Manulife Securities

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RE: MFDA Discussion Paper on Expanding Cost Reporting

Manulife Securities consists of the MFDA regulated Manulife Securities Investment Services Inc., the IIROC regulated Manulife Securities Incorporated, and the provincially regulated Manulife Securities Insurance Inc., each of which is a wholly owned subsidiary of The Manufacturers Life Insurance Company (Manulife).

Our advisors and life agents provide thousands of Canadians with access to stocks, bonds, mutual funds, ETFs, and other investment products as well as a suite of insurance solutions.

Consistent with the views of the Investment Funds Institute of Canada (IFIC) and the Canadian Life and Health Insurance Association (CLHIA), Manulife continues to support expanded cost reporting for Investment Fund products as we believe that Canadians are best served when they have access to a wide variety of financial products and services and have a clear understanding of their cost and value. Our response is also generally supportive of the recommendations in IFIC's submission to the MFDA's Discussion Paper on Expanding Cost Reporting (Discussion Paper).

We provide below some general comments and guidance for the MFDA and outline specific key issues and challenges for the MFDA to consider further.

We are pleased to see the MFDA acknowledge and support the efforts of the Canadian Council of Insurance Regulators (CCIR) on this topic. We highly recommend that the MFDA work with the Canadian Securities Administrators (CSA), the Investment Industry Regulatory Organization of Canada (IIROC) and CCIR to develop a reporting standard that can be implemented in a coordinated manner across these two industries.

The alternative of implementing this transformative regulatory change in isolation would create significant channel disruption, investor confusion, and would be a disservice to Canadian investors.

It will also be important for financial services regulators (e.g. MFDA, IIROC, CCIR, CSA) to recognize the significant role that advisors have in educating and socializing regulatory norms, like disclosure, with their clients. Advisors are excellent leaders in the promotion of financial literacy. Given the complexity of the information that is being proposed it will be imperative for regulators to consult and engage with the advisor community as they continue to develop and shape this proposal.

We recommend the MFDA suggest the CCIR and CSA aim for a coordinated implementation timeline following the publication of a final rule. A 3-year timeline should provide for a sufficient implementation period.

As you know, the CSA is currently seeking comment on proposed amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (see Client Focused Reforms) and we expect they will be seeking comment in an upcoming consultation with respect to the following (i) a prohibition of all forms of the deferred sales charge option, including low-load options; and (ii) a prohibition on the payment of trailing commissions to dealers who do not make a suitability determination in connection with the distribution of prospectus qualified mutual fund securities (see CSA Staff Notice 81-330).

We suggest that implementation of expanded cost reporting be deferred until such time as the CSA has made a final determination on these amendments.

In the coming weeks and months, I will direct my team to contact the MFDA to arrange an in-person follow up with you and your staff to answer any questions you may have and engage in further discussions on this consultation.

Thank you,

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SPECIFIC COMMENTS

Calculation Methodology

We agree with the MFDA's sentiment in the Discussion Paper that there are many challenges involved in collecting and displaying the cost of investment fund ownership.

To mitigate some of these challenges, we recommend the MFDA adopt the methodology to calculate the MER in the Annual Report on Charges and other Compensation (RCC) as proposed in the IFIC submission to the Discussion Paper.

Such an approach will provide customers with an effective estimate of the cost of ownership of their investments.

Challenges for ETFs

We are generally supportive of expanding cost reporting for all investment fund products however, we recognize that this will present a number of unique challenges for Exchange Traded Funds (ETFs) and other market traded products.

As outlined in the IFIC submission to the Discussion Paper, a consistent calculation methodology could be used to calculate the full cost of owning an ETF. However, because they are traded over an exchange, it will be important to understand differences in the process, including the need for ETF managers to provide a net asset value per unit ("NAVPU") and the role of the dealer in calculating the indirect cost of ownership. ETF providers will have to provide a NAVPU to enable dealers to calculate the indirect cost for their clients based on the number of units each client holds of the ETF. Although the market price of an ETF is readily available, the NAVPU is necessary as the MER is based on the net asset value of the ETF. It will also be important to identify a central repository through which key data elements, such as the NAVPU, can be made available to dealers in a readily useable format. Unlike conventional mutual funds, ETF providers do not have any information on the number of securities held by each ETF investor.

Industry infrastructure to host the flow of investor data necessary to effectively calculate the MER at the account-level, would have to be built as none currently exists. Requiring dealers to build their own systems to determine the MER calculations or developing a mechanism to make ETF manager information readily available to dealers would require a significant build and present ongoing costs/challenges for the industry (e.g. maintenance, aggregation, and incorporation of this data into the report).

We would be happy to meet with you and your team to discuss these technical challenges in more detail.

Customer Experience & Statement Design

As a guiding principle, we recommend the MFDA adopt a straight forward and intuitive approach to displaying expanded cost reporting information.

Language is a key component for a client's comprehension of financial information and overall satisfaction with their investing experience. Plain language is preferred to the use of technical language including jargon. Presenting a traceable and understandable breakout of the cost of ownership and avoiding instances of double counting is also preferred.

Figure 3 in the MFDA Discussion Paper, for example, raises an issue of double counting as a client could add up to the prominently displayed total cost figure with the total charges and compensation figure. We believe that the sample statement found in the IFIC submission to the MFDA Discussion Paper is an effective alternative that presents the information in a straight forward manner and addresses the issue of double counting.

It will also be important for the MFDA to consider the varying levels of financial literacy for investors across Canada and the role that advisors play in socializing regulatory concepts, such as disclosure, with their clients.

The MFDA should recognize that each new page of disclosure will increase administrative costs for the dealer, require time for the advisor to socialize and educate their clients, and reduce the likelihood that they fully digest and understand the information. Accordingly, we recommend that the MFDA provide dealers with an appropriate level of flexibility in statement design and the presentation of information to clients.

We support IFIC's recommendation that minimum content requirements be introduced in the rules and a flexible approach be permitted, similar to CRM2, for the implementation of the requirements.

Consistent Statement Delivery for Segregated Funds

Expanding cost disclosure requirement across industries and regulators also presents some unique challenges for segregated funds.

Unlike mutual fund cost disclosure, which is the responsibility of the Distributor, segregated fund cost disclosure is a responsibility of the Insurance Carrier.

For reference, segregated funds can be distributed through a variety of distribution models: Independent Insurance Advisors, MGAs, Insurance licenced advisors associated with an MFDA or IIROC distributor.

For investors that hold a segregated fund product within a Dealer Nominee account, this may create situations where the investor would receive two separate cost disclosure statements. We would suggest that the MFDA, IIROC and CCIR investigate options to avoid investors receiving duplicate and in consistent cost disclosure information.