July 27, 2022

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British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

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Grace Knakowski
Secretary Ontario Securities Commission
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Delivered by e-mail: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

RE: CSA and CCIR Joint Notice and Request for Comment – Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and Proposed *CCIR Individual Variable Insurance Contract Ongoing Disclosure Guidance* – Total Cost Reporting for Investment Funds and Segregated Funds (collectively the "Notice")

This comment letter is submitted on behalf of the Canadian division (**"AIMA Canada"**) of the Alternative Investment Management Association (**"AIMA"**) and its members to provide our comments to you on the legislative proposals referred to above.

About AIMA

AIMA was established in 1990 as a direct result of the growing importance of alternative investments in global investment management (covering primarily hedge funds, private credit, liquid alternative funds though now also digital assets) to help facilitate institutional-quality, operational sound practices for its members. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. As a not-for-profit international education and research body, AIMA works to raise media and public awareness of the value of the industry.

AIMA's global membership comprises approximately 2,100 corporate members in more than 60 countries, including many leading investment managers, professional advisers and institutional investors and representing over $2.5 trillion in assets under management.

Under our pillars of Advocacy, Education and Communication, the objectives of AIMA are to provide an interactive and professional forum for our membership; act as a catalyst for the industry's future development; provide leadership in due diligence and sound practices, including ESG and diversity, equity and inclusion; enhance industry transparency and education; and liaise with the wider financial community, institutional investors, the media, regulators, governments and other policy makers. Part of the benefit of AIMA's global and local footprint is to ensure our members have the opportunity to be current and consistent with international best practices and the latest trends impacting alternative investment management.

AIMA Canada, established in 2003, has approximately 140 corporate members (53% managers, 19% institutional/retail dealer allocators, 28% service providers, including legal, accounting, prime brokerage, administration and other). The majority of AIMA Canada members are managers of alternative investment funds and fund of funds. Most are small businesses with fewer than 20 employees and $100 million or less in assets under management, though some members are some of our country's largest traditional asset managers. The majority of assets under management are from high-net-worth investors and are typically invested in pooled funds managed by our members. Investments in these pooled funds are sold under exemptions from the prospectus requirements, mainly under the accredited investor and minimum amount investment exemptions. Manager members have multiple registrations with the Canadian securities regulatory authorities: as Portfolio Managers, Investment Fund Managers, Commodity Trading Managers and in many cases as Exempt Market Dealers.

Of our manager members in Canada, approximately 75% offer private funds ("**Private Funds**"), typically offered via an offering memorandum ("**OM**"), while 40% engage in selling prospectus-qualified Alternative Mutual Funds ("liquid alternatives") under *National Instrument* 81-102 ("**NI 81-102**") to retail investors. There is some overlap with those managers who offer both types of fund structures (private and retail) to service different investor types (institutional and retail). In this case, often the investment strategy is managed *pari passu* between Private Funds and prospectus-qualified funds, though with different restrictions on short selling, leverage, exposure to private instruments or otherwise.

Comments

We are writing in response to the Notice and appreciate the opportunity to share our views on behalf of our members. Our comments are focused on the investment funds aspect of the Notice. We do not have any comments on the segregated funds aspects as our members do not manage this type of product.

AIMA Canada agrees with the objective of the Notice that enhanced and ongoing disclosure of the costs associated with owning investment funds will benefit investors' understanding of their investments in achieving their objectives. We urge the CSA, however, to carefully consider the effect on investors and advisers and probable actions in response to the disclosures before imposing new industry wide reporting systems that may in fact be unnecessary, or the cost of which may outweigh the intended benefits. Further, the diversity of the many investment fund types (and their respective jurisdictions), which are currently available on most dealer shelves, will inevitably lead to spurious, if not categorically erroneous, comparisons.

Our comments are organized as general comments and concerns regarding the Notice, followed by a proposed alternative approach, attached as Appendix B. Attached as Appendix A are responses regarding the specific questions posed by the CSA in the Notice.

In preparing our comments and recommendations we reviewed the Notice in light of both its stated objectives and the behavioural insights findings and suggestions referenced in the Notice to OSC Staff Notice 11-787 *Improving Fee Disclosure Through Behavioural Insights* (August 19, 2019) (the **"OSC Staff Notice"**).

The stated objectives of the proposal are:

1. To enhance investor protection by improving investor's awareness of ongoing embedded fees and expenses that are the cost of owning an investment fund, as the costs impact returns and have a compounding effect over time. Understanding these costs will assist investors in determining if they are receiving value for their fees.
2. To potentially increase competition regarding fees through the enhanced disclosure, thereby benefiting investors through reduced costs.

