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Delivered By Email: marjorie.lauriault@acvm-csa.ca

Christopher Jepson
Senior Legal Counsel, Compliance & Registrant Regulation, Ontario Securities Commission
Chair, Total Cost Reporting Securities Sector Working Group
20 Queen St. W., 22nd Floor
Toronto, ON M5H 3S8
CJEPSON@osc.gov.on.ca

Chantale Bégin
Analyste experte en normalisation des institutions financières,
Direction de l'encadrement du capital des institutions financières
Co-Chair, Total Cost Reporting Joint Committee
Chantale.Begin@lautorite.qc.ca

Dear Sirs and Mesdames:

RE: Total Cost Reporting Joint Project – IFIC Response to Implementation Questions at October 6, 2021 Meeting

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to provide feedback on the specific implementation questions on Total Cost Reporting that you presented to IFIC Staff (A. Hochman and P. Egger) during the meeting held on October 6, 2021.

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors, and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC works collaboratively with industry representatives, regulators, governments, and investor advocates to help cultivate a system that is fair, secure and efficient for all stakeholders.

During our October 6, 2021 meeting, you and other representatives of the Joint Committee on Total Cost Reporting (**Joint Committee**) indicated that you were seeking input from IFIC on implementation costs and timelines, and specific implementation data and other issues.

You also indicated that the CSA's draft prototypes include the following additional data elements for consideration:

- Quarterly account statement for securities investors (annual account statement for insurance policy holders[1]):
    - Fund Expenses (MER+TER), in percentage and/or dollars for each individual investment with embedded fees (would require quarterly or annual calculation).

[1] NOTE: This reference to "insurance policy holders" is in these prototype descriptions taken from the October 6 meeting materials provided by the regulators to IFIC. However, consider whether this should say "seg funds policy holders". The general understanding of IFIC's duly licensed members is that for the insurance sector this is not intended to apply to all insurance products.

- Annual report on charges and other compensation (expanding the existing report for securities investors, and part of a similar but net new report for insurance policy holders[2]):
  - Aggregate Fund Expenses (MER+TER), in dollars at the account level;
  - Other fees (e.g., short-term trading fee or redemption fee), aggregated in dollars; and
  - Total costs amount at the account level, which includes the foregoing.

Since the meeting was scheduled without sufficient time for IFIC Staff to solicit input from its members, IFIC Staff stated explicitly that its feedback was preliminary and subject to future change after member consultation. IFIC staff undertook to seek input from its members, including the IFIC Full Cost Disclosure Committee (**FCDC**). In so doing, we provided certain members with a copy of the October 6, 2021 meeting agenda, which included the above outline of the CSA's draft prototypes and the list of your specific implementation-related questions.

Specific input from the FCDC on costs, timelines and other issues you raised during our October 6, 2021 meeting is set out in **Appendix A**. In addition to this input, we also provide you with the following overarching comments.

Addition of MER and TER into Quarterly Account Statements

While the FCDC fully supports expanded cost reporting to investors, we are concerned that the inclusion MER and TER cost reporting in quarterly account statements will be misleading to investors. We note that quarterly account statements do not generally contain any fee information. The inclusion of MER and TER into those statements would, in certain situations, only reflect part of the cost of investment. One example would be for advisors who sell Series F securities of funds, the quarterly account statements as proposed would reflect the MER and the TER. However, advisors charge a fee outside of the funds' MER for Series F at the account level and this fee would not be reflected in the quarterly statements, which may lead investors to believe that they do not pay any fees related to the fund holding other than the MER and TER. The advisor's account-based fee attributable to Series F securities would only be reflected in the annual Report on Charges and Other Compensation disclosure. Another example would be where short-term trading fees are not reflected in the MER and TER. There are also certain situations where costs could be over-stated. For example, management fee rebates might not be deducted from the stated MER and TER. Moreover, it would be extremely complex to disclose the appropriate MER and TER for each series of a fund.

We also remind you of IFIC's submission letter dated July 20, 2018 in response to the MFDA's then initial consultation on the proposal to expand cost reporting, attached as **Appendix D**. IFIC indicated support for expanding cost reporting that includes costs related to fund management fees. This was in relation to enhancing the annual Report on Charges and Other Compensation. For the policy reasons explained in the paragraph above, IFIC's support for expanding cost reporting remains the same as stated in its 2018 submission. Including the addition of MER and TER in quarterly account statements as part of the expanded cost reporting initiative is not desirable or supported by IFIC generally or the FCDC specifically. We are concerned that it would be misleading to investors, for reasons explained above, and would create investor confusion disclosed beside the position costs in account statements. Further, as explained below, it would entail a significant increase in costs and time for system enhancements to make such changes to account statements. Therefore, it should only be required where there are clear, significant benefits to investors, which IFIC generally and the FCDC specifically do not believe to be the case.

Practical Implementation Timeline Implications

While the FCDC fully supports expanded cost reporting to investors in an annual report on charges and other compensation, it is important to understand that this would require providing and storing new data

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[2] Same comment as footnote 1 above.

elements that do not exist on either the dealer or fund company side <u>if MER plus TER fees, expressed as a percentage</u>, or the <u>aggregate fund expenses (MER plus TER), expressed in dollars, at the account level is required</u>. To implement requirements that involve new data elements that are not already part of an existing data file will require material system enhancements across various stakeholders. Accordingly, these system enhancements are both time consuming and expensive and changes to require new data for either quarterly account statements or annual cost reporting should only be made where there are clear, significant benefits. It is also important to understand that the material system enhancements required by the various stakeholders must be carried out sequentially, and cannot be designed, coded, and published simultaneously or in parallel by each of Fundserv, fund companies, dealers, and third-party service providers. The following explains why such material system changes can only be a sequential process by each of these industry stakeholders.

Fundserv has set timeframes in which it designs, codes, and publishes system changes. These set timeframes are what largely dictate the practical timelines in which the investment funds industry (dealers and fund companies) could reasonably be expected to carry out their respective necessary system changes to implement full cost reporting that includes calculating, storing and reporting a dollar-based MER plus TER or percentage-based reporting of MER plus TER for annual cost reporting and account statements, respectively. See **Appendix B** for the prototype Fundserv schedule to implement these types of reporting. This would result in a minimum four-year implementation timeline for industry compliance, using well considered assumptions This timeline cannot be reduced by only doing one of the dollar-based or percentage-based reporting in either or both of the client disclosure documents.

