RBC Global
Asset Management®

VIA E-MAIL: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

September 16, 2015

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commisions (New Brunswick)
Office of the Superintendent of Securities, Prince Edward Island
Nova Scotia 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
Office of the Superintendent of Securities, Nunavut

Attention:

The Secretary
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Toronto, ON M5H 3S8
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Me Anne-Marie Beaudoin
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Autorité des marchés financiers
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Dear Sirs and Mesdames:

Re: CSA Notice and Request for Comment – Mandating a Summary Disclosure Document for Exchange-Traded Mutual Funds and Its Delivery – Proposed Amendments to NI 41-101 *General Prospectus Requirements* and to Companion Policy 41-101CP and Related Consequential Amendments

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We are writing to provide our comments on the CSA Notice and Request for Comment – Mandating a Summary Disclosure Document for Exchange-Traded Mutual Funds and Its Delivery – Proposed Amendments to NI 41-101 *General Prospectus Requirements* and to Companion Policy 41-101CP and Related Consequential Amendments (the "**Proposal**").

RBC Global Asset Management Inc. ("**RBC GAM**") is a wholly-owned subsidiary of Royal Bank of Canada and provides a broad range of investment management services and solutions to investors, including through a variety of exchange-traded mutual funds ("**ETFs**"). As at June 30, 2015, RBC Global Asset Management Inc. had over $260 billion in assets under management, including $1.3 billion in ETF assets under management.

We support the Canadian Securities Administrators' aim of providing investors with access to key information about ETFs in an easily understood format. We also support the goal of providing a more consistent disclosure framework between conventional mutual funds and ETFs, while recognizing the need to tailor certain aspects of ETFs' disclosure to reflect their distinct features as exchange-traded investment vehicles.

We have organized our comments as follows: In the first section of this comment letter, we have provided responses to the "Issues for Comment" outlined in Annex B of the Proposal. In the second section of this comment letter, we have provided further comments relating to the proposed content for the ETF Facts.

1. Responses to "Issues for Comment" Outlined in Annex B to the Proposal

QUESTION #1: The ETF Facts is substantially similar to the Fund Facts, except for additional information related to trading and pricing (e.g., average daily volume, number of days traded, market price range, net asset value range, average bid-ask spread and average premium/discount to NAV). We seek specific feedback on these proposed elements of the ETF Facts. In particular, please comment on the disclosure instructions for these elements as outlined in Form 41-101F4. For example, should the range of market prices exclude odd lot trades? In terms of the calculation of the average bid-ask spread, should trading days that do not have a minimum number of quotes be excluded from the calculation? We also seek feedback on whether there are alternative methods or alternative metrics that can be used to convey this information in a more meaningful way for investors.

RBC GAM RESPONSE:

- **Average daily volume/Number of days traded** – The CSA has proposed including "average daily volume" and "number of days traded" data in the ETF Facts. We question whether this data is sufficiently material to investors such that it should be featured in a summary document that is meant to highlight key facts relating to an ETF. We are also concerned that investors may mistakenly interpret these data points as indicating the level of liquidity for an ETF, which would not be the case. While other exchange-traded securities'(i.e., traditional stocks') liquidity depends on trading volume, a better indicator of an ETF's liquidity is the liquidity of the underlying securities that comprise the ETF's portfolio. In addition, ETFs, unlike other exchange-traded securities, do not have a fixed number of outstanding securities since authorized dealers can issue and redeem securities of the ETF at any time to alleviate any supply/demand mismatches. While we would recommend excluding "average daily volume" and "number of days traded" data from the ETF Facts, if the CSA nonetheless determines to include this data, we recommend that a short explanation be provided in the ETF Facts document to explain the unique aspects of ETFs' liquidity.

- **Market price range – should odd lot prices be excluded?** We believe that the range of market prices should <u>include</u> odd lot trades so as to provide a more comprehensive and relevant indicator of market prices.

