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July 27, 2022

VIA EMAIL

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attention:

M[e] Phillippe Lebel
Corporate Secretary and
Executive Director, Legal Affairs
Autorité des marchés financiers

consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission

comments@osc.gov.on.ca

Dear Sirs/Mesdames,

Re: CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Related Proposed Consequential Amendments and Changes, and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance Total Cost Reporting for Investment Funds and Segregated Funds

Introduction

We are writing to provide our comments on the CSA Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Related Proposed Consequential Amendments and Changes and Proposed CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance – Total Cost Reporting for Investment Funds and Segregated Funds (the "**Consultation**"). Thank you for the opportunity to submit comments.

Invesco Canada Ltd. ("**Invesco Canada**") is a wholly-owned subsidiary of Invesco Ltd. ("**Invesco**"). Invesco is a leading independent global investment management company, dedicated to delivering an investment experience that helps people get more out of life. As of March 31, 2022, Invesco and its operating subsidiaries had assets under management of approximately USD $1.6 trillion. Invesco operates in more than 20 countries in North America, Europe and Asia. Invesco Canada operates Invesco's Canadian business and maintains offices in Toronto, Montreal, Vancouver and Charlottetown.

General Comments

Invesco Canada is supportive of regulatory efforts to provide investors with better and clearer disclosure of the costs associated with investing in investment funds. We believe, however, that the proposals as currently set out in the Consultation may result in certain unintended and undesirable outcomes, the most important of which is a potential reduction of product choice for investors as dealers will likely shrink their product offerings to reduce the significant burden placed upon them. Our comments try to balance the important objective of providing investors with better ongoing total cost disclosure while being less onerous on industry participants so as to not inadvertently limit choice.

We have reviewed the Investment Funds Institute of Canada's ("**IFIC**") response to the Consultation and strongly endorse all of their views. Separately, we would like to highlight specific concerns relating to: (a) the dealer's obligation to vet total cost reporting information provided by an investment fund manager ("**IFM**"); (b) total cost reporting being imposed on foreign investment funds; (c) the data to be provided by IFMs; (d) total cost disclosures in account statements; and (e) implementation timelines.

<u>Dealer's obligations regarding vetting total cost reporting information provided by IFMs</u>

Sections 14.17.1(2) and (3) require dealers to determine whether the total cost data provided by IFMs is complete or accurate. If the dealer determines it is incomplete or inaccurate, or if the information provided is stale or if it is not provided at all, the dealer is required to make reasonable efforts to find the information by other means. Only if this is not possible are dealers permitted to exclude the information.

In our view these requirements impose a significant burden and potential liability on dealers as a dealer will be required to vet the total cost data provided by IFMs. This is problematic for a number of reasons:

- The dealer's obligation to vet total cost information arises not only with respect to *<u>every</u>* series of *<u>every</u>* investment fund that it has sold to clients but also this vetting may need to occur frequently as we understand that total cost data will be provided to dealers on a daily basis;

- Given that dealers have no involvement in the management of an investment fund and they have no access to fund data relating to operating expenses or trading expenses of an investment fund, it will likely be challenging for dealers to vet the total cost data provided by IFMs.

We are concerned that the vetting requirement will encourage dealers to reduce the number of investment funds on their product shelves. Of greater concern, it is also possible that dealers conclude that using proprietary products is less costly or challenging than offering independent products, since the MERs and TERs of proprietary products will have already been vetted through shared operations, compliance and audit functions. Accordingly, dealers will have significantly more comfort with total cost data provided by proprietary products. In our view, this is not desirable as it may materially reduce investor choice and inadvertently undermines an important regulatory initiative under the Client Focused Reforms.

We recommend that dealers be provided comfort that they are able to fully rely on total cost information provided to them by IFMs. If an IFM fails to provide total cost information then a dealer should be entitled to not disclose that information for that fund. In such situations, the IFM will be in breach of securities legislation.

Foreign investment funds

There are a number of reasons why Canadian investors may purchase foreign investment funds, namely the strategy may not exist in Canada or the strategy exists but the fund is not as well diversified or may have lower assets under management which may impact the costs associated with investing in the fund. Foreign investment funds are subject to their local regulations and practices. These practices may or may not require the calculation of MERs or TERs and if these calculations are required they may not be done in a manner that is identical to Canadian regulations and practices. Foreign investment funds may be reluctant to calculate MERs and TERs that are consistent with Canadian regulations because such funds may be required to disclose those ratios to their local investors which may be confusing.