Behavioural insight findings and potential tactics to address issues from the OSC Staff Notice that we considered to be particularly relevant to the Notice were:

1. Investors may be confused by terminology, may not understand what is included and what is excluded, lack reference points to determine whether fees are higher or lower than the norm, and do not understand the compounding impact of fees and expenses over time (barriers to investors using annual fee reports as intended).
2. Do not aggregate fees to a higher level without also providing a breakdown of how the fees were incurred (barrier to comprehension).
3. Present essential information up front on a summary page with detail on a following page(s) (barrier to comprehension).
4. Link fees to the actions that triggered them (barrier to action).

General Comments

Fund Expense Ratio (FER)

The Notice proposes to disclose and calculate costs based on the FER, being the sum of the management expense ratio ("MER") and the trading expense ratio ("TER").

Trading expenses are driven by the investment strategy of the fund; they are not expenses in the commonly understood sense of the word. A higher TER is not necessarily a negative with regards to fund performance; it could reflect an effective portfolio management strategy in a volatile market.

For example, for a fund that engages in short selling the borrowing costs are included in the TER. Therefore, a fund that shorts may have a higher TER, but shorting can provide reduced volatility in the performance of the fund, resulting in better risk-adjusted performance for the investor. Investors may not understand such activity and its impact, thereby acting as a barrier to comprehension.

The TER is disclosed in the MRFP, Fund Facts and ETF Facts for reporting issuers but is not normally reported for other investment funds. Requiring this calculation to be done for all funds increases regulatory burden, contrary to the regulatory direction to reduce the burden of compliance.

In our opinion MER alone should be used in the calculation of any fund expense amounts reported, if this approach is adopted. Please also refer to our comments in Appendix A question #2 on this issue.

Management Expense Ratio (MER)

The Notice proposes to use MER as the basis for calculating investor costs. For applicable funds only, the MER is currently calculated on a semi-annual basis and annualized and disclosed in the Statement of Financial Highlights included as part of the Management Report of Fund Performance ("MRFP") published by reporting issuers under NI 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106"). The MER reported in the MRFP is also disclosed to investors in the Fund Facts sheet and ETF Facts sheet provided to investors at the time of purchase.

We have the following comments and concerns regarding the use of MER to calculate investor costs:

a) Using the MER for a 6- or 12-month period implicitly assumes a constant level of expenses in a fund, which is not necessarily the case. It could be particularly misleading in the case of a fund with performance fees, as offered by many AIMA Canada members.

   As an example, assume that a fund pays a performance fee in the first half of a year ("H1") but not in the second half ("H2"). Use of the fund MER for the year would understate the expenses borne by investors holding the fund in H1 as only they bore the cost of the performance fee. Expenses would be overstated for investors who purchased the fund in H2 as the costs of the fund during the period did not include the performance fee.

b) The Annual Report on Charges and Compensation (the "ARCC") is required to be delivered with the year end statement, or within 10 days following the year end statement. In order to meet this deadline, dealers require that all necessary information be available in their systems at December 31st or very shortly thereafter. However, the annual MER for a fund cannot be finalized until the audit of the fund is completed. For the majority of funds this is 90 days after the year end when the audited financial statements must be filed. As a result, any MER used for reporting in the ARCC would be based on an annualized MER as at the previous June 30th. Given this situation any disclosure of cost reporting based on the MER must clearly state that it is an estimate in order to not be misleading. Even clear statements to this effect may result in confusion for investors and will impact their ability to effectively compare and understand the costs of different investment funds. Alternatively, the deadline for sending the ARCC to an investor must be moved to later in the following year so that the MER can be finalized based on audited financial statements, e.g., for inclusion with the March statement of the following year.

We recommend that the definition of MER be amended to exclude performance fee expenses, and applicable taxes, from the calculation. This is for two reasons:

i. **In our view the focus on reporting costs to investors should be on those costs that they will incur, indirectly, regardless of whether the fund is profitable. Such costs are under the purview of the IFM and are manageable to a degree. Performance fees are only incurred if an investor's holdings are increasing in value and represent a portion of the increase in value, i.e., effectively a reduction in an investor's revenue even though it is reported as an expense.**

ii. **As noted in our comment in (a) above the use of an annualized MER including performance fees, for a fund that has performance fees at varying periods during a year, can greatly distort the estimated level of expenses reported to an individual investor.**

We recommend that MER not be used to attempt to calculate an actual dollar cost for an investor due to the resulting costs being an estimate that could be materially misleading. If an actual cost is to be calculated for an investor, please see our comments in Appendix A Question #2 as to how this should be done.

