

Sun Life Financial

Sun Life Financial Investment
Services (Canada) Inc.
227 King Street South
PO Box 1601, STN Waterloo
Waterloo, Ontario N2J 4C5

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^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Re: Proposed Amendments to National Instrument 31-103: Cost Disclosure and Performance Reporting

Sun Life Financial Investment Services (Canada) Inc. ("SLF Investments") is a subsidiary of Sun Life Assurance Company of Canada and is registered as a mutual fund dealer in all provinces and territories of Canada. SLF Investments is a member of the Sun Life Financial group of companies.

SLF Investments has over 2,898 licenced representatives registered to sell mutual funds in over 90 financial centres across Canada. SLF Investments currently has approximately \$10 billion in assets under administration as of August 31, 2012.

SLF Investments is dedicated and committed to its customers and considers the best interests of its clients in every action and business initiative. At SLF Investments, we are committed to helping customers achieve a lifetime of financial security and strive to ensure that clients fully understand the risks and benefits associated with mutual fund products.

The issues presented in the second publication of proposed amendments to *National Instrument 31-103 Registration Requirements and Exemptions: Cost Disclosure and Performance Reporting* (the "Proposai") published on June 14, 2012 are of interest to SLF Investments. We appreciate the Canadian Securities Administrators' (the "CSA") willingness to work with industry participants on this issue and we would like to take this opportunity to provide comments on the Proposai.

We note that SLF Investments is a member of and has various representatives on committees with the Investment Funds Institute of Canada ("IFIC") as well as the Regulatory Committee of the *Conseil des fonds d'investissement du Québec* (CFIQ). We would like to highlight that we support the comments and recommendations in IFIC's submission letter dated August 29, 2012. We reiterate and add to IFIC's comments below.

(A) Proposed Additional Requirements for Trailing Commission Disclosure

We agree that it is important to be transparent with investors on the issue of the costs of investing in mutual funds and we commend the CSA on its work and research in this area. As an example, the introduction of the Fund Facts document helps SLF Investments advisors provide clients with a clear and concise document explaining certain aspects of mutual funds to clients, including the costs of investing.

(i) Existing Trailing Commission Disclosure

One of the various costs of investing in mutual funds is trailing commission. We believe that the continued assistance and advice of registered dealers and their advisors is valuable and we agree that it is important for a client to understand when and how dealers are paid for providing this advice and service.

We would like to reiterate that the requirement to disclose trailing commission is already covered by National Instrument (NI) 81-101 which ensures that costs of investing in mutual funds are fully disclosed to investors.

In the Proposai, the CSA states that a one-time disclosure of trailing commissions is not sufficient to satisfy the requirement to provide complete, upfront and understandable disclosure to the average investor. We would like to note, however, that the Fund Facts document, which is a clear and easy-to-read document for investors, has only recently been introduced and is currently under review with the proposed changes to NI 81-101.

We submit that once all changes to the Fund Facts have been implemented and distribution of the Fund Facts is widely used, it may reduce or eliminate the CSA's concern that investors do not realize that they are being charged for trailing commissions on an ongoing basis. We believe that if the CSA were to wait until the expected positive effects of widespread distribution of the Fund Facts have materialized, it may be determined that added disclosure is unnecessary.

(ii) Highlighting trailing commission as a cost and the potential for client confusion

We submit that if trailing commissions are presented in the prospectuses, Fund Fact documents, and account statements in different manners, it may cause client confusion. By highlighting trailing commissions in account statements, it separates this cost from other costs involved in the management expense ratio (MER) and places an inordinate amount of attention on only one of the costs of investing with mutual funds. Clients may not understand that this trailing commission has been taken out of and forms part of the MER. For clients who are aware of the MER, they may begin to believe that their account is being charged twice or that they are being charged directly for the trailing commission.

We note that in the Proposai, the CSA acknowledged that the industry has expressed a concern that requiring a dollar amount disclosure of trailing commissions would be confusing to clients. We would like to reiterate this concern for the CSA and suggest that the solution of the proposed language used for the annual client disclosure notification does not make it clear enough for an average investor that the trailing commission forms part of the MER and is not a direct charge to the client.

(iii) Increased costs

We also note that the introduction of this added disclosure on account statements, along with the other proposed changes noted in this letter, will cause significant increased operational costs. These costs will likely be absorbed by clients. The Proposal notes that the CSA acknowledges the potential costs to the industry, but believes that informing the investing public is worth the cost. As suggested by IFIC, we would appreciate an outline of any cost-benefit analysis conducted by the CSA on this issue.

