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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:

Me Anne-Marie Beaudoin
Corporate Secretary
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John Stevenson
Secretary
Ontario Securities Commission
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Subject: CSA Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees*

Canadian Imperial Bank of Commerce ("CIBC" or "we") welcomes the opportunity to comment on the Canadian Securities Administrators' ("CSA") Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees* (the "Paper") which examines the mutual fund fee structure in Canada. CIBC directly, and through a subsidiary, manages several families of mutual funds. In addition, several CIBC subsidiaries provide dealer services to clients through which mutual funds are sold.

As the CSA notes in the Paper, mutual funds are a cornerstone investment for many Canadians. Mutual funds are the most commonly held investment product in Canada and make up the largest share of investable assets for the typical Canadian household.

Mutual funds give Canadians a simple and cost-effective way to access professional investment management services.

We support the CSA's desire to increase investors' awareness and understanding of the costs of owning mutual funds. However, we believe that the CSA should proceed with caution in making any broad regulatory changes that could have negative unintended consequences on this important investment vehicle for Canadians.

We write this letter to raise three specific points with the CSA. First, we encourage the CSA to carefully monitor and assess the impacts of current regulatory developments in Canada and elsewhere before taking any additional regulatory action. Second, we ask the CSA to not impose regulatory restrictions that limit the ability of the mutual fund industry to continue to meet the changing preferences of investors. Finally, we would like to correct the misconception in the Paper that execution-only brokerages should be entitled only to a smaller trailing commission than full-service brokerages because they do not provide advisory services.

In addition, CIBC has participated in a working group established by the Investment Fund Industry of Canada ("IFIC") to study the Paper, and we share the concerns raised in the IFIC response letter.

Discussion

Carefully monitor the impacts of domestic and foreign regulatory developments

The CSA has currently proposed two sets of regulatory initiatives, new rules for point of sale disclosure ("POS") and the client relationship model ("CRM"), that will have an impact on the disclosure of mutual fund fee information, including information related to trailing commissions. These changes, subject to the feedback provided by the industry, should increase investor awareness of the costs of investing in mutual funds and address many of the CSA's concerns discussed in the Paper.

In the Paper the CSA says it will continue to closely monitor and assess the effects of these related Canadian regulatory reforms. We support the CSA's position on the need to monitor and assess the impact of these initiatives. We encourage the CSA to ensure that, before it proceeds with any further regulatory actions, it gives adequate time to allow for a meaningful assessment of the impact of these changes.

In addition, some of the proposed regulatory responses outlined in the Paper are being implemented in the UK and Australia or proposed in the US. Again, we encourage the CSA to allow sufficient time to make a fully informed assessment of the impact of these international reforms before considering any similar regulatory changes in Canada. For example, reforms in the UK and Australia that have banned the payment of trailing commissions may have a significant impact on investor access to financial advice. Early indications are that many investors with lower levels of investable assets are being priced out of the market for advice in the UK following these changes. We believe that all investors can benefit from professional financial advisory services and do not believe that regulators should take actions that could limit cost-effective access to advice for Canadians. We believe that proceeding without fully understanding the impact of these changes could cause regulators to place unnecessary and inappropriate restrictions on mutual fund fees that could have unintended consequences for investors.

Avoid prescribing business models and fee structures

In the Paper, the CSA describes the evolution of mutual fund distribution costs to Canadian investors over the past 30 years. During this time period there have been several significant changes. In the early 1980s, funds were distributed primarily with a front-end load of up to 9%. In response to investors' preference for having all of their

initial investment put immediately to work, the industry developed the deferred sales charge in the late 1980s and then the low-load deferred sales charge and the no-load sales charge by the early 2000s. In response to a growing market-driven interest in fee-only advisory services, many manufacturers now offer F-class funds with the trailing commission removed.

This history suggests that manufacturers and distributors of mutual funds proactively change their business models and fee structures to meet the changing preferences of investors. A number of the potential regulatory responses laid out in the Paper would, if implemented, have the effect of prescribing business models and fee structures that must be applied to all investors.

Prescribing the terms of the commercial arrangements between investors, dealers and manufacturers may limit the ability of the industry to adapt to the changing preferences of investors and limit the ability of investors to decide what business model and what fee structure best suits their own individual needs. We do not believe that the CSA should implement any proposals that would limit investor choice.

Execution-only brokerages

In the Paper, the CSA notes that execution-only brokerages receive the same trailing commission that full-service brokerages receive. The CSA suggests that execution-only brokerages should receive no or only a very low trailing commission because they do not provide advisory services.

As IFIC notes in its response to the Paper, trailing commissions are paid by the manufacturer to the dealer for all of the services the dealer provides to their clients. The dealer in turn uses the trailing commission to pay the expenses associated with the services it provides to clients which, for full-service brokers, will include advisory services.

Execution-only brokerages provide many of the same services as full-service brokerages, such as tax reporting, custody services, monitoring margin requirements, clearing and settlement services and meeting regulatory compliance requirements. These dealers also provide services specific to their business model, such as providing call centres that are staffed with registered investment professionals to answer questions or execute mutual fund transactions over the telephone, conducting due diligence on more funds in order to provide a wider variety of mutual fund options to investors than is often available through full-service brokerages and developing on-line research and investment management tools required by do-it-yourself investors. These services are designed to attract and retain clients in the highly competitive execution-only brokerage environment and are paid for, in part, by trailing commissions.

We agree that investors who purchase mutual funds through execution-only brokerages should be provided with information about trailing commissions so they are able to make informed investment decisions and consider the value of the services they receive. There is no need for the CSA to take the additional step of prescribing the trailing commission an execution-only brokerage is entitled to receive for providing services to investors. If the CSA were to cap the trailing commissions that could be paid to execution-only brokerages, this could restrict these brokerages' ability to continue to provide the same level service to mutual fund investors.

Conclusion

CIBC supports the CSA's efforts to increase investors' awareness and understanding of the costs of owning mutual funds so that they can make informed investment decisions. However, many of the potential regulatory actions outlined in the Paper could have significant unintended negative consequences for investors. CIBC encourages the CSA

to carefully monitor and assess the impact of current regulatory initiatives in Canada and internationally before taking steps to propose further changes in Canada.

Yours truly,

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