However, we do recommend that MER be disclosed, along with the estimated cost per $1,000 invested, as is done for Fund Facts and ETF Facts. Please review the details in our alternative approach discussed below and in Appendix B.

Calculation and Reporting of a Daily Cost per Unit

The Notice requires the calculation of a daily cost per unit for each class or series of a fund, with it then being used to calculate a daily cost for each investor in the fund, and then summing and reporting the costs for each investor over the year. Our comments above address the issue of using a fund's MER for this calculation.

The major operational concerns with this daily cost approach are that:

a) A new industry wide reporting system would need to be established to report the daily cost per unit to dealers for each class or series of each fund. A large part of the industry is covered through Fundserv, but not all funds use Fundserv, such as ETFs and Closed-End Funds. The creation and costs involved in creating such a database have not been scoped in detail and in our view could be significant. While Fundserv participants might come to agreement on common standards, file format etc. there is no mechanism to bring together other parties to create a common reporting standard. We note that in a recent article in Investment Executive from Mr. Paul Bourque [1], President and CEO of IFIC, it was indicated that, based on work with industry utilities, implementation of the Notice would require an estimated 30-month implementation period, in a best-case scenario. The Notice proposes implementation in September 2024, assuming approval of the final rule in Q2 2023, a period of 18 months or less.

   As a reference benchmark, as outlined in the article, it should be noted that implementation of the OEO trailer fee ban, arguably a smaller exercise, took 21 months from publication of the final rule.

b) Since a daily cost per unit is required, 365 data points must be created for each class or series of every fund. Fundserv alone has over 100,000 fund codes for classes or series of funds in which people have invested. Thus, a database of daily costs is likely to consist of at least 36.5 million datapoints, which must be updated and maintained annually. This estimate does not include non Fundserv products. As noted above, we anticipate that the costs of creating and maintaining such a database could be significant, along with a significant amount of time to implement.

c) Once the database of daily costs has been created then the costs must be aggregated for each fund held by each investor for the year, i.e., the daily cost per fund for each investor account must be calculated and then added to the previous days' cumulative cost to determine a total cost for the year. This calculation could be performed by the fund administrator and provided to dealers on an account basis, or else performed by the dealer for their clients based on daily data from the fund administrator. Either way this implies the creation and maintenance of a second database of costs by fund for each investor account, the cost and implementation

[1] "Successful rule implementation requires industry collaboration" Investment Executive July 18, 2022 https://www.investmentexecutive.com/inside-track_/paul-bourque/successful-rule-implementation-requires-industry-collaboration/

issues of which would need to be determined.

As an example, one of AIMA Canada's fund administrator members currently administers approximately 700,000 investor accounts for its clients. The calculations above would require 511 million calculations annually.

In summary, the Notice would require the creation and maintenance of massive industry wide databases of daily fund costs and cumulative costs for each fund for each investor account, at a cost that has yet to be determined and which cost would likely ultimately flow through as increased fund expenses borne by investors. This must be a consideration in the reasonableness of requirements and benefit to investors versus the costs involved.

We would also like to point out that, under the proposed transition period, the Notice would require the design and implementation of the required systems during the same time frame as the proposed move to a T+1 settlement cycle in North America, requiring the utilization of the same industry resources. This project requirement was **not** taken into account by IFIC in its assessment of 30 months being required to implement the Notice. This overlap would increase the required implementation period even more and require the CSA, CCMA etc. to decide project priorities.

We recommend that the calculation of a daily cost per unit and its aggregation for reporting to clients not be required. As noted above, based on preliminary estimates from IFIC, the proposed transition period of approximately 18 months for the Notice cannot be met.

Please see our additional comments on this issue in Appendix A Question #5 and our alternative approach below and in Appendix B.

Disclosure of FER in Account Statements

The Notice would require the inclusion of a fund's FER in every account statement (or additional account statement) for each class or series of fund in the investor's account, together with explanatory general disclosure about fund costs.

Our concerns with such ongoing disclosure are:

a) The information is misleading as the period covered by the FER is not disclosed. If it is not made clear then an investor will assume that it is applicable to the current month or quarter, which is not true.

b) Repeating such disclosure on a monthly or quarterly basis lessens the impact on an investor's recognition of the importance of costs. As noted in the behavioural research, investors may not read a report or will just scan it, particularly if they see it repeatedly. When the investor then sees the amount in the annual report on charges they will view it as being of less importance.

c) The disclosure does not show the implications of the FER and why an investor should take action, if any, in light of the information.

d) As noted above, disclosure of a historical FER can be misleading, particularly if a fund has performance fees.

e) A possible natural inclination of the disclosure is to multiply the fund holdings by the FER in an attempt to estimate costs on a monthly/quarterly basis. As noted previously, this is inaccurate due to the use of a historical ratio and the aggregate of such amounts is not reconcilable to the proposed disclosure in the Annual Report on Charges and Compensation.

