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ScotiaMcLeod

Via e-mail: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

September 14, 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
19th Floor, Box 55
Toronto, ON M5H 3S8

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

Dear Sirs/Mesdames:

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*- Cost Disclosure, Performance Reporting and Client Statements (collectively, the "Proposais")

Scotia Capital Inc.* ("Scotia Capital", "we" or "our") appreciates the opportunity to provide comments in response to the Notice and Request for Comment dated June 14, 2012, published by the Canadian Securities Administrators (the "CSA").

Categories and Jurisdictions of Registration and Memberships: Investrnent Dealer in ali provinces and territories of Canada; Futures Commission Merchant in each of Ontario and Manitoba; Derivatives Dealer in Quebec; Dealer Member of lnvestrnent Industry Regulatory Organization of Canada; Participating Organization of the Toronto Stock Exchange; Member of the TSX Venture Exchange; Approved Participant of the Montreal Exchange (Canadian Derivatives Exchange); Member of the Canadian National Stock Exchange; and, Clearing Participant and Registered Futures Commission Merchant of ICE Futures Canada.

We continue to support the CSA's goal ofproviding to investors enhanced cost disclosure and performance reporting. We agree that investors should be provided with the information necessary to clearly understand the costs and performance oftheir investments. We are also pleased that severa!of our comments were reflected in this latest round of proposed amendments, particularly in regard to the *permitted client exemption* and the CSA's stated expectation that the requirements for members of the Investment lndustry Regulatory Organization of Canada ("IIROC") and the Mutual Fund Dealers Association of Canada would be materiaUy harmonized with the Proposais.

However, we continue to have serious concems in that certain aspects of the Proposais offer little or no value to investors and instead create unnecessary and significant cost and regulatory burdens for registrants. We are also concemed that certain of the Proposais will serve only to confuse investors.

As a long-standing participant in Canada's capital markets, we have considerable experience in the wealth management business and have participated for many years in the rule-making process in regard to matters such as the Client Relationship Model, among many others. In regard to the Proposais, we have participated in the industry working group formed by the Investment Industry Association of Canada ("liAC") and as such we are in agreement with the comments submitted by that organization in regard to the Proposais. Like most registrants, Scotia Capital Inc. will be heavily impacted by the Proposais. Our comment letter is intended to further emphasize those aspects of the Proposais that are of most concem to us. We begin with our response to the CSA's Issues for Comment followed by sorne additional comments and recommendations.

CSA Issue for Comment: Disclosure of Fixed-lncome Commission

In the interest of makingfixed-income transactions more transparent, we invite comments on whether it *is feasible and appropriate to mandate the disclosure of al/ 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 weil as profits earned by dealers on the desk spread and through any other means.*

We agree that enhanced transparency in regard to fixed-income transactions is a desirable goal. However, we believe that insofar as Investment Dealers are concemed, IIROC Dealer Member Rules 3300–*Fair Pricing of Over-the-Counter Securities* and 200.1(h)–*Minimum Records* adequate!y address the goal of greater disclosure. These rules were specifically designed to enhance the faimess of pricing and transparency of the over-the-counter market.

In the Request for Comments section of the Proposais, the CSA noted that "[...] we [...] heard from those in the mutual fund industry that the proposais related to reporting on embedded compensation were disproportionately related to their products." While that may be the case, we respectfully submit that imposing a similar burden in relation to fixed-income securities is not a solution the CSA should contemplate. Little if any meaningful information would be provided to investors by mandating the disclosure of all compensation, income or profit eamed in regard to fixed-income transactions. That said, we appreciate and do not object to the rationale behind asking firms to disclose total commissions paid by clients in fixed-income transactions, as this is a fee that is borne directly by the client and impacts the yield and, ultimately, the performance of the investment. Accordingly, we adopt and support IIAC's view that the appropriate disclosure be limited to the gross commission paid by the client to the dealer.

As part of the fair pricing rules noted above, IIROC had considered requiring disclosure similar to those in the Proposais, but after industry consultations decided to settle on the following general disclosure statement: "the investment dealer's remuneration on this transaction has been added to the priee in the case of a purchase or deducted from the priee in the case of a sale."

Given the thousands offixed-income securities in the marketplace (10,000+ in Scotia Capital's inventory), many ofwhich trade only infrequently, the costs associated with tracking *any and al!* income eamed, of whatever nature, far outweigh any benefit investors would receive. In fact, an unintended consequence of mandating a costly disclosure regime could be that registrants offer to retail clients only a limited number of fixed-income securities, thereby greatly reducing consumer choice. We agree with the CSA that in regard to commissions charged, such figures are readily available to most dealers and we suggest that systems changes would require approximately two years to effectively implement. Compensation information beyond gross commissions, however, is *not* readily available.

CSA Issue for Comment: Expanded Client Statement

We understand that al! securities transactions are carried out through an account, even when the securities are not held in that account. We have drafled the Rule on this understanding and invite comments on the practicality of this or other approaches to including the securities listed in section 14.14(5.1) in client statements and performance reports.

