



IGM Financial Inc. 180 Queen Street West, 16th Floor, Toronto, Ontario M5V 3K1

Jeffrey R. Carney, CFA  
*President and Chief Executive Officer*

VIA E-MAIL:

[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca); [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

October 5, 2016

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

Robert Blair, Secretary (Acting)  
Ontario Securities Commission  
20 Queen Street West  
Suite 1900, Box 55  
Toronto, Ontario  
M5H 3S8

Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal, Québec  
H4Z 1G3

**Re: Canadian Securities Administrators (CSA) Notice and Request for Comment:  
Proposed Amendments to National Instrument 31-103, Companion Policy 31-103CP,  
National Instrument 33-109 and Related Forms**

---

We are writing on behalf of IGM Financial Inc. (IGM) with respect to the CSA Notice and Request for Comment published on July 7, 2016, seeking feedback on proposed Custody

Amendments, Exempt Market Dealer (EMD) Amendments, Client Relationship Model Phase 2 (CRM2) Amendments and Housekeeping Amendments as described in the Notice and Request for Comment.

## **Background on IGM Financial**

IGM Financial Inc. (IGM) is a diversified financial services company and is one of Canada's largest mutual fund manufacturers, with approximately \$138.5 billion in total assets under management as of July 31, 2016. Its activities are carried out principally through Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. and their respective subsidiaries. IGM's subsidiaries include a number of securities registrant firms that are registered in various categories with all members of the CSA including portfolio managers, mutual fund dealers and investment dealers, and include members of the Mutual Fund Dealers Association of Canada (MFDA) and Investment Industry Regulatory Organization of Canada (IIROC). IGM is a member of the Power Financial group of companies.

## **General Comments on CRM2 Amendments**

Successful implementation of CRM2 has been one of the most significant challenges the investment industry has faced. We strongly support the regulators' objectives with CRM2, as a way to strengthen investors' understanding of the account level performance and costs of each of their investments. We believe these disclosures will improve the investor experience with respect to understanding costs, performance, and the services advisors can provide.

We welcome the CSA's continued review and consideration of the CRM2 changes. Given the new information for clients and enormity of the operational and technical system changes, training and educational support that was undertaken to meet the July 15, 2016 deadline for CRM2, we think it is critical for regulators to measure and determine the effectiveness of these new disclosures, before any consideration is given as to whether to expand the current requirements.

In this regard, we applaud the steps taken by the CSA to measure outcomes related to investor knowledge, attitude and behaviour, registrant practices and fund fees and product offerings as a result of the implementation of CRM2 and the implementation of pre-sale delivery of the Fund Facts document (POS). We think the outcome of this CSA investor impact research will be extremely informative, and we would urge the CSA to wait until its completion before any decisions are made to expand the requirements of the report on charges and other compensation. This is particularly important given the CSA's own acknowledgement that conflict disclosure, by itself, is generally an ineffective conflict mitigation strategy and may have counter-intuitive results.<sup>1</sup>

Finally, we have long advocated for the need to treat similar, competing investment products to mutual funds, such as guaranteed investment certificates (GICs) and daily interest accounts (DIAs), consistently to assist investor decision-making. These competing products often all appear on the same account statements issued by securities dealers. This means investors who hold mutual funds and one or more of these other investment vehicles will see compensation

---

<sup>1</sup> See: CSA Consultation Paper 33-404 – Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients, April 28, 2016.

cost disclosure only regarding their mutual fund positions and not on the others. In the absence of clear disclosure to investors of the costs built into these financial products, such as the spread on GICs and DIAs, we believe any further expansion of the CRM2 requirements focused on the ongoing costs of owning securities, such as mutual funds, would further exacerbate the inevitable and misleading impression that mutual funds are more costly than these less transparent investment options, and that these other investment products have no such similar costs.

Our responses to the specific amendments and issues for comment raised in the CSA Notice and Request for Comment follow below.

## **CRM2 Amendments**

### **Section 14.19 of 31-103CP**

We do not agree with the new guidance as set out in Companion Policy 31-103CP that the content of the investment performance report now include the client's "targeted" rate of return. A target rate of return is generally part of the client's comprehensive financial plan, which in our experience generally includes investments, tax and estate planning, insurance and mortgages and which often consists of multiple accounts and/or is generated at the household account level. In our view, including the targeted rate of return on an investment performance report that shows only the client's rate of return for a specific account does not provide the client with an appropriate comparison for assessing progress towards their financial goal, and in fact will likely have the opposite effect of causing client confusion. There is also the potential issue that the client may have a target rate of return as part of a financial plan obtained with someone other than the advisor with whom the account that is the subject of the investment performance report is with. Finally, we caution that insisting on a target rate of return in the investment performance report could have the unintended consequence of clients focused on the short-term performance of their portfolio, misunderstanding the long-term nature of the target, to the detriment of their long-term outcomes.

We continue to support disclosure in the investment performance report that refers the client to review their financial plan and to assess the performance report relative to the client's targeted rate of return.

### **Section 14.17 of 31-103CP**

We find the proposed new guidance in Companion Policy 31-103CP that "employee bonuses" be included in the report on charges and compensation where such payments are made to representatives and are linked to sales or other registerable services to the client receiving the report, to be problematic in practice. Generally, bonuses are not specific to a client, to account activity nor tied to a particular investment. We agree, however, with the CSA that this type of disclosure is important. As contemplated by the CRM2 Amendments, we would support a general description in the relationship disclosure information that bonuses may be paid in making, holding and selling investments generally.

