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Re: Discussion Paper on Expanding Cost Disclosure

On behalf of Sterling Mutuals Inc., I would like to thank the MFDA for providing an opportunity to provide feedback on this Discussion Paper. The MFDA should be commended for taking a leadership role on this complex topic. The inclusion of 4 specific examples within the paper is very helpful in better thinking through client outcomes and how expanded cost information might be understood or even misunderstood by clients.

We think that full cost of ownership reporting is a good goal for regulators to strive towards as it achieves a more complete context for Canadians to assess their investments. Without expanded cost reporting Canadians have, in most situations, only a portion of their total cost of ownership provided to them which is a sub optimal outcome and may lead to confusion.

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

Yes, regulators should consider expanding cost reporting for Investment Funds. We believe that the informational benefits Canadians are receiving via CRM2 can be improved upon with full cost of ownership disclosure. As it currently stands, in most situations, Canadian consumers are not able to determine what they actually paid in dollars for their investments.

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

Yes, we would encourage expanded cost reporting be implemented in conjunction with other investment products including segregated funds. As acknowledged by the Canadian Council of Insurance Regulators (CCIR) in their December 2017 *Segregated Funds Working Group Position Paper* "CRM2 has created a gap in the level and type of disclosure given for mutual funds and segregated funds". Working in conjunction with the CCIR to achieve symmetry in the area of full cost reporting would keep this gap from widening and allow for better understanding by consumers across mutual and segregated funds.

We note that the CCIR's *Appendix IV – Client Annual Statement - Proposed Minimum Content* had quite different information listed under the Details of Charges Section than the 4 examples within the MFDA Discussion Paper. Canadians would not be well served if material differences emerge in the nature of new cost of ownership reporting requirements between mutual funds and segregated funds. Although the differing distribution structures between mutual funds and segregated funds will necessitate some differences in approach (dealer reporting versus manufacturer reporting) the

aim should be for Canadians to see, as much as possible, symmetry in the reporting of total cost of ownership. Doing so would also reduce instances of “regulatory arbitrage” by some industry participants.

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

Yes, we agree that the costs considered in the paper should be disclosed to clients as their disclosure is consistent with the goal of total cost ownership reporting.

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

Although no other costs come to mind, we are of the view that all costs should be reported.

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

We believe that it best to coalesce around the existing CRM2 Charges and Compensation Report and ensure that it is the focus for investors for expanded cost and compensation information.

The examples in Figure 1 and 2, don't provide cost reporting in dollars and cents. Full cost of ownership reporting in dollars and cents is what Canadian's currently lack and so should be the natural starting point in any expanded reporting requirements. The breakdowns illustrated in example Figure 2 will be difficult to obtain for all types of products. We recommend the approaches taken in Figures 3 and 4 as the best way forward in any new expanded cost reporting requirements.

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

As noted in our answer to question 5., we believe a simple single annual report built off the foundation laid by the CRMs Charges and Compensation Report to be the solution.

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

Coordination between fund companies, dealers and systems providers will be a significant challenge. A successful implementation will require considerable industry collaboration and a long duration transition period.

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

Approximations will need to be used in obtaining cost information. Products such as ETFs and account structures such as omnibus do not allow for exact dollars and cents breakdowns account by account comparable to what is provided through CRM2. This is because in CRM2 the fund companies are exactly calculating compensation at the account level. For many other expenses fund companies are charging costs at the fund level and not at the account level.

Although approximations may not seem ideal, with industry input, they can be derived in way that is consistent across firms and account structures and though not exact will be reasonably accurate.

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?

Implementation of expanded cost reporting to clients will be a complex initiative, at least as difficult as CRM2 which necessitated a 3+ year implementation time frame. As dealer reporting will be conditional on reporting received from mutual fund companies, staggered implementation dates will be required. We recommend fund company timelines be placed at least 2 years in advance of the final dealer requirements which will provide expanded cost reporting to clients.

In closing, we look forward to working in the future with the MFDA and the industry to achieve the goal of providing expanded cost reporting for Canadians. Feel free to call upon Sterling Mutuals at anytime if additional dialogue would be helpful in moving toward this objective.



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