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Comments on Consultation Paper 81-403:

"Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds"

I am pleased to provide written comments on the important subject of consistency of regulation among Seg Funds and Mutual Funds in the form of feedback to Consultation Paper 81-403.

I write as a private investor with more than 20 years of investment experience in funds, individual equities and derivatives. My formal training was as a scientist (PhD in Chemistry), but I recently completed an MBA and now work in technology business development for the Canadian branch of a large multi-national firm. Finance is my hobby, and over the years I have completed several courses from the Canadian Securities Institute. This year I am studying the course materials to write the Level III exam of the Chartered Financial Analyst program offered by AIMR.

My comments are divided into two parts:

1. Part I provides specific feedback to the issues raised in 81-403. This feedback is informed by personal experience from the past two decades as well as the material covered in Part II.
2. Part II describes a real case study of what the investment experience with an insurance company is really like – there are many aspects that suggest seg fund regulation has some of the features of the Wild West, where almost anything goes when it comes to information.

I welcome the opportunity to have provided my input and sincerely hope that the future will be better.

Respectfully submitted,

Tony Paine

Part I: Specific Responses to 81-403

In my place of work and among my circle of personal friends, many people come to me for my opinions on finance and investment-related matters, so I have the opportunity to observe some of the issues typical (otherwise) well-educated professional people have with investments. There are three things investors often don't understand about their investments:

- Risks – volatility, business failure, correlation among investments, etc.
- Reasonable Return Expectations – unrealistic expectations and too many trend chasers.
- Costs.

Many consumers don't understand these things, and advisers and sales people don't always get it right either. Because advisers are humans incented by the very costs investors need to minimize, the documentation requirements AND the rights of recission and withdrawal are all critical.

Basic Investor Protection Principles

For the purposes of feedback on regulations, let me start with some basic principles. They are not intended to be an exhaustive set, but rather to point in some directions that 81-403 does not seem to directly address. If we cannot get these basic details right, system-level adjustments may not matter.

1. **Mutual Funds and Seg Funds are basically the same commodity to the investor.** In the absence of the insured component they are indistinguishable to the vast majority of investors. If we want to harmonize regulation we can either (a) tighten up on $90 Billion of seg fund assets or (b) loosen up on $350 Billion of mutual funds. For the topics I am about to discuss, only the former makes sense.
2. **Fundamental Principle #1:** Complete, total, and honest disclosure of the COST of the investment. By cost, I mean MER. The MER has to be up front, not buried in footnotes in an annual report, not obscured with partial disclosure (for example, an Investment Management Fee (IMF) that misses important costs). If airlines will have to tell us the return air fare with all taxes and fuel surcharges included (not the one-way gross fare), then surely investment managers have to tell us the total cost. This seems to be working in mutual funds, but insurance companies complain they cannot do this because there is no single MER for all customers. I argue that if you have customers, they MUST know their cost – a basic principle of any business!
3. **Fundamental Principle #2:** All transactions should be fully disclosed to the investor. There should be no undisclosed consolidations, splits, dividend reinvestments, payouts or other "funny business" that the investor doesn't see automatically -- without exception. Transaction

records need to be complete, correct and transparent, just the same as the receipt from a grocery store.

Of course, there are other important fundamental principles in this debate, such as conflict of interest disclosure etc., but the two basic principles outlined here do not seem explicit in the draft regulations, despite being at the top of the pyramid of investor "must-haves". If you don't have these, how is anybody going to trust the governments, the regulators and the industry?

Issue 01: Disconnect between Theory and Practice

Ensure that Group RSP Plans are included in harmonized regulations. The definition of Seg Funds provided on Page 36 of 81-403 speaks exclusively of IVICs. In Part II, I describe a group RSP plan offered by my employer, and managed by a life insurance company (I call LifeCo)., that has no insurance component. The group Plan might have a technically different name ("Capital Appreciation Plan" has been suggested to me) or even a different regulatory framework. For the non-registered part of my captive investments with this insurer, I get tax receipts referring to Seg Fund income.

It is important to ensure that all these different sales channels involving basically the same product are regulated in a harmonized way.

The devil is in the details (the "What"). Consultation Paper 81-403 says a great deal about system-level design considerations for disclosure documents, but says little about the specifics required to close the kind of gaps identified in Part II of this note – real life disconnect between theory and practice. Seg fund rules may permit practices that would be illegal in the mutual fund industry.