In our view such disclosure should not be required. It is better handled on an annual basis with enhanced disclosure and discussion. Please see our Alternative Approach recommendation below.

Report on Charges and Other Compensation

The Notice would require the inclusion and disclosure of investment fund expenses and charges in the ARCC, as exemplified in Annex G Sample Securities Prototype. Our concerns regarding the proposed disclosure are:

a) The dollar amount of fund expenses is presented as if it is an actual amount. As noted above, any amount calculated following the proposed methodologies based on a historical FER is an estimate only and should be indicated as such.

b) Presenting only the total amount of fund expenses naturally leads to several questions by an investor:
   i. How does this break down between my various fund holdings?
   ii. How does this relate to the FER that I see on my monthly/quarterly statement by fund?
   iii. How does the cost compare between my various fund investments?
   iv. Are these costs high or low in relation to the industry?

   Presenting a dollar cost per fund does not allow for a meaningful comparison between funds in which varying amounts have been invested.

   Presenting only the total does not take into account the findings from the behavioural insights study, which recommends that a summary amount should be supported with detail. The provision of detail is important for investor clarity and to promote possible action and competition, an objective of the Notice.

c) The presentation or discussion of a purely dollar amount of fees for multiple funds could lead to a misunderstanding of the benefits of paying such costs. This is contrary to a stated objective of the Notice that the intent is to assist investors in understanding if they are obtaining value for the fees. It is also contrary to a finding from the behavioural insights study that recommends linking fees to the action that created them, i.e., investing in a fund, in order to overcome a barrier to action.

   As an example, the management fee is calculated daily/monthly based on the NAV for the period. If NAV is increasing during the year, the dollar amount of the management fee will increase monthly. Conversely, if NAV is decreasing the dollar amount will decrease month over month. If an investor is only shown the two dollar amounts the natural inclination would be to assume that the lower dollar amount is better. This would be a potentially incorrect decision given that it reflects declining performance.

d) In Annex G both fund expenses and trailing commissions are shown. Trailing commissions are paid by the investment fund manager from the management fees collected and are not an additional expense to investors. Notwithstanding that the trailing commissions are segregated and explained as being from the investment fund manager, the risk exists that an investor looking at the report would add the two costs together, thereby overstating the assumed level of expenses.

e) Many AIMA Canada members have only direct investors in their funds. As a result, no annual report on charges is required to be produced. Investors only receive the annual investment performance report. Requiring the sending of the annual report on charges to show fund expenses would be an additional regulatory burden and require time for implementation that would impact the transition period.

In our view the disclosure of fund fees and expenses should be modified and moved to the annual investment performance report, with the level of detail revised. Please see our recommended alternative approach outlined below.

The Annual Report on Charges and Compensation should be renamed to the Annual Report on <u>Direct</u> Charges and Compensation and be limited to amounts paid directly to the reporting dealer.

An Alternative Approach

After careful review we propose that a modification and enhancement of the annual Investment Performance Report (**"IPR"**) would better meet the objectives of the Notice, taking into account the behavioural insights from the OSC Staff Notice. No change would be made to account statements. No change would be made to the Annual Report on Charges and Compensation, which would remain focused on the <u>direct</u> charges and compensation earned by the reporting dealer.

The key change to the IPR is the addition of a section providing an indication of the costs incurred by an investor to achieve the performance of their investments.

Attached as Appendix B is a draft enhanced IPR. It is a modification of the current sample IPR from the Companion Policy to NI 31-103.

