



Quadrus Investment Services Ltd.

255 Dufferin Avenue  
London, Ontario N6A 4K1  
1.888.532.3322  
1.877.814.6492 Fax

VIA E-MAIL: [kwoodard@mfa.ca](mailto:kwoodard@mfa.ca)

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Ken Woodard  
Director, Membership Services & Communications  
Mutual Fund Dealers Association of Canada  
121 King St. West, Suite 1000  
Toronto, ON M5H 3T9

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

We are writing to provide comments with respect to the Mutual Fund Dealers Association of Canada (“MFDA”) Discussion Paper on Expanding Cost Reporting (the “Paper”).

Quadrus Investment Services Ltd. (“Quadrus”) is one of the largest mutual fund dealers in Canada with more than 3500 registered investment representatives. It is the exclusive mutual fund dealer for investment representatives of London Life Insurance Company and the preferred mutual fund dealer for investment representatives of The Great-West Life Assurance Company.

**Introduction:**

Quadrus is supportive of expanding cost reporting with respect to investment funds, as we believe that clients will benefit from expanding cost reporting beyond amounts paid to the dealer, to include total cost of investing.

Although we are supportive of expanding cost reporting, we note that care should be taken to avoid a complete focus on fees, as this could result in clients being drawn to the lowest cost investment, which may not be the most appropriate or suitable for the client. Product features, performance, ongoing advice and services, are all important elements of the relationship.

We also note that if similar investment products disclose different cost components to clients, this is likely to result in client confusion, and an inability for clients to compare costs associated with similar investment products. For this reason, Quadrus strongly encourages co-ordination among securities and insurance regulators, such that clients ultimately benefit from consistency across the mandated disclosures for different products overseen by different regulators. Co-ordination will result in a better outcome for clients, as they will be capable of comparing costs between mutual funds and segregated funds; they will not be misled for a period of time with respect to product costs; and as segregated funds often invest in mutual funds, any disclosure regime needs to be harmonized and launched concurrently in order to avoid client confusion.

We note that the Paper indicated that results would be shared with other regulators, and for the reasons above, we encourage and support a collaborative approach.

The Paper sought input on 9 questions, which we respond to below.

**Responses to Questions:**

***Expanding Cost Reporting***

***1. Should regulators consider expanding cost reporting for Investment Funds?***

Quadrus is supportive of expanding cost reporting for investment funds. Reporting total costs to clients beyond amounts paid to the dealer will result in total cost transparency for clients, which we support.

The Canadian Council of Insurance Regulators ("CCIR") has released an itemized list of disclosure requirements, and a prototype disclosure statement, which insurers will be required to comply with in respect of segregated funds.

Given the similarities between the segregated fund and mutual fund products and requirements, it is important that the type of cost disclosures and timing of such disclosure align, so as to allow clients to compare product costs to the extent possible.

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

Given the focus placed on full cost disclosure for clients invested in mutual funds, we suggest that the same principles should apply to all investments clients may make, beyond just mutual funds.

Consideration should be given to applying the same cost disclosure principles to other securities, including ETF's. This would allow clients to compare costs of a variety of investments, and therefore allow clients to more easily make more fully informed decisions with respect to investing.

***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?***

Yes, Quadrus does agree that the costs considered in the Paper should be disclosed to clients. Awareness of these costs will allow clients to have a complete understanding of the cost of investing in mutual funds, and the component parts of such costs.

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

We do not have additional costs to itemize at this time, however we suggest that dealers should be granted the autonomy to format client statements related to expanded cost reporting in the manner of their choosing, and to add any additional cost disclosure items if desired.

An industry standard should be developed concerning which itemized pieces of information mutual fund companies will provide to dealers - this should include the various line items referred to in the Figures included in the Paper, as well as other items, such as taxes.

## **Cost Reporting**

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

#### Statement Design Flexibility

Generally, we suggest that guidance on the content of the reporting should be provided, however, dealers should retain the autonomy to develop statement formatting and wording.

