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VIA ELECTRONIC MAIL

15 September 2012

Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Financial Services Regulation Division, Service NL, Government of Newfoundland and Labrador

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Dear CSA Member Commissions,

I am writing to provide you with Tradex Management Inc.'s views with respect to the proposed amendments to National Instrument 31-103 and Companion Policy 31-103CP, as published on June 14, 2012. Tradex was created in 1960 and is therefore one of the oldest mutual fund management companies in Canada. In addition, Tradex has been a Member of the MFDA since 2002.

Tradex is in agreement with the intent of the proposed amendments to provide investors with key information about their account(s) and product-related charges and the compensation received by registrants. We further agree that by providing clients with more accurate and meaningful account performance data clients will be able to evaluate how well their accounts/investments are doing and, as a result, be in a better position to make more informed decisions regarding their investment goals and objectives with their financial advisor.

Tradex submitted a comment letter on September 21st 2011 responding to the initial consultation on amendments proposed last summer. We are attaching that letter as Appendix A for reference and continue to support the sentiments in that letter.

General

We believe that the CSA's frame of reference is too narrow. If a client is comparing products they should be provided with the same information on each product in order to make a truly informed decision. If your primary interest is in the investing public's best interests, it is imperative that you ensure that all cost and performance disclosure is provided in a harmonized manner.

Additionally, the information provided to investors should be the same regardless of how dealer compensation to their advisors is structured. This is about cost of ownership; if your objective is to educate the client and avoid client confusion, you should ensure that the client receives the same cost and performance information about each product they are considering for purchase regardless of how or where they purchased the product.

The bulk of the Canadian Bank and Insurance industry consists of listed public companies which would suggest the Securities regulators do have jurisdictional influence to ensure they do not legislate misleading disclosure requirements between identical securities reported by a Bank or insurance company to an investor versus the reporting required from an MFDA or IIROC firm.

If the CSA is unable to arrange for matching disclosure or mandate reporting on bank products then MFDA and IIROC dealers will not likely be able to force appropriate provision of the necessary information as you will legislate mutual funds to provide and as such all savings vehicles such as GICs and deposit accounts held through dealers would have to have related dealer and advisor revenues specifically excluded under your

reporting proposal (disclosure would continue under the Client Relationship Model legislated requirements).

You state in your Proposal "We do not believe it is in the interests of clients to receive unreliable information." We agree and by the same token believe that it is not in the interests of clients to receive confusing information and information that they cannot use on a harmonized comparative basis.

While the June 14, 2012 Notice and Request for Comments (the "Notice") acknowledges the concerns we have raised in a number of areas, the CSA has chosen not to change the proposals materially. With respect to provisions which the CSA acknowledges will raise costs to industry, and thereby to investors, there is no evidence provided, or attempt to establish, that the benefits of the proposed regulations would outweigh these costs. We do not believe therefore that these Proposals are consistent with the purpose and principle of securities regulation as laid out in securities law.

Section 1.1 of the Ontario Securities Act (the "Act") states that:

> *"1.1 The purpose of this Act are, ... (b) to foster fair and efficient capital markets and confidence in capital markets."*

The Act goes on to say in Section 2.1 that:

> *"2.1 In pursuing the purposes of this Act, the Commission shall have regard to the following fundamental principles: ... 6. Business and regulatory costs and other restrictions on the business and investment activities of market participants should be proportionate to the significance of the regulatory objectives sought to be realized."*

We respectfully note that no quantitative cost-benefit analysis has been disclosed which demonstrates that the business and regulatory costs of the Proposal would be proportionate to the significance of the regulatory objectives soughts.

The lack of attention to the matter of costs and benefits is evident in the following CSA response to the issue concerning the disclosure of trailing commissions:

> *"Most industry comments suggested that requiring registrants to disclose the dollar amount of trailing commissions was unnecessary, would be confusing to investors and would result in a sizable cost to industry without providing an overall benefit. We do not agree. We acknowledge the potential costs to industry, but believe that informing the investing public is worth this cost."*

The above statement regarding costs and benefits is an opinion. There is no consideration of monetized costs or benefits as required by law.

We believe that it would be contrary to the public interest not to conduct this quantitative analysis. We also believe that the investing public would be astounded as the costs versus the information being delivered. Dealers have already, and continue, to re-engineer their systems to deliver quarterly statements efficiently, with fund facts to come, and they will have to re-engineer again to deliver this annual statement with the proposed expanded disclosure.

This further contributes to an unlevel playing field against for e.g. the banks and exempt market dealers and it is unfair to continue to disadvantage the mutual fund dealer industry.

Overlap with Point of Sale NI 81-101 Changes:

As noted above, and in our previous submissions on this Proposal, 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 NI 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 fees and commissions should continue to be mandated through NI 81-101.

We support the clear and simple disclosure of costs and commissions that is in the Fund Facts document. We do not believe it is necessary to provide the additional disclosure related to trailing commissions, especially when, for reasons stated above, it will mislead investors, put the mutual fund industry at an unfair disadvantage, and raise costs for the industry and investors for a benefit that is asserted, but not demonstrated, to be "worth the cost".

