PRIMERICA®

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July 20, 2018

Mutual Funds Dealer Association of Canada (MFDA)

**Attention:**

Ken Woodard
Director, Membership Services and Communication
Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, Ontario M5H 3T9
kwoodard@mfda.ca
(416) 943-4602

Re: Discussion Paper on Expanding Cost Reporting (Bulletin #0748-P)

Dear Mr. Woodard,

PFSL Investments Canada Ltd. ("PFSL") is writing to provide our comments on the MFDA's Discussion Paper on Expanding Cost Reporting.

**About PFSL**

PFSL is a member of the Primerica Financial Services Canada group of companies ("Primerica"). Primerica is a leading distributor of basic savings and protection products to middle-income households throughout Canada. In addition to PFSL, a mutual fund dealer, our Canadian corporate group includes a mutual fund manager (PFSL Fund Management Ltd.) and a life insurance company (Primerica Life Insurance Company of Canada). Primerica has been serving the Canadian Public since 1986. Our mutual fund dealer contracts with the largest independent mutual fund sales force in the country, with over 6,600 Approved Persons ("APs") and administers close to $13 billion of client investments, the vast majority of which serve the savings needs of middle-income Canadians. Our life insurance company contracts with over 12,000 licensed life insurance agents across the country, protecting Canadian families with over $114 billion of term life insurance.

Primerica dedicates its efforts to providing middle-income families with access to simple, yet essential financial products and services through one of the nation's largest and exclusive (captive) sales forces. We consider our focus on middle-income Canadians one of the distinguishing features of our company since they are often overlooked by other financial service providers, particularly those providing personal advice. It is with this experience and a focus on preserving access to affordable financial products and services that we submit our comments to the MFDA.

**Preamble**

Primerica is supportive of the concept of timely, meaningful and simplified client disclosures and

owning any investment is relevant for the investing decisions customers make. We are of the view that an effective Expanded Cost Disclosure regime should be simple and comprehensible to the average investor. Following, we provide our detailed comments and highlight concerns we believe the MFDA should take into consideration.

**Presentation and Disclosure**

**1. Account Statement Disclosure of Current MERs (Figure 1 and 2)**

The Member understands the rationale of wanting to remind consumers of the ongoing MER costs of the funds that they own, information that is provided when the customer initially purchases the product. Our only concern with this type of disclosure is that this "posted MER" information may, in some cases, be incomplete. For example, if the customer holds a fee-based fund series which does not include any dealer fees associated with fund ownership, or if the client's account size qualifies them for a management fee rebate, the true cost of owning a fund will differ from the number presented. While we don't have a specific answer for these challenges, we believe it is worth considering whether the benefits of disclosing published MERs, given these limitations, is leading to an enhanced or diminished client understanding of their ongoing cost of ownership.

Should the MFDA decide to require current MER's to be disclosed for each fund position held, we would advocate for flexibility in how the information is presented. The choice of a relatively simple disclosure (like figure 1) versus a more fulsome disclosure (like figure 2), or some other method yet to be imagined, should be left up to dealers when considering their client's needs and preferences. So long as the information is provided in a way that does not mislead the customer, having flexibility will help meet the desired regulatory outcome and enhance client understanding of costs.

**2. Report on Charges and Other Compensation Disclosure (Figure 3)**

The Member understands the rationale for expanding the scope of cost reporting to include all costs of ownership, not just costs charged by and compensation paid to the mutual fund dealer. We support the concept of full disclosure to clients in a clear, concise and meaningful way. Similar to our comments above, we would advocate flexibility in how the information is presented to a client.

Our main concern is that the proposal continues to maintain separate Cost and Compensation Reports, similar to the CRM 2 regime. If all costs of ownership are to be included in the new Cost Report, there will now be a significant amount of overlap between the two reports.

For example, in Figure 3 the amount of trailing commissions will be reported twice – once in the Cost Report as part of the MER, and again in the Compensation Report as a payment from fund manager to dealer. Other charges, such as front-end sales commissions or administrative fees, are included in both totals. DSC commissions, while forming part of the dealer's compensation, are not a direct cost paid by the client but could mistakenly be interpreted as such.

A client's natural tendency will be to add the total of the Cost Report together with the total of the Compensation Report in an attempt to estimate their combined costs, which of course is not an accurate reflection of costs paid. To add both totals would overstate a client's total costs by the amount of the overlap - trailing commission, dealer charges, and DSC commission.

