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Re: CSA and CCIR Joint Consultation on Total Cost Reporting for Investment Funds and Segregated Funds

Sun Life Canada thanks both the Canadian Securities Administrators (CSA) and the Canadian Council of Insurance Regulators (CCIR) for the opportunity to provide comments on the *CSA and CCIR Joint Consultation on Total Cost Reporting for Investment Funds and Segregated Funds (the "**Joint Consultation**")*.

At Sun Life, our Purpose is to help our Clients achieve lifetime financial security and live healthier lives. Their needs are at the heart of everything we do, therefore, we support any initiatives that aim to provide greater transparency and better outcomes for Clients.

Sun Life manufactures and distributes both mutual funds and segregated funds. We therefore encourage all efforts to harmonize regulation across the insurance and securities industries, and we applaud the CSA and the CCIR in their endeavour to align in this regard.

Sun Life supports the submissions of the Investment Funds Institute of Canada (IFIC) and the Canadian Life and Health Insurance Association (CLHIA) on the Joint Consultation, highlighting the overall impact to the securities and insurance industries and the challenges that registrants may face with implementing the requirements as proposed.

We would like to take this opportunity to highlight some specific concerns with the existing proposal in two main areas:

i) the potential for Client confusion, including relating to the addition of cost information to quarterly/ monthly client statements, the potential for inconsistency, the format of statements and disclosures, and reporting of potentially duplicative or misleading data; and
ii) concerns with the suggested timelines for implementing the new requirements.

We have provided responses to some of the specific questions posed in the Joint Consultation in Annex A (securities) and Annex B (insurance) following our general comments.

(i) Potential for Client Confusion

Frequency of Cost Reporting in Statements

As echoed in IFIC's and CLHIA's responses, Sun Life believes that cost reporting should only be required annually for both industries. For securities, we believe that including the cost information in quarterly or monthly statements may lead to a disconnect between the information in those statements and their annual cost report. In addition, there are operational and system challenges with collecting the appropriate data on a quarterly (or monthly) basis that would make it costly and time-consuming on an ongoing basis without any evidence that this will have benefits for Clients.

A particular area of concern is for Clients who hold both mutual funds and segregated funds as they may end up receiving statements quarterly (for their mutual funds) and semi-annually (for their segregated funds) in addition to the annual reports from their dealers and insurers. This would result in a disconnect between the quarterly/ semi-annual statements and the annual reports. Quarterly dealer statements would only show FER, as a percentage, whereas the annual reports will provide total cost information in dollars. In addition, quarterly statements would provide performance information over a number of time frames, ranging from short to long term, whereas FER is only calculated annually. Not only would Clients be seeing partial costs in the quarterly statements, the differences in how the information is being reported, both within the quarterly statements and between quarterly and annual reports could lead to cost information being presented out of context and in a confusing and misleading manner.

Having annual and quartely statements also poses the risk of burdening the Client with information in different formats that they will have to review and compare. In these instances, consideration should be given to 1) consistency in the methodology for calculating and showing costs, and 2) frequency.

Potential for Inconsistency

Some Clients invest in segregated funds through dealer firms while others deal with Managing General Agent (MGA) firms. Dealer firms have different reporting obligations than MGAs and other insurance industry intermediaries. Clients could therefore have different experiences in the cost information they receive depending on who they invest through and whether their funds are held in nominee accounts or in the Client's name. Specifically, they may receive inconsistent information, which could lead to significant confusion. If the intent is harmonization across industries to enable better Client outcomes, then simplicity and consistency in reporting is critical.

Statements and Disclosures

Final requirements should be simple enough to be explained in concise, plain language, both in the type and format of the information that is required to be presented. Overcomplicating information displayed for Clients may result in an overreliance on disclaimers to qualify content and thus potentially confuse Clients. As some of our Clients hold mutual funds and segregated funds, having flexibility in the design of statements is essential and would allow us to best adapt them to our Client base.

Risk of Duplicative or Misleading Data

The potential for reporting, or the appearance of reporting, of duplicate data within the statements is another area of concern that should be considered and addressed in the final regulatory requirements.

In both the segregated fund and mutual fund industries, there are a variety of ways that cost information is captured and reported. For instance, some costs (i.e., trailer fees or insurance costs) are already part of the reported MER. In these situations, a Client may incorrectly perceive the costs of those products as inflated when compared to other products that do not include trailer fees or insurance costs in their MER. Breaking out these costs or fees as separate line items could also give the impression that a Client has been double charged when that is also not the case.