The challenges for dealers and fund companies include the following:

- It is not possible to know what the final Fundserv technical solution is until it is published. Using the prototype Fundserv schedule in **Appendix B**, the earliest for Fundserv to have its final published technical solution is in early October 2024 – but this presumes the latest date of the CSA's publication of the final amendments is November 2022.
- Presuming a January 2023 start for Fundserv (i.e. Fundserv requires the final form of the amendments, including time to review and assess, before it's able to start), the publication of the Fundserv final technical solution will be in October 2024. From that, the dealers and fund companies can only start in November 2024 to then plan their project, perform development, perform internal testing and then get ready to begin industry testing via Fundserv in early March 2025 to June 2025. Overall project planning and development, testing and re-engineering, and implementing technical enhancements and new procedures are expected to take approximately one year (i.e. from Nov. 2024 to Dec. 2025). The final production of client level reporting would take up to an additional 6 months following that (June 2026).
- Providing new data is a major undertaking because it does not exist on the fund company transfer agency system at the fund position level per investor. It is calculated only at the fund level on fund accounting systems. Fundserv data standards do not have a file for this data point to be transmitted. From a dealer perspective, they do not have or store this data. Dealers would have to program to receive the new file from Fundserv and then calculate at an investor account level the dollar cost of the MER plus TER and then aggregate amounts for each fund company holding.
- After the Fundserv related systems solutions are in final production for dealers and fund companies via Fundserv (i.e. June 7, 2025), the dealers and fund companies will require some incremental time to continue with carrying out their internal regulatory change project work to implement compliance with required disclosures in quarterly statements and dollar-based reporting of the MER plus TER in the report on charges and other compensation. Therefore, presuming final rule amendments by November 2022, although Fundserv would likely have finalized production and hence be ready by June 7, 2025, Fundserv industry members (i.e. the dealers and fund companies) would likely need ***until June 2026*** to project plan, develop systems and policies and procedures (internally and with 3rd party service providers), internally test, and promote to production for final implementation of the client account level reporting requirements.

Please also refer to our IFIC submission letter dated October 13, 2020, delivered to Mr. Christopher Jepson, under the then consultation on preliminary options for the Total Cost Reporting Joint Project (**October 2020 Submission**) attached as **Appendix C**. On page two of that letter, we also provided you with more details of the practical implications for the roles of Fundserv, fund companies, dealers, and print vendors and other service providers.

Two Alternative Implementation Options and Timelines:

In light of the above explanation, the FCDC suggests that the CSA consider two, mutually exclusive options – a two-year implementation option and a four-year implementation option. The two options are suggested for the CSA to consider what is practically possible for the industry to implement within each timeline option. In providing these two alternative options, the FCDC is NOT proposing both options as progressive regulatory changes for implementing total cost reporting, but rather for the CSA to consider only one option or the other depending what level of expanded cost reporting the CSA will expect of the industry within practically achievable timelines. It is highly unlikely that a cost/benefit analysis would support the industry implementing what could practically be completed in a two-year timeline and then implementing what can practically be completed in a four-year timeline. If the options were to be implemented consecutively, the four-year option would become a four year plus option, with commensurate higher implementation costs.

Two-year implementation option:

While CRM2 challenged the industry, it was involving the use of and reporting of data that was generally available. Therefore, should the CSA wish to achieve a shorter implementation timeline to have expanded cost reporting about the fund management fees in client's account statements and the annual Report on Charges and Other Compensation disclosure document, the FCDC suggests that the CSA's expanded cost reporting requirements do not involve providing new data elements. In this manner, the following are options for what is practically possible for the entire industry to implement expanded cost reporting within a two-year implementation timeline.

1. Account statements:

See our comments in the paragraph above under the heading titled "Addition of MER and TER into Quarterly Account Statements." **<u>For the policy reasons explained under that heading above, including the addition of MER and TER in quarterly account statements as part of the expanded cost reporting initiative is not desirable or supported by IFIC generally or the FCDC specifically.</u>** We are concerned that it would be misleading to investors for the reasons explained under that same heading above. It would also create investor confusion disclosed beside the position costs in account statements. As is explained in more detail under 3 below, it would entail a significant increase in costs and time for system enhancements to make such changes to account statements. This should only be required where there are clear, significant benefits.

If requiring any disclosure related to fund managers' fees in quarterly account statements is determined to be necessary, then at the very most, the FCDC suggests that the following is what can practically be implemented in a two-year timeline:

<u>A simple reminder in plain language using prescribed text designed to ensure clarity.</u> The text might be something along the lines of ***"You pay ongoing fees to the manager of the fund for so long as you have this investment in your account. You do not pay these fees directly; they are deducted from the fund. These fees were already deducted from the fund before its market value was calculated. These fees are the principal way the fund's manager covers its costs and makes an operating profit."*** It may also be useful to include reference to the availability of information in each fund's current offering documents (fund facts/prospectus) and where it can be found online.

Simple disclosures can be added to a statement relatively quickly and inexpensively, provided the statement layout has the available space to add the disclosure. The cost and complexity to add a simple disclosure would be LOW.

While the suggested text would be helpful, the FCDC would prefer the flexibility of either using the suggested language or something "substantially similar". This approach is consistent with NI 31-103 s. 14.17(1)(e) and (h).

As we explained in our October 2020 Submission, for a simple disclosure to be attached to each applicable security in a client's account statement, it would require system builds to create a flag for each applicable position. Adding a flag to each applicable security where a client may incur an investment fund management fee or other ongoing fee is not a simple task. Such a flag would require data that is not currently included on a firm's security master, nor is it contained in the Fundserv data files. As such, this is not data that can be communicated between stakeholders in today's environment. Additionally, dealer systems are not currently configured to accept, store and use the data. The cost and complexity for a flag would be HIGH. To create this functionality is not practically possible under a two-year implementation timeline option, as it would entail the same minimum four-year implementation timeline described above.

2. Report on Charges and Other Compensation

<u>A simple reminder in plain language using prescribed text designed to ensure clarity.</u> The proposed text for this disclosure would be similar to that described under 1a above. The text might be something along the lines of ***"You pay ongoing fees to the manager of certain funds for so long as you have them as investments in your account. You do not pay these fees directly; they are deducted from the funds. These fees were already deducted from the funds before their market values were calculated for purposes of your investment performance report. These fees are the principal way the funds' managers cover their costs and make an operating profit. For information about specific funds, see the relevant fund facts documents available on each fund issuer's website."***

The option is similar to the option under 1a above. As explained above and in our October 2020 Submission, a simple reminder in plain language can be included cost effectively, in a reasonably short amount of time. The cost and complexity would be LOW.

As discussed in 1a above, firms should have the ability to use the suggested language or something substantially similar.

As we explained in our October 2020 Submission, to require the <u>addition of fund expenses expressed as a percentage or the addition of the (approximate) aggregate fund expenses in a dollar amount at the account level</u> are options that involve costs and complexity that are VERY HIGH. They may meet or exceed the costs associated with CRM2. The addition of either of these approaches requires new data elements and calculations. To create this functionality would entail the same minimum four-year implementation timeline described above.

The FCDC proposes that both of the above simple reminder disclosures would be reasonable options for the CSA to consider for the expanded cost reporting initiative, if the CSA expects a shorter implementation timeline for the industry. This approach would serve to improve an investor's understanding about the expenses related to fund managers' fees and would be consistent with the policy approach adopted by the CSA in other contexts. For example, NI 31-103 ss. 14.17(1)(e)(ii) sets out suggested disclosure language dealers are to provide in the annual Report on Charges and Other Compensation to help clients understand the application of dealer firm remuneration in the context of debt securities.

