufactured products were cheaper compared to other products since no compensation would be shown for these products on the Annual Charges and Compensation Report. Non-vertically integrated firms without employee sales forces would appear to be "more expensive" to the consumer, and investment decisions may be made based on misleading information. Clearly this would be counter to the objectives of the CSA. Actually creating a disclosure regime that shows "what you paid" *for the investment* as opposed to "what the dealer was paid" would alleviate this potential for

inadvertently misleading results.

Quadrus supports the establishment of a common baseline with respect to reporting on charges and other compensation and performance across all registration categories. We would like to express our appreciation to the CSA and both SROs for their willingness to delay these requirements in an attempt to implement on a consistent basis.

The proposed amendments introduce the concept of the “book cost” of a security, and mandate its use on the client statement. It would be beneficial to provide a sample of how this would be shown and explained to a client by way of an Appendix to the Companion Policy similar to what was provided for the Investment Performance Report and Charges and Compensation Report. The “book cost” of a security is a complex item to calculate for member firms and it is even more difficult to explain in an understandable way to clients. In addition, there will be confusion on non-registered accounts in situations where this “book cost” figure is different from the “tax cost” of the security. Our recommendation is to move slowly in this area. The Proposal’s optional approach to use of benchmark information would be a logical next step for the CSA to employ with the concept of “book cost” within client statements. This would provide member firms an opportunity to attempt an introduction of “book cost” in a way and at a time that will be beneficial to both clients and the industry.

Quadrus is in favour of the dollar-weighted method in calculating the return on a client’s account or portfolio. We agree that an internal rate of return methodology most accurately reflects the actual return of the client’s account or portfolio. However, we are not certain that mandating the dollar-weighted method is the best course of action for the Proposal. Time-weighted methods are not without their benefits. Some investors may be interested in highlighting the portion of an account’s return that is a result of the registrant’s recommendations. Our recommendation would be to mandate two approved methods of calculation; one dollar-weighted and one time-weighted. Each firm would then be required to select one or both methods for display with their clients.

In summary, we think that:

- the Proposal could be improved by including all costs of making the investment (essentially the MER), not just trailing commissions to answer the question- (1) What did you pay?
- the Proposal appears to sufficiently address the question of - (2) How did your investments perform? - but we strongly recommend a cautious and more flexible approach be given serious consideration.

We thank the CSA for the opportunity to comment on this important initiative.

Yours truly,

**Quadrus Investment Services Ltd.**

A handwritten signature in dark ink, reading "Michael Stanley". The signature is written in a cursive, flowing style.

By: Michael Stanley  
President and Chief Executive Officer