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Alberta Securities Commission
Autorité des marchés financiers
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
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
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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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

I am pleased to submit this letter in response to the above-reference consultation. I am a principal with HighView Financial Group ("HighView"), a brand name used by HighView Asset Management Ltd ("HAML") and HighView Wealth Practices Inc ("HWPI"). HAML is registered in the category of Portfolio Manager in Ontario, Alberta, British Columbia, Manitoba, and Saskatchewan. HWPI is registered in Ontario as an insurance agency.

HighView is an investment counselling firm built around the concept of an outsourced chief investment officer (OCIO) for wealthy families and institutions. As a registrant in the category of Portfolio Manager, we are held to a legal fiduciary standard – which we openly embrace.

General Comments on Cost Transparency

It is my impression that there is no debate regarding whether total costs should and will be reported to individual investors. Kudos to the MFDA for leading the charge on total cost reporting when the ink was still wet on the second phase of the client relationship model ("CRM2"). The only points of debate seem to be what precise information is to be reported, how often, and when the new requirements will come into force. While this comment letter is on behalf of our firm, I have a long individual history with the issue of cost disclosure.

Early in my career – in the fall of 1997 – I was part of a team that launched an online suite of investment fund portfolio analytics that included a portfolio-level disclosure of total costs in percentage and dollar terms. This application was sufficiently innovative that its last incarnation (completed in the 2000s) is still being used today by a major mutual fund company[1] with the only noticeable changes being cosmetic.

In other words, the core of what we created more than two decades ago was sufficiently robust and innovative that it remains relevant today. The point of highlighting this is not to congratulate myself – that system would have been created without me. Rather, my point is that if a small-city FinTech startup was able to operationalize total cost disclosure in a web-

[1] The original web-based application was created by FundMonitor.com Corporation in 1997. By the year 2000, it had evolved to greater levels of sophistication (e.g., allowing dealer back offices to upload data directly, avoiding manual entry). FundMonitor.com sold the technology to a large mutual fund company, which uses it as a service made available to its 'retail advisor' partners. The version in use today is functionally what we created in 1997.

based application in 1997 in a matter of months, I am certain today's industry – armed with much more robust technology and resources – can make this happen in a year or so.

Subsequent to my part in this innovation, I fielded many inquiries from friends, relatives, and readers of my articles looking for insight into what exactly they pay for financial advice. With an abundance of media articles and blogs pounding the 'cost matters' drum and illustrating the 'negative compounding' effect of asset-based fees, it would be easy to assume that most investors have good awareness of what they pay for financial and investment advice. I might have assumed the same, except that I continue to receive the same questions today about costs that I have been receiving over the past twenty-five years.

On Twitter, I recounted a recent inquiry from a friend asking if they paid anything for the services of their big financial institution financial advisor. Using a recent statement, I calculated their total costs and sent them the summary table below-left (subsequently adding the second table below it). I then posted to Twitter my friend's reaction[2] to this information (see below-right). There was immediate comprehension of costs shown in the below tables.

Annualized Total Portfolio Cost Estimate	Total $	% of Portfolio Value
Fees Embedded in the products you hold	$ 2,765.16	0.91%
Fees Charged directly to your accounts	$ 3,163.55	1.04%
GRAND TOTAL (including HST)	**$ 5,928.71**	**1.96%**

Estimated breakdown of total costs (who gets what)	Total $	% of Portfolio Value
Advisor Compensation (embedded)	$ 546.30	0.18%
Advisor Compensation (directly charged)	$ 3,163.55	1.04%
Administrative costs (embedded)	$ 302.84	0.10%
Investment Manager Fees (embedded)	$ 1,916.02	0.63%
GRAND TOTAL (including HST)	**$ 5,928.71**	**1.96%**

Dan Hallett
@DanHallett

UPDATE...Friend sent me big institution statement. Here's what I found:

- Held 9 mutual funds
- Proprietary products = approx 86% of portfolio
- Combo of direct & embedded costs
- Total costs = 1.96% per year (> $5,900/yr)

I sent friend below summary. Reactions:😲🤯😡

This is just the latest example in a career-long string of inquiries exemplifying investors' bewilderment when trying to assemble their investment cost puzzle. This underscores two required outcomes of this proposal, in my opinion.