Four-year implementation option:

Should the CSA require expanded cost reporting requirements that involve providing new data elements, whether in quarterly statements or annual cost reporting, the FCDC suggests that a practical implementation timeline for that will require a minimum of four years from the date the CSA publishes the final rule amendments. The basis for this is explained by the prototype Fundserv schedule to implement a dollar-based or percentage-based reporting of the MER plus TER provided in **Appendix B**. The following are options for what is practically possible for IFIC members to implement expanded cost reporting within a minimum four-year implementation timeline.

3. Account statements:

See our comments in the paragraph above under the heading titled "Addition of MER and TER into Quarterly Account Statements." **For the policy reasons explained under that heading above, including the addition of MER and TER in quarterly account statements as part of the expanded cost reporting initiative is not desirable or supported by IFIC generally or the FCDC specifically.** We are concerned that it would be misleading to investors for the reasons explained under that same heading above. It will also create investor confusion disclosed beside the position costs in account statements. The cost and complexity for such requirements would be HIGH. It would require system builds to create the new data elements required, as they are not already a part of an existing data file. Further, it is very costly for minimal benefit, particularly having regard to its availability in numerous other locations, such as Fund Facts, manager websites, continuous disclosure materials and SEDAR. Therefore, the CSA is asked to seriously consider the cost/benefit of requiring this, or any alternative, other than as proposed under 1 above, whereby the FCDC suggests that it not be more than the following:

A simple reminder in plain language using prescribed text designed to ensure clarity. The proposed text for such disclosure and explanation of this option is the same as that explained under 1 above.

Further, to require the proposed simple disclosure language under 1 above to be attached to each applicable security in a client's account statement is not a desirable option. As explained under 1 above, it would require system builds to create a flag for each applicable position. Adding a flag to each applicable security where a client may incur an investment fund management fee or other ongoing fee is not a simple task. Such a flag would require data that is not currently included on a firm's security master, nor is it contained in the Fundserv data files. As such, this is not data that can be communicated between stakeholders in today's environment. Additionally, dealer systems are not currently configured to accept, store and use the data. The cost and complexity for a flag would be HIGH for minimal benefit and provides no implementation timeline benefits relative to providing MER and TER data (expressed as a percentage) beside each relevant security position.

If the addition of MER and TER in quarterly account statements is determined to be necessary, percentage reporting is preferable over dollar reporting. Though the cost and complexity of requiring either is equally HIGH, the percentage reporting would at least make the disclosure consistent with the Fund Facts and other regulatory documents. The CSA is asked to consider the benefits and value (which includes managing investor confusion) in replicating other fund management cost disclosure already being provided annually in the numerous other disclosure locations referred to above. Moreover, it would be extremely complex to reflect the appropriate MER and TER for each series of a fund at a client account statement level.

4. Report on Charges and Other Compensation

The addition of the (approximate) aggregate fund expenses, expressed in a dollar amount, deducted in respect of funds in the client's account (e.g., *"During the year covered by this report, ongoing management fees of approximately $x were deducted from funds in your account"*). This would be consistent with the basis for the current information in the report: account-level, dollar amounts. For that reason, it would be more meaningful than percentage-based information. It will be a challenge to avoid causing some clients to think that they pay these fees directly, perhaps on an after-valuation basis.

As we explained in our October 2020 Submission, the costs and practical implications for this option would be VERY HIGH. The addition of (approximate) aggregate fund expenses, expressed in a dollar amount, deducted in respect of funds in the client's account requires new data elements and calculations.

If the CSA determines that this approach is necessary for the annual Report on Charges and Other Compensation, the CSA should ensure it undergoes extensive consultation with industry before determining the required calculation methodology. To devise such a new and complex calculation should not be done without extensive review and input from a wide range dealers and fund companies to ensure the capabilities and resources within their varying business models are taken into consideration. This should be done before the initial draft of the rule requirements are published for comment, as a standard consultation comment period would likely not provide adequate time for the process to design and finalize such a new and complex calculation.

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We would be pleased to provide further information or answer any questions you may have. Please feel free to contact me by email at ahochman@ific.ca or by phone 416-309-2314. Thank you once again for seeking our input. We appreciate this opportunity and stand ready to assist with this initiative.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

Arnie Hochman

By: Arnie Hochman
Vice President, Policy & General Counsel

CC: Pamela Egger, Senior Policy Advisor, The Investment Funds Institute of Canada

Total Cost Reporting Joint Project Attendees of October 6, 2021 Meeting with IFIC:

Rezarte Vukatana (RVukatana@iiroc.ca); Brian W. Murphy (Brian.Murphy@novascotia.ca);
Bradley Rowett (Bradley.Rowett@gov.yk.ca); Catherine Drennan (CDrennan@IIROC.CA);
Tony Toy (Tony.Toy@fsrao.ca); Chris Caldarelli (Chris.Caldarelli@fsrao.ca);
Clayton Mitchell (Clayton.Mitchell@fcnb.ca); Chad Conrad (Chad.Conrad@asc.ca);
Guillaume Cyr (Guillaume.Cyr@lautorite.qc.ca); Robert Picard (Robert.Picard@fcnb.ca);
Kathryn Anthistle (KANTHISTLE@BCSC.BC.CA); Fern Karsh (Fern.Karsh@fsrao.ca);
Curtis Brezinski (curtis.brezinski@gov.sk.ca); April Stadnek (April.Stadnek@skcouncil.sk.ca);
Brett Konyu (bkonyu@mfda.ca); Erica Hiemstra (Erica.Hiemstra@fsrao.ca);
Sophie Jean (Sophie.Jean@lautorite.qc.ca); Gabriel Chénard (Gabriel.Chenard@lautorite.qc.ca);
Mike Winter (Mike.Winter@fsrao.ca)

APPENDIX A

FCDC's Responses to the Specific Implementation Questions Presented at the October 6th, 2021 Meeting

The following is the input provided from the FCDC on each of the specific implementation questions you presented at the October 6th, 2021 meeting:

- *Implementation costs and timelines*
  - will require significant time and cost for industry requiring significant IT system changes to generate data that is not currently contained in data files exchanged between stakeholders; much greater costs than CRM2, which challenged the industry to use and report on data that was generally available.
  - costs and time for system and process changes include those of the third-party print vendors providing annual cost reports and quarterly statement disclosure, due to need to adapt statement layout and design and accept new data points.
  - costs include those for other service providers who may provide calculation services to adapt functionality for new data points.

- *Communication of fund expenses information to dealers through a service provider or repository*
  - Fundserv is not a complete solution for the entire mutual fund industry. Some mutual fund dealers and fund managers do not use Fundserv (for example, some large banks with integrated dealers and fund managers).
  - for managers communicating information to dealers, it will require either Fundserv system changes or building another centralized platform.
  - there is no clarity as to whether there will be a large system solution, such as a central repository for the industry.
  - Fundserv has very set timeframes in which it designs, codes, and publishes system changes. Those set timeframes are what dictate the practical timelines in which the investment funds industry could reasonably be expected to carry out the necessary system changes to implement expanded cost reporting that includes calculating a dollar-based MER. See **Appendix B** for the prototype Fundserv schedule for CSA, Fundserv, Dealers & Fund Companies to implement a dollar-based or percent-based MER and an explanation of the challenges for dealers and fund companies, which is also explained in more detail in the letter above.

