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September 14, 2012

BY ELECTRONIC MAIL

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

The Secretary  
Ontario Securities Commission  
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Toronto, ON M5H 3S8  
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Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
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Dear Sirs / Mesdames:

**RE: Notice and Request for Comment on Proposed Amendments to National Instrument 31-103  
*Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy  
31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, (2nd  
Publication) Cost Disclosure, Performance Reporting and Client Statements**

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to provide comments to the Canadian Securities Administrators (CSA) on its proposals related to increased Cost Disclosure, Performance Reporting and Client Statements.

#### Independent Financial Brokers of Canada

IFB is a national, not for profit association representing approximately 4,000 self-employed financial advisors. Our members are duly licensed and offer professional advice to clients to assist them and their families meet their financial goals. Our members pride themselves on the personalized service and advice they provide to clients.

IFB has been an active contributor to various CSA consultations over the past number of years because many of our members are licensed as Approved Persons of a mutual fund dealer or an IIROC dealer. Many are also licensed to sell life insurance products and provide various financial planning services. Accordingly, reporting to clients often involves discussion of a mix of investments and insurance which have been structured to address each client's personal investment objectives. By its nature, then, the mix of investments will often involve products which extend beyond the oversight of securities regulators.

It is a continuing concern of our members that new securities regulations should not impinge upon or restrict their ability to provide clients with a true and comprehensive view of their portfolio. Our Members fully support the regulatory goals of insurance and securities regulators, and self-regulators, that clients should be provided with clear and transparent reporting on the costs associated with their investments, and the performance of their investments. They feel strongly that this is where they add substantive value to their client relationships that investors who use self-directed accounts or invest directly do not have. It is equally important to note that our Members' clients are often middle income families who might not otherwise gain access to professional advice, since many larger financial institutions and companies are increasingly concentrating on more profitable high net worth clients.

#### Regulators should make financial literacy job 1.

The CSA has indicated that the investor research it conducted showed that most retail investors don't have the information they need to make informed judgments, lack a good understanding of DSCs and trailing commissions, and need explanations that are simple. This is a clear indication to that improving the baseline level of financial literacy for all Canadians should be a major focus of any undertaking.

Building an educational process that contributes to a better understanding of financial terminology and investment knowledge at an early stage will better prepare Canadians to deal with the complexities of investment strategies. Having said this, those who work with a financial advisor have the benefit of having this personalized conversation now.

#### The cost of compliance.

We continue to be concerned that the increasing compliance burden, and costs associated with meeting these compliance and regulatory demands, is jeopardizing the viability of independent service providers in the financial services industry. We caution regulators that this will lead to reduced competition and investor protection, as fewer Canadians will be able to access independent professional advice. This trend is evident today in the continuing reduction of dealers who are members of the Mutual Fund Dealers Association.

This consultation suggests expanded disclosure for clients is needed. However, much of this disclosure focuses on mutual funds, and repeats disclosure that is already mandated in the Fund Fact documents and other legal documents, such as the prospectuses. Because many other investments are not subject to this same level of disclosure, it places the mutual fund industry at a competitive disadvantage due to the increased costs of compliance, and may well leave consumers with the unfortunate perception that mutual funds are more expensive to own or a riskier investment than other types of investments.

Below are our specific comments related to this consultation, as they affect our broker members.

#### Disclosure at Account Opening

The CSA has proposed enhanced disclosure for scholarship plan dealers, more information on the costs and fees paid by mutual funds and performance benchmark information. It is our understanding that most of this information can be generic at this stage, which in our view is appropriate, as no transaction has taken place at this point.

#### Pre-Trade Disclosure of Fees, DSC Schedule and Trailing Commissions

We have no objection to clients understanding how their advisor is paid. Indeed, this disclosure is commonplace now amongst our members as it discussed in client meetings, and is already required by most provincial insurance regulators. Feedback from our members indicates that clients are not concerned that their advisor is paid a commission on the sale or a trailing commission. They expect them to be paid. What they care about is how their investments perform in the context of the goals they have set.

The CSA has proposed that trailing commissions should be disclosed as a dollar amount rather than as a percentage, as it is currently expressed. We do not see how changing to a dollar amount will significantly improve the level of disclosure. Investors can discuss actual dollar amounts directly with their advisor if they so wish. We are concerned about the cost to the mutual fund industry if required to provide the dollar amount of trailing commissions and question whether this additional cost has sufficient benefit over reporting the percentage amount. We would like the CSA to reconsider this requirement.

We agree with the proposal that investors can be directed to the Fund Facts or prospectus for the information on trailing commissions and DSC schedules, rather than require them to be duplicated in a separate document. We are also pleased that the disclosure can be provided orally, although we are concerned about the practical application of this, in the event of a future dispute.

#### Client Statement

The CSA is proposing to change from “original cost” as defined in the 2011 Proposal to “book cost”. We agree that clients should have meaningful information on which to assess the performance of the investments held in their accounts. However, we note that some mutual fund firms have already put into place reporting to clients that use the “original cost” basis. While the CSA proposes that firms could provide both, that does not address the costs to the industry for the system changes that would be required to transition to book cost. In this regard, we support IFIC’s position that firms should be able to use either, provided it is clear to the client the reporting method used and what it means.

#### Annual Performance Reporting

The CSA is proposing to mandate using a dollar-weighted methodology for calculating percentage returns to support standardized reporting. As many firms have implemented a time-weighted method

of performance reporting, they will have to incur significant costs to move to the dollar-weighted method, despite there being utility to either approach. However, the time weighted approach is currently more prevalent because the dollar-weighted methodology is sensitive to transactions other than market performance, such as investor decisions to add or withdraw cash from the account.

The CSA has suggested the inclusion of benchmarks; however, benchmarks usually use a time-weighted return. This will be confusing for investors who wish to compare their account performance to a widely recognized benchmark.

Rather than mandating the dollar-weighted method, we think a better solution is to permit either approach, as both have value (depending on the account), and will allow for more flexibility. If the CSA does not provide this flexibility, we are concerned that the high costs of these proposals, and the impact of these costs, will reduce the accessibility of mutual funds as a viable saving tool, particularly for the smaller investor.

#### Benchmarks

The use of benchmarks is voluntary but the Companion Policy notes if they are used they should be based on widely recognized indices that reflect the major asset classes in the client's portfolio. We wish to direct the CSA's attention to our comments on the use of a benchmark in the Fund Facts, as proposed in the recently closed consultation on the Implementation of Point of Sale Stage 2 for Mutual Funds. In that consultation, the CSA was suggesting including in the Fund Fact, a one year GIC as a benchmark against the performance of the mutual fund. It was our suggestion that a more appropriate performance indicator would be a benchmark that reflects the assets held in the mutual fund the Fund Fact was developed for. We believe that the CSA needs to address the inconsistency between these two documents to avoid confusing investors.

This concludes our comments. Please contact the undersigned should you have any questions.

Yours truly,



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