[2] My very smart and educated friend was quite surprised since they were unaware of the existence and amount of these costs. They were taken aback at the dollar amount (particularly since the account I reviewed makes up less than half of their total household portfolio). Finally, they were angry – at themselves for not being more aware, and at their former advisor for not being transparent.

First, the industry must deliver this in a reasonably timely manner. Waiting two to three years is too long for clients to wait and an excessive amount of time to operationalize the disclosures. Between one year and eighteen months seems about right. If our little team could do this a quarter-century ago, I'm sure the industry can accomplish this by end of next year. Second, the format of the disclosure and the language used will be critical to ensure that clients truly grasp the important information contained in this proposal.

Consultation Questions – Securities (CSA)

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

I have no concerns with the inclusion of exchange-traded funds, scholarship plans, and labour sponsored funds. I do, however, anticipate some implementation issues with respect to foreign investment funds and prospectus-exempt investment funds.

Foreign Investment Funds

Foreign investment funds include exchange-traded funds (ETFs) and closed-end funds (CEFs) that trade in the U.S.[3] While I am not well versed in U.S. fund regulations, my review of some U.S. domiciled products revealed that U.S. funds generally disclose the dollar amount of fund-level brokerage commissions in the Statement of Additional Information (SAI). None of the CEFs that I reviewed had any SAI form available[4], making TER calculations impossible. While MERs (or net expense ratios in the U.S.) are available on U.S. funds, TERs for ETFs would have to be calculated manually. Cost data for all U.S. funds are not available in an electronic format to feed into Canadian registrants' reporting systems.

Prospectus-Exempt Investment Funds

I am concerned about broadly applying this rule to all prospectus-exempt investment funds. Consider the example of real estate investment trusts (REITs). When most people think of REITs, they think of the publicly-traded variety. But there exist highly similar vehicles not listed on a public stocks exchange. These are operating businesses structured as trusts that do not trade on any exchange (i.e., private REITs); and are offered by offering memorandum (not via prospectus).

To illustrate, see the table on the next page comparing the income statements of a private REIT with a TSX-listed REIT[5]. The cost line items that make up fund MERs (e.g., management, audit, legal costs for the trust, etc.) are not broken-out. Nor are costs segmented for the operating business and investment vehicle, respectively (the MER would focus on the latter). Accordingly, no meaningful MER-equivalent figures can be calculated for either.

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[3] These funds also include mutual funds, though Canadian investors and registrants cannot access U.S. domiciled mutual funds. U.S. domiciled ETFs and closed end funds can, however, be accessed via U.S. stock exchanges through a Canadian brokerage account.

[4] Canadian-domiciled closed end funds publish TERs in their annual reports.

[5] The private REIT used in this illustration publishes its financial statements on its website. Financial statements for the public REIT were obtained from SEDAR. For illustrative purposes, some line items were consolidated.

Moreover, other prospectus-exempt investment funds are highly similar to businesses trading on a stock exchange. It is impossible to calculate a MER that is at all similar to an investment fund. Private lender Accord Financial (ACD/TSX) and private equity firm Mosaic Capital Corporation (formerly traded as M/TSXV[6]) are examples of TSX-listed equities that are highly similar to investments offered as unlisted prospectus-exempt products.

Again, these are active businesses for which mutual-fund-type MER calculations are neither possible[7] nor meaningful. These and other vehicles house businesses that blend costs of operating an active business and the legal entity within which it 'resides'.