- *Calculation methodology for aggregate fund expenses in annual report on charges and other compensation*
  - <u>the FCDC and IFIC Staff remind</u> the CSA of IFIC's two previous submissions, which included detailed disclosure proposals (to the MFDA in July 2018 and to the OSC/Joint Committee in October 2020). Copies of each are provided in **Appendix D** and **Appendix C**, respectively.
  - the calculation methodology required should be sufficiently prescriptive, to make it clear and not ambiguous, to promote comparability.
  - do NOT leave the mutual fund industry to resolve this on its own (for example, lessons learned from the OEO trailer ban).
  - it should be obligatory (i.e. in the NI (rule), not the CP (guidance)).
  - on whether it is possible to precisely calculate an MER given it is a floating number or industrys' ability to achieve precision on a dollar amount to put in reports - the regulators should not make perfection the enemy of the good, at material incremental cost, for virtually no incremental benefit. (Also see response to next topic below.)
  - on whether to calculate MERs as per unit % or per $ OR based on NAV % or $ - there is merit in having consistency in data (i.e. would arise from consistent calculation methodology and timing of calculation) so at the least numbers reconcile across all documents (i.e. the Fund Facts and MRFP reporting of MERs) and data is comparable between funds and fund complexes.

APPENDIX A

FCDC's Responses to the Specific Implementation Questions Presented at the October 6th, 2021 Meeting

  - the regulators should consider setting minimum mandatory prescribed calculation and presentation requirements, if firms want to do more, they can.

- *Timing of communication from investment funds to dealers*
  - factors to consider in calculating MER (i.e. given it is a "floating" number) is that an MER is determined annually or at the most, semi-annually, and set on input factors that may get adjusted depending on the various circumstances unique to each fund.
  - this indicates that a more accurate calculation would be achievable in March than for annual cost reports delivered in January (e.g. if a year-end is December, the MER calculation is done by March).
  - quarterly calculations are not worth the cost and MERs tend not to fluctuate significantly regardless due to most significant costs being allocated based on fund size rather than number of funds of fund series.
  - don't make perfection the enemy of the good at material incremental cost for virtually no incremental benefit.

- *Potential inclusion of management fee rebates or performance fees*
  - vast majority of reporting issuer mutual funds don't have performance fees - they tend to be in the private fund market.
  - they are calculated at year end – uncertain whether a precise calculation is achievable for annual cost reports delivered in January.
  - with management fee rebates, there is no downward reduction in fund MERs– they typically are distributed by funds directly to investors via distributions.
  - if an individual's indirect costs per account were to be reduced to reflect management fee rebates, this would require costly system changes at an individual account level.

- *Inclusion of ETFs*
  - agree that addressing ETFs is an area if high uncertainty.
  - not traded through Fundserv.
  - hard to identify their shareholders.
  - dealers have only market values while fund managers have NAVs.
  - it's a very complicated area and would need much more work.

- *Potential inclusion of trading expense ratios (TERs)*
  - No TERs in Fund Facts on the insurance side, – this would require a separate build on the insurance side to create TER data.
  - if seg funds' cost reports do not include TERs, whereas TERs are included by mutual funds, this would have a negative impact on harmonization and cost comparability for mutual funds.
  - in response to one regulator's comment/query whether the insurance and securities sides would split the cost on system builds, no one is aware of any such discussions about the insurance and securities industries splitting the costs of system builds needed for both sectors.
  - TERs are not typically a significant number and unlikely to be of interest to most investors; regulators should not be concerned about including TER as part of a combined (MER + TER) number.
  - Unlike MERs, TERs will change when a fund makes changes to its investments for any reason, including to invest net cash inflows, fund net cash outflows and change portfolio holdings. As such, the TER could change daily or frequently, whereas MERs are typically quite stable. The

request to disclose TERs at the investor account level, would be extremely difficult as it requires tracking daily trading activity of both investors and funds and customizing this to each investor. For example, investor A and B purchase securities of a fund on February 1 and March 15, respectively. The fund only affects trades in its portfolio on February 25. The TERs for Investor A and B are different at the end of the quarter as there has been no trading in the fund while B has been invested (March15-March 31) and accordingly B's TER is 0%, whereas investor A's TER will be the full cost of the trade on February 25. While this example is simple as we have assumed 2 investors and only 1 trade by the fund over the period, it is far more challenging to calculate a customized TER for thousands of clients and thousands of fund trades, each of which change over time. While it may be possible to take the average TER of the fund over the quarter and report that to investors, that would be inaccurate. As in our example of client B, the client would not pay any trading expenses but the average TER would result in his or her investment reflecting a trading cost. We note further that the costs of trading certain investments like derivatives and fixed income securities are not captured in TERs as the cost is part of the bid-ask spread for those investments.

- the TER would be influenced as much by fund flows, which can vary substantially, as portfolio trading, and therefore the FCDC questions the meaningfulness of the data.
- TERS can be distorted by significant cash flows, such as in a fund's early year(s) of operation, when large cash inflows relative to existing assets are invested or when there are large redemptions relative to existing assets.
- acknowledge that there is a blended cost per thousand-dollar number in Fund Facts but highly question its usefulness or comprehensibility.

- *Any other implementation issues*
  - MERs and TERs in the quarterly account statement is not desirable or supported – this will create investor confusion disclosed beside the position costs in account statements, it is very costly for minimal benefit, particularly having regard to available offering and continuous disclosure information - seriously consider the cost/benefit of requiring it.

APPENDIX B

Prototype Fundserv Schedule for CSA, Fundserv, and Dealers & Fund Companies to Implement a Dollar-Based or Percent-Based MER in Reporting

Total Cost Reporting Timelines

	April to June 2022	**Oct to Dec 2022**	**Jan 2023**	**Feb to July 2023**	**Aug 2023**	**Sept 2023 to Jan 2024**	**May 2024**	**June 2024**	**July 2024**	**Aug 2024**	**Sept 2024**	**Oct 2024**	**Nov 2024 to Feb 2025**	**Mar to June 2025**	**June 2025 to Dec 2025**	**Jan 2026 to June 2026**
CSA	Publish draft rules for 90 Day comment period	Incorporate comments and Publish Final (Nov 2022)														
Fundserv	Provide feedback		Call for Working Group Members	Six months Working Group meetings	SSC approves or rejects solution	Advisory Councils Review Solution for Fit	SSC reviews full Scope for V35	SSC votes on full V35 Scope	Writing ofV35 BRD	Publish Draft V35 BRD for 30 Day Comment Period	Incorporate feedback and SSC approve revised V35 BRD	**Publish Final V35 BRD**	V35 Project Planning and Dev	Support Industry-wide UAT testing	**Final Production (June 7, 2025)**	
Dealers & Fund Co's	Provide feedback	Review Final	Join Working Group	Working Group						Members and Service Providers provide feedback			V35 Project Planning and Dev	V35 UAT Testing Procedure Process Reengineer ing	Implement Technical Enhancements and new procedures	Members finalize **production** for client level reporting