It is all very well to talk about harmonizing the timing of document delivery, but there are obviously huge gaps on what is included (or not) in those documents. For example:

- Are exclusively gross return presentations to be allowed?
- Can the requirement to disclose personal MER continue to be fudged away?
- Can MERs be understated by disclosing only IMF?
- Can the wrong date appear on valuation statements sent to clients?
- Can units disappear without a trace?

Where is the equivalent of the simplified prospectus of a mutual fund "specifically formatted to promote comparisons among mutual funds" and to conform to National Instrument 81-101, which standardizes the MER and various chart and graph formats?

What difference will the timing of a disclosure document make, if the contents are allowed to be so different for mutual fund and insurance companies? Surely this gap needs to be closed by harmonizing the standards for the disclosed information itself – and standardizing it more in the direction of what mutual funds are doing today.

Annual Reports, Foundation Documents and Fund Summary Documents should "see through" to the underlying fund. The Annual Report information for LifeCo's Trimark fund, for example, only shows transactions between LifeCo and Trimark for various numbers of Trimark units. Expenses could appear anywhere – in the LifeCo statements, in the Trimark Fund itself – and are not treated in a consistent way from fund to fund. While the LifeCo Annual Report may suit LifeCo's auditors, it is pretty useless to the seg fund investor, becoming another opaque layer of financial intermediary separating the investor from the critical information. Where is the "disinfecting sunshine" in this reality?

Issue 02/12: Rights of Recission and Withdrawal or Cooling-Off

Knowledge. I knew these rights existed – at least in the abstract. I did not know the circumstances where they might be exercisable; nor did I know the legal outcomes explained in the background report. Upon reading the legal background report, I think I would have to consult a lawyer in order to claim the correct right (recission or withdrawal) – an expensive and time consuming step. Even if I did fax something to the sales agent, it seems highly likely they could fight it on a technicality such as incorrect wording, unclear right exercised, sent to the wrong place, etc., so I am not optimistic the existing rights could actually be effectively exercised at anything but great cost.

Cooling Off. I do believe that consumers should have the right to back out of an investment fund purchase under the following circumstances:

- The particular investment is "new" to the consumer (i.e. not already held in their portfolio, or not purchased under the same fee structure as before)
- Upon understanding the fee structure the investor decides the fees are "excessive"
- Upon understanding the investment the investor decides it is "inappropriate"
- The back-out decision is made within 4 business days of receiving information, or 7 days of the transaction – whichever is later
- The consumer is liable for any adverse market changes of the underlying investment, but is reimbursed for all sales charges paid and is not subject to surrender or redemption fees.
- There should be no arbitrary upper limit to the amount of fund purchased.
- The Fund Summary Document should refer to the right to cancel the purchase.

The reasons for this position are:

- As noted in the intro to Part I, many investors don't understand risks, costs or reasonable expected returns from investments. Neutral documentation is their last chance.
- Mutual fund and seg fund investors are (generally) less investment savvy than (most) individual security investors.

- Once a fund investor has owned a particular fund for a period of time, ongoing continuous disclosure should equate to a comfort and knowledge level obviating the need for a further cooling-off period for the same investment with a familiar fee structure.
- Investors should be able to reconsider high fee and inappropriate investments because the balance of power and information is stacked strongly in favor of the fund companies.
- It takes time to read, comprehend and perhaps discuss with family and friends the required investment information – two days is not enough. Investments are more complex than other purchases.
- Responsible fund companies cannot be expected to bear any of the market risk of the underlying investment (which in any case could be recovered in a suit for misrepresentation). By ensuring that market risk is assumed by the consumer, the financial firms are only at risk for their fees, which remain unearned for a limited time.
- The current $50,000 upper limit is an old number that takes no account of inflation.
- Such back-out rights exist for other purchases (e.g. houses?), and/or in other jurisdictions and those rights may not have dollar limits.

Separating the Documents (response to Page 20 of 81-403)

I propose separation of information into four categories differing from the proposals of 81-403:

- Education
- Specific fund information (Fund Summary Document and Foundation Documents)
- Investor specific information including transactions, value, unit holdings, rate of return, etc.
- Advertising and promotion

Education, specific fund information and investor specific information have to be neutral. Advertising and promotion is subtle and not neutral, yet is not addressed specifically in 81-403 – perhaps reflecting industry influence. But, let me explain why this separation is critical.

I believe that intermingling these different types of information confuses consumers, and may contribute to a reduced desire to read information supplied by the fund companies. If consumers cannot tell the difference between information and advertising, they may tend to dismiss the entire package as a form of advertising or hype, and hence not worthy of their complete or immediate attention. We are, after all, conditioned to tune out advertising.