Income Statement for Calendar 2021 (source: respective REIT audited financial statements)

		Private REIT		Public REIT
Revenue from investment properties	$	154,983,000	$	933,137,000
Property operating costs	$	(57,171,000)	$	(323,144,000)
Net rental income	$	*97,812,000*	$	*609,993,000*
Other Income	$	31,802,000		
Expected recovery of credit losses	$	1,102,000	$	-
Operating Income	**$**	**130,716,000**	**$**	**609,993,000**
Trust administrative expenses	$	(29,075,000)	$	(51,366,000)
Unit Compensation Expense			$	(15,111,000)
Net fair value gains	$	124,727,000	$	1,062,165,000
Finance costs	$	(37,697,000)	$	(160,463,000)
Income from minority interests	$	76,403,000	$	31,713,000
Currency Gain (Loss)	$	(1,239,000)	$	(6,095,000)
Realized Gain (Loss)	$	-	$	11,390,000
Amortization			$	(8,250,000)
Income Before Taxes	**$**	**263,835,000**	**$**	**1,473,976,000**

[6] Mosaic Capital Corp was acquired (taken private) in August 2021 by 2356340 Alberta Inc, an entity owned by Fairfax Financial Holdings Ltd and MCC Holdings Ltd.

[7] The only similar calculations that can be done are similar to those calculated for all kinds of active businesses like gross margin, operating margin, net margin, etc.

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?

   I support the inclusion of TER. I agree with the arguments presented by the *Financial Planning Association of Canada* and Ken Kivenko in their respective comment letters. While TERs generally average about 10 basis points annually[8], there are many instances where a fund's TER is very significant – in some cases exceeding the same fund's MER. Funds making extensive use of derivatives or those using high turnover strategies tend to have high TERs.

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 seems most appropriate to calculate market value using the closing market price for investment funds that trade on a stock exchange (e.g., ETFs, closed-end funds) – not the published net asset value (NAV)[9]. Investment funds that do not trade on an exchange should use the end-of-day NAV.

[8] Source: Annual instalments of *The Trading Expense Ratio and the Total Cost of Fund Ownership* published by IA Securities (formerly Hollis Wealth and Dundee Securities) from 2007 through 2016.

[9] While an ETF's NAV is usually extremely close to its quoted market price, there are times where the figures diverge. For example, during March and April of 2020, many bond funds' market prices were far lower than published NAVs (with very wide bid-ask spreads). During this period, calculated NAVs were stale since many bonds did not trade (hence wide spreads). Market prices better reflected true market values at that time.

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

It is critical for any firm with a very broad product shelf (e.g., MFDA or IIROC dealer) to receive an electronica data feed from the investment fund managers so that dealers can 'receive' the key inputs required to provide total cost reporting. For example, investment fund managers have long 'fed' trailing commission data into dealer back-office systems. This same 'pipeline' can be used to flow fund expense ratio data for the required reporting.

This strikes me as the easier part of the process, though it will require some systems work by IFMs. Client-facing registrants will, in my estimation, bear the larger workload to adapt systems to use these data to produce the required reporting. As long as only the content is prescribed – not the format – this is very feasible.

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

I do not anticipate any issues with the transition period for a few reasons.

First, investors deserve a complete picture of their investment costs. Forward-thinking fiduciaries have found a way to operationalize this and have been providing this transparency for many years.

Second, the limitation of CRM2 reports on fees, charges, and compensation was well known before they became requirements[10]. It should have been clear given the regulatory momentum at that time that total cost disclosure would eventually be required.

Finally, the systems built to comply with CRM2 reports should be 'expandable' to include the proposed additional items. That's not to say that there isn't some systems work involved to accommodate the requirements of this proposal – there is – but this is not a new build for securities registrants.

[10] I wrote about the exclusion of embedded costs in 2014 for Investment Executive (prior to CRM2 implementation). https://www.investmentexecutive.com/newspaper_/focus-on-products/a-nasty-eye-opener/

Based on my experience and conversations with some dealers, a transition period of twelve months seems sufficient. Accordingly, the proposed timeline is more than fair – particularly since this was all proposed in the OSC's 2004 Fair Dealing Model concept paper.