Challenge for Dealers and Fund Companies (Fundserv Members): Presuming the latest date of the CSA's publication of the final amendments is November 2022, the dealers and fund companies won't know what the final Fundserv technical solution is until Fundserv can published it – earliest is October 2024. That means dealers and fund companies can only start in November 2024 to then plan their project, perform development, perform internal UAT and then get ready to begin industry UAT via Fundserv in early March 2025 to June 2025. That leaves them only an optimistic five months (Nov 2024 to March 2025), with Christmas in the middle, to complete project planning, development and UAT, as well as set up environments for all these activities. Early feedback from members is that this is a huge development. The data does not exist on the fund company transfer agency system at the investor fund position level per investor. It is only calculated at the fund level on their fund accounting systems. Fundserv data standards do not have a file for this data point to be transmitted. From a dealer perspective, they do not have or store this data. They would have to program to ingest the new file from Fundserv and then calculate at an investor account level the dollar cost of the MER by summing it from the various fund companies. **Hence, although Fundserv would likely have finalized production and hence be ready by June 7, 2025, dealers and fund companies would need some incremental time to *June 2026* to implement technical enhancements and procedures, project plan, develop, internally test, and finalize production for client account level reporting requirements.**

THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

IFIC.CA

October 13, 2020

Delivered By Email: cjepson@osc.gov.on.ca

Mr. Christopher Jepson
Senior Legal Counsel, Compliance & Registrant Regulation, Ontario Securities Commission
Chair, Total Cost Reporting Securities Sector Working Group
20 Queen St. W., 22nd Floor
Toronto, ON M5H 3S8

Dear Mr. Jepson:

RE: Total Cost Reporting Joint Project – Consultation on Preliminary Options

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to provide feedback on the preliminary options being considered by the Joint Committee to expand upon cost reporting to investors.

IFIC is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC works collaboratively with industry representatives, regulators, governments and investor advocates to help cultivate a system that is fair, secure and efficient for all stakeholders.

Before responding directly to the options that have been raised in Appendix A, we would like to provide some overarching comments on the consultation.

Evidence-Based Solutions

IFIC members support enhanced fee transparency. However, before determining its policy direction, we encourage the Joint Committee to clearly articulate what the intended objectives are.

Our members agree that, as this initiative moves forward, it will be important to consider behavioral insights and other available research to help determine what cost information is important to investors. Therefore, we recommend that any proposal be thoroughly tested with investors before implementation to ensure the proposed direction is useful and comprehensible. In 2019, IFIC conducted some limited research with BEworks on expanded cost disclosure. Although this research is not publicly available, we would be pleased to walk you through the research and its findings. An interesting and relevant finding is that while basic boosts (such as simplified wording and chunking of information) improved investors' higher-order comprehension of statements, expanded cost disclosure lowered confidence in understanding

Practical Implications

While IFIC members fully support expanding cost reporting to investors, it is important to understand that providing new data elements will have a significant impact on many industry participants. As such, it is critical that industry stakeholders continue to work together to come to the best possible solution for investors.

In reviewing our feedback to the options provided, it is important to keep in mind that any option that requires data that is not currently part of an existing data file will require material system enhancements across various stakeholders.

Practical implications when adding a new data element to facilitate expanded cost disclosure include:

Fundserv

- Fundserv will need to add new data fields to be able to exchange information between fund companies, dealers and service providers.
- Fundserv enhancements are finalized in January and released in June each year. For example, to add any new data fields into the June 2022 release, final requirements would need to be in place by January 2022.
- These timelines are dependent on the complexity of the rule and its associated requirements.

Fund Companies

- The complexity of the Fund Manager changes required will depend on the nature of the requirements under the rules. For example, to provide basic fund MER data similar to the disclosure contained in the Fund Facts will require a process to populate the data in back office systems and transmit it to Fundserv.
- Following the initial change to data files, a process will be required to maintain or update the data as needed.

Dealers

- Dealer systems will need to be updated to be able to accept, retain, use and periodically update the new data elements.
- Changes will be required to the data file that contains the inventory of securities available on the dealer's platform with the associated security details (**security master**).
- Changes will be required to the dealer's statement files.

Print Vendors and Other Service Providers

- Print vendors will need to update their systems to be able to accept and use the new data files.
- Changes will be required to the statement layout and design.
- Other service providers may need to adapt functionality to accept new data points and provide calculation services, as deemed necessary.

Since some of these changes will need to be done sequentially, it will be particularly important that the implementation period provides sufficient time to build and test the enhanced functionality.

Cost and Complexity

You will note in the responses provided, there are three broad classifications for the proposed options:

LOW

Simple disclosure elements will have a low level of cost and complexity.

HIGH

Although a flag or a single new data element may seem to be simple, because the information to support that element is not readily available in existing data files, the cost and complexity will be high.

VERY HIGH

Options that contemplate one or more new data elements and new calculations will be very high in cost and complexity.

As complexity increases, there will be a commensurate increase in the time necessary to implement the change(s).

While CRM2 challenged the industry to use and report on data that was generally available, expanding cost disclosure to include calculations or estimates asks the industry to source and use data that is not currently contained in the data files exchanged between stakeholders. As such, the cost, time and effort to implement this type of solution may approach or exceed that of CRM2.

* * * * *

We would be pleased to provide further information or answer any questions you may have. Please feel free to contact me by email at kvickers@ific.ca or by phone 416-309-2324. Thank you once again for seeking our input. We appreciate this opportunity and stand ready to assist with this initiative.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Kelly Vickers
Senior Policy Advisor

Copy to:

Chantale Bégin
Analyste experte en normalisation des institutions financières,
Direction de l'encadrement du capital des institutions financières
Co-Chair, Total Cost Reporting Joint Committee
Chantale.Begin@lautorite.qc.ca

Martin Picard
Analyste expert à l'encadrement des intermédiaires,
Autorité des marchés financiers
Co-Chair, Total Cost Reporting Joint Committee
Martin.Picard@lautorite.qc.ca

Appendix A

1. **Account statements**

   a. **A <u>simple reminder in plain language</u> if a client may incur "investment fund management expense fees or other ongoing fees" in connection with a security (borrowing from s.14.2.1(d) for consistency in drafting). There would be "flag" on each security with an embedded fee, but the text need only be set out in one place.**

   This option references "an investment fund management expense fee or other ongoing fee" as well as an "embedded fee". For clarity, we would recommend using "investment fund management expense or other ongoing fee" consistently.

   To provide feedback on this option, we have separated the option into two components, the disclosure and the flag.

   As noted above, simple disclosures can be added to a statement relatively quickly and inexpensively, provided the statement layout has the available space to add the disclosure. The cost and complexity to add a simple disclosure would be LOW.

   In regards to the flag, it appears that this option intends to take a similar approach to NI 31-103 s. 14.14.5(g), which identifies securities that might be subject to a deferred sales charge if they are sold. This was generally satisfied by including "DSC" in the naming convention of the fund along with a disclosure. This requirement did not require a material change because most security masters already used this naming convention to identify DSC mutual funds.