As stated, we are supportive of the CSA's initiatives to encourage transparency in the industry. We hope that any proposed changes will address the concerns of all parties involved.

(B) Specific Issues for Comment In Proposal

We would also like to comment on two of the three specific issues for comment presented in the Proposal.

1. The proposed section 14.14(6.1) introduces requisites for client statements. Is the CSA's suggested approach a practical approach or are there other approaches to including the securities listed in the proposed section 14.14(6.1) in client statements and performance reports?

The CSA has suggested that client statements be divided into three principal and distinct sections: (a) transactions carried out during the reporting period; (b) reporting on securities held in nominee name; and (c) reporting on securities held in client name.

We commend the CSA for attempting to address investor and industry concerns that some client statements may not capture or present information for a client in a clear and understandable way.

For SLF Investments, the content and clarity of an account statement is an essential part of our relationship with our clients. SLF Investments has invested significant time and resources into improving and fine-tuning client account statements. Our account statements have been recognized by research firms as industry leading statements.

We ask that the CSA provide mutual fund dealers with the flexibility to organize and arrange statements in a way that provides all necessary information to a client. This would allow dealers to take input from its own clients and format and arrange account statements in a way that makes most sense to its clients. We suggest that prescribing the organization of account statements will lessen the ability of a dealer to creatively and effectively present information to a client.

In respect of the specific proposed changes suggested by the CSA, we admit we do not see high value in providing transaction information that is separated from their related accounts. For many registrants, this requirement may also add additional costs for statement reprogramming without any apparent investor benefit and may lead to client confusion.

It is our belief that it would be best to provide dealers with the flexibility to arrange information on account statements in a way that the dealer believes best suits its clients' interests.

2. What are the benefits and constraints of the proposal to mandate the use of dollar-weighted methodology, in particular as it relates to providing meaningful information to clients?

In mandating the use of certain methodology in calculating the percentage return on a client's account, we ask that the CSA provide flexibility to registrants to determine the calculation methodology used for performance reporting. Requiring disclosure and explanations to clients can assist clients in understanding the method used and the information provided.

We note that we can understand why the CSA believes that the dollar-weighted methodology is preferable

given that it may identify the actual return on a client's investments, taking into account any internal or external cash flows. We submit, however, that the use of the dollar-weighted methodology in performance reporting may provide clients with inadequate information to make investment decisions. Time-weighted calculations provide clients with information as to how the specific fund managers have performed during a specific time period.

We also note that neither entities in the Sun Life Financial group of companies do not use the dollar-weighted calculation methodology. The time-weighted and "modified dietz" methodologies are more commonly used at Sun Life Financial. Sun Life Financial clients are used to seeing and receiving information based on these reporting methods.

We also note that SLF Investments would have to invest considerable resources to enable a dollar-weighted performance reporting methodology to be established. To prescribe such a methodology would be a significant change to our operations system. Given the complexity of calculations used for the dollar-weighted method on an account-by-account basis, prescribing such a methodology may also delay our ability to deliver timely account statements to clients.

(C) Miscellaneous Comments

1. Referral Fee Disclosure on Annual Account Statements

We note that it will be difficult to report on all amounts contemplated by the proposed paragraph 14.15(1)(g), particularly in reference to the required disclosure of referral fees paid as noted in the proposed changes to the Companion Policy of NI 31-103.

Referral fees may be calculated on a percentage of a client's assets held in an account of the firm which received the referral. Depending on the referral agreement in place, payment of these referral fees is not often broken down on a client-by-client or account-by-account basis in reports delivered to a referring institution. There are also privacy concerns given that some referral arrangements require the consent of a client before any information of a client (including the assets held in the account with the institution which received the referral) can be disclosed to the institution which made the referral. If the referral fees are calculated on a percentage of the assets held in the account of the firm which received the referral, the requirement to disclose the specific referral fee paid in relation to that client causes issues relating to privacy of client information.

We also note that written disclosure of the method of calculating the referral fee and, to the extent possible, the amount of the fee, is already required under section 13.10 of NI 31-103 and MFDA rule 2.4.2. As this disclosure is already provided and given the potential privacy issues and operational difficulties which may arise from this requirement, we ask that referral fees be explicitly excluded from the proposed paragraph 14.15(1)(g).

We appreciate the opportunity to comment on the Proposal. If focus groups or roundtables are organized by the CSA to discuss this issue in more detail, we would be interested in having SLF Investments representatives participate.

Yours truly,



Afsar Shah, President
Sun Life Financial Investment Services (Canada) Inc.