#### Statement Complexity

We support providing clients with full cost disclosure, however we are also supportive of initiatives to control the complexity and length of client statements. Consideration should be given to the information provided (particularly on Figure 3) and ultimate clarity to clients should be considered in the development of these statements. Consideration should be given to allowing the suppression of individual transaction details which currently create the great length of client statements, particularly in active accounts with multiple funds. Adding additional content to the statement should be offset by reducing other elements, if such details can be retrieved online. This may enhance the readability and actual reading of the statement by the investor.

#### References to MER

In each of the examples, it should be clarified that the market value is net of MER.

Further, where the MER is referenced, it should be explained that the MER is a percentage of funds invested (recognizing that purchases/dispositions and daily market value will impact the amount of the total annual MER fee); as currently drafted, it is unclear what the MER percentage applies to.

We do not have a specific preference between Figure 1 and Figure 2, however we suggest that mutual fund companies provide all of the component parts of the MER to the dealer, and allow dealers to determine how to best present this information to clients.

Mutual fund dealers will rely on mutual fund companies to produce the information required to be delivered to clients, including the MER percentage, the breakdown of the MER component parts, and the MER and other costs in dollars at the client level. Mutual fund dealers will only be capable of reporting to clients the figures provided to the dealers by the mutual fund companies. We understand that in order to provide the actual MER in dollars at the client level, mutual fund companies will likely be required to estimate this based on the previous years' MER. If this approach is taken, the estimated nature of the MER and its component parts should also be explained on the statement. As noted above, an industry standard must be developed regarding specific information that will be provided to dealers in relation to the MER and client holdings.

On Figure 3, we note that the term 'MER' is not used; we believe that the term 'MER' should also be used in Figure 3, to make it clear how the costs reported are related to each other, and relate back to Figures 1 and 2.



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### Third Party vs. Proprietary Reporting

Regarding Figures 3 and 4, we do not believe that a difference in reporting standard is required for our proprietary mutual funds as compared to our third party mutual funds. As a result, we would intend to report both third party and proprietary mutual fund activity to clients in the same manner – similar to that proposed for third party mutual funds, and it should be made clear that dealers will have the latitude to make such determinations.

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

We believe that the ultimate goal is to produce statements that are clear and transparent to clients, such that clients may review them and immediately understand the total cost (and certain component parts of that cost) of investing. To this end, simplified presentation is important. In particular, it should be clearly identified if certain costs are subsets of other costs already disclosed. Clearly setting out how the MER and its component parts fits into the statements and costs disclosed is important in order to avoid client confusion. Efforts should be made to encourage use of plain language, rather than required definitions and terminology written in “investment speak”.

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

In order for mutual fund dealers to comply with full cost reporting requirements, dealers will require that cost information be provided from mutual fund companies. This will be very costly, and will require industry-wide coordination among Fundserv and manufacturer and dealer back-office management software providers. Consideration should also be given to any nuances related to obtaining this information for client-held accounts and nominee-held accounts.

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

As Quadrus is only registered as a MFDA dealer, it will not comment on this section.

### **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?**

For a variety of reasons, it is important to align the timing of expanding cost reporting to mutual fund clients with full cost disclosure to segregated fund clients. Simultaneous cost reporting requirements for both segregated funds and mutual funds will avoid client confusion with respect to the actual costs associated with investing in those products.

Implementation timing must also consider that Fundserv and manufacturer and distributor back-office software must develop the data feeds, and fields required to capture this information; dealers and their third party back-office software providers must then have sufficient time to redesign client statements



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to provide all mandated disclosures. Building and testing of these systems will need to be factored into any timeline.

By way of comparison, we note that when CRM2 was introduced, dealers had implementation challenges due to the fact that most MFDA dealers use one of approximately three back-office software suppliers. Because each dealer had different statement-design requirements, requiring three providers to implement different changes for each dealer by the required date presented a significant challenge to the software providers to build and test for each MFDA dealer on the expected timeline. We anticipate the same challenges with this initiative, and any implementation timeline will need to consider these logistics.

In conclusion, we appreciate the opportunity to comment on this important topic, and we look forward to working with you and other regulators in obtaining the best outcome for clients.

Yours truly,

**Quadrus Investment Services Ltd.**

A handwritten signature in black ink, appearing to read "Michael Campbell", with a long horizontal flourish extending to the right.

By: Michael Campbell  
President and Chief Executive Officer