   Adding a flag to each security if a client may incur an investment fund management fee or other ongoing fee is not a simple task. Such a flag would require data that is not currently included on a firm's security master, nor is it contained in the Fundserv data files. As such this is not data that can be communicated between stakeholders in today's environment. Additionally, dealer systems are not currently configured to accept, store and use the data. The cost and complexity for a flag would be HIGH.

   Lastly, we would encourage the Joint Committee to consider a flexible approach to applying a flag. For example, a business model could provide access to a broad spectrum of investment funds, only some of which have investment management expense fees or other ongoing fees. This may necessitate that a flag be applied to individual securities. Alternatively, under a different business model, a firm or account type might only permit access to investment funds with investment management expense fees or other ongoing fees, in which case the described disclosure could be provided at the account level.

   b. **The same as (a), but with <u>prescribed text designed to ensure clarity</u>. The text might be something along the lines of *"You pay ongoing fees to the manager of the fund for so long as you have this investment in your account. You do not pay these fees directly; they are deducted from the fund. These fees were already deducted from the fund before its market value was calculated. These fees are the principal way the fund's manager covers its costs and makes an operating profit."* It may also be useful to include reference to the availability of information in each funds' current offering document (prospectus/fund facts) and where it can be found online.**

   While suggested text would be helpful, IFIC members would prefer the option of using the suggested language or something "substantially similar". This approach is consistent with NI 31-103 s. 14.17 (e) and (h). The cost and complexity would be the same as option 1a.

   We are not confident that that the sentence "These fees are the principal way the fund's manager covers its costs and makes and operating profit" is necessary or helpful to the investor. It would be prudent to determine if the expanded language improves investor confidence and comprehension through testing.

   c. **The same as (b) with the addition once per year, in the statement sent closest in time to the annual compensation and performance reports, of expanded reporting consisting of the <u>fees per fund expressed as a percentage and the</u> <u>approximate dollar amount deducted</u> in respect of the client's holding in the fund (e.g., the "flag" beside the security would say**

something like "… *ongoing management fees of 2.2% are deducted from the fund. During the reporting period this was equivalent to approximately $x for your investment*").

This option requires data elements that are not currently contained in data files as well as a complex calculation. As noted above, this would require substantial system enhancements across multiple stakeholders. As a result, the cost and complexity for this option would be VERY HIGH.

Requiring a flag for each security held at the end of the period that includes the management expense ratio (**MER**) and an estimate of dollars paid poses several challenges:

- A reasonable estimate of the amount of management fees deducted from the fund during the reporting period would require the calculation of an approximate daily cost to the client of each holding. This approach is outlined in the IFIC response to the MFDA Discussion Paper on Expanded Cost Reporting.
- Calculations based on the MER include the trailing commission paid to the dealer. As a result, the commission paid to the dealer may be double counted since it would be reported to the client twice – once in the report on charges and other compensation to the dealer and a second time through the estimate of the amount of management fees. This issue is also discussed in the IFIC response to the MFDA Discussion Paper on Expanded Cost Reporting.
- Investors might well also want or need a narrative that explains the calculation.
- If you consider this approach in the context of an account with multiple holdings, the result may be confusing to investors. As an example, if there are 10 mutual fund holdings in an account, the result would be 10 flags and 10 associated disclosures to cross reference.
- This option does not contemplate if there are funds held during the period that are not held at the end of the period.

Lastly, we would question if this information should be included on the account statement given there is a separate report that details changes and other compensation to the dealer. This approach should be tested to ensure investor comprehension and confidence is not diminished by having cost information in two separate reports.

2. Report on charges and other compensation

a. <u>A simple reminder in plain language</u> using prescribed text designed to ensure clarity. The text might be something along the lines of *"You pay ongoing fees to the manager of certain funds for so long as you have them as investments in your account. You do not pay these fees directly; they are deducted from the funds. These fees were already deducted from the funds before their market value was calculated for purposes of your investment performance report. These fees are the principal way the funds' managers cover their costs and make an operating profit. For information about specific funds, see [your account statements and] the relevant fund facts documents available on each fund's issuer's website."*

A simple reminder in plain language can be included cost effectively, in a reasonably short amount of time. The cost and complexity would be LOW.

As discussed in 1b above, firms should have the ability to use the suggested language or something substantially similar. We would again question the value of the sentence "These fees are the principal way the funds' managers cover their costs and make an operating profit".

b. The same as (a) with the <u>addition of aggregate fees expressed as a percentage</u>. Challenges identified with this option include the following:

- **would have to be expressed as either a range or an average if this report is to remain at the whole account level,**
- **would create the potential for client confusion,**
- **would need to be sure that most investors would find the additional information to be useful.**

The cost and complexity of this option is VERY HIGH and may meet or exceed the costs associated with implementing CRM2. The addition of aggregate fees expressed as a percentage requires new data elements and calculations.

We agree with the challenges that you have identified and would again refer you to the IFIC response to the MFDA Discussion Paper on Expanded Cost Reporting .

c. The same as (a) or (b), with the addition of the (approximate) aggregate dollar amount deducted in respect of funds in the client's account (e.g., "*During the year covered by this report, ongoing management fees of approximately $x were deducted from funds in your account*"). This would be consistent with the basis for the current information in the report: account-level, dollar amounts. For that reason, it might be more meaningful than the percentage-based information discussed in (b). It will be a challenge to avoid causing some clients to think that they pay these fees directly, perhaps on an after-valuation basis.

The costs and practical implications for this option would be the same as those outlined in 2b.

3. Investment performance report

a. No change as this document is meant to provide investment performance information only at the account level and it would therefore be the wrong place to address costs embedded in certain products. It may be confusing to clients if information about embedded fees was included there.

We agree that cost information should not be included in the investment performance report.

b. Include the following additional information for the change in market value to reflect the impact of charges and ongoing embedded fees at the account level:

Opening market value
Deposits
Withdrawals
Change in the market value of your account:
- **Increase\Loss in value (plus embedded fees)**
- **Ongoing embedded investment fees (i.e., as a separate line item)**
- **Charges you paid directly to us**
- **Net change in the market value of your account**
Closing market value

While this option is more in line with the feedback that IFIC provided on the MFDA Consultation on Expanded Cost Reporting, the IFIC response did not contemplate intermingling cost information with investment performance.

As you have noted in option 3a, including cost information on the investment performance report may be confusing to investors. We agree that the investment performance report may be the wrong place to address investment fund management expenses or other ongoing fees.

If this option continues to be considered, the cost and complexity to implement would be VERY HIGH and may meet or exceed the costs associated with implementing CRM2.

c. **Same as (b) broken down by security position**.

Generally, the response to this option is the same as 3b above. There are however some additional comments that we would like to offer.

As you have noted above, the investment performance report is a document that provides account level investment performance. This option considers adding cost information by security position which does not align with the intent of the investment performance report.

For accounts that hold multiple security positions, and potentially a variety of security types, we would question if investors want this amount of detail or if it would negatively impact investor comprehension and confidence. This approach has the potential to include a great deal of information and research has proven that more data does not always lead to greater investor confidence or comprehension.