Let me give some examples:

- Is a 300-page “telephone book” Pseudo-Prospectus describing 89 funds when I only own 3 or 4 of them “advertising” or information I need? It takes on the character of the former if I don’t want it. It can take on the character of the latter when I am consciously shopping for a new or

different investment. Most people are not consciously shopping for a new fund at the time a Pseudo-Prospectus arrives, so perhaps it gets regarded as "advertising" and is treated as such – finding it's way into the recycling bin rather quickly. For the fund companies, this is expensive advertising, so they want to do away with it. To the extent it is information, it is indispensable.

- My quarterly statements from LifeCo contain a prominent half-page section "Items for your attention". Despite the attention-getting flag, it is simply a mini-history of LifeCo telling me about assets under administration, financial strength ratings and other stuff unrelated to my investments – I call it advertising; the least important thing in my statement. It takes up space in the statements, which are already lengthy enough (8 pages is not atypical) that most people disregard them. Burying the important information in a flurry of advertising is a sure way to get consumers to tune out.
- LifeCo also provides the performance data on all 89 funds in my quarterly statement – more advertising. It would not take much to program computers to provide on the benchmark and performance information related to the consumer's actual holdings. I believe this hugely increases the probability the performance information would be read.

When I get a utility or credit card bill in the mail, the advertising is usually a separate insert, while the 1-page "statement" is clean and focused entirely on my account status. I don't know if this is a result of regulation or sensible business practice, but it's an approach that would make sense for the investment industry.

The critical issue for 81-403 is to ensure that investment firms do not intermingle advertising, education, fund information and personal account information in the same document.

Issue 03-4: Foundation Documents

Upon reading the 81-403 study, I found it difficult to see how the Foundation Document will differ from the Fund Summary Document in anything other than amount of information (10-15 pages vs 1-2 pages). However, let me discuss some useful principles.

- All required documentation should be provided to the investor by default, with the mode of delivery (hardcopy, internet or none) selected explicitly by the investor. Access does not equal delivery.
- Perhaps only the Foundation Document should contain the performance related history, NOT the Fund Summary Document. Removing performance from the Fund Summary Document should improve the separation of past performance from future expectations. Too many people invest based on past performance, and they could be egged on by razzle-dazzle numbers in the Fund Summary Document at the time of sale. A Foundation Document with historical performance information will need to be updated from time to time.

- Foundation Documents should be created for each separate fund and posted on fund web sites. Those web sites should also contain “shopping list” software so investors can identify which of these documents they would like to be sent hardcopies of. Consumers should have the option to obtain a hardcopy or view/download an electronic version of Foundation Document by ticking a box at the time (same page) of electronic fund purchase. Such links should enforce the notion that information is available at the instant of purchase.
- Foundation Documents should NOT cover more than one fund. It is not clear to me how they get to 10-15 pages if this is the case. I would expect more like 4-7 pages. A document that describes a fund family is advertising. It can be allowed, and could link to Foundation Documents in a tree structure, but again, advertising should not intermingle with required information documents.
- Funds that invest in other funds (for cash management, foreign exposure, or derivative purposes) will need to have links to the underlying fund(s), and may need to repeat some of the information.
- Somehow, Foundation Documents will have to be developed that show the investors true MER they experience, and the true historical return they would have experienced. This is going to be challenging when fund companies like Trimark wholesale to a wide range of providers. However, the basic premise has got to be that investors deserve to be presented with their true MER, and with fund performance against a benchmark reflecting that cost. To do otherwise, or to skirt around the issue, or to enable complicated presentations based on gross return is to mislead investors.

Criticality of Cost Disclosure

If a firm – any firm – cannot tell the consumer what their product costs, then they should not be allowed to sell it. Nobody does a cost-benefit analysis to determine if stores should issue receipts or have cash registers.

Although other aspects of fund performance and investor education might be available elsewhere (books, newspapers, etc.) the individual MER is ONLY available from the insurance company.

If disclosing true individual cost were the rule, insurance companies would innovate in a hurry, consolidating the number of different IMF levels to a manageable point that enables them to deliver true MER to customers. Instead LifeCo pleads “cost” to implement and gets to entrench misleading gross return presentation as an acceptable practice over a period of years – further damaging investors in the long run.

Issue 05: SEDAR Posting of Foundation Documents

I certainly do not buy the argument that access = delivery. The default option should always be to receive the information by the method of choice. Internet is only one option. SEDAR postings alone are not sufficient for Foundation Documents for several reasons.

