

August 30, 2012

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

The Secretary
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Me Anne-Marie Beaudoin
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Dear Sirs/Madames:

Re: Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* – Cost Disclosure, Performance Reporting and Client Statements

The Canadian Advocacy Council¹ for Canadian CFA Institute² Societies (the CAC) appreciates the opportunity to comment on the proposed changes to NI 31-103 relating to cost disclosure, performance reporting and client statements.

¹ The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfaadvocacy.ca/>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

The CAC supports the CSA's goals of providing investors with essential information regarding investment charges and investment performance to help them assess their investments. To that end, the CAC agrees with the general focus on providing information on charges generally at the time of account opening, and more specifically prior to the time a registrant accepts an instruction to purchase or sell a security and, thereafter, on an annual basis.

The CAC wishes to comment specifically on the following aspects of the proposed amendments.

Disclosure of trailer fees and fixed-income commissions

The CAC applauds the CSA for proposing to mandate the disclosure of trailing commissions in dollars and some commissions in fixed-income transactions, specifically the dollar commissions paid to dealing representatives. We agree with the CSA's statement that investors want and are entitled to receive information about the charges related to their investments.

With respect to fixed-income transactions, we believe that providing disclosure on the full amount of compensation paid would be preferable to disclosure language indicating that additional compensation may be embedded in the price of the security. To the extent compensation information in addition to commission dollars paid (including profits earned by dealers on the desk spread between bid and ask prices) is reasonably available, it should be required to be provided. As noted in previous comments made by the CAC on the Ontario Securities Commission draft statement of priorities for 2012-2013, our 2011 member survey identified fee unbundling for retail products (including trailer fee commissions) as a priority for the industry. In addition, the experience of members of the Canadian CFA Institute Societies is that it is difficult, if not impossible, for both retail and institutional investors to determine the amount they paid to dealers as compensation in fixed-income transactions. To reiterate comments made in prior letters, we feel it is vitally important that clients are made aware of all forms of compensation paid in relation to their investments in both percentages and dollar amounts for genuine transparency, including fixed-income investments.

Percentage Return Calculation Method

The CAC believes that by mandating the dollar-weighted method of return calculation, the CSA's goal of enhancing investment performance disclosure to clients would not be achieved. We believe that when clients look at returns of their portfolio, they look for answers to two main questions, and each of these questions can only be answered by one of the return calculation methods. The clients want to know how their portfolio value has changed as a result of its

² CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. The CFA Institute has more than 110,000 members, who include the world's 110,000 CFA charterholders, in 135 countries and territories, as well as 135 affiliated professional societies in 58 countries and territories. More information may be found at www.cfainstitute.org.

performance over the period, and this question is best answered by using the dollar-weighted return calculation. The clients also want to know how much of that change can be attributed to general market conditions and how much to discretionary portfolio management. This consideration is likely as important to clients as knowing the actual change in value of their investments, and requires using a time-weighted return calculation. Therefore, the CAC disagrees with the proposal to mandate only dollar-weighted return calculations and suggests that both methods can be used as long as their meaning is clearly explained. Using both methods of calculation on the same performance report will result in similar values most times, but if any differences arise they should be explained in the performance report in plain language.

The draft amendments, which permit but do not mandate the disclosure of both methods, may lead to inconsistencies in presentation among various registrants and confusion among investors receiving different numbers from different advisers.

Book Cost

The draft amendments propose that investors be provided with the book cost information for each security position included in the client statement. The Request for Comments indicates that the CSA believes that book cost information will be readily available for most investments in clients' portfolios. A registrant will be permitted to show the market value of the security position (as of the transfer date), instead of the book cost, if the security was transferred from another account and the fact that market value is used is disclosed to the client. For securities opened in an account before the implementation date of the amendments, a registrant will be permitted to show the market value of the security position (as of the implementation date or an earlier date) if the same date and value are used for all clients of that firm and the fact that market value is used is disclosed to clients. Members of the Canadian CFA Institute Societies have confirmed that it is in fact very difficult to substantiate the total cost paid for a security when it has been transferred from an account at another registrant, particularly because systems that historically have tracked book value for registered assets (to comply with the former foreign investment limitation applicable to registered plans) did not typically track such data for non-registered assets. It is thus expected that many registrants may choose to show the market value of such security positions as at the date of transfer, with the result that the same security held over the same time period will have very different prices attributed to it by different registrants, depending on the date of transfer. The CAC believes that additional controls and guidelines are needed with respect to the use of market value as a proxy for book cost in these circumstances to try to provide more consistency in presentation among registrants.

Client Statements

The CAC supports the proposed requirement to include as part of the client statement a section reporting on securities held by the registrant in nominee name or certificate form. The CAC also supports including a separate section reporting on securities held in client name where (i) the registrant has trading authority; (ii) the registrant receives continuing payments related to the client's ownership of the securities; or (iii) the security is a mutual fund or labour sponsored

investment fund, as long as this section is presented as a separate document and is not perceived by the client as part of the registrant's report to the client.

The CAC is concerned that including client-name only holdings together in the same report with registrant-held securities may create an inaccurate impression for clients that all of their holdings included in the report are held with the same custodian, protected by CIPF and that all disclaimers on the registrant's report apply to all securities included in the report.

Reports on securities held in client name are not audited, checked for accuracy, or reconciled with other client reports by the registrant. One of the reasons such investments can be held in client name is to reduce administration costs and allow for smaller minimum account sizes. Given that performance reports are prepared as of a certain date, even one day difference in transaction posting time over the period end date between the registrant and a mutual fund company can cause differences in reported holdings and create confusion for clients. Requiring registrants to include a third party report as part of their own reporting would impose the duty to ensure such reports are accurate and reconciled with the advisor's own reports. This can negate the administrative savings achieved through holding funds in client name.

Scholarship Plan Dealers

Finally, the CAC is supportive of the proposed additional disclosure regarding the unique costs related to scholarship plans, particularly those relating to the risks of such plans, including the requirements to disclose on the performance report how much money would be returned if the investor stopped paying into the plan (which would also be required to be explained at account opening), and on the annual report on charges of any outstanding front loaded fees. As noted in our comment letter on the proposed amendments to the scholarship plan form [[See Comment Letter Here](#)], the CAC continues to question whether improved disclosure standards are enough to protect investors. Sales representatives for these plans are not held to a fiduciary standard and often meet only the lowest standard of investment industry licensing in Canada. It may be necessary, in order to promote investor protection, for these plans to be phased out altogether.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *Ada Litvinov*

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