IGM Financial

180 Queen Street West, 16th Floor, Toronto, Ontario M5V 3K1

July 27, 2022

Delivered by email: comment@osc.gov.on.ca

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor, Box 55
Toronto, ON M5H 3S8

Re: Proposed Amendments to NI 31-103 and to Companion Policy 31-103CP and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

---

We are pleased to provide comments on behalf of IGM Financial Inc. ("IGM") in response to the request for comments and feedback by the Canadian Securities Administrators ("CSA") and the Canadian Counsel of Insurance Regulators ("CCIR") on Proposed Amendments to NI 31-103 and to Companion Policy 31-103CP and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Total Cost Reporting for Investment Funds and Segregated Funds (the "Proposals").

<u>Our Company</u>

IGM, a member of the Power Financial group of companies, is a leading wealth and asset management company supporting financial advisors and the clients they serve in Canada, and institutional investors throughout North American, Europe and Asia. Through its operating companies, IGM provides a broad range of financial planning and investment management services to help Canadians meet their financial goals. Our services are carried out principally through our subsidiaries; IG Wealth Management ("IGWM"), Mackenzie Investments ("Mackenzie"), and Investment Planning Counsel Inc. ("IPC"). Each company operates distinctly within the wealth asset management segments of the financial services industry.

IGWM is one of Canada's largest managers and distributors of investment funds. IGWM carries out its asset management activities through its subsidiary IG Investment Management Ltd. and its distribution activities through its subsidiaries Investors Group Financial Services Inc. and Investors Group Securities Inc., which are members of the Mutual Fund Dealers Association of Canada ("MFDA") and the Investment Industry Regulatory Organization of Canada ("IIROC"), respectively.

Mackenzie is a leading investment management firm providing investment advisory and related services to retail and institutional clients. Mackenzie primarily distributes its retail investment products through approximately 175 dealers and more than 30,000 independent financial advisors across Canada.

IPC provides Canadians both financial products and advice through its network of independent financial advisors. Its subsidiaries include IPC Investment Corporation, an MFDA member firm and IPC Securities Corporation, an IIROC member firm.

General Comments

We are very supportive of providing clients with a single view of their total costs of investing and therefore welcome the CSA's efforts to expand cost reporting to include ongoing costs of investment fund ownership. We are also pleased that the use of management expense ratio ("MER") and trading expense ratio ("TER") as inputs to the process of determining the Fund Expense Ratio ("FER") will allow for investment fund managers to use the MER and TER disclosed in the most recently published Fund Facts, ETF Facts, prospectus or MRFP. Further, we welcome that similar, competing investment products to investment funds, such as segregated funds, will be treated consistently when it comes to cost reporting, to assist client decision making. It is from this viewpoint that we provide our feedback on the proposals.

We believe that for expanded cost reporting to be effective, it must be presented to clients with the appropriate context, in an accessible and easy to understand format, that will inform investment decision making. Overall, we agree that clients will be well served to have a single view of the total cost of investing including both direct and indirect costs, expressed in dollar terms, included in their Annual Report on Charges and other Compensation (the "Annual Report"). However, we see less usefulness in the information proposed to be added to the Quarterly, Monthly and/or Additional Statements, as further discussed below. We strongly encourage the CSA to undertake focus group document testing of the prototype disclosure documents before proceeding, as was done as part of the introduction of the fund facts[1], particularly on the Quarterly, Monthly and/or Additional Statements, for insight into whether or not the expanded cost reporting will achieve the desired result.

Also critical to the introduction of expanded cost reporting will be the need for a standardized approach, both in terms of timing of delivery of information and format of delivery. The expanded cost reporting requirements raise operational and implementation challenges for both dealers and investment fund managers that will need to be addressed before the proposals come into effect. Dealers will be collecting information from many investment fund managers, while investment fund managers will be delivering information, in some cases, to a very large number of dealers across Canada. Currently, draft subsection 14.1.1(1) states that investment fund managers would be required to provide the required information necessary for dealers to satisfy their obligations within "a reasonable period of time". In our view, without the ability to rely on a set date by which information must be received, dealers will not have certainty regarding the ability to meet deadlines to deliver statements and reports. In terms of format, it is imperative that the data being delivered by investment fund managers have a mandated uniform format, in order for dealers to be able to design and build a system that can be used to ingest the information and produce client level reporting. As was the case with the recent CSA implementation of the OEO trailer ban, we believe it will be essential for the CSA and

[1] See: CSA Point of Sale Disclosure Project: Fund Facts Document Testing, prepared by Allen Research Corporation, September 2012.