- SEDAR is a single source that can go down for a variety of reasons
- Merely linking to SEDAR as the original source is unacceptable because of potential delays of linking, and the single source problem.
- Investors want to stay on the provider site to get all the provider information.

Continuous Disclosure

The default option for continuous disclosure should be for investors to receive the information. I dislike the annual ritual of sending in postcards to firms whose shares I own saying that I want to continually receive financial reports other than the annual report – and I don't want to see this practice extended to mutual and seg funds.

Issues 06-09: Fund Summary Document

In addition to the contents outlined on page 27 of 81-403, the Fund Summary Document should include:

- A plain statement referring to the right of recission, withdrawal or cooling off (possibly referring the reader to the location of more information)
- The MER must be the MER to the individual, at worst a NARROW range that relates to the individual (e.g. "123-131 basis points for the past 3 years and is expected to remain in the same range").
- A standardized statement about where the investment fits in risk-return space
- Should include portfolio turnover range typical of the fund
- Should try to get to a single page; two permissible if duplex-printed. This is inexpensive to produce and might actually get read.

I remind that the wisdom of providing past performance information on a Fund Summary Document was discussed under Issue 03-04, where I argued it might be more appropriate to keep it exclusively in the Foundation Document.

The Fund Summary Document should be delivered, by mail (after a transaction; with confirmation) and/or screen view on a web site (before) purchase execution for transactions in a fund "new" to the investor. It is short enough that it should be provided even in cases where investors have opted out of receiving documentation (on the basis that it is a single page and the investor may reasonably be considered not have known what they were opting out of in the case of multi-level documentation).

Fund Summary Documents need to be dated (even for MER disclosure), so should be used with a certain level of "freshness" and some sort of ongoing update. I would hope that occasional random reviews by regulators together with reviews in response to complaints (such as mine in Part II) would suffice for Fund Summary Documents.

If we look at Exhibit 1, which LifeCo might consider a candidate Fund Summary Document, it is quite successful at communicating in one page a great deal of useful information. Of course, it completely fails on cost disclosure and net return as written, but would be great if it had a line in the bottom table with the personal MER and another line with the personal net return. Then I would love it.

Consumers Guide

Education should be separated from investment fund information, personal transaction and status information and advertising/promotion. The question is: how much education can be supplied by fund companies and how much should come from the regulators via the Consumers Guide?

The problem is that heterogeneous consumers will only read a Consumers Guide if it is personally relevant in two key dimensions: (a) the amount of information; and (b) the sophistication of the reader. I doubt any one (or, especially, the proposed) Consumer Guide can satisfy all these requirements – there need to be 2, 3 or more Consumer Guides varying from 1 page to many and from no sophistication to average sophistication of the investor. Is the right approach to develop N industry-regulator Consumer Guides, or to develop the content outline requirements of acceptable Consumer Guides, or leave education unregulated altogether?

On balance, I think the regulators should limit themselves to defining the content outline for acceptable Consumer Guides, and then ensure that they are offered to all clients at least annually. Following my separation of function approach, education should be called education and not intermingled with advertising/promotion or specific fund information. To qualify as education, it needs to be complete, and no companies should be allowed (like LifeCo in Part II) to completely ignore, or even understate, the issue of management fees in their educational presentations.

I am particularly concerned that a joint regulatory-industry Consumer's Guide document is going to water down the importance of fees (and anything else the industry is sensitive about) and/or take a long time to negotiate by consensus with the industry. That is a recipe for the status quo and should not be allowed to happen.

The following should be considered for inclusion in educational material:

- Setting rational expectations for the future performance of investments. Generally speaking, education is not helpful without representative numbers that help focus client attention.
- Describing the basic features of risk-return space (e.g. in Sec 3 of proposed Consumer Guide)

- Discussions of the importance of fees, the ranges of fees. Something like Sec 8 of the proposed Guide needs to note that investors should compare NET returns not gross returns, and should give specific examples of the impact of fees.
- When describing front-end, back end and management fees in the most basic Consumer Guides, the educational material should list example amounts and give a range of typical fees. By giving the amounts in the education you alert the investor as to their potential significance, raising the value to the reader beyond basic verbiage.
- Role and impact of portfolio turnover on costs and taxes. Note that seg funds can trigger taxable capital gains and losses while mutual funds can only trigger capital gains.
- On Page 42 of 81-403, funds may also produce foreign income in addition to interest, dividends and capital gains.
- "Important tax consequences" on page 42 (non-registered accounts) begs for more information.

