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BY E-MAIL

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and

The Secretary

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Object: Draft Regulation to amend *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations* - Total Cost Reporting for Investment Funds and Segregated Funds

Dear Sirs/Mesdames,

We are sending you this comment letter in response to the publication of the draft Regulation to amend *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations* - Total Cost Reporting for Investment Funds and Segregated Funds (hereafter the “**Draft Regulation**”) published in the notice of consultation dated April 28, 2022 (hereafter the “**Notice of Consultation**”). This letter is sent to you on behalf of National Bank of Canada, as well as its subsidiaries: National Bank Financial, National Bank Independent Network, National Bank Investments, National Bank Direct Brokerage and National Bank Trust, which will be impacted in different ways as dealers, advisors, investment fund managers and service providers.

We appreciate the opportunity to provide you with comments before the adoption of this Draft Regulation. First, we would like to bring to your attention some elements outlined below with regards to the proposed amendments that will impact the securities sector. Second, you will also find herein our comments to the questions posed in the Notice of Consultation.

While we agree with the principle of the proposed amendments of ensuring enhanced transparency on total costs to investors, and especially ensuring the client's best interests, we see some practical concerns with the implementation of certain elements listed below e.g., Account Statement and particularly the proposed timeline. We participated in the IIAC and IFIC working groups pertaining to the Draft Regulation and we generally support their comments.

Account Statement Proposals

We submit that the obligation to include the fund expense ratio in periodic account statements is duplicative and does not add significant value, compared to the publication by investment fund managers of the data required in the fund facts or ETF facts documents, for example. The quantity of data provided in each statement is more likely to cause confusion than anything else, by diluting the information included in the periodic statement, the primary objective of which is to consolidate activity for the period. Any investor who wants to know what fees are applicable for a fund can refer to different documents that are already available. The complexity of the changes required to provide accurate information in a timely manner within the broad spectrum of the systems used by investment fund managers, dealers and advisers, far exceeds the benefits that could result from them. We believe it is sufficient to present this information in the annual reports on charges and other compensation.

Particular Challenges

As you know, information about certain types of funds is not always readily accessible or even available; this is particularly true for foreign investment funds. We wonder about the feasibility of, and the time required for, obtaining this information.

We believe that the Draft Regulation should be amended, namely, to provide the following:

- A maximum period of time, reasonable for all stakeholders, for investment fund managers to provide information to dealers/advisers;
- Dealers/advisers should be able to rely on the information provided to them without having to make additional validations. The information provided by investment fund managers should be relied on; there is no reason for dealers/advisers to believe it is incomplete or that it would be misleading.

Deployment Timeframe

Considering that these changes imply, among other things, significant changes to various IT systems owned by third parties, we have serious concerns about the proposed transition period of 18 months. We believe that an additional period of at least 12 to 18 months is required to properly implement the proposed changes under the Proposed Regulation. Labor shortage issues, and the very high number of regulatory changes to be deployed (which are not limited to changes promulgated by the CSA), do not allow us to accelerate the pace to begin work before the adoption of the final rules, as the CSA have suggested. Moreover, doing so would eliminate the relevance of the current regulatory consultation exercise which is critical to the success of regulatory improvements, and we are surprised by this suggestion.

Investor Education

We believe that to achieve the objective sought by this Draft Regulation, namely the enhancement of investor protection and awareness, investors must first have access to greater literacy in this area. As you pointed out in the Notice of Consultation, investors seem to have a poor understanding of the costs associated with owning investment funds. We believe that the success of the Draft Regulation is intrinsically linked to the understanding of the new information that will be communicated to them.

Therefore, the implementation of new mass education initiatives on the benefits of savings, including the creation of new education materials, is essential; in fact, investors must be able to put the costs related to investment funds into perspective given their performance. Failure of investors to properly understand this information could, in our view, have the opposite effect to that sought by the Draft Regulation.

Comments to Questions Asked in Appendix A – Specific Questions About the Proposed Securities Amendments

- 1. Do you anticipate implementation issues related to the inclusion of the following in the Draft Securities Amendments,*
- (a) exchange-traded funds,*
 - (b) prospectus-exempt investment funds,*
 - (c) scholarship plans,*
 - (d) labour-sponsored funds,*
 - (e) foreign investment funds?*

Yes; foreign investment funds may pose the greatest challenge, given that many of their investment fund managers will not be subject to the corresponding obligation

to provide the information. Each of the foregoing will bring its own specific challenges that need to be assessed in detail.

The frequency with which the information would be required for inclusion in periodic statements would pose a significant challenge. We therefore submit that the inclusion of this information in the annual report on charges and other compensation would make the exercise more feasible.

2. Would you consider it acceptable if, instead of information about each investment fund's expense ratio (MER + TER), the MER alone was disclosed in account statements and additional statements and used in the calculation of the fund expenses for the purposes of the annual report on charges and other compensation?

For ease of understanding, we believe that the use of the MER would be acceptable to properly inform investors. As previously stated, we believe that adding such information in the periodic statements may cause confusion. Investors who wish to know what fees apply to a fund can refer to existing documents to obtain them. The complexity of the changes required to all the systems of investment fund managers, dealers and advisers, in order to be able to provide accurate information in a timely manner, far exceeds the benefits that could result from them. We believe it is sufficient to present the information in question in the annual reports on charges and other compensation.

3. For the purpose of subsection 14.14.1(2), is the use of net asset value appropriate, or would it be more appropriate to use market value or another input? Would it be better to use different inputs for different types of funds?

We are of the view that using market value would be appropriate.

4. Do you anticipate any other implementation issues related to the Draft Securities Amendments?

The tremendous variety of unique cases will make this exercise excessively complex, on an ongoing basis. For example; the management fee rebate programs of each investment fund manager or the case of investment funds which are not yet a year old and whose the operating costs have not yet been established.

We foresee significant difficulties due to the sheer number of elements to take into account in order to provide adequate data and minimize the risk of error to avoid creating confusion or inadvertently misleading investors.

5. Do you anticipate any issues specifically related to the proposed transition period?

As stated above, considering that these changes imply, among other things, significant changes to various IT systems, we have concerns about the proposed transition period. We suggest an additional lead time of at least 12 to 18 months.

We thank you once again for giving us the opportunity to comment on this Draft Regulation. If you need any further information or have any concerns regarding the above, please do not hesitate to contact us.

Yours truly,

NATIONAL BANK OF CANADA

A handwritten signature in black ink, appearing to read 'M. Gagnon', with a long horizontal flourish extending to the right.

Per:

Martin Gagnon
Executive Vice-President
Wealth Management