CCIR to work collaboratively with industry associations to develop industry-wide processes and standards.

In addition, while we are very pleased that the CSA has proposed to allow investment fund managers to determine the FER using an approximation based on information disclosed in the most recently filed fund facts document, ETF facts document, prospectus or MRFP, we note that new funds that have not yet filed an MRFP do not calculate a MER or TER, and are prohibited from including such information in a fund facts or ETF facts document. As a result, we recommend that new investment funds should be excluded from these requirements, until such time as they have filed an MRFP and have a published MER and TER to maintain consistency in the disclosure provided to clients. Finally, more clarity will be needed with respect to the Proposals as they relate to non-Canadian investment fund managers and non-Canadian based funds, or foreign funds. We recommend specific guidance be provided for dealers as to how they can obtain and rely on information from investment fund managers not registered under NI 31-103.

Quarterly, Monthly Accounts Statements and Additional Statements

As noted above, in the absence of investor document testing, we question the cost benefit of adding the FER alone to Quarterly/Monthly and/or additional statements (the "Statements"). Investment fund managers today generally only calculate MER and TER twice annually, in preparation for the filing of financial statements and MRFPs. As a result, the inclusion of a stand-alone FER on each Statement, for each mutual fund series, will result in new additional operational costs and processes for investment fund managers as well as the dealers receiving such information without, in our view, a corresponding benefit to clients.

We note that the sample statement in Annex G uses the FER as the approximation of the total costs of ownership of investment funds. However, the FER only covers the costs of fund ownership, not the portion of the cost of advisor service fees when a client holds an unbundled fee series. As a result, the FER without such contextual information may cause confusion or be misleading to clients, as it will appear as if the cost of ownership of an embedded fee series is significantly more expensive than cost of ownership of an unbundled series when in fact, the management fees and advisor compensation may be charged outside of the fund and the overall cost of ownership may be similar when direct dealer compensation is factored in. For embedded fee series, there is additionally no explanation that a portion of the MER is paid to the dealer as a trailing commission.

In addition, unlike the fund facts, this singular view of the FER as proposed in the Statements is also missing performance information related to the fund, which provides additional context to clients that explains why fee differences may exist across different types of products. For example, a money market fund will have a significantly lower FER than a global equity fund. In the absence of corresponding performance information, an FER alone may lead clients to draw incomplete conclusions about the value proposition of particular investment fund holdings.

Accordingly, we strongly recommend that as an alternative to adding the FER in the Statements, disclosure is included to direct clients as to where they can find the most recently filed fund facts or MRFPs for the funds that they own, containing the most up-to-date MER and TER (and the sum of the two). We believe this approach is consistent with the CSA's objective of reducing regulatory burden, while still providing investors with the information that they need to inform investment decisions. Finally, if the CSA and CCIR still wish to include the FER in total cost reporting, we propose that the more appropriate place for such disclosure be in the Annual Report, which will significantly reduce costs, duplication and most importantly, ensure clients have the contextual information, including dealer compensation and fund performance, to better understand what the FER represents.

Annual Report on Charges and other Compensation

As stated above, we are very supportive of providing clients with a single view of the total costs of investment ownership and believe that the Annual Report is the most appropriate place to include such information.

A single view of the total cost of investing that includes both direct and indirect costs, expressed in dollar terms, as proposed to be included in the Annual Report will allow clients to compare the cost of ownership of different investments as well as allow them to see, in one place, how much they paid to earn a particular return.

However, as we have indicated, to provide this type of customized view to clients will take significant cost, resources, and time for both investment fund managers and dealers to develop.

For mutual funds, managers currently publish a daily Net Asset Value (NAV) of each series of each fund on a net basis after deducting fees and expenses. In order for the calculation proposed in s. 14.1.1(2) to provide the dollar cost per unit in a way that does not double count fees, it is necessary to specify that the daily NAV to be used is the gross NAV rather than the net NAV that is generally published by investment funds. In order to complete these calculations for each series of each fund, investment fund managers will have to build systems to automate and store an enormous amount of data.