Consultation Questions – Insurance (CCIR)

1. Do you anticipate implementation issues related to the inclusion of any of the following in the Proposed Insurance Guidance,
    a. Segregated Fund Contracts which are no longer available for sale, but to which customers can still make deposits;
    b. Segregated Fund Contracts which are no longer available for sale and to which customer can no longer make deposits;
    c. Segregated Fund Contracts that have the potential to have funds in more than one phase at one time (i.e. Accumulation Phase, Withdrawal Phase, Benefits Phase);
    d. Segregated Fund Contracts that may include insurance fees that are paid both directly (i.e. from money outside a segregated fund, such as where units are cashed out to pay the insurance fee) and indirectly (i.e. from assets held within a fund in which the client holds units)?

I do not foresee any implementation issues in these scenarios, but note the concern regarding (d) above expressed by the Financial Planning Association of Canada in its comment letter.

2. The Proposed Insurance Guidance does not yet include a method insurers must follow when calculating the fund expenses for each Segregated Fund Contract. Please comment on the advantages and disadvantages of calculating the fund expenses for each segregated fund the client holds each day as follows.

I recommend that insurers use Option 1[11]. Basing the calculation on net asset value would make the result consistent with how such costs are calculated with investment fund securities.

[11] Option 1: Fund Expense Ratio/365 x Seg Fund NAV per unit x Number of Units owned by policyholder for the day

3. Should all insurers be required to use the same formula to calculate the dollar amount of fund expenses? Please comment on the advantages and disadvantages of:
    a. Requiring all insurers to use the same calculation; or
    b. Allowing an insurer to use a different calculation method if the insurer can create a more precise approximation.

All insurers should be required to use the same calculation methodology to create consistency for policyholders (i.e., option a).

4. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using the following to calculate fund expense ratio (i.e., MER + TER):
    a. MER from the most recent Fund Facts document published before the year in question begins and a TER calculated at the same time on similar basis;
    b. MER and TER calculated for the year in question after the year ends; or
    c. Other estimated MER and TER for the year (please explain how this MER and TER would be calculated if you discuss this option)?

The most accurate calculation is likely from option (b) because the data would come from audited financial statements.

Option (c) would be preferred for new products, for which MERs could be estimated as: MER% x (1 + applicable GST/HST rate) + estimated operating expenses (including applicable GST/HST). TERs could not be estimated well for new funds. This is precisely the method I have long used when calculating an investor's total costs[12]. If this option is even considered, however, the **onus should be on the fund sponsor to provide this information**.

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[12] To estimate operating costs, one can easily use the fund company's fixed operating cost rate (more common over the last ten years) or simply look to other similar fund types offered by the same company to get a reasonable estimate. One can even estimate TERs, albeit less precisely, by either assuming an average or estimating a figure based on the fund manager's turnover rate in other products.

5. For the purpose of the calculation described in question 2, what are the costs, benefits and risks of using:
   a. 365 days;
   b. The actual number of days in the calendar year in question; or
   c. Another number that reflects the number of days on which the NAV is calculated for the fund rather than the number of days in the year?

   Note that the proposed calculation for securities assumes 365 days.

   I recommend the use of 365 days because most years have that many days and because the calculation for securities assumes 365 days. I do not anticipate any meaningful differences in costs and risks of these options. But using 365 days is beneficial because it creates greater consistency.

6. Would you consider it acceptable if, instead of information about each segregated fund's fund expense ratio (MER + TER), the MER alone was:
   a. disclosed in annual statements for each fund; and
   b. used in the calculation of the total fund expenses for the Segregated Fund Contract for the year?

   What are the costs, benefits and risks of using (MER + TER) versus only using MER?

   As noted below in my additional comments, this information is most meaningful when reported on a total portfolio basis. Moreover, the investment-specific data chosen to be included in total cost reporting for segregated funds should be consistent with total cost reporting for investment fund securities.

