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VIA ELECTRONIC MAIL

October 19<sup>th</sup>, 2018

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  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territories  
Registrar of Securities, Nunavut

Attention:

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22nd Floor, Box 55  
Toronto, Ontario M5H 3S8  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, Square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montreal (Québec) H4Z 1G3  
[Consultation-en-cours@lautorite.qc.ca](mailto:Consultation-en-cours@lautorite.qc.ca)

Dear Sirs and Mesdames:

**RE: Client Focused Reforms – Proposed Amendments to National Instrument 31-103 and Companion Policy 31-103 CP**

Our firm, Tradex Management Inc., would like to thank you for the opportunity to comment on the CSA/ACVM Notice and Request for Comments on the Proposed Amendments to National Instrument 31-103 Registration Regulation Exemptions and ongoing Obligations (“31-103”) and

to Companion Policy 31-103CP Registration Requirements, Exemptions and Ongoing Registrant Obligations (“31-103CP”) dated June 21, 2018. Our firm is writing to provide comment that we support and agree with the comment letter (copy enclosed) submitted to you by the Association of Canadian Compliance Professionals on October 17, 2018 and the Federation of Mutual Fund Dealers submission to you with respect to the above captioned Proposed Amendments.

In addition to the aforementioned comment letters provided by the Association of Canadian Compliance Professionals and the Federation of Mutual Fund Dealers we also wish to provide the following comments.

Tradex is one of the oldest mutual fund companies in Canada and is also a Member of the MFDA. Established in 1960 to provide financial services for public servants and their families at a low cost. Today, we are a MFDA dealer, mutual fund manufacturer, life insurance agency and GIC agent. Tradex is beneficially owned by the investors in the three Tradex Funds. The surplus earnings available annually are rebated as management fee reductions. As a result, Tradex Equity Fund limited had a MER for 2017 of 1.02% versus its Canadian focused category average of 2.11% (The Globe and Mail) and Tradex Bond Fund MER of 0.92% versus the fixed income average 1.4%. These expenses include an embedded compensation of 0.30% towards distribution cost of other dealers. Our advisors are salaried and do not have sales targets and as such have no conflict in recommending customized individual diversified portfolios of funds from numerous other Canadian fund families along with our own as appropriate for our clients (owners). Tradex is governed by a ten member board with nine independent directors. In short, Tradex is the epitome of client focus, which is held out as your objective.

We fully support your stated goals of better aligning the interest of registrants with the interests of their clients, improving outcomes for clients, and making clearer to clients the nature and the terms of their relationship with registrants.

The amendments as proposed will have a significant negative impact on our investors perhaps more so than other larger firms with less client focus. As indicated above with our operating model we believe we already achieve these goals at a lower cost for our members. We recognize that the industry is not ready to adopt our not-for-profit solution. We believe we have found a way to provide value added low cost financial advice in what today is a complex field for investors who do not have the financial literacy nor the time or interest to prudently act on their own. As we rebate the surplus after expenses annually to reduce management fees, all of the costly additional requirements proposed will directly increase the cost to our investors with no foreseeable benefits.

In addition, we would highlight our concerns on the significant cost to most Canadian investors which would accrue due to these proposals.

### **13.2.1 Know your Product**

Our key concern is that our mutual funds will no longer be available through other dealers as a result of the know your product guidelines. For example, a big 5 bank’s brokerage unit has advised us that it did not have sufficient resources to meet current KYP requirements for a small manufacturer with insufficient Mutual Fund assets such as ourselves. We have also learned that a large national dealer has announced plans to reduce its product shelf by 70% of its fund families currently available through their advisors because of today’s KYP. We are currently the 5th

smallest fund family as reported by IFIC. We do not believe your intent is to reduce access to lower cost mutual funds, yet this will be the result.

### **3.4.1 Firm's Obligation to Provide Training**

The bulk of section 3.4.1 (a) training outlined would appear to indicate registrant firms are being asked to create duplicate training programs to those currently required for individual registration. Furthermore, the proposed registered firm training does not appear to recognize the existence of small firms such as the extreme of a single advisor MFDA dealer.

### **13.4 Conflicts of Interest**

We believe that the focus on embedded compensation as a conflict has resulted in a significant shift whereby embedded compensation of 1.00% was replaced with unembedded compensation above 1.00% to offset enhanced regulatory compliance cost for the same investment especially for the 80% of Canadian Households (83% of MFDA advised households) with under \$100,000 financial wealth. The client's interest obviously has been damaged by the regulatory emphasis against embedded compensation.

### **Lower Costs = Better Investments Outcomes**

We disagree with your implication that lower costs will always result in better after-tax investment outcomes. Legislation should include reference to all applicable costs. For example, mutual fund investors generally benefit from security lending revenue vs ETFs, ETFs may have reduced alpha opportunities compared to similar mutual funds due to restrictions based on the former's structure. Significant cost differences may also be associated with after-tax returns, e.g. a corporate class fund vs ETF.

The over emphasis on lower costs seems to suggest that financial advice does not add value to the average investor. However, the Cirano report indicates that over four years the impact of not having an advisor's assistance was substantial with "households who kept their advisor have seen their assets values increase by 26% while the other type of households has suffered a loss of 34.2%". This cost obviously dwarfed the nominal relative impact of MER differentials between investment funds. Costs as recognized in your proposals may include retaining excessive cash portions for longer periods. Our advisors currently ensure they consider all costs associated with investment options not just simple MER comparison between index ETF and an active managed stock picker equity fund.

### **Unintended Consequences**

The unintended consequences for investors may include less product available through their existing or prospective dealers and significantly higher cost for receiving investment advice as a result of the significantly increased compliance costs. This will, in turn, result in many more investors foregoing investment advice and becoming do it yourself investors even though this may be a poor choice for many given their investment knowledge and/or personal circumstance.

Thank you for the opportunity to provide our comments. Please contact me with any questions you may have.

Regards,

A handwritten signature in black ink, appearing to read 'Blair Cooper', with a stylized flourish at the end.

Blair Cooper  
President  
Tradex Management Inc.