Foreign investment funds do not trade on Fundserv. As such, there is no existing platform through which total cost reporting may be transmitted from IFMs to dealers. Accordingly, infrastructure will need to be built between the IFM and the dealer which will be time consuming and costly. Given that Canadian investors constitute a very small percentage of the overall investor base for such foreign investment funds, our concern is that foreign investment funds will cease to offer their products to Canadians as a result of the new requirements. Dealers are already undertaking significant expense and time with respect to achieving total cost reporting through Fundserv for all Canadian investment funds that trade on Fundserv. Dealers are currently also working on infrastructure to deal with total cost reporting for Canadian-based exchange traded funds (“**ETFs**”) and other Canadian based investment funds that do not trade on Fundserv. Dealers may be hesitant to explore building alternate infrastructure for foreign investment funds. As such, dealers may reduce their product shelves or alternatively, lead dealers to favour proprietary products as data feeds may already exist or may be easier to implement between affiliated entities.

We recommend that foreign investment funds be exempt from the total cost reporting requirements.

Data to be provided by IFMs

The Consultation is unclear as to when an IFM should use publicly available MERs and TERs rather than providing an approximation. The Consultation indicates that if an IFM provides an approximation that the approximation must be based on the publicly available MERs and TERs unless the IFM deems it misleading. Accordingly, it appears that IFMs should use publicly available MERs and TERs unless they are misleading.

TERs are calculated using trading expenses incurred over a period. Trading expenses are driven by trading decisions made by the portfolio managers of an investment fund. Trading in securities occurs sporadically and as opportunities arise. Trading is also impacted by purchases and redemptions from an investment fund. As a result, it is challenging for IFMs to determine whether the publicly disclosed TERs are consistent with trading costs incurred in the current period.

For these reasons, we submit that IFMs should be required to provide MERs and TERs that are publicly available unless those MERs and TERs are not available, for example new funds. In those situations, IFMs should be permitted to use approximations.

Account statements

Account statements currently disclose portfolio holdings, prices and current value. The account statements do not disclose any fees or expenses payable by an investor with respect to their holdings or account. The inclusion of total cost reporting in account statements may lead a reasonable investor to believe that the total cost for investment funds as disclosed in the account statements, constitutes the entire cost for that investment fund which is wholly inaccurate. For certain accounts, for example series F securities holders, the total cost as proposed will understate the cost of holding the investment fund as the account statement will not disclose the dealer's fees. For other accounts, for example those series of funds where a rebate is paid, the total cost as proposed will overstate the cost of holding the investment fund as the account statement will not disclose the management fee rebate paid to the investor.

Accordingly, we submit that total cost reporting should not be included in the account statements. Costs associated with holdings and an account are mandated under the report on charges and other compensation and it is appropriate for that report to include total cost reporting for investment funds as it contains all fees and expenses payable with respect to portfolio holdings and the account.

Implementation concerns

We are concerned that the implementation timeframes are too tight for these initiatives, specifically with respect to ETFs that do not trade through Fundserv. ETFs trade on a stock exchange and it is unlikely that stock exchanges are able to transmit total cost reporting between ETFs and dealers because trading on a stock exchange occurs between two dealers and not between a dealer and an ETF. ETFs and other investment funds that do not trade on Fundserv will need to work on an alternate method of transmission of total cost data. Service providers will need to be vetted and infrastructure will need to be established which will take time.

For funds that trade on Fundserv, implementation concerns arise for the reasons set out in IFIC's response letter.

Conclusion

We would be pleased to discuss our responses in greater detail at your convenience. Thank you for the opportunity to comment on this important matter.

Yours truly,

Invesco Canada Ltd.

Per:	*(Signed) "Caroline Mingfok"* Name: Caroline Mingfok Title: Vice-President, Legal	Per:	*(Signed) "Shalomi Abraham"* Name: *Shalomi Abraham* Title: Senior Vice-President, Head of Legal - Canada

cc. John Zerr, President & CEO, Invesco Canada Ltd.