Disclosure of fixed-income commissions

Issue for comment: In the interest of making fixed-income transactions more transparent, we invite comments on whether it is feasible and appropriate to mandate the disclosure of all of the compensation and/or income earned by registered firms from fixed-income transactions. This would include disclosure of commissions earned by dealing representatives as well as profits earned by dealers on the desk spread and through any other means.

Although this does not apply to mutual fund dealers we thought it important to discuss what we consider to be the misuse of the word "profit". Profit is a complicated computation and should not be considered simply the difference between what the dealer receives and the amount the dealer passes on to the representative…

Expanded client statement

Issue for comment: We understand that all securities transactions are carried out through an account, even when the securities are not held in that account. We have drafted the Rule on this understanding and invite comments on the practicality of this or other approaches to including the securities listed in s.14.145(5.1) in client statements and performance reports.

In and of itself we do not see these requirements to be overly onerous however, prior to any change in the content of client statements we would refer you to our comments above with respect to a cost/benefit analysis.

Exempt-market securities

The Proposal states that "Investors in the exempt market that we surveyed are generally satisfied with the level of reporting they receive and understand how their investments are held. Research also suggests that many of these investors do not expect the amount of information about exempt market securities in their client statements to be the same as it is for publicly traded securities if they do not have an ongoing relationship with the registrant that sold them the securities, as is sometimes the case with exempt market dealers."

We would be prepared to debate this point depending upon the nature of the questions posed to these investors. If you asked an exempt market investor and a mutual fund investor if they want more paper – neither would say yes. If you asked them if they wanted accurate, relevant and comparable information for all securities we suspect they would likely say yes.

Book Cost Information

The Proposal states that "Under the 2012 Proposal, investors would see the book cost information for each security position included in the client statement, and would be able to assess how well individual securities are performing by comparing their book cost to their current market value. A definition of book cost is included in the Rule. This is a change from the 2011 Proposal, where we had proposed that original cost be provided as the comparator for market value. We made the change because original cost is not adjusted for reinvested earnings, returns of capital or corporate reorganizations. We have found that original cost is not a term that is familiar to most investors and it would be potentially confusing for registrants to have to explain the uses and limits of the original cost measurement to their clients. Book cost is a more widely used measure, familiar already to some investors, that takes the adjustments noted above into consideration."

Based on our experience in dealing with many thousands of clients, we disagree strongly that the average investor understands "book cost". Investors tell us repeatedly that what they really want to see on a statement is simply 'what did I invest and what is it worth today'. It is the advisor's responsibility to educate the client as to what factors contribute

to the latter amount. This service is in part, what the trailing commission pays for – ongoing service of a client's account.

Common baseline requirements for registrants

We would encourage the CSA, IIROC and the MFDA to continue to work together to ensure arriving at a harmonized approach to the provision of this information to clients. The investing public deserves a regulatory framework that is harmonized and consistent nationally. Anything less will contribute to clients' loss of confidence in the capital markets in Canada.

Percentage return calculation method

Issue for comment: We invite comments on the benefits and constraints of the proposal to mandate the use of the dollar-weighted method, in particular as they relate to providing meaningful information to investors.

Clients compare their client name statements to what they receive from the fund company. If you mandate a standard, this must be consistently applied – i.e. fund company statement and dealer statement.

Market valuation methodology

The Notice states that "The 2012 Proposal sets out a methodology for registrants to use to determine the market value of securities in client reports. This replaces the guidance that was proposed in the 2011 Proposals and would ensure that consistent and reliable standards will apply in client reports."

We would recommend that research be undertaken regarding the various pricing policies in the industry. If pricing policies differ from one product to another it makes the provision of "consistent and reliable standards" problematic.

Issues related to reporting

The Proposal amends the Rule making it clear that advisors must deliver client statements. The Rules of the Mutual Fund Dealers Association ("MFDA") specify that only the dealer can and should deliver a document referred to as a "statement" to a client. All dealers and their advisors have amended their practices accordingly. We would recommend that this deviation be reviewed with a view to clarifying and harmonizing the requirement so as not to confuse dealers and their advisors.

Transition

We recommend that the transition period be reflective of the final outcome of these consultations and the resulting policy.

Impact on SRO Members

As noted above we encourage the CSA to work with the SROs to ensure that all Rules and Policies are harmonized.

Anticipated costs and benefits

We do not believe that there is necessarily a direct correlation between investor protection and additional disclosure. We believe that it is imperative that clients be provided with meaningful, easy to comprehend information and we do not believe that these proposals represent this. We recommend that the CSA reconsider the comments made previously regarding the value of the information provided to clients.

We would recommend that all of the disclosure required to be provided to clients be reviewed to ensure that the information is not duplicative and is of real value. We believe that disclosure has reached the point where the integrity of the industry is at stake and the Proposals will only serve to confuse clients rather than educate them.

As well, we have a real concern that the onerous requirements that these Proposals represent will trigger further product arbitrage and that advisors and clients will move away from mutual funds in order to sell and invest, other products that carry lesser regulatory requirements, information overload and paper weight.

We appreciate the opportunity to provide comments and hope that the various commissions will consider our comments prior to finalizing these amendments.

Regards,

Blair Cooper
President
Tradex Management Inc.