- **Average bid-ask spread and premium/discount to NAV**

  - We seek further clarity regarding how the average bid-ask spread is to be calculated. For instance, given that bid-ask spreads can change throughout the day, in respect of what point(s) in time should they be calculated?

  - Prior to finalizing this instruction we would appreciate the opportunity to review a sample calculation prepared by the CSA in order to (a) ensure all such information necessary to satisfy the disclosure requirements will be readily available, accessible and administratively practicable to obtain to obtain from third party data providers (such as Bloomberg), and (b) ensure that we fully understand and are comfortable with the calculation itself.

  - We do not think that trading days that do not have a minimum number of trades should be excluded from the calculation of "average bid-ask spread". Given that ETFs are backed by market makers, who will post for size and replenish if transacted against, the number of trades is not relevant to the bid-ask spread.

QUESTION #2: The "How ETFs are priced" section of the ETF Facts is intended to provide ETF investors with some additional information on the factors that influence trading prices and to explain the difference between market price and NAV. This section has been modified in response to investor testing, which showed that investors valued this type of information but were not necessarily aware of how to use it in practice. We seek feedback on whether there is an alternative form of presentation of this information that may better assist investors.

RBC GAM RESPONSE:

- **"Market price" – first bullet** – We disagree with the statement that supply and demand affect the market price of ETFs, and we recommend that this statement be removed. Unlike traditional shares, of which there is a finite number issued and outstanding, an ETF continually issues additional securities to meet demand and continually redeems securities to deal with excess supply.

- **"Market price" – fourth bullet** – We disagree with the statement that a smaller bid-ask spread "means you are more likely to get the price you expect", and we recommend that this language be deleted. An investor will always pay or receive the prevailing "bid" or "ask" (depending on what side of the trade the investor is on). This price, however, may be unrelated to what an investor "expects", as an investor's expectations may not be consistent with the prevailing bid/ask prices.

- **"Net asset value (NAV)" – third bullet** – We would recommend adding a statement to the end of this bullet indicating that, given that certain unitholders have the ability to subscribe for or exchange a prescribed number of units of an ETF at NAV, it isn't anticipated that large discounts or premiums to NAV would be sustained.

QUESTION #3: Please comment on whether there are other disclosure items/topics that should be added to reflect the differences between ETFs and conventional mutual funds.

RBC GAM RESPONSE: We would not propose any additional disclosure items, other than those already noted above.

QUESTION #4: We seek feedback on the anticipated costs of delivery of ETF Facts for those dealers who do not have Exemptive Relief and are not currently delivering ETF Facts; specifically, the anticipated one-time infrastructure costs and ongoing costs.

RBC GAM RESPONSE: No comment.

QUESTION #5: We seek feedback from dealers on the appropriate transition period for ETF Facts delivery under the Proposed Amendments. We are specifically interested in feedback from dealers who are not subject to the Exemptive Relief. Please comment on the feasibility of implementing the delivery requirement under the Proposed Amendments within 21 months of the date the Proposed Amendments come into force. In responding, please comment on the impact a 21 month transition period might have in terms of cost, systems implications, and potential changes to current sales practices.

RBC GAM RESPONSE: No comment.

QUESTION #6: We seek feedback from ETF managers on the appropriate transition period to file the initial ETF Facts. We currently contemplate that 6 months after the date the Proposed Amendments come into force, ETF managers will be required to file an initial ETF Facts concurrently with a preliminary or pro forma prospectus for their ETFs. Please comment on the feasibility of making the changes to compliance and operational systems that are necessary to produce the ETF Facts, instead of the summary disclosure document pursuant to the Exemptive Relief, within this timeline.

RBC GAM RESPONSE: We believe a transition period of 12 months after the date on which the Proposed Amendments come into force would be an appropriate amount of time to enable ETF managers to prepare for the new requirements under the Proposal.

