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Delivered By EMAIL

Ken Woodard
Director, Membership Services and Communications
Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, Ontario
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Dear Mr. Woodard:

Re: **MFDA Bulletin #0748-P: Discussion Paper on Expanding Cost Reporting**

Assante Financial Management Ltd. ("Assante"), an MFDA member firm, appreciates the opportunity to provide input on the Mutual Fund Dealers Association of Canada's ("MFDA") consultation on Expanding Cost Reporting (the "Consultation Paper"). Assante and our sister firm Assante Capital Management Ltd., an Investment Industry Regulatory Organization of Canada ("IIROC") member firm, have over 835 professional advisors overseeing $42.7 billion of assets under administration on behalf of Canadian families and institutions.

Assante commends the MFDA for initiating the dialogue on expanding the disclosure to investors to include the "total cost of ownership" for all investment funds. We understand that the MFDA is leading this dialogue on behalf of IIROC and the Canadian Securities Administrators ("CSA") as the introduction of the reporting obligations contemplated in the Consultation Paper would require the support and authority of these regulators.

The recently completed CRM2 initiative was a significant achievement as the new reporting obligations provided investors with transparency on dealer cost and compensation and account performance. However, as important as these reporting obligations are, the CRM2 rules only provide part of the total picture; the costs the dealer charges for complete financial advice and account administration. We believe that the more significant and meaningful disclosure is the reporting of all costs associated with owning an investment fund, including the cost of the investment fund manager ("IFM"). As such, subject to the comments below, Assante is supportive of expanding the cost disclosure to enable investors to understand the total cost of investing.

Detailed below is our response to the questions from the Consultation Paper.

Expanding Cost Reporting

1. Should regulators consider expanding cost reporting for investment funds?

Assante supports the initiative to expand cost reporting to provide transparency on the "total cost of ownership" as this would enable investors to get a more complete understanding of investment returns relative to the costs associated with the investment.

Implementing the rule changes to provide for expanded cost reporting will be a major project for industry stakeholders, including IFMs, Dealers, and industry service providers. Preliminary discussions at industry association meetings suggest that this initiative is exponentially more complex and expensive than the CRM2 project. Given these anticipated costs and the disruption to current business practices, we encourage the MFDA and the CSA to: (1) wait for the results of the CRM2 post-implementation review to determine if the objectives of that initiative were achieved and if not, why not before embarking on this initiative, and (2) conduct extensive market research with a cross section of investors to determine what additional information is of value. The research should investigate and confirm, what data is of value to investors, how the data should be presented, what terminology should be used to maximize comprehension of the data and how often investors want this data.

Given the importance of this potential regulatory change and the significant implementation costs anticipated, it is critical that the regulators have a clear and complete understanding of investor requirements and establish comprehensive and harmonized rule changes from the outset. If, for example, the CRM2 report regulations need to be changed because objectives were not achieved, then these changes need to be identified before commencing with the expanded cost reporting project. It is too expensive and disruptive for industry and potentially confusing to investors to be changing the disclosure requirements multiple times in a short period of time.

The expected costs to implement the regulatory changes proposed in the Consultation Paper are significant and Assante is concerned that these costs will have unintended consequences for small, independent IFMs and Dealers. There will be upfront and ongoing costs that smaller IFMs and Dealers may not be able to afford. Further, the proposed regulatory changes introduced by the Client Focused Reforms will add to the regulatory burden imposed on all IFMs and Dealers. The consequences of these regulatory changes may be further consolidation in the industry which for investors means less choice in terms of the funds available to invest in and less choice for financial advice. As a result, the CSA should complete a comprehensive regulatory impact analysis to consider if these potential unintended consequences are in the investors best interest. The same regulatory impact analysis should investigate the potential overlap and duplicative obligations of the Client Focused Reforms and the disclosures provided in the Consultation Paper.

2. Should regulators consider expanding cost reporting for other investment products?

Assante supports the concept of expanding cost reporting provided that the definition of Investment Funds includes the funds contemplated in the Consultation Paper. Further, to ensure there is a level playing field, it is critical that the expanded cost reporting rule changes are consistent and come into effect at the same time so as not to disadvantage one type of Investment Fund For example, the obligation to provide expanded cost reporting should not become effective earlier for mutual funds just because it may be easier to modify existing infrastructure to facilitate reporting as compared to developing new infrastructure to facilitate expanded cost reporting for ETFs. The same requirements must apply to all Investment Funds at the same time. In addition to mutual funds, labour sponsored

funds and commodity pools, expanding cost reporting should also be considered for other types of investment products such as GICs and segregated funds. In this regard, we encourage the CSA to continue to work with their insurance and banking counterparts to have harmonized disclosure rules regardless of the investment products.

Costs Considered for Expansion

3. Do you agree that the costs considered in this Discussion Paper should be disclosed to clients?

As detailed in the response to question 1, the starting point for what needs to be reported is investor research to determine what data is important to investors, what terminology should be used on disclosure reports, and how frequently such data should be reported.

