

September 14, 2012

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

The Secretary
Ontario Securities Commission
20 Queen Street West 19th floor, Box 55
Toronto, ON M5H 3S8

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

Dear Sir:

Dear Madam:

Subject: Proposed Amendments to National Instrument 31-103: Cost Disclosure and Performance Reporting

National Bank Securities Inc. is pleased to respond to the Request for Comments dated June 14, 2012 where the Canadian Securities Administrators (CSA) invited interested parties to submit additional comments on the Proposed amendments to National Instrument 31-103 (“NI 31-103”) Registration Requirements and Exemptions: Cost Disclosure and Performance Reporting (the “Proposals”).

We commend the regulatory authorities for their efforts to enhance the current regulatory framework. This objective favours both investors and industry players by making sure regulation stays well adapted to the needs and expectations of all market participants.

Through our comments, we hope to improve certain aspects of the proposed Framework and avoid the undesirable effects that might occur were it to be applied in its current form.

The scope of our mutual fund activities puts us in a privileged position to fully understand the proposed amendments, as National Bank Securities Inc. manages and offers a wide range of funds, with local, national or international content. Our products are distributed via a vast network that includes advisors in 449 bank branches and 130 securities brokerage offices, specialized advisors and direct distributors, such as direct securities brokerage. The Bank is one of the top 20 mutual fund businesses in the country and the leading Quebec banking institution.

We strongly support the comments made by The Investment Funds Institute of Canada on the proposed changes. We would like to emphasize certain points of the regulation that we believe could better serve the industry.

Disclosure of Trailing Commissions

There is significant overlap with the Point of Sale (POS) disclosure requirements. Disclosure of mutual fund costs, charges and commissions is now required to be made in the Fund Facts document. Components of the Management Expense Ratio, trailing commissions and other fees and expenses related to the product and its distribution are fully disclosed in Fund Facts which will be provided to investors with the implementation of Point of Sale Phase 2.

These changes to National Instrument 81-101 will ensure that the costs of investing in mutual funds are fully disclosed to investors. It is our view that disclosure of mutual fund information should continue to be mandated through National Instrument 81-101.

Providing a disclosure as described in Appendix D of the Proposals may confuse investors by giving them the false impression that mutual funds are more costly than other products, which may lead them to select alternate investments that are less suitable for them. This provision targets mutual funds in comparison with other financial products, where comparable disclosure is not required. It will require costly systems be built across the industry without improving the quality of information given to investors.

Time-weighted vs. Dollar-weighted Performance Reporting

Time-weighted performance is currently seen in many mutual fund performance numbers, common benchmarks, ETFs, etc. Forcing mutual funds to adopt the dollar-weighted performance method will cause additional confusion and make it difficult to compare mutual fund performance to that of other financial instruments, as the other instruments are generally reported on a time-weighted basis.

We do not support the CSA's initiative to mandate registrants to use the dollar-weighted method in calculating the performance return. In addition, giving registrants the option to provide both performance measures is also not a viable option due to the confusion it may cause to investors.

If the CSA force registrants to change their performance methodology, not only will it be a very costly and time consuming initiative but, ultimately, it will result in a major client impact from our current methodology from time to dollar-weighted.

At best, the CSA may allow flexibility and let registrants choose the best method of performance reporting according to their clients' needs. Please note that we would keep using the time-weighted method in our clients' statements.

Original Cost vs. Book Cost

We are pleased about the changes the CSA incorporated in the Proposals. We support the CSA view on selecting the book cost information as we believe that original cost does not represent an accurate cost method as it does not include items such as return on capital, distributions or dividends, and is not favourable for taxation reporting.

We can also support a position where the CSA would provide registrants with the option of choosing between original cost and book cost with appropriate disclosures.

Duplication of Rules on Referral Fees

The requirement to disclose referral arrangement fees is already covered in Division 3 of NI 31-103. Prior to paying any referral fee, written disclosure of the method of calculating the referral fee and, to the extent possible, the amount of the fee is already a required disclosure under 13.10 of NI 31-103.

In our view, the requirements of 13.10 already meet the objectives of NI 31-103 by providing sufficient and appropriate information to investors. We ask that referral fees be excluded from section 14.15(1)(g).

Transition Timeline

Firms cannot begin to create the new IT and operational systems requirements until the rules have been finalized. We are also of the view that some adjustments need to be incorporated in the Proposals before it is final. It is therefore unrealistic at this time to plan and estimate the appropriate time required to incorporate the changes. Firms will require sufficient time to ensure that the information they provide to its clients is accurate and free from errors. The process of ensuring the quality of the information is also an important task.

The CSA is certainly aware of the numerous upcoming regulatory projects which will also require major system and operational changes (ex.: POS, FATCA). These are challenging

developments that will require human resources to be dedicated to these tasks and the overall firm budget to be accordingly adjusted.

We encourage the CSA to allow for realistic transition timelines to incorporate the necessary changes to the systems – recognizing that both technology and operations will need to be changed. Other aspects are also to be considered such as communication with clients prior to the sending of their first “client” statement as well as employees training regarding disclosures to be made on a pre-trade/pre-recommendation basis. We believe that all these steps put together will require the industry much more time than what they are currently granted in the Proposals.

Unlevel Playing Field

Mutual funds provide investors with an efficient access to financial markets, diversification and reduced risks. The Proposals unfairly targets mutual funds in comparison with other financial products. The Canadian mutual fund industry is governed by strict regulations and the costs associated are already significant. We strongly suggest that the CSA reconsider some of their positions as some may have detrimental effect on the industry. By regulating mutual funds in a more restrictive manner than other investment solutions such as segregated funds and exchange-traded funds, the CSA may create an unlevel playing field to the detriment of the mutual fund industry, thus impairing its competitive edge and impeding financial growth.

We thank you for the opportunity to provide the foregoing comments and hope these comments are useful. We welcome any questions you may have and would be pleased to discuss the matter further with you should you deem it relevant.

Sincerely,

A handwritten signature in black ink that reads "Michel Falk". The signature is written in a cursive style with a long horizontal stroke at the beginning.

Michel Falk
President and CEO