(ii) <u>Timeline to implementation</u>

We believe that additional implementation time of a year beyond the proposed timeline will be required. Sun Life manufactures and distributes both mutual funds and segregated funds through subsidiaries and third parties. Implementation of the requirements in the Joint Consultation will affect a significant portion of our operations across the country. While we aim to leverage all efficiencies internally, tight deadlines will make it difficult to adapt to any unforeseen challenges.

Upstream and downstream data-feed implications also need to be fully assessed as there are numerous ways that cost information is captured and reported. It is challenging to understand the full impact and feasibility in achieving desired outcomes within the proposed timeline without the final requirements to provide to our service providers. Third-party, back-office service providers are pivotal to operationalizing the proposed changes and must be engaged in further discussions to determine an appropriate implementation timeline. As such, we ask that the CSA and CCIR consider appropriate timing to allow for both registrants and industry third parties to adequately build and operationalize final requirements.

Sun Life is committed to working alongside regulators and the industry to enable a seamless transition to total cost reporting and we thank you for this opportunity to provide our comments on this important endeavour.

Sincerely,

[redacted]

Sun Life Canada

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ANNEX A

RESPONSES TO SPECIFIC QUESTIONS REGARDING THE PROPOSED SECURITIES AMENDMENTS

The table below includes our response to the questions posed in the Joint Consultation where we have feedback to offer on the proposed securities amendments.

Consultation Question #	Question	Sun Life Comments/Response
2.	*Would you consider it acceptable if, instead of information about each investment fund's fund expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?*	Yes, this would be acceptable. We agree with the industry's position on this point as discussed in IFIC's response.
3.	*For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?*	Yes, the use of net asset value would be appropriate.

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ANNEX B
RESPONSES TO SPECIFIC QUESTIONS REGARDING THE PROPOSED INSURANCE GUIDANCE

The table below includes our response to the questions posed in the Joint Consultation where we have feedback to offer on the proposed insurance amendments.

Consultation Question #	Questions	Sun Life Comments/Response
1.	*Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,* *a. Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;* *b. Segregated Fund Contracts which are no longer available for sale and to which customer can no longer make deposits;* *c. Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);* *d. Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the Client holds units)?*	1(a) & 1(b): Yes, we anticipate implementation issues with certain 'legacy' products. These challenges will likely lead to delays in implementation. We, therefore, agree with CLHIA's position to carve out these types of products from the final requirements. 1(c): We are not answering this question. 1(d): Yes, we ancitipate implementation issues. There are portions of insurance fees charged either through MER or through unit redemptions which are already disclosed on statements. This presents an added complexity when reporting annual costs to Clients as any implemented solution will need to avoid duplication and burdensome disclosure.
2.	*The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract.* *Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the Client holds each day as follows.*	We support both models with a preference for Option 1. The difference in the resulting number does not provide meaningful insight for the Client to use when evaluating or making decisions about the product. We ask that the the method be similar for both mutual funds and segregated funds.

	Option 1 or Option 2 (please see consultation document)	
3.	*Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses?* *Please comment on the advantages and disadvantages of:* *a. Requiring all insurers to use the same calculation; or* *b. Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.*	Yes, there should be a standardized formula. We want to ensure a level playing field for all companies as well as having a uniform disclosure for Clients.
4.	*For the purpose of the calculation described in question 2, what are the costs, benefits andrisks of using the following to calculate fund expense ratio (i.e. MER + TER):* *a. MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis;* *b. MER and TER calculated for the year in question after the year ends; or* *c. Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?*	All of the proposed options shown provide close approximations of expenses for Clients. We ask the CCIR to duly consider costs versus benefits upon determination of the final requirements. As mentioned, the simplest, easiest to explain and understand solutions should be preferred as these can provide transparency for Clients without additional costly work to implement. Of the proposed calculation methods, options A and B are pragmatic and use readily available numbers and could potentially be implemented more quickly. Option B may be a closer approximation, however given the timing of when information becomes available, implementation of this option would likely result in Client statements needing to be sent later than current standards. For option C, any estimation of MER and TER will would require further consultations to determine the best approach. Additionally, point-in-time based calculations (e.g., a calculation based on specific day in the year)

		would require longer build times with higher costs.
5.	*For the purpose of the calculation described in question 2, what are the costs, benefits, and risks of using:* *a. 365 days;* *b. The actual number of days in the calendar year in question; or* *c. Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?* *Note that the proposed calculation for securities assumes 365 days.*	Sun Life aligns with the industry consensus. We believe that the simplest option is to use 365 days for the year and cannot point to any material risks of doing so.
6.	*Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:* *a. disclosed in annual statements for each fund; and* *b. used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?* *What are the costs, benefits and risks of using (MER + TER) versus only using MER?*	Yes, this would be acceptable. We support the industry position on this point as discussed in CLHIA's response and in alignment with the securities' industry feedback offered via IFIC.