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VIA ELECTRONIC MAIL

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

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Dear CSA Member Commissions,

I am writing to provide you with Tradex Management Inc.'s views with respect to the proposed amendments to National Instrument 31-103 and Companion Policy 31-103CP, as published on June 24, 2011. Tradex was created in 1960 and is therefore one of the oldest mutual fund management companies in Canada. In addition, Tradex has been a Member of the MFDA since 2002.

Tradex is in agreement with the intent of the proposed amendments to provide investors with key information about their account(s) and product-related charges and the compensation received by registrants. We further agree that by providing clients with more accurate and meaningful account performance data clients will be able to evaluate how well their accounts/investments are doing and, as a result, be in a better position to make more informed decisions regarding their investment goals and objectives with their financial advisor.

However, we agree with the IFIC letter that the Proposals raise two significant concerns for the industry that need to be taken into consideration before any further work is done on these regulations. Our concerns include:

- The disregard for the CRM consultative process under the Registration Reform project where performance reporting and cost disclosure were first delegated to IIROC and MFDA for rule development and then readdressed in the current Proposals – a practice which ultimately draws into question the integrity of the consultative process;
- The overemphasis on disclosure of fees and compensation that are already paid by the Management Expense Ratio (MER) and included in net return reporting – an overemphasis which will confuse investors and promote misleading cost comparisons with products that do not require similar disclosures.

Regulatory Coordination:

We are concerned that conclusions reached following lengthy public consultation by the MFDA, as reflected in MFDA Rule 5.3.5 are balanced in their application, and believe that they should not be set aside by these Proposals. To do so, in our view would undermine the value of the extensive and valuable work contributed over the last seven years of public consultations, and would place at risk the credibility of the public consultation process itself.

The statement and system changes that will be made to meet the new MFDA Rule 5.3.5, due to become effective in July 2012, would be overtaken by the implementation of the Proposals. If dealers are required to make statement reporting changes to meet the MFDA requirement, and subsequently to make changes to implement the Proposals, then over a relatively short period of time investors would experience two significant statement and reporting changes. Such instability in reporting and statement presentation cannot be in the best interests of the investor. We believe it is in the best interests of investors to have one clear and

consistent rule for performance reporting and cost disclosure as developed through accepted practices of public consultation.

We ask that the CSA allow the SROs to develop rules for the regulation of performance reporting and cost disclosure of their members, and exempt SRO members from compliance with the Proposals.

Overlap with Point of Sale NI 81-101 Changes

There is significant overlap with the Point of Sale (POS) disclosure requirements. It is our view that disclosure of mutual fund information should be mandated through changes to NI 81-101, and should not also be mandated in advance of Phase 3 of POS through changes to NI 31-103.

Disclosure of charges

We fully support the proposal to broaden the disclosure requirements on all forms of charges so that investors are advised of all potential charges, including those hidden within fixed income investment yield and price quotes along with the commissions received on deferred sales charge mutual fund transactions or from various investment or deposit instrument purchases. However, disclosure should be provided on a percentage of the transaction basis to allow investors to readily contrast and compare the various options available to them. The costs of future transactions in the security should also be disclosed as a percentage. It would be much clearer for an investor in a Government of Canada 30 year bond purchased with a quoted yield of 2.81% to understand the implication of holding it in an account charging 2% on the assets than to be provided solely with the dollar amount expended in the prior 12 months.

It could also be confusing to investors if they hold bond investments and Guaranteed Investment Certificates in an account with a dealer/broker who reports the commission the dealer receives during the year while they may hold the identical GIC directly with a bank branch and receive no disclosure of the payment or cross charge paid to their branch or sales person. Bank branches and deposit brokers should provide the same disclosures as required of dealers and stock brokers for identical deposit products or similar fixed income alternatives.

For the annual disclosure of charges it would again be preferable for investors to receive a percentage value of compensation from third parties to allow for a ready comparison of the wide range of investment options and account arrangements available to them. When investors receive only a dollar figure they may contrast to other accounts of different size providing misleading information as to the relative cost of their options.