The Member would like to suggest that these two reports be combined into a single "Costs and Compensation Report". This Report would break down all costs paid by the client into two relevant groupings; costs paid to fund manager (and/or fund), as well as costs paid to the dealer. The total of each of the sub-groupings would represent the full cost of ownership to the client. If DSC commissions are still available at the time the rules and reporting come into effect, a footnote can easily be added explaining any additional compensation paid from the fund manager and dealer – a cost the client does not pay directly. If the CSA's recent proposal to ban DSC products comes to fruition in the interim, then the need for this footnote will be eliminated.

In the Appendix, we have included an example of how a consolidated Costs and Compensation Report could be created clearly showing a client their costs of ownership.

**Calculating Management Fees (MER) Paid "per account"**

The Member's affiliate PFSL Fund Management Ltd. operates a proprietary mutual fund family called the *Primerica Concert Series of Funds*. As a result, we are acutely aware of the issues surrounding the calculation and reporting of customer MER costs paid at the fund position (customer account) level.

For most fund managers in the industry today, there are no mechanisms in the transfer agency systems to track the total MER "paid" at an individual fund position level. Rather, on a daily basis, the fund accounting process accrues management fees and other expenses and sets a liability at the overall mutual fund level, striking the daily fund price based on the total assets of the fund factoring in these expense accruals. This means Management fees and other costs are not currently allocated to individual client accounts.

In order to be able to report the total MER costs at the customer fund position level, significant investments in programming and tracking will have to be made by the fund managers. Further, because of the nature of the accrual and true-up process, with historical MER only being calculated after the fact, any amounts reported to dealers will have a small degree of estimation involved. We do not believe this estimation to be material to the overall costs the client paid since the management fee "M" is known, and the "ER" portion of the MER, while not known until after the fact, does not fluctuate significantly from period to period.

**Implementation Challenges – Fund Managers, Fundserv, and Dealers**

The costs of this initiative, both in terms of financial, operational and compliance, associated with Expanded Cost Disclosure will be significant. The number of internal resources devoted to this project and the total time for implementation will also be significant.

From the perspective of a fund manager, a new methodology will be required to estimate the MER paid at an individual fund position level each day. Significant changes to the unitholder transfer agency systems will be needed to track the estimated MER of each fund, to accrue estimated MER cost each day based on the fund position value, and to build periodic extract files that can be sent via Fundserv to investment dealers.

From the perspective of Fundserv, specifications for a new file type will be required to be developed and programmed in order to facilitate the transfer of this information between fund managers and dealers. Alternatively, a modification to an existing file to capture the MER costs paid may be used; however, the

difference in work between the two is not material. This new file (or modification to an existing file) would need to be implemented as part of a scheduled release and tested extensively by both the fund managers and dealers.

From the perspective of investment dealers, the ability to import and store the information contained in this new file will be needed. Dealer back office systems will need to be modified to import, track, and ultimately aggregate & extract the cost information. Client statement extract files will need to be modified to cope with the new information. Dealers will need to work with their print vendor to design, capture, map and integrate the new information into the Reports.

In addition to the full cost reporting information, Dealers will have to build systems that can import current MER rates from an outside data source in order to be presented on the client statements. Once that data is captured and available in the statement extract, dealers will have to work with their print vendors to integrate this new information into their client statements.

Once all of the above programming and testing is completed, the data will need to be captured for a full calendar year in order to be reported on the year-end statements. In total, the time to implementation for an initiative as significant as this will be measured in years, not months. We ask that the MFDA work closely with industry to understand the complexities and time needed to implement this new full cost reporting regime.

**Miscellaneous**

In the discussion paper, the MFDA states that it "has not proposed expanding cost reporting for other investments at this time as, unlike Investment Funds, such investments generally have limited automated data available to registered firms". We find this statement problematic and would like to note that the limitation of data in investment products such as ETFs also applies to mutual funds. From a consumer protection perspective, increasing popularity of ETFs and a potential shift to this product necessitates similar Expanded Cost Reporting being done simultaneously. It is essential that investors that prefer ETFs receive the same information as mutual fund investors on the true cost of their investments.

In terms of the MFDA's comments that there are integrated members that are currently disclosing the full cost to customers, we believe the industry would be interested in hearing additional details on how that was accomplished, given the complexities involved and lack of tracking of MER at the client account level as noted above.