We believe that it is neither feasible nor advisable to include on client statements securities not actually held by the relevant registrant. As stated in the Proposais, the requirement to include such securities on client statements would be triggered in three scenarios: (1) where the registrant has trading authority; (2) receives continuing payments related to the security; or, (3) when the security is a mutual fund or labour sponsored fund. In Appendix A of the Proposais, the CSA acknowledges that it "is not always possible for a registrant to determine reliably whether a client still owns a security that was issued in client name" and further states that this is often the case in the exempt market. While this observation is certainly true for exempt market securities, we note that it is also true as a general matter for all securities transacted in "client name", regardless of any trading authority or continuing payment related to the security or account.

Simply put, securities over which a dealer does not have custody or control cannot be reliably tracked or monitored, and any attempt to mandate inclusion on client statements of such positions could result in significant reconciliation issues that will inevitably lead to inaccurate record keeping. And, in our view, systems changes in regard to this issue would far outweigh any benefit received by clients. As the CSA is aware, in the case of mutual funds registered in client name, the client already receives an account statement from the relevant mutual fund company. Duplicative reporting and a multiplicity of documents does not equate to better disclosure and a more informed investor. In addition, including "client name" securities on a client account statement would invariably lead to clients misapprehending the nature of any coverage that may or may not be available through the auspices of the Canadian Investor Protection Fund ("CIPF"). As such, we feel that any requirement to include "client name" securities on client statements is not only unduly burdensome and costly, but also potentially misleading to investors.

CSA Issue for Comment: Percentage Return Calculation Method

We invite for comments on the benefits and constraints of the proposa! to mandate the use of the dollar-weighted method, in particu/ar as they relate to providing meaningful information to investors.

We are not prohibiting the use of the time-weighted method, but if a registeredfirm uses such a method, it must be in addition to the dollar-weighted calculation.

Promoting consistency among registrants is often a desirable goal. Flexibility is another. In this case, a flexible approach towards performance reporting better serves the varied needs of investors. Every client is different and the CSA should not assume a one-size-fits-all approach towards client reporting.

We feel that the CSA's key focus should at most be limited to requiring that registrants provide meaningful disclosure to their respective clients as to the percentage return calculation methodology adopted. Mandating the use of one method but allowing other methods in addition to the mandated method is another unnecessary cost to registrants and would likely be a point of confusion for clients.

In the alternative, if the CSA decides to mandate the use of one particular percentage return calculation method, then we suggest that a time-weighted method would be most appropriate. It is a commonly used rate of return methodology and we believe it would allow most investors to more easily compare their investment performance against benchmarks, etc., domestically and intemationally.

Additional Comments and Recommendations

Disclosure of Trailing Commissions

Scotia Capital continues to have concems with the requirement that registered dealers disclose the dollar amount oftrailing commissions. We feel that the disclosure oftrailing commissions as a percentage of fund assets is sufficient and easily understood by investors. The CSA acknowledges that investment fund managers do not provide the dollar amounts of commissions to dealers at an account level of detail. As such, the CSA proposes mandating that investment fund managers provide dealers with the necessary information to make this disclosure.

Compliance with the requirement to disclose the dollar amount of trailing commissions will be a significant and industry-wide undertaking. On the fund side, a costly and complex technological overhaul is needed before investment fund managers could provide dealers with this information, and on the receiving side, firms will need to design in-house systems needed to receive, process and disclose this information to investors. Accordingly, we are concemed that even with the increased transition period from the 2011 proposais from two to three years, we will continue to experience delays and reconciliation issues.

Market Valuation Methodology

In regard to the calculation of the value of long and short securities described in 14.11.1(1)(a)(i), we are concemed that using the last bid priee in the case of a long security and the last ask priee in the case of a short security would be misleading to clients. It is entirely possible that the deviation between bid and ask priee would be significant enough that it would not reflect the appropriate market value of the security. We suggest using the simpler and more reliable current last trade calculation.

Implementation Timelines

Implementing the Proposais would require significant and costly systems and information technology developments and/or overhauls. Moreover, these Proposais must be viewed in the context of an increasingly demanding regulatory landscape. Industry wide, registrants are currently undergoing

numerous operational and technology changes across business lines in response to a myriad of regulatory developments. In order to ensure that clients receive meaningful information on cost disclosure and performance reporting, we recommend that the CSA accept the phased implementation timeline described in IIAC's comment letter.

We thank you for considering our comments. As noted above, we support the principles behind the Proposais, but also strongly believe that it is necessary to balance the desire to enhance performance reporting and cost disclosure with the attendant costs and operational impacts of irnplementing such amendments. We encourage the CSA to engage in further industry consultations and we ask that the CSA consider conducting a detailed cost/benefit analysis of the Proposais.

Yours truly,

Barbara Mason
Executive Vice-President, Wealth Management Distribution
Scotia Capital Inc.