It may also be inaccurate as recommended for clause 7 (g) of section 14.2 “trailing commissions affect you because they reduce the amount the fund’s return to you”. As trailer fees are generally paid from the management fees collected by an investment fund manager and the management fees do not necessarily change in equivalent amount dependent on the trailer paid (for example where the fund manager is the dealer and receives no trailer or where certain

classes of funds pay reduced trailers but only part of the reduction is reduced in the management fee i.e. “D” versions) the trailer may not impact an individual investor’s return.

The new emphasis on aggregating charges and disclosing fees such as trailer fees may cause investors to double count charges that have already been charged to their investments and are disclosed elsewhere. This misleading practice may cause investors to believe their mutual fund investments are being overcharged relative to other products, and lead them away from suitable mutual fund investments to less suitable and less transparent investment options in the banking and insurance sectors where such detailed requirements are not required.

From a logistical point of view there are currently several thousand mutual fund products which are available to Canadian investors in various load and no load options with each fund code potentially having different trailer fee percentages and associated calculations. As an example, several fund companies pay based on the balances in their funds on a given date in the month, others on average balances and others on the basis of mathematical formulas weighting the current and prior month balances. Fund companies also do not provide details at the account level so significant programming may be required. Identifying the specific annual dollar amount for each fund with minimum investments permitted of \$250 would not appear to be as transparent and informative to investors as the current disclosure requirements. The incremental cost to provide this information for each individual account will undoubtedly add to investor costs over time. The regulators’ past efforts on developing and requiring standard MER reporting for mutual funds and on developing the more readable and concise Fund Facts documents would be reversed and lost by reporting solely dollar figures with no comparable data.

Cost Information

An issue arises when the “cost” reported is based upon the net cost, whereby investments with activity may have a negative “cost” reported due to market value redemptions over time in excess of the original investment cost. This form of disclosure can then be confusing to the investor.

The book value is frequently provided and preferable as it is required information to assist investors in taxable accounts complying with the provision of the Canadian Income Tax Act. We do agree that many investors require periodic education as to the definition and source of book value as they lose sight of the value of reinvested dividends or distributions to their total return.

Performance Reports

- a) The net amount invested as discussed above for cost data can over time result in a negative dollar amount of little or no value to investors attempting to contrast or compare performance to alternatives and would be subject to the same limitations as to only being available in an accurate and fair representation on a go forward basis. Added confusion may also arise as cost data with the various fund companies may differ from cost data at the dealer or broker, especially if different dates are selected resulting in

contradicting amounts being reported for client name accounts or intermediary accounts where the investors are permitted to receive direct information from the fund companies in addition to the reporting from their broker/dealer.

- b) Terminology such as “since inception” could again result in advisors and dealers having to issue inaccurate information for older accounts or encourage churning of client investments to establish new cost data. Transfers between registered firms could similarly skew and make meaningless security level cost information. If a security is held with more than one firm the consolidation including the transfer at market value could significantly alter the apparent performance of the combined entity. Provision of the annual change in the value of an account including the net deposits and withdrawals from an account produces a more accurate and easily understood performance measurement.
- c) In reporting percentage returns at an account level for accounts held with a single fund company confusion could again occur where the fund company and the broker/dealer choose alternate forms of calculations for performance (time versus dollar weighted).
- d) The research findings around benchmarks would appear to confirm the need for education of investors around performance and return expectations. Performance should not be looked at solely in isolation but relative to similar assets and alternatives available. Performance reporting for individual investments should provide comparative benchmarks and the ability to contrast against alternative investments such as that found in the legislated requirements for mutual fund performance reporting.
- e) The MFDA has an approved rule in place for performance reporting which is in line with the principles of the CRM and represents the balance of interests reflected in the extensive public consultations that preceded its adoption. We believe that MFDA Rule 5.3.5 which mandates a simple measure with flexibility to provide annual gain/loss information or percentage return, aligns well with the expressed needs of investors and their unwillingness to pay additional for more detailed performance information.

In closing, we believe that the IFIC recommendations meet the needs of all stakeholders and we recommend that you consider them seriously as you decide on next steps for this initiative. We hope our additional comments will be of benefit to you.

Yours truly,



Blair Cooper
President
Tradex Management Inc