July 13, 2018

BY EMAIL

Mutual Fund Dealers Association of Canada
Ken Woodard
Director, Membership Services & Communications
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Toronto, ON M5H 3T9
Email: kwoodard@mfda.ca

Dear Mr. Woodard:

Re: **Discussion Paper on Expanding Cost Reporting (the "Discussion Paper")**

The Canadian Advocacy Council[1] for Canadian CFA Institute[2] Societies (the CAC) appreciates the opportunity to provide the following comments on the Discussion Paper[3].

We support expanding the requirements under MFDA Rule 5.3.3 to include total costs paid by clients, including ongoing costs of owning investment funds, transactional costs charged by investment funds, costs paid by clients directly to third parties for account administration, and other costs.

We support the underlying goal of expanding cost reporting for investment funds because we support total cost transparency and enabling investors to make informed investment decisions. Informed investors should lead to better outcomes, or, at the very least, more predictable outcomes. Predictable investment outcomes are highly valued by investors.

The costs considered in the Discussion Paper, including MER, short term trading fees, redemptions fees and client costs paid directly to third parties should be disclosed to clients. Investors should receive comprehensive cost disclosure about the products in

[1]The CAC represents more than 15,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at http://www.cfasociety.org/cac. Our Code of Ethics and Standards of Professional Conduct can be found at http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx.

[2] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 155,000 members in 165 countries, including more than 148,900 CFA charterholders and 149 member societies. For more information, visit www.cfainstitute.org.

[3] Please note a copy of this letter has been sent to the Investment Industry Regulatory Organization of Canada as well as the Ontario Securities Commission and the Autorité des marchés financiers on behalf of the Canadian Securities Administrators for their information.

which they invest so that they have a fulsome understanding of the products they purchase. This disclosure will promote accountability, competition and a more efficient marketplace through better decision making. It is not sufficient for investors to merely have an understanding of the dealer-related costs they are paying. Rather, they must also have an understanding of the investment funds-related fees they are incurring.

Selective disclosure of costs, or disclosure of costs throughout a number of various disclosure documents, inhibit an investor's ability to fully understand all of the costs incurred and the resulting impact on performance.

Regulators should also consider expanding cost reporting for other investment products. This promotes fairness amongst issuers and clarity among investors who have differing investment approaches and purchase different products and avoids regulatory arbitrage. This would also limit the incentives and potential conflict to offer products that have lesser disclosure rather than products with fulsome disclosure that may otherwise discourage a potential investor. The MFDA should work with other regulators to try to ensure that total cost reporting is required across all platforms.

With respect to the specific examples of potential account statement reporting and cost reporting statements included in the Discussion Paper, we do not believe the information in the pie chart for MERs in Figure 2 in the former will be particularly helpful to investors. Investors, particularly retail investors, need to know the bottom line in a clear and understandable manner – i.e. what is the total MER or cost of the specific investment and the dollar figure impact on the investor's personal rate of return, potentially with the amount expressed as percentages as well. We believe they are less interested in how the costs are split up among the dealer and other third parties and more interested in final MER/ cost numbers in dollar amounts (as illustrated in the sample cost report). It is important not to overwhelm investors with extraneous information if the goal is cost transparency.

It may be worth considering whether prospective cost reporting can be made at the time of the initial investment, rather than after the investment has been made. This would enable investors to make more informed decisions before making the investment.

In addition, it could be very impactful if investors could be presented, in dollar figures, with what their cumulative return would have been if the costs had not been incurred, along with the performance expressed as percentages. While CRM2 requires performance reports to use a money-weighted method of return calculation, we would suggest the reports also require a time-weighted method of return, in order to illustrate how an investor's portfolio value has changed as a result of actions of the investment manager.

While we are supportive of additional transparency, we are mindful that investment fund manufacturers will need time to obtain all of the required information from each distributor and other sources so the industry should be continuously consulted prior to any final changes being made. We suspect it will be difficult for a manufacturer to easily obtain the requisite information from each distributor without significant regulatory intervention.

We note that registrants, including mutual fund dealers, have a number of regulatory changes on the horizon, particularly given the recently released CSA proposal to amend National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, which will have a significant impact on a number of facets of the advisor-client relationship, including disclosure matters. While we strongly support the proposals in the Discussion Paper, with the relatively recent implementation of CRM2, and the possible expansion of the best interest standard to suitability determinations and the resolution of conflicts of interest as they apply to dealers, it will be necessary to ensure policy alignment between regulatory initiatives and that registrants are provided sufficient time to absorb the impact of these changes.

A realistic timeframe for implementing expanded cost reporting to clients should mirror to some extent the time that was required to implement the phases of CRM2.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council for*
Canadian CFA Institute Societies

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