In our opinion the modified IPR better meets the objectives of the Notice due to the following:

a) It links in one report the costs of the investments to the returns achieved by the investor, a key insight from the OSC Staff Notice that increases the likelihood of an investor understanding what has happened and taking action, if warranted.

b) It provides estimated cost information on a per fund basis, thereby providing the detail up front to an investor rather than them asking for it.

c) It enables a comparison of estimated costs between funds in both percentage terms, i.e., the MER, and dollar terms, i.e., the estimated cost per $1,000 invested. This is consistent with the Fund Facts and ETF Facts information provided to investors and so is not a major departure from existing practice and is information with which investors are familiar. It also facilitates a comparison of costs between funds in which varying amounts have been invested. We recommend that the reported MER exclude performance fees and applicable taxes, as noted in our General Comments above with respect to MER.

d) Actual daily unit dollar costs are not required to be provided since an estimated dollar cost is not provided. This greatly lessens the volume of data potentially required to be delivered to dealers for reporting since only fund MERs, calculated twice a year, would be provided. We anticipate that this would be a more manageable and less costly exercise and could allow for implementation within the suggested timeframes.

e) The risk of investors adding direct charges and trailing commissions together, thus overstating costs, is eliminated as they are not shown on the same report.

f) The additional costs for AIMA members with only direct fund investors of being required to create an annual report on charges is removed, along with the transition issues. It would be easier for such industry members to deal with modifications to an existing report.

Implementation of this approach would potentially require a change in the required timeframe for the delivery of the IPR. If the MER of the most recent year is to be used then sufficient time must be allowed for the completion of the audit of a fund and dissemination of the final MER to dealers. Typically this would mean that the IPR would be deliverable in April with March statements instead of with the year end statement.

If this delay is not acceptable then the most recent MER available as at year end would have to be used, with appropriate disclosure.

* * *

In summary we recommend the following:

1. A fund's MER should be the only ratio reported, with full disclosure that it is a historical amount. The definition of MER should be amended to exclude performance fees and applicable taxes from the calculation.
2. No additional reporting on account statements or additional statements is required.
3. The Annual Report on Charges and Compensation should remain as currently required to only report direct charges earned by the client's dealer.
4. The annual Investment Performance Report should be modified and expanded to include disclosures of costs and revenues per $1,000 of funds invested, similar to current Fund Facts and ETF Facts requirements, with enhanced explanatory notes.

We appreciate the opportunity to provide the CSA with our views on the Notice. Please do not hesitate to contact the undersigned with any comments or questions that you might have. We would be pleased to meet with you to discuss our comments and concerns further.

Yours truly,

ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION CANADA

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Appendix A – Comments re CSA Specific Questions Regarding the Proposed Amendments

1. ***Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Securities Amendments,***

   (a) exchange-traded funds,

   The major implementation issue would be that ETFs, and any other publicly traded investment fund type such as REITs and Closed-End Funds, do not currently have a centralized data repository or other mechanisms for the reporting of daily cost data to dealers similar to Fundserv for investment funds, nor do they provide any other daily information/data related the funds that could be leveraged. The creation and maintenance of such a system would have to involve a wide range of firms to agree on standards, files and their transmission, etc. Another concern is each dealer organization treats ETFs differently, with many classifying an ETF as an equity, making it difficult to assign a cost since there are no unique identifying characteristics that would separate an ETF from any other exchanged traded security. All industry standard identifiers (CUSIP, ISIN, SEDOL and ticker) do not identify if the security is a stock, bond, ETF, etc. The final concern is that as at December 2021 15.5% or $63.9 billion of the $412.5 billion of ETFs owned by Canadian investors (retail and institutional) were US-listed ETFs. Of the 15.5% nearly 40% were US listed ETFs of ETF providers with no Canadian affiliate. It will be difficult to enforce a Canadian regulation on US ETF providers, their service providers or depositories, to provide a daily cost unit. In addition, the concept of a MER does not exist in the US; it is actually a total expense ratio (TER), which would further confuse investors.

   (b) ***prospectus-exempt investment funds,***

   These funds would have the same issues as noted above for ETFs, to the extent that they are not on the Fundserv platform, yet the fund is held through third-party dealers.

   Many of these funds are only valued on a monthly basis. As such, the Notice must clearly address how the calculations of cost are to be determined. It is important to note that the calculation of the daily fund cost, however determined (see our comments in question #2 below) would have to be performed with the same frequency as fund purchases/sales, e.g., daily or monthly, to ensure that the correct amount is determined.

   (c) ***scholarship plans,***

   No comment.

   (d) ***labour-sponsored funds,***

   No comment.

   (e) ***foreign investment funds?***

   Foreign funds may be unwilling, or unable, to provide information in the required detail within the required deadlines. Some jurisdictions do not align with Canadian reporting cycles. This can be a particular issue for some types of investment vehicles, e.g., foreign private credit funds. There is also an assumption that foreign investment funds have similar data points that could be provided and that are comparable.

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

In our opinion MER alone should be disclosed in account statements and additional statements and used in the calculation of any fund expense amounts reported.