**Responses to Discussion Questions**

Expanding Cost Reporting

1. <u>Should regulators consider expanding cost reporting for Investment Funds?</u>

As pointed in our preamble, we are supportive of expanding cost reporting for investment funds.

2. <u>Should regulators consider expanding cost reporting for other investment products?</u>

We are of the view that securities regulators need to mandate consistent rules across all financial products. In this particular scenario, regulatory inconsistencies may give the appearance that mutual

funds are more costly than other products, when in fact that may not be the case. To empower investors with the knowledge to better evaluate the investment products they purchase, regulators need to establish Expanded Cost Disclosure requirements across the whole investment industry.

Costs Considered for Expansion

3. Do you agree that the costs considered in this Discussion Paper (i.e. MER, short-term trading fees, redemption fees and client costs paid directly to third parties) should be disclosed to clients?

We are of the view that all the costs considered in the discussion paper will, when presented in a simple and clear format, familiarize investors of the cost associated with owning mutual funds and in the process help them make informed decisions about their investments.

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

We believe that the MFDA should require any cost (or cost estimates), incurred by the client in the operation of the account, to be disclosed.

Cost Reporting

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

As noted earlier, the proposed disclosure document (Figure 3) of the MFDA needs to avoid double counting. Along with our comments, we have provided a sample disclosure document that we believe meets the regulator's expectations that are clear and easy to understand.

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

Yes, we believe so. We have provided a sample cost disclosure document as an alternative to the MFDA's document.

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

We have detailed these challenges in our comments above.

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

As an Investment Fund Manager and Mutual Fund Dealer, we have documented what we believe to be our particular challenges in the comments above. Feedback from other industry participants should be sought by the MFDA.

Implementation

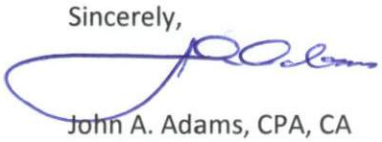
9. Based on the cost reporting approaches detailed in this Discussion Paper, what would be a realistic timeframe for implementing expanded cost reports to clients?

Due to the complex nature of such an undertaking, a minimum of 3 Years from the point Expanded Cost Reporting becomes a rule would be a realistic time frame.

**Conclusion**

We appreciate the opportunity to comment on this important issue. As always we remain open to discuss and willing to work with regulators during this consultation and beyond.

Sincerely,



John A. Adams, CPA, CA
Chief Executive Officer

## Appendix

# Liberty Financial

Annual Report of Costs & Compensation
For the period ended December 31, 2021

Jane Q Public
123 Main Street
Chatham, ON
Canada N3T 8A9

### Your RRSP Account 12345678

## Costs you paid to invest during 2021: $796.99

This report provides a breakdown of total costs you paid to invest during the year. These costs are paid to us (Liberty Financial) for administrative costs and services, including financial advice, and to other parties such as investment fund companies who manage the funds you own.

| | Cost ($) |
|---|---|
| **Amounts you paid to Investment Fund Manager(s) and / or your Investment Fund(s)** | |
| Investment management fees and expenses ("MER") | $671.78 |
| Less: management fee rebates | $(44.79) |
| Less: trailing commissions paid to Liberty Financial | $(298.57) |
| Net ongoing management fees & expenses | $328.42 |
| Short-term trading fees paid on the sale of investments | $20.00 |
| Redemption fees paid on the sale of deferred sales charge investments | $50.00 |
| **Net paid to Investment Fund Manager(s) and/or your Investment Fund(s)** | **$398.42** |
| **Amounts you paid to Liberty Financial** | |
| Trailing commissions received from investment fund manager(s) | $298.57 |
| Account administration and operating fees | $60.00 |
| Front-end sales commissions | $25.00 |
| Switch fees | $15.00 |
| **Net paid to Liberty Financial[1]** | **$398.57** |
| **Total costs you paid to invest during 2021** | **$796.99** |

[1] **Note re: total compensation received by Liberty Financial**
In addition to the amounts you paid to Liberty Financial shown above, Investment Fund Manager(s) paid Liberty Financial a total of $250.00 in deferred sales charge commissions related to the purchase(s) of investment funds. Accordingly, the total charges and compensation that Liberty Financial received to service your account during 2021 was $648.57.