Assante agrees that the fees outlined in the Consultation Paper should be disclosed. We also agree with the Investment Industry Association of Canada and the Investment Funds Institute of Canada that there needs to be a consistent methodology for calculating costs and in particular, the calculation methodology for reporting the management expense ratio ("MER") in dollar terms. There are different ways costs can be allocated by IFMs and Dealers, therefore to ensure that investors can compare "apples to apples" standardization is required. To achieve standardization there will need to be a balance between principle-based and prescriptive rules to allow for flexibility in other areas, such as statement design and reporting.

4. Are there any other costs that should be reported to clients?

We believe the cost identified in the Consultation Paper, while not 100% complete include all material costs to allow the investor to make informed decisions about their investments. The Trading Expense Ratio, while not included in the costs considered in the Consultation Paper, would be difficult to calculate at the account level and is not a material component of the overall costs.

Cost Reporting

5. What are your views on the reporting examples provided in this Discussion Paper?

As a general comment, Assante believes the rules for reporting and account statement design should be principle-based and set out the minimum reporting requirements, thereby providing Dealers with flexibility to design their reports as best suits their business model.

Figure 1: Example Account Statement Holdings Section for an account holding Investment Funds
The MER reported on an Account Statement would most likely be from the most recent Fund Facts of the fund. As such, this information has already been provided to the investor as part of the Dealers Point Of Sale obligations and this MER value may not represent the specific MER for the client as rebates and/or fee reductions, such as for fee-based accounts, would not be included. Therefore, we question the value of adding the MER to the account statement as the Consultation Paper has not clearly identified the investor benefit achieved by adding this information to the statement.

Figure 2: Example Investment Report

Assante agrees with the MFDA's assessment of this report as "it would be more difficult to implement and incorporate into existing account statement reporting". We also believe this report would be confusing to investors, and even if understood by investors, the information would not materially alter their assessment of their investment costs.

Figure 3: Example Cost Report and Compensation Report for a Member selling Third Party Funds
As described previously, investor research should be conducted to determine how the expanded cost reporting is provided to investors, however, we believe that by modifying the annual Cost and Compensation Report developed for CRM2 purposes, to include the expanded cost data, investors would be best served. The modified report would consolidate both the dealer and the investment fund costs on one report. This new report must be easily understood and use terminology that investors find informative. In contrast, we found Figure 3 to be confusing as some costs were double counted and as a result the total cost was not easily understood.

6. *Are there better ways to report the costs of investing to clients?*

Yes, investor research would help establish what information investors value and how to report this information. Principle-based rules would allow dealers to customize reports to suit their investor clients.

7. *What challenges or issues do you foresee in obtaining and reporting expanded cost information to clients?*

There are a number of challenges associated with obtaining and reporting the expanded cost information, some of which have been mentioned above. However, we believe the two biggest challenges are developing the infrastructure to facilitate the flow of required information from IFMs to dealers and finding the resources to work on this initiative which is in addition to the changes brought about by other regulatory changes and competitive pressures.

Developing and implementing the required systems and processes for expanded cost reporting will be a major effort, requiring a significant commitment of resources for both IFMs and dealers. Most of these resources will also be responsible for changes brought about by the Client Focused Reforms and the changes to mutual fund fee structures, two rule changes that will require extensive process and system development. Non-regulatory initiatives such as digital onboarding of clients and integration of fintech, which provide better investor experiences and are required to remain competitive in the industry also draw on these same resources. As a result, IFMs and dealers will need extended transition periods to implement these rule changes.

8. *Are there different challenges or issues to expanding cost reporting for investment dealers or other securities registrants?*

Developing the infrastructure to facilitate expanded cost reporting will be more challenging for some investment funds than others. Specifically, IFMs may be able to utilize FundServ to facilitate the transmission of data between the IFM and dealer, however, there is no equivalent infrastructure for

ETF providers. Thus, it will may be a more complex and longer process provide expanded cost reporting for ETF funds.

Implementation

9. *Based on the cost reporting approaches detailed in the Discussion Paper, what would be a realistic timeframe for implementing expanded cost reports to clients?*

Given the lengthy development cycles of industry vendors and the regulatory burden on IFMs and Dealers from other initiatives, in particular the Client Focused Reforms and the pending regulatory action on mutual fund fees, we believe that a minimum of three years from the effective date of the rule is required to implement the expanded cost reporting obligations.

As noted in our response to questions 1 and 3, as a next step in this consultation, we encourage regulators to undertake extensive research to identify what additional disclosure is of value to investors. The results of this research will inform all stakeholders as to the objectives of expending cost disclosure and what rule changes may be required to achieve these objectives. We also encourage the regulators to consider alternative courses of action, such as enhancing the utility of the Fund Facts document, that may satisfy investor disclosure requirements and provide a better cost benefit outcome.

Assante appreciates the opportunity to comment on the Consultation Paper, and as always, we are available to discuss these comments if there are questions.

Yours sincerely,

Sean Etherington
President
Assante Financial Management Ltd.