The TER is disclosed in the MRFP for reporting issuers but is not normally reported for other investment funds

We would point out that it is only MER that is used in the OSC Investor Office Mutual Fund Fee Calculator (https://www.getsmarteraboutmoney.ca/calculators/mutual-fund-fee/) and in the linked discussion of how fees impact returns (https://www.getsmarteraboutmoney.ca/invest/investment-products/mutual-funds-segregated-funds/mutual-fund-fees/).

The proposed revised s. 14.1.1 (Duty to provide information – IFM) requires that an IFM must provide to a dealer the daily cost per unit, in dollars, calculated as A/365 X B = C, where:

A = fund expense ratio (FER) of the applicable class or series of the investment fund

B = the NAVPU/NAVPS of the applicable class or series of the investment fund

C = the daily cost per unit/share

It is important to note that MER is not calculated daily. It is calculated twice a year by investment fund reporting issuers for the MRFP and is used to update Fund Facts and ETF Facts reporting. For other investment funds, MER may be calculated twice a year for financial statement purposes in the Statement of Financial Highlights, or not at all as the Statement of Financial Highlights is not a statement mandated by IFRS.

Given the above, the use of the MER to estimate dollar fund costs paid by an investor has the potential to be seriously misleading as fund expenses may vary during the year. This is particularly critical if a fund has performance or incentive fees, as is the case with many of our members. For example, a fund may pay performance fees in the first half of a year but not in the second. Use of the annual MER to determine reported costs will understate the expenses borne by those investors who were in the fund in H1 and overstate the expenses borne by investors who invested in the fund in H2.

It is important to understand that any dollar amount reported to investors using the proposed methodology is an estimate and the totals reported for any given fund would not be reconcilable to the fund's actual expenses. The reporting of an actual total dollar amount implies a greater degree of accuracy than exists.

If a total cost dollar amount is to be reported to investors, **which we do not recommend** (see AIMA Canada's alternative approach), the following approach should be used in order to obtain an accurate dollar amount that is reconcilable to actual fund expenses. Determine the reporting date cost per unit/share calculated as A/B = C, where:

Reporting date = a day on which fund purchase/sale transactions are allowed. This could be either daily or monthly.

A = the expenses charged/accrued to each class/series of the fund for the reporting date. This is done by the IFM, or the administrator, as part of the calculation of NAV.

B = determine the number of units/shares of the class or series outstanding on the reporting date.

Calculate A/B = C. This provides a clear allocation of actual fund dollars to a unitholder on the reporting date and is reconcilable to the fund f/s since actual dollars accrued are allocated. If the fund is valued monthly, or on some other period, this value would be divided by the number of days in the reporting period to determine a daily cost. The daily value from a Friday would be assumed to apply to the following Saturday and Sunday.

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

It is appropriate to use net asset value as market value for investment funds that are not publicly traded as it is the basis for investor transactions and is audited annually. For publicly traded securities the market value from trades is appropriate. This applies equally to the requirements of s. 14.14 Account Statements.

For such a statement we believe that the wording of the notification should be as outlined below, given our comment that the MER of a fund, as defined, includes the TER and so they are not additive (see our General Comments).

> "Fund expenses are made up of the management fee and operating expenses. You don't pay these expenses directly. They are periodically deducted from the value of your investments by the companies that manage and operate those funds. Different funds have different fund expenses. They affect you because they reduce the fund's returns. These expenses add up over time. Fund expenses are expressed as an annual percentage of the total value of the fund. They are reflected in the fund's management expense ratio (MER). These costs are already reflected in the current values reported for your fund investments.".

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

The major implementation issues have been addressed in our General Comments.

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

The Notice would require the establishment of a new industry wide infrastructure for the reporting of cost data as envisaged. In order to implement the proposals for funds purchased and sold on Fundserv alone a massive database with millions of datapoints would need to be created and maintained on an ongoing basis to report the fund cost data for over 100,000 fund codes or ID's, i.e., individual classes or series that investors have purchased. All IFM's, together with their fund administrators, involved would need to determine how the database would be fed. The information from this database would then have to be integrated into each dealer's systems to enable account level reporting to investors.

The time and effort required to establish such a database and update dealer systems would need to be carefully scoped to determine implementation structure, timelines and costs. As noted previously an estimate prepared by IFIC, in consultation with industry utilities, was that implementation would require 30 months in a best-case scenario vs. the 18 months or less proposed in the Notice. It is also important to note that the IFIC estimate did **<u>not</u>** take into account the overlapping requirement to implement the change to T+1 settlement by mid 2024.