Issue 13: Cost Benefit

Nobody wants a regulatory system that blankets the participants with unnecessary procedures. On the other hand, it is clear from Part II that some basic commercial principles are not even enshrined in existing regulation – the right to know "cost", to get a full and complete "receipt", and so on.

I suspect cost-benefit is a handy whipping post for the insurance industry to delay much-hated change. While it may be possible to estimate costs from the industry side, how are we to assess the benefit of better informed consumers making appropriate choices based on full, true and plain disclosure? The benefit of transparent, fair and effective institutions such as honest courts and the rule of law is enormous and well known in economics, so it is perfectly reasonable to expect transparent, fair and effective investment regulation to be equally significant to investors and the economy as a whole. But both benefits are extremely difficult to "measure", and there is no identifiable pressure group in favor of them that will provide impressive estimates.

A First Benefit Estimate. Here is a first attempt to quantify the huge benefit opportunity to consumers from good regulation, knowledge and education.

1. If good information, regulation and education caused consumers to shop around a little more carefully, understanding the fees they pay, then perhaps they could save ON AVERAGE, say 30 bp per year (10-15% of fees), or about $1B per year. This also approximates the net benefit to the economy because consumers would most likely reinvest those savings in additional funds.
2. If good information caused consumers to choose appropriate asset mixes that reduced their portfolio variability to a comfortable level, then they would decrease the characteristic prevalence of buying high and selling low (trend chasing) – a behavior costing them at least

200 bp per year in long run return. If good information could stop 15% of this behavior, consumers would benefit by another net 30 bp or $1B.

Compared to this, printing a few smarter documents seems a pretty good investment for the economy as a whole – and the sooner the process can begin, the better.

Consumer parallels to other goods. To the extent we can align investor rights with those of other purchasers in today's society, ensuring consistency not only between seg funds and mutual funds, but also between buying funds, houses, cars or holidays, we contribute to a natural ethical framework that defines western societies. That framework, in general, is moving toward more ethical behavior – albeit in fits and starts – so I hope that fund regulation can, too.

The issue is not cost-benefit; it is about doing what is right for consumers

Investors need protection from the LifeCos of the world – not shady fly-by-night operations but big brand name firms with questionable practices that became entrenched over time without anybody noticing. Consumers pay for everything in the end anyway – through fees, misallocated investments, taxes to support regulators, etc. Politicians and employers are as ill-equipped to consider the issues as consumers. Consumers are counting on the regulators to counter balance industry stonewalling.

Part II: What it's really like to deal with an insurance company

Group RRSP Plan

My employer (a Canadian subsidiary of a large multi-national firm with a well known brand name; I shall call it YYYY Canada) sponsors a group RRSP plan managed by a large insurance company with $10-100B in assets (I shall call it LifeCo). YYYY Canada's attitude is that we are in the plan "by choice" – although if we left we would lose up to 2% of salary through an employer match. Employees have considerable sums invested in this plan over the past decade, but we are locked-in and very much unrepresented. After 6 months of stonewalling by LifeCo and the employer, I filed a formal complaint with the FSCO about the practices I am about to describe.

Three executive levels (and now their Ombudsman) at LifeCo have provided weak rationalizations for the following questionable business practices and completely denied the ethical and legal dimensions:

1. Misleading sales practices based on a Gross Return culture
2. Cost misrepresentations through IMF and sales staff generalizations
3. False client valuation statements
4. Disappearing Units

LifeCo acknowledges these things have occurred and will continue to occur as a matter of deliberate policy (aided and abetted by a lousy computer system with poor software).

1. Misleading Sales Practices from a Gross Return Culture

A gross return culture grew up at LifeCo because their internal business delivery model was developed to provide different MERs to different customers.

For example:

1. A thick document I shall call a "Pseudo-Prospectus" distributed by LifeCo in July 2002 (sample page in Exhibit 1) was based entirely on gross returns, with no accompanying management fee or expense information. This sales document is the equivalent of a mutual fund prospectus, yet escapes most of the requirements for investor protection found in mutual fund sales material. LifeCo and YYYY Canada didn't even supply an IMF list with it.
2. My employer provided a Publication "It's Growing Season for the YYYY Canada Group RSP" that contained only gross return information, and no discussion about management fees or expenses – except for a general statement that "fees… are a low 75 bp for most funds", when the actual range is 55-230 bp and less than half carry a 75 bp fee (Exhibit 2). The gross return culture at LifeCo infects the plan sponsor who relies uncritically on their materials.

