Steadyhand

July 27, 2022

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

C/o M[e] Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1
Fax: 514-864-6381

And

C/o The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor, Box 55
Toronto, Ontario
M5H 3S8
Fax: 416-593-2318

Dear Mesdames/Sirs,

RE: 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.

Steadyhand Investment Management Ltd. (Steadyhand) welcomes the amendments to the investment funds cost reporting framework and additional reporting requirements for segregated funds. These enhancements reflect an investor-focused orientation to reporting and bring us more in line with jurisdictions considered leaders in transparency.

In researching the topic, we have engaged with multiple stakeholders. In our conversations, we have observed two differing viewpoints. Clients, investor advocates and media have a positive view of the amendments. By contrast, many Canadian investment providers view the enhancements negatively.

Steadyhand is an outlier in the investment industry. We are an investment provider and will have to invest significant resources to implement the amendments. But we also view ourselves as a strong advocate for individual investors and have long called for better practices in our industry.

Given this background, we are uniquely positioned to comment on concerns industry participants may have. As such, the first part of this letter provides our suggestions for your consideration. The second section addresses the excuses providers may use to delay or halt the implementation of the enhancements.

For Your Consideration

Our experience has taught us that: (1) Canadians want a single figure that includes all costs charged to them, (2) they want it in dollar and percentage terms, and (3) they want it disclosed quarterly.

Total Investing Costs

We propose the ongoing disclosure of a single figure that sums all explicit investment-related fees, including advice costs, MER, TER, admin (custody, fund accounting, recordkeeping, legal, etc.) and taxes charged for all investment accounts. In the following paragraphs, we refer to this figure as the total investment cost (TIC).

TIC should be disclosed in dollar and percentage terms. While it is useful to express costs in percentage terms to allow for comparison between products, percentages hide the real costs investors incur. Canadians see costs in dollar terms for all other goods or services they purchase. Moreover, behavioural studies suggest that people respond better to dollar figures. For example, asking how investors would react to seeing their portfolio fall from $100,000 to $70,000 elicits different responses than asking how they would react to a 30% decline. A dollar figure also allows investors to judge whether they are getting value for what they pay.

The breakdown of the costs and disclosures for individual accounts should be included in later sections of disclosure documents.

Quarterly disclosure

CRM2 required the disclosure of costs in an annual statement, however, investors need more frequent disclosure to assess the quality of services they receive. Quarterly TIC disclosure would give investors the information they need while balancing the burden on investment fund managers (IFM) and dealers to provide frequent disclosure. Moreover, not all funds calculate net-

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asset-values daily. Quarterly reporting would allow those funds to provide the required disclosures.

Effective rate versus posted rate

Steadyhand has a fee reduction program that reduces the cost of owning our funds based on tenure as a client and size of assets with the firm. Cost disclosure must allow for the effective (reduced) rate the client pays, not just the 'rack rate' of the funds. This is particularly relevant when our funds are held by clients at other dealers.

Allow reasonable estimates for TER

Including reasonable TER estimates provides Canadians with sufficient information to make decisions about their investment providers without adding to the already high costs IFMs and dealers pay custodians for reporting.

The allowance of estimates and the threshold for "misleading" disclosure (Section 14.1.1) should be made explicit in requirements.

Form a task force to help small- and mid-sized investment providers

Small- and mid-sized industry participants are likely to face the most constraints on their resources from these reporting changes. They would be helped by a dedicated team of professionals from the CSA that guide them through the nuances of the reporting enhancements. While some providers are already members of the Portfolio Management Association of Canada (PMAC) and Investment Funds Institute of Canada (IFIC), their voices are likely to be dwarfed by the larger members.

Likely Areas of Industry Pushback

In this section we have used our experience as an IFM and dealer to address those topics some industry participants might cite as areas of concern.

Disseminating totals fund costs is complex, but doable

Today, IFMs send hundreds of data points to data providers like Morningstar, Fundata, Lipper, and eVestment, all to market their products. Dealers and IFMs work diligently to exchange holdings and price details with FundSERV, CDS, and custodians. These are among the many examples of industry participants showing leadership in the development of processes to disseminate information to key stakeholders. There is no reason they will not be able to do the same for the benefit of their most important stakeholder – the client.

Adopting changes requires coordination, but is possible in the allotted timeline

The enhancements will require effort and coordination. However, the investment industry has shown an ability to rise to these challenges in the past. For example, the roll of out of the Tax-Free Savings Account (TFSA) was successful despite the short timeline and complexity.

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Recently, industry groups have asked the federal government to provide clarity on the Tax-Free First Home Savings Account (FHSA) in a desire to get ahead of a challenging task.

The new rules need not be phased in

These new rules *are already* being phased in. The total cost reporting framework is a natural progression from CRM2, which emphasized advice costs. Moreover, surveys show that investors mistakenly believe current disclosures account for all costs. Delaying or phasing implementation would only risk further deteriorating confidence in capital markets.

Foreign investment funds reporting is similar to National Instruments

Allowing use of methodologies used in foreign markets would be a close approximation for costs incurred by Canadian investors. Exchange traded funds (ETF) listed outside of Canada use similar methodologies to calculate fund costs. Presumably, IFMs and dealers are already adjusting costs disclosed by foreign-listed funds to make an apples-to-apples comparison and meet suitability requirements.

Funds with performance fees are better equipped to provide up-to-date fee disclosures

Performance fee disclosures are confusing. Stated management fees can be significantly different than MERs. Moreover, MERs can vary from year-to-year. Some industry participants may argue that the proposal will cause further confusion, however, the enhancements are more likely to improve investors' understanding. IFMs using performance fees are better equipped to provide a frequent and precise assessment of fund costs. Overseeing these funds requires sophisticated systems to track fee accruals given the complex nature of performance fee calculations. Often, fees must be tracked daily.

Conclusion

The proposed rules are an important step forward in investor-focused disclosure and a natural and welcomed progression from CRM2. Overall, the enhancement will serve Canadians better than the current requirements. We are hopeful that regulators will remain committed to the implementation of the amendments by the proposed date. They bring us in line with other developed markets in requiring investment providers to provide their clients a more complete picture of total costs incurred.

We look forward to any discussion you may wish to have as you review the comment letters.

Kind Regards,

Neil Jensen	Salman Ahmed	Elaine Davison
CEO	CIO	CFO & CCO

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