Please note the following points with respect to the implementation and maintenance of such a reporting system:

- The Notice requires the calculation of a daily expense amount per unit/share for each series or class of a fund held by an investor, i.e., 365 values. This would mean a database with approximately 36.5 million data points, per annum, for the 100,000 fund codes on the Fundserv system alone. When additional investment products not included in Fundserv are considered, such as ETFs, the number of data points could grow significantly.

- The total daily cost per unit/share would have to be calculated for each investor account for each investment fund holding. This value would either; (i) have to be used to calculate the daily total cost for each investor account and transmitted by the IFM or their administrator to the appropriate dealer, who would then need to integrate the data into their reporting systems; or (ii) the dealer would have to take the daily cost per unit/share and do the calculation for each account in their system.

  As an example of the potential impact, one of our fund administrator members currently services approximately $68 billion of AUM, largely for prospectus exempt funds, involving about 700,000 account positions. To provide cost reporting would require (i) the calculation of the daily cost per unit/share for each class/series of each fund administered; (ii) 700,000 daily calculations to determine the daily dollar amount for each account; plus (iii) 700,000 daily calculations to aggregate the cost amounts for the reporting period, resulting in at least 511 million calculations annually for aggregation and reporting.

  This is the potential impact on a small amount of the $1.997 trillion of mutual fund assets reported by IFIC as of February 2022.

We note that the theoretical database discussed above does not cover the entire range of investment funds included in the proposal. Many funds covered by the Notice are either publicly traded, e.g., ETFs, or do not utilize Fundserv, e.g., private funds not sold through third party dealers. How the cost data would be determined and reported to dealers for reporting to clients would require uniform standards, file formats etc. It has been historically difficult to obtain such agreement, if at all. Regarding private funds, many AIMA Canada members are small firms and the requirement to implement such a reporting system for their funds, either on their own or through their fund administrators, would be a significant additional reporting burden to be implemented on top of running the daily business, the costs of which would flow through to the funds and impact investors. This direction by the CSA and potential workload is contrary to the emphasis on burden reduction, for potential benefits that have not been quantified or clearly outlined.

It is important to note that the proposed transition period is coincident with the implementation of the move to T+1 settlement in Canada and the U.S., currently scheduled for the first half of 2024, with the specific date yet to be determined. This project potentially requires the same resources as those required to implement the Notice, thereby increasing costs and the possibility of errors. The T+1 project particularly impacts Fundserv.

AIMA Canada's alternative proposal would lessen these concerns about the length of the transition period.

Appendix B – Revised Investment Performance Report

Your Investment Performance Report
For the period ending December 31, 2030

Investment Account 123456789

Client name and address

This report tells you how your account has performed to December 31, 2030. It can help you understand and assess your progress toward meeting your investment goals. This report is designed to answer 4 key questions:

I. What has been the increase or decrease in the value of your account?

II. What activities contributed to the increase or decrease?

III. What rate of return have you earned on your investments?

IV. What were the costs of achieving this increase or decrease?

We strongly recommend that you review this report and discuss it with us to ensure that you understand your investment portfolio.

It is important that you tell us if your personal or financial circumstances have changed. We can then recommend adjustments to your investments to keep you on track to meeting your investment goals.

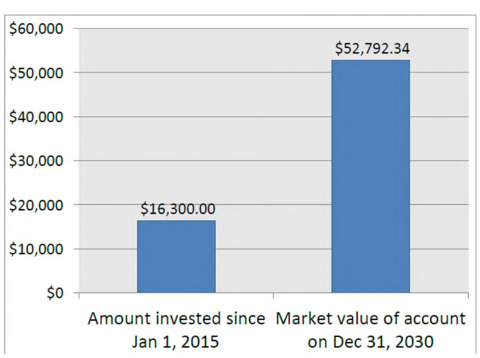
What has been the increase or decrease in the value of your account?

Your investments have increased by $36,492.34 since you opened the account.

Your investments have increased by $2,928.85 during the past year.

Amount invested since you opened your account on January 1, 2015 (1)	$16,300.00
Market value of your account on December 31, 2030	**$52,792.34**

(1) This is the market value of all deposits and transfers of securities and cash into your account, not including interest or dividends reinvested, less the market value of all withdrawals and transfer of securities and cash from your account.



What were the components of this increase or decrease?

This table is a summary of the activity in your account. It shows how the value of your account has changed based on the type of activity.

	Past Year	**Since you opened your account**
Opening market value	$51, 063.49	$0.00
Deposits	$4,000.00	$21,500.00
Withdrawals	$(5,200.00)	$(5,200.00)
Direct charges paid to us (1)	$(200.00)	$(400.00)
Change in the market value of your account, net of fund fees and expenses(2)	$2,728.85	$36,092.34
Closing market value	**$52,792.34**	**$52,792.34**

(1) This is the amounts that you paid to us by withdrawals from your account or by other means such as cheques or transfers from your bank, as reported by us to you on the Annual Report on Charges and Compensation.