QUESTION #7: We seek feedback from ETF managers and dealers on whether they prefer a single switch-over date for filing the initial ETF Facts rather than following the prospectus renewal cycle as currently contemplated. The CSA implemented a single switch-over date for the Stage 2 Fund Facts, and recognize that there are challenges in doing so, especially for ETF managers, from a business planning and business cycle perspective. If a single switch-over date is preferred, are there specific months or specific periods of the year that should be avoided in terms of selecting a specific switch-over date? Please explain.

RBC GAM RESPONSE: We would prefer following the prospectus renewal cycle as currently contemplated in the Proposal.

QUESTION #8: Currently, under securities legislation, investors have a right for withdrawal of purchase within two business days after receiving the prospectus. This right only applies in respect of a distribution for which prospectus delivery is required. In the case of ETFs, today only purchases filled with Creation Units trigger a prospectus delivery requirement and are therefore subject to a withdrawal right. Consistent with the approach taken in the Exemptive Relief, the Proposed Amendments do not extend the right of withdrawal of purchase to investors for the delivery of the ETF Facts. In some jurisdictions, investors will continue to have a right of rescission with delivery of the trade confirmation. We seek feedback on this proposed approach. Specifically, please highlight if any practical impediments exist to introducing a right of withdrawal for purchases made in the secondary market in connection with delivery of the ETF Facts, should we decide to pursue this.

RBC GAM RESPONSE: We do not think there is a need to extend the right of withdrawal of purchase to investors for the delivery of the ETF Facts. The rights of rescission associated with delivery of a trade confirmation should be sufficient.

2. Further Comments Relating to the Proposed Content for the ETF Facts

We also have the following, additional comments relating to the proposed content for the ETF Facts document:

- **"Quick facts" – Dividend Reinvestment Plan (DRIP)** – We recommend that the reference to DRIP eligibility be deleted from the ETF Facts document, as the reference to DRIPs in this manner is under inclusive (i.e., why would the form focus merely on DRIPs and ignore other types of plans, such as systematic withdrawal plans or pre-authorized cash contribution plans) and potentially misleading since, although not all ETF managers offer DRIPs or other types of plans, such plans may nonetheless be available through a dealer. If this item is maintained as a requirement, we would suggest that a note clarifying that DRIPs and other types of plans may be available through a dealer be added to the ETF Fact to make investors aware of their options.

- **"How has the ETF performed?"** – Item 6(1) of Part I of Form 41-101F4 indicates that this section should include an introduction "using wording substantially similar to the following". The last sentence of the suggested wording is "This means that the ETF's returns may not match the returns of the [index/benchmark]." We presume that this last sentence would only apply to index-tracking ETFs; however, this point should be clarified in the form.

- **"How much does it cost?"** – The second paragraph under this heading contains the following disclosure:

  "Higher commissions can influence representatives to recommend one investment over another. Ask about other ETFs and investments that may be suitable for you at a lower cost."

  In addition, the last sub-section entitled "Trailing commission" includes disclosure regarding trailing commissions, including a description of what trailing commissions are and for what services and advice they are meant to compensate.

  It is our view that, for ETFs that do not have trailing commissions a statement to this effect (i.e., "This ETF does not have a trailing commission.") should be sufficient disclosure, and we would suggest that this statement would replace the first above-noted paragraph. Further, for non-trailing commission ETFs, the description of trailing commissions and the warning that higher commissions can influence representatives to recommend one investment over another, with the suggestion that the investor should ask about other investments that may be suitable at a lower cost, is not necessary.

- **"How much does it cost? – Brokerage commissions"** – We recommend that the words indicated in underlined text below be added to the statement that is required to be included in the ETF Facts, as per Item 1.2 of Part II of Form 41-101F4 in order to add additional clarity re what type of commission may need to be paid and to whom they are paid:

  "You may have to pay a <u>brokerage</u> commission <u>to your dealer</u> when you buy and sell [shares/units] of the ETF."

Thank you for the opportunity to provide these comments. We would be pleased to discuss with you any of the matters outlined in this letter.

Yours truly,

RBC GLOBAL ASSET MANAGEMENT INC.

By:________________________________

Name: Mark Neill
Title: Vice President