To align the information at the security level with the investment performance at the account level, this amount of detail may need to be reported for all holdings held during the period, not just the holdings at the end of the period. Reporting this information for just the holdings at the end of the period may impact investors' ability to connect the performance of the account to the information on the report.

Similarly, given the investment performance report details account performance over various periods (1,3,5, and 10 years and since inception), firms may be required to provide security level detail on all holdings since the inception of the account. This doesn't seem to be the right result for investors.

4. New stand-alone report

We do not currently anticipate proposing a new stand-alone report to address embedded fees. We are concerned that a new stand-alone report might be disregarded by many investors and confusing to others. It might also create a perception of undue focus on products with embedded fees.

We agree that a new stand-alone report may not be the most appropriate solution for investors.

THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

IFIC.CA

July 20, 2018

Delivered By Email: kwoodard@mfda.ca

Ken Woodard
Director, Membership Services &
Communications
Mutual Fund Dealers Association of Canada
Toronto, ON M5H 3T9

Dear Mr. Woodard:

RE: Discussion Paper on Expanding Cost Reporting

The Investment Funds Institute of Canada ("IFIC" or "we") is writing to provide comments on behalf of our members on the MFDA's *Discussion Paper on Expanding Cost Reporting* (the "Paper").

IFIC supports a move to expanded cost reporting and we have shared this view publicly (IFIC press release issued on April 25, 2017)[1]. The industry has invested significant time and effort in providing enhanced disclosures under CRM2, and the next logical step in enhancing disclosure is to expand cost reporting. This will further enhance transparency to investors of the costs of owning investment funds.

This submission letter sets out material elements of expanding cost reporting. We propose a calculation methodology that provides a reasonable approximation of the ongoing indirect cost to a client of owning an investment fund. This approach is consistent with approaches currently in use in the industry. We also offer our preliminary assessment of the implementation issues, differences in approach required for exchange traded funds and our views on the required implementation timeline. Our responses to the specific questions posed by the MFDA are set out in Appendix A.

Calculation Methodology

The key element of expanding cost reporting is the methodology for calculating the ongoing cost, in dollars and cents, to a client account of owning investment funds. As we discuss in greater detail in the following section, the presentation of the ongoing cost of owning investment funds will be a reasonable approximation because of the process by which MERs are calculated[2].

While the calculation methodology must be agreed upon amongst all stakeholders based on a full assessment of the issues and available data points, we propose a methodology similar to the following:

[1] https://www.ific.ca/en/news/investment-funds-industry-ready-to-tackle-crm3/

[2] MERs take into account a number of items including fixed fees, variable expenses, accruals and adjustments, waivers and/or absorptions.

1.	1/365th of MER of the applicable series of each investment fund X daily market value of the applicable series of each investment fund in client account ($)	**=**	Daily ongoing cost of owning the applicable series of each investment fund ($)
2.	Sum of Daily ongoing cost of the applicable series of each investment fund over 12 month reporting period (or portion thereof)	**=**	Ongoing cost of owning the applicable series of each investment fund during the 12 month reporting period (or portion thereof)
3.	Sum of Ongoing cost of owning each investment fund in client account during the 12 month reporting period	**=**	Aggregate ongoing cost of owning investment funds in client account during the 12 month reporting period

The first step of the calculation results in the approximate daily cost to the client of holding each investment fund. The second step results in the cost of holding each investment fund for the 12 month reporting period. The final step in the calculation would add up the annual cost of holding each individual investment fund held by a client to produce the aggregate cost of owning all investment funds in that client's account. This aggregate value would then be presented in the annual report to clients.

The MER used in the calculation is the series MER published in the annual Management Report of Fund Performance ("MRFP") as further explained below. Using the daily market value of each investment fund to calculate the ongoing costs of owning the applicable series of each investment fund will take into account any market fluctuations and client initiated actions such as purchases, transfers and redemptions.

Use of the Series MER published in the annual MRFP to calculate the ongoing costs of owning an investment fund

Investment fund managers currently track fees and expenses of an investment fund at the fund and series level only. There has not been a need or requirement to track these fees and expenses at the individual investor level because the costs are borne directly by the investment fund. As a result, an expanded cost calculation methodology that requires fund managers to provide the actual cost at an individual investor level is a very difficult task that requires significant changes to existing fee and expense processes, technology and shareholder recordkeeping systems for investment funds. This is in stark contrast to the ability of investment fund managers to provide information on the payment of trailing commissions on an individual account basis. The key difference is that, in the case of trailing commissions, there is an actual payment from the investment fund manager to the dealer in respect of their client holdings which means this information must be tracked to make the payment.

It is also important to note that investment fund managers generally accrue management fees and expenses and charge them on a monthly basis but have the ability to make final adjustments, including waivers of fees and/or absorption of expenses, up to the investment fund's year end. In some instances, an investment fund manager will waive fees or absorb expenses to achieve a desired MER at the investment fund's year end. Therefore, final calculations of the annual MER, inclusive of any adjustments, waivers and/or absorptions only occur at year end. Estimating an interim MER can overstate the ongoing cost of owning an investment fund as the MER used will not reflect any adjustments, waivers and/or absorptions taken at year end.

Although the MER obtained from the annual MRFP is for the fund's most recently completed financial year, most mutual funds have a fairly stable MER year over year. Moreover, the MER published in the annual MRFP is obtained from the investment fund's audited annual financial statements and its use is an accepted method by which to calculate the ongoing costs of owning an investment fund.[3]

For these reasons, we would submit that the applicable series MER as provided in an investment fund's annual MRFP provides a reasonable approximation of the indirect cost of owning an investment fund.

ETF Specific Differences

A consistent calculation methodology must be used to calculate the full cost of owning an exchange traded fund (ETF). However, because ETFs trade on an exchange, it will be important to understand differences in the process, including the need for ETF managers to provide a net asset value per unit ("NAVPU") and the role of the dealer in calculating the ongoing cost of ownership. ETF providers will have to provide a NAVPU to enable dealers to calculate the indirect cost for their clients based on the number of units of the ETF each client holds. Although the market price of an ETF is readily available, the NAVPU is necessary because the MER is based on the net asset value of the ETF. It will also be necessary to identify a central repository through which key data elements, such as the NAVPU, can be made available to dealers in a readily useable format. Unlike conventional mutual funds, ETF providers do not have any information on the number of securities held by each ETF investor.

Statement Design

IFIC supports flexibility in statement design and presentation to make the expanded cost disclosure easy to understand. To that end, IFIC recommends that the minimum content requirements be prescribed with a flexible approach permitted for the implementation consistent with the approach taken for the CRM2 requirements.

IFIC has included a sample disclosure statement at Appendix B. The sample statement provides a client's total cost of investing at the top of the statement, followed by a breakdown of the indirect costs paid to the investment fund manager or investment fund and the direct fees and other compensation paid to the dealer. This sample provides the total cost of investing in investment funds in a simple and easy to follow format. Please also see our response to question 5 in Appendix A.

A flexible approach allows firms with different business models, such as fee based dealers or integrated firms, to develop different statements that meet the prescribed content requirements while meeting the needs of their clients.