On the dealer side, systems will need to be built to ingest the data from every investment fund manager that has funds on its shelf, and further create systems to take the factors delivered by investment fund managers and perform the calculation contemplated by s. 14.17(6). Furthermore, because NAV fluctuates daily, each daily number determined by the formula set out in s. 14.1.1(2) will have to be matched by date, with the specific days on the calendar in which each client held the fund before it can be totalled up to arrive at the cost per fund, per client.

While we understand that some dealers may want investment fund managers to provide them with final numbers (including the calculation set out in s. 14.17(6)), this will not be possible for ETF managers since they will not have direct access to the information necessary to identify ETF unitholders given that the units are publicly traded on a stock exchange.

While we are very supportive of providing this information in the Annual Report for clients, we envision the new requirements will require, as noted, significant system builds and data storage upgrades for both investment fund manufacturers and dealers, as well as for industry service providers. Again, we believe the CSA and CCIR must work collaboratively with industry associations to ensure implementation is completed in a timely and consistent way.

Prototype Disclosure for Annual Report

We have reviewed the sample prototype disclosure document for the Annual Report in Annex G of the Proposals. In our view, the separate table titled “Our Compensation” showing a separate total for the administration and trading fees plus the amount of the trailing commission received from investment fund managers may be confusing to clients. It is important to show clients in as simple a way as possible that trailing commissions are *deducted* from the “amount paid to investment fund companies” and are not new amounts. We are supportive of the changes proposed in the IFIC sample alternative prototype Annual Report on Charges, included as Appendix C of IFIC’s Comment Letter. We believe IFIC’s alternative sample removes the concern noted above that clients may mistakenly view the amounts shown in the “Our Compensation” table as additive to the amounts shown under “What you Paid”.

Timing Challenges

The CSA has stated that it does not expect the final rules to be published until mid-year in 2023, and the first Statement should cover the period ending December 31, 2024 and the first Annual Report should cover the period ending December 31, 2025. We believe that both dealers and investment fund managers will be extremely challenged to meet this timeline.

As noted, it will be critical that industry-wide solutions be developed in order to facilitate the exchange of information between investment fund managers and dealers. This would allow investment fund managers to deliver the information using a uniform format so that information delivered by investment fund managers to dealers is able to be ingested by the systems that dealers will be required to build. It is necessary that both investment fund managers and dealers know what that format will be in advance, so that they can build their systems accordingly. This may require a staggered approach to implementation timelines.

For example, we understand that for mutual funds, Fundserv will likely be used as the conduit to pass the data from investment fund managers to dealers. Fundserv has indicated in early consultations it will need time to design the technical solution to facilitate this process and that, based on the estimated final rule publication date, it will only be able to publish the technical solution in October 2024. Based on this estimate, dealers and investment fund managers would only be able to start their projects in November 2024 and will need to plan the project, perform development, internal testing and industry testing via Fundserv. This timeline alone casts doubt on the ability of investment fund managers and dealers to have completed systems work in time to start exchanging relevant information beginning January 1, 2025 to deliver a Report for the period ending December 31, 2025.

Furthermore, for ETFs, there is currently no infrastructure that exists to support the transmission of data between investment fund managers and dealers. To develop and build an industry-wide solution, with the support of the CSA, will take time.

For most industry participants, including ourselves, it is not possible to begin work on the technical builds needed for the Proposals before the publication of the final amendments. The technical development and resources required will have to be based on clear and extremely detailed requirements, and there needs to be certainty in these requirements before budgets and resources can be identified and assigned. Even at an extremely accelerated pace, we believe it will not be realistic to be able to deliver an Annual Report to clients before December 31, 2026.

Summary

We reiterate our support for the Proposals. We believe that including this information in the Annual Report is the most appropriate way to ensure that clients can view their total costs of investing with the contextual information necessary to provide them with a complete picture. Ultimately, we believe that expanding cost reporting in this way is in the best interests of our clients.

We appreciate the opportunity to provide you with our comments. We would welcome the opportunity to engage with you further on this topic. Please feel free to contact either Joanna Barsky at Jbarsky@mackenzieinvestments.com or myself, at Rhonda.goldberg@igmfinancial.com if you wish to discuss our feedback further or require additional information.

Yours truly,

IGM FINANCIAL INC.

[redacted]

Rhonda Goldberg
Executive Vice-President & General Counsel
IGM Financial Inc.