### **Issues of Comment: Section 14.17 (report on charges and other compensation)**

#### **Inclusion of non-cash incentives**

Given the CSA's acknowledgement of the counter-intuitive results that may occur with conflicts of interest disclosure,<sup>2</sup> subject to the findings of the CSA research project now underway to measure the impact of CRM2 and POS on investor knowledge and behavior about their investments,<sup>3</sup> we do not believe the CSA should proceed with extending the current disclosure requirements at this time. We would also caution the CSA with moving forward with such disclosure absent similar disclosure being provided to clients for competing investment products to mutual funds, such as GICs and DIAs. Otherwise, as we've noted, the inevitable result is that investors will be left with the impression that these types of incentives do not exist in the sale of insurance or banking products not captured by CRM2, or that such compensation is paid in the former case but not the latter, when this is not in fact true.

We encourage the CSA to work collaboratively with its investor education experts to explore approaches to enhance the awareness of investors of monetary and non-monetary benefits that may be paid in relation to the client's purchase of a security.

Should the content and/or the form requirements be expanded under section 14.17, we recommend the CSA limit the disclosure to a general, prescribed text, similar to what is currently disclosed in the Fund Facts document under "How much does it cost?" In our view, it would not be practicable nor of much value to the client for a firm to monetize a non-cash incentive an advisor may receive across individual client accounts for the purpose of such disclosure, especially given that any promotional items or business promotion activities must be of minimal value to be permissible under NI 81-105.<sup>4</sup> We would also note that simply listing sales incentives that the firm or its representatives "*may receive*" on the report on charges and other compensation will likely cause firms to provide a laundry list of all possible incentives in order to ensure compliance, which will only add unnecessary length and complexity to the document and not be particularly useful or meaningful to clients.

### **Inclusion of embedded fee disclosure**

For mutual funds, the ongoing costs, including the management fee and the impact of such costs on the fund's and ultimately the client's, investment return, is already disclosed in the Fund Facts document. Subject to the findings of the CSA's research project, we believe investors, certainly mutual fund investors, already have been made aware of the ongoing costs of owning a mutual fund in a simple, accessible and comparable document.

The combination of product level and account level disclosure introduced by CRM2 and POS, we think provides investors with the complete picture of the cost of their investment. To introduce disclosure of other costs of owning securities with embedded fees, namely mutual funds, in the report on charges and other compensation when such information is already found in the Fund Facts document for individual mutual funds (the MER is also found in the fund's financial statements), seems duplicative and beyond the scope of the original purpose of CRM2.

Again, our concern is with the lack of consistency of this type of disclosure across competing investment products, particularly insurance and banking products, not captured by CRM2. As we have indicated in our responses to comments throughout the CRM2 initiative, the challenge is that there is not similar disclosure for competitive investment products that are not securities. One third or \$1.2T of the \$3.6T of financial wealth in the bank branch channel sits in low yield DIAs or GICs today.<sup>5</sup> If an investment is not a security or an exchange contract as defined by

---

<sup>2</sup> See: CSA Consultation Paper 33-404 – Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward their Clients (April 28, 2018).

<sup>3</sup> See: CSA press release issued August 22, 2016.

<sup>4</sup> See: Section 5.6 of National Instrument 81-105 Mutual Fund Sales Practices (NI 81-105).

<sup>5</sup> See: Investor Economics, Household Balance Sheet, 2015, data as at December 31, 2014.

securities legislation in the provinces, then dealers are not required to make the cost reporting on that investment. The problem is that GICs and DIAs have embedded costs (such as undisclosed spreads) built into their product structure and these vehicles compete directly with investment products captured by CRM2. A similar issue exists for clients of investment dealers with respect to fixed income products such as bonds. The inevitable result is that investors will be left with the impression that investment products, and particularly mutual funds, are more costly than other insurance or banking products not captured by CRM2 or that embedded fees exist in the former case but not the latter when this is not in fact true.

We therefore would not be supportive of expanding the current disclosure requirements of CRM2 until the research measuring the impact of the current disclosures has been completed, and until such time as the cost and compensation disclosure of competing investment products, such as those identified above, is similarly made to investors. Should the content expand, we urge the CSA to retain the proposal for the disclosure to be of a general nature, and not specific on an account by account basis, which we believe would create significant complexity and cost for fund manufacturers and dealers.

We continue to support efforts by the CSA to work collaboratively with insurance and banking regulators to affect similar detailed disclosure to current CRM2 levels on competing investment products to mutual funds such as GICs and DIAs.

----

### **Summary**

We appreciate the opportunity to provide you with our comments on the CSA Notice and Request for Comment.

Please feel free to contact Tim Pryor ([tpryor@mackenzieinvestments.com](mailto:tpryor@mackenzieinvestments.com)) or David Cheop ([david.cheop@investorsgroup.com](mailto:david.cheop@investorsgroup.com)) if you wish to discuss this further or require additional information.

Yours very truly,



**IGM FINANCIAL INC.**

Jeffrey R. Carney, President and Chief Executive Officer