Implementation Timeline

The timeline to transition to expanded cost disclosure should take into account implementation issues that will include, at a high level, the following:

- Establishing or identifying central repositories for new data elements
- Systems builds for investment fund managers, dealers and external service providers to accommodate new data elements and to verify the information to be provided
- Implementing monitoring processes for any external service providers retained by investment funds managers or dealers
- Industry collaboration on developing standards and implementing the technology changes, including testing, to existing processes, systems and service providers and related implementation timelines
- Developing the training program for staff within both investment fund managers and dealers

[3] See, for example, https://www.getsmarteraboutmoney.ca/calculators/mutual-fund-fee/

This work cannot begin until the regulatory requirements are finalized.

As a result, IFIC recommends that the implementation timeline for expanded cost reporting be at least 3 years:

- a minimum of 2 years following publication of the final rule to develop, test and implement systems required to calculate the ongoing indirect costs, in dollars and cents, of owning an investment fund and make it available to dealers.
- one additional year thereafter, to allow for the collection of data for a full year prior to the first reporting date.

This is a reasonable transition timeline which provides time to develop the technology plan and implementation timeline for industry service providers and industry members. By way of example, Fundserv currently operates on a 1-year implementation schedule where new system requirements are finalized in June and implemented in June of the following year. Prior to Fundserv implementation, industry stakeholders need to establish and agree upon the data requirements for the transmission of the cost information from investment fund managers to dealers.

Conclusion

IFIC thanks the MFDA for the opportunity to provide comments and input on the Paper. We hope our comments advance efforts to provide investors with a complete understanding of the full cost of owning retail investment funds.

We would be pleased to provide further information or answer any questions you may have. Please feel free to contact me by email mupadhyaya@ific.ca or by phone (416-309-2314).

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Minal Upadhyaya
Vice President, Policy & General Counsel

Enclosed: Appendix A - Responses to MFDA Implementation Questions
Appendix B - Sample Statement

APPENDIX A

Responses to MFDA Implementation Questions

Expanding Cost Reporting

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

IFIC is supportive of expanding cost reporting. CRM2 was an important first step in giving clients more information on how dealers are compensated and an opportunity for enhanced client discussions. Expanding cost reporting is the logical next step in making clients more aware of the total costs of investing in investment funds.

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

Yes. IFIC supports increased transparency to aid investors in their understanding of costs. IFIC has argued for and encourages a level playing field. Securities regulators should continue dialogue with other regulators to ensure there are consistent requirements for costs disclosure across all financial products.

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?

IFIC supports including the fees outlined in the Discussion Paper.

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

No, the examples in the Paper outline the relevant costs that should be reported.

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

Figure 1: IFIC is supportive of providing clients with ongoing information of the costs of ownership for the investment funds that they hold. An important consideration in this context is the duplication of information that is provided or made available to clients. For example, the MER of an investment fund is included in the Fund Facts document provided at the time of sale and is available through the MRFP.

At a minimum, there should be flexibility for dealers on the presentation of this information. Any MER information will need to provide additional information to clients that the actual cost may be lower for a client if the client qualifies for householding programs, management fee reductions and rebates.

Figure 2: As set out in our letter, the minimum requirements should be prescribed and if dealers want to provide additional information such as that set out in Figure 2, they can do so. We note that Figure 2 focuses on fund-level requirements rather than on giving clients information about the total costs of owning an investment fund. Reporting the components of the MER as illustrated in Figure 2 will increase the size of the statement package which may have the adverse effect of reducing investor interest in reviewing all of the content.

Figure 3: IFIC supports a document similar to this figure. However, Figure 3 raises the issue of double counting because a client could add up the prominently displayed total cost figure with the total charges and compensation figure which could lead to an overstatement of the total cost. Specifically, one of the concerns noted by our members with Figure 3 is the separation of cost reporting from compensation reporting given the significant overlap between the two reports. For example, the amount of trailing commission is reported in both sections – in the

Cost Report, as part of the indirect cost of owning an investment fund, and in the Compensation Report, as a payment to the dealer. Other charges from the dealer, such as administration fees, are also reported in both sections. A client's natural tendency will be to add the totals of both sections together to determine their total costs, which will result in an overstatement of their total cost.

We suggest these two reports be combined into a single "Costs and Compensation Report" which breaks down all costs to the client, either direct or indirect, into two groupings: costs paid indirectly to the investment fund manager or investment fund; and costs or compensation paid to the dealer. The total of these groupings represents the full cost of investing to the client. IFIC's sample statement, which is provided at Appendix B, provides an example of this combined reporting.

Figure 4: IFIC supports integrated firms having the option of showing total costs of investing without a dealer/manager breakdown.

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

IFIC's sample statement better explains the costs of investing to clients. We also recommend that dealer firms have flexibility to tailor their statements to their clientele. The regulatory framework should prescribe the minimum standards for disclosure, providing industry members with the flexibility to implement the new rules in a fashion that best suits their business models.

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

We expect there to be unforeseen and unexpected implementation issues that will arise as we move to expanded cost reporting. As with CRM2 implementation, we recommend that stakeholder committees, including both regulators and industry members, be established to resolve common issues collaboratively. IFIC will also continue to provide a forum for our members to address implementation issues as they arise.

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

Investment dealers have broader product shelves and may have different challenges or issues.

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?

See our discussion under Implementation Timeline

APPENDIX B

Liberty Financial

Annual Report of Costs & Compensation
For the period ended December 31, 2022

Jane Q Public
123 Main Street
Chatham, ON
Canada N3T 8A9

Your RRSP Account 12345678

Your Total Costs to invest during 2021: $796.99

This report provides a breakdown of your total costs to invest during the year. These costs are paid to us (Liberty Financial) for administrative costs and services, including financial advice, and indirectly, through the investment funds you invest in, to parties such as the investment fund companies that manage the investment funds you own.

	Cost ($)
Amounts you indirectly paid to Investment Fund Manager(s) and / or Investment Fund(s)	
Investment management fees and expenses ("MER")[1]	$671.78
Less: management fee rebates	$(44.79)
Less: trailing commissions paid to Liberty Financial[1]	$(298.57)
Net ongoing management fees & expenses	$328.42
Short-term trading fees paid on the sale of investments	$20.00
Redemption fees paid on the sale of deferred sales charge investments	$50.00
Net paid to Investment Fund Manager(s) and/or your Investment Fund(s)	**$398.42**
Amounts paid to Liberty Financial	
Trailing commissions received from investment fund manager(s) [1]	$298.57
Account administration and operating fees	$60.00
Front-end sales commissions	$25.00
Switch fees	$15.00
Net paid to Liberty Financial[2]	**$398.57**
Total costs to invest during 2021	**$796.99**

[1] Inclusive of Goods and Services Tax/Harmonized Sales Tax

[2] **Note re: total compensation received by Liberty Financial**
In addition to the amounts you paid to Liberty Financial shown above, Investment Fund Manager(s) paid Liberty Financial a total of $250.00 in deferred sales charge commissions related to the purchase(s) of investment funds. Accordingly, the total charges and compensation that Liberty Financial received to service your account during 2021 was $648.57.