(2) See "What were the costs of achieving this performance and the related returns?" below for a further discussion.

What rate of return have I earned on my investments?

What is a total percentage return?

This represents gains and losses of an investment over a specified period of time, including realized and unrealized capital gains and losses plus income, expressed as a percentage.

For example, an annual total percentage return of 5% for the past three years means that the investment effectively grew by 5% a year in each of the three years.

Your personal rates of return

The table below shows the total percentage return of your account for periods ending December 31, 2030. Returns are calculated after charges have been deducted. These include charges you pay for advice, transaction charges and account-related charges, but not income tax. It also includes fund expenses paid indirectly within funds that you own.

Keep in mind your returns reflect the mix of investments and risk level of your account. When assessing your returns, consider your investment goals, the amount of risk you're comfortable with, and the value of the advice and services you receive.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since you opened your account
Your account	5.51%	10.92%	12.07%	12.90%	13.09%

Calculation Method

We use a money weighted method to calculate rates of return. Please contact us if you want more information about this calculation.

The returns in this table are your personal rates of return. Your returns are affected by changes in the value of the securities you have invested in, dividends and interest that they paid, and also deposits and withdrawals to and from your account.

If you have a personal financial plan, it will contain a target rate of return, which is the return required to achieve your investment goals. By comparing the rates of return that you actually achieved (shown in the table) with your target rate of return, you can see whether you are on track to meet your investment objectives.

What were the costs of achieving this increase or decrease?

Fund expenses: Fund expenses are made up of the management fee and the operating expenses, together with applicable taxes. You don't pay these expenses directly. They are periodically deducted from the value of your funds by the companies that manage and operate those funds. Different funds have different fund expenses. These costs are already reflected in the current values reported for your fund investments. They affect you because they reduce the fund's returns. These expenses have a compounding impact over time. This is because you lose any future return that would have been earned on the amount of fees had they not been charged and had been invested. In return for the payment of these expenses, you receive professional investment advice and management.

In your account, the funds in which you have invested are managed by us. As a result we have earned the management and performance fees incurred by the funds. **[To be added if the investor account holds proprietary funds managed by the reporting dealer.]**

Detail about the impact of fund expenses and their impact over time can be found in the Relationship Disclosure Information document that we have previously provided to you. Further discussion can also be found on the Ontario Securities Commission website at (https://www.getsmarteraboutmoney.ca/invest/investment-products/mutual-funds-segregated-funds/mutual-fund-fees/.

In addition, if you have not already received them, you are entitled to receive the financial statements of a fund in which you have invested. Please contact us if you want the financial statements.

Fund expenses are expressed as an annual percentage of the total value of the fund. This is referred to as the Management Expense Ratio or "**MER**". The table below shows the MER, for the year ending December 31, 2030, for each fund in which you were invested and the cost per $1,000 invested, if you were invested in the fund for the entire year. It also shows the time weighted rate of return (**"TWRR"**) earned by the fund(2) for the year and the estimated annual return per $1,000 invested that would have been earned if you were invested in the fund for the entire year.

When reviewing returns it is important to remember that past performance is not indicative of future returns.

Fund	**MER**	**Cost per $1,000 invested last year(1)**	**TWRR last year(1) (2)**	**Return per $1,000 invested last year(1)**
ABC Fund	2.06%	$20.60	15.60%	$156.00
DEF Fund	1.78%	$17.80	6.90%	$69.00
XYZ Fund	2.56%	$25.60	(4.00%)	$(40.00)

(1) The cost and return per $1,000 invested shown are for the last year only and are estimated amounts. It is important to review these amounts depending on how long you have been invested in the fund, particularly if you have been invested in the fund for more than one year as returns can vary significantly between years.

(2) "TWRR" calculations measure the performance of all cash and securities in your account over a time period. The results of this performance calculation isolates the investment decisions made within the fund, independent of the timing of deposits and withdrawals which are not under the control of the fund manager. Therefore, your account's TWRR can be compared against a relevant benchmark or other funds for you to assess your performance.

We strongly encourage you to discuss this analysis with us with respect to understanding changes to the value of your account and in reaching your investment goals.

A tool for reviewing the MER and returns of various funds can be found on the Ontario Securities Commission website at (https://www.getsmarteraboutmoney.ca/calculators/mutual-fund-fee/ .