   Accordingly, I support the disclosure of MER and TER. I am not aware of any reason why the costs and risks of disclosing MER and TER should be materially different than disclosing only the MER. The benefit of using both is to provide policyholders with true "total cost" disclosure – and one that aligns with investments held by the same individuals in their investment accounts with securities registrants. The importance of consistency is underscored by the fact that individuals are often sold investment and insurance products by the same people and organizations.

7. Might Segregated Fund Contract customers incur significant costs, other than for deferred sales charges, if they withdraw all funds from their Segregated Fund Contracts? If so, what are those costs?

   Many segregated fund policies are purchased or owned with guaranteed minimum withdrawal benefit (GMWB) riders. This involves two layers of insurance – one for the segregated fund contract and one for the GMWB rider. Each involves distinct insurance costs. And each may involve distinct direct costs upon early full liquidation.

   Also, in my experience, policyholders (and many advisors) are unclear about the impact of *partial* withdrawals on segregated fund policy guarantees.

8. The guidance describes annual statements. Do you anticipate any issues in connection with the guidance as drafted in cases where an insurer provides semi-annual statements to customers?

   As noted in my additional comments below, annual reporting of total costs is sufficient – and ideal since disclosure must strike a delicate balance between informing investors and policyholders while not overwhelming them with data and information.

9. Do you anticipate any other implementation issues related to the Proposed Insurance Guidance?

   My answer to this is substantially the same as my response to question #4 in the CSA's consultation questions (see page 8 of this comment letter).

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

    My answer to this is substantially the same as my response to question #5 in the CSA's consultation questions (see page 8 of this comment letter).

Additional Comments on the Proposal

Transition periods need not be aligned

To the extent that a longer transition period has been chosen for both sectors to implement total cost disclosure in tandem, I recommend assigning a shorter transition for the securities sector. Having a common implementation for securities and insurance industries could cause implementation delays. If one sector is too slow or is delayed, it would unnecessarily hold back the other sector's progress. Securities registrants should not require as much time as the insurance sector[13]. And if it has been validated that insurance registrants need more time, then they can implement disclosures at a later, reasonable date.

Total Portfolio disclosure is most meaningful

Much like the CRM2 reports, this proposal focuses on an account-level reporting. While this aligns with other reporting obligations – and CRM2 was a great leap forward compared to reporting prior to its implementation – my anecdotal experience suggests that these reports' end users – clients – are not grasping the piecemeal nature of the disclosure as intended.

In my experience, reporting costs on a total portfolio basis is the most informative for clients. Many families have several accounts across the household[14], making account-by-account reporting rather fragmented. If the goal is to most effectively inform clients on their "total costs", total portfolio reporting is most meaningful and most likely to inform clients[15].

[13] Securities registrants had a head start by having to implement CRM2 disclosures.

[14] A family with seven to ten accounts is not unheard of – e.g., a few RRSP accounts, one or more RESP account(s), two or more TFSA accounts, a joint non-registered account, and accounts held in the name other entities (e.g., trusts, corporations, individual pension plans, etc.).

[15] There is value, of course, in providing clients with cost disclosures in taxable accounts for tax filing purposes. This may or may not optimally achieved as part of this particular total cost reporting initiative. Some advisory firms already provide tax reporting packages summarizing any deductible costs.

Prescribe the Content not the Format

I agree with the decision to prescribe the content but not the format. Most registrants charged with producing this reporting have already invested significant resources to develop – and, in some cases, customize – reporting to suit client needs and maximize usefulness to clients. Prescribing the form of total cost reporting would have detrimental impacts on clients and registrants.

Report Prototypes

I appreciate the effort put into designing the prototypes. I expect that the prototype included in the consultation paper, if adopted, would be challenging for investors and their accountants to interpret accurately. This is my initial impression. The OSC Investor Office Research and Behavioural Insights Team (IORBIT) released neither details of all prototypes and nor its testing methodology (i.e., sample size, process, questions asked, breakdown of answers, etc.).

The MFDA's June 2021 report *Improving Fee Disclosures for Canadian Investors*, however, details its thorough testing of four disclosure formats. Those labeled as options 3 and 4 are more similar to disclosures that, in my experience, have been effective at creating cost transparency that investors can grasp. I reiterate, however, my experience indicates that people more easily grasp total portfolio reporting.

Inclusion of performance fees

Many investment funds' fee structures include performance fees. Ideally, performance fees should either be presented as a separate line item or noted as in Fund Facts to highlight how much of the MER is attributed to performance fees (as in the sample below from an equity fund's recent Fund Facts disclosure document).

Management expense ratio (MER)	**Annual rate** (as a % of the Fund's value)
This is the total of the Series A units of the Fund's management fees (which includes the trailing commission), fixed administration fees, fund costs and performance fees. This includes the accrual of 0.56% in performance fees.	2.99%
Trading expense ratio (TER) These are the Fund's trading costs.	0.19%
Fund expenses	**3.18%**

That said, there are some funds – hedge funds structured as LPs, notably – that structure performance fees as a profit allocation to the general partner. As such, the amount otherwise considered a 'performance fee' is treated as a capital cost to the fund; charged against the limited partners' capital. This is more tax efficient structure for the general partners (the reason for the structure) but it also escapes inclusion in the MER calculation because this profit allocation is not an operating expense[16].

Annual reporting of total costs is sufficient

Except for situations where there has been a significant portfolio restructuring, reporting this information annually is sufficient. This also aligns with the frequency of audited financial statements.

Industry foot-dragging is unacceptable

While I was not included in discussions held earlier this year on this proposal with key stakeholder groups (i.e., investor advocates, IIAC, IFIC, FundSERV), I am told that the industry has stated that it cannot begin to work on this initiative until they see all details of the final rules. Given how quickly the industry jumps into action when exploiting a revenue-generating opportunity – e.g., liquid alts – it is embarrassing that the industry admits to sitting on its hands for such a long-overdue disclosure for clients.

There is no reason why affected stakeholder groups could not have already had conversations about the data likely required (e.g., product MERs and TERs) and how to efficiently transmit these data to the registrants that will need it. As noted, investment fund managers have been transmitting some data electronically to dealers for more than twenty years (e.g., commissions). The lack of initiative reflects an unwillingness to begin working on this, not an inability to at least start planning how to deliver this important disclosure to clients.

[16] MERs are calculated using all expenses on a fund's operating (or income) statement. This type of profit allocation shows up in the statement of changes of net assets or equity, not as an operating cost.

An interim solution: the snapshot cost estimate

In my opinion, creating the proposed total cost disclosure is feasible in twelve or so months. But let's suppose for a moment that I am wrong; and it cannot be done because it involves much more complexity, time, and cost than advocates and regulators estimate. In that scenario, I propose starting with an estimate that focuses on a snapshot cost estimate – i.e., a weighted average fund expense ratio (i.e., MER + TER) calculated using the dollar value held in each product as at a specific date and the latest available MER and TER figures as of that date.

It is not a precise accounting for a calendar year. But this would allow people to get a very clear picture of their 'running' costs – and it is the method I have used for virtually my entire career when people ask for help to determine their investment costs. Again, in my estimation, the industry does not need two or more years to deliver total cost disclosure. But on the chance that it will take two or more years, start with this snapshot estimate **starting with the issuance of 2022 year-end statements** while the industry works on getting its systems ready for a more precise accounting of total investor costs.

The industry too often responds to client-friendly proposals with a "*No-first*" attitude, usually citing many challenges. As I stated at the OSC's roundtable discussion on discontinuing embedded commissions nearly five years ago, industry spokespeople must stop immediately listing why initiatives cannot be done, and start finding feasible ways to give clients the transparency they want and deserve.

I welcome any opportunity to help further efforts to deliver to clients a simple and clear disclosure of all of their investment and financial advice costs.

Sincerely,

Dan Hallett

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Vice-President, Research & Principal
HighView Asset Management Ltd.