However, internal convenience is no rationale for misleading investors.

Gross Return Misleads Investors. Persistent presentations of gross return seriously mislead investors. As any sophisticated investor or regulator knows, gross returns are absolutely useless to investors for comparison of fund performance between funds and against a benchmark. Even for our plan, fund management fees can vary widely depending on the fund manager, so it is critical to make comparisons on a net return basis.

That gross return presentation is misleading and unethical is recognized not only in the Canadian mutual fund industry, but also in many other jurisdictions around the world – it is illegal. The mutual fund industry has a strong compliance process in place to ensure adherence to this most fundamental of ethical principles. On the other hand, the Seg Fund industry has LifeCo.

2. IMFs are Incomplete Disclosure of Costs.

The employer and LifeCo occasionally provide lists of Investment Management Fees (IMFs) for 89 funds offered in our group plan. The total expenses (MER equivalent) incurred by the fund are larger than the IMF by between 6 and 30 bp. The 6 bp number was provided by LifeCo in a special memo to me, but the 30 bp number was something I had to back out of the difference between gross and net returns given the IMF for several funds, as shown in Exhibit 2.

Luckily, I have a PhD, MBA and a couple of years of the CFA program to help me do this. Normal investors are completely in the dark. Our MER has NEVER been disclosed to us. The MER buried in the Annual Report is the maximum MER and of no use.

Regulators must insist that life insurance companies disclose personal MER.

Complete Cost Information is Well Hidden and Difficult to Find. For example, I had to go through the following multi-step process to discover the costs and portfolio turnover involved in several funds:

- Request the Annual Financial Statements for LifeCo Funds (not provided automatically)
- Discover that the LifeCo Financial Statements do not "see through" to the underlying funds that are not managed by LifeCo subsidiaries (e.g. Trimark, and many others).
- Request the Annual Financial Statements for Trimark and the other firms.
- Perform the desired analysis

LifeCo provided the requested information with moderate delays, but such a convoluted process adds to the barriers between investors and critical information.

Whereas mutual fund regulation is going in the direction of increasing cost disclosure, seg fund investors get the opposite – gross return presentations and opaque layers of intermediate financial structures that combine to put them at a significant informational disadvantage compared to mutual fund investors.

Investor "Education" provided by LifeCo ignores the impact of fees. LifeCo's investment education literature provided to Group clients in the Pseudo-Prospectus contains nothing about management fees, their structure and their impact on investment returns.

In the Pseudo-Prospectus, there is descriptive material on the economic cycle, different asset types, risk management, fund managers, investment philosophies (active vs passive) and styles (growth, value, etc.), benchmarks, "how to interpret this report" and so on, but the Pseudo-Prospectus is absolutely silent on management fees. [Unfortunately, the 81-403 proposed Consumer Guide is also exceptionally weak in this regard – probably reflecting the strong industry input and minimal investor feedback on the proposals.]

LifeCo seems completely afraid to tackle cost head-on, and apparently has no regulatory incentive to do so. Meaningful education about management fees is one easily implemented "ethics-lite" approach to address the gross return culture. However, the long-term preferred approach would be for the industry to completely abandon gross return presentations to clients – in individual or group plans.

Investors are poorly served when the regulatory framework permits LifeCo to give wide-ranging investment "education" without meaningful discussion of management fees.

3. False Client Valuation Statements

LifeCo also deliberately provides false client valuation statements. Quarterly statements purported to provide valuations as of quarter end (Mar 31, June 30, Sep 30 and Dec 31), may contain unit values from one or more dates after the end of the quarter, with the average client none the wiser.

Executives at LifeCo rationalize this as being a client preference -- a deliberate choice due to a "weekend effect" where clients want to have their 1st of month transactions appear on their most recent quarterly statement. This means as much as 30% of the time (2/7) client quarterly valuation statements could be incorrect (i.e. false).

Even if we accept this rationalization, there is no basis for incorrectly labeling the valuation date. This is simply another example of client feedback being taken completely out of context to justify errors in judgment that actually misinform investors. The real reason to continue false dating? – Most likely another systems problem LifeCo doesn't want to touch.

Would false dating be allowed from mutual funds?

4. Incomplete Client Transaction Records – Unit Disappearance

2002 client transaction records of our Group RSP plan members are incomplete, and hence misleading, because they contain no information about a unit consolidation that took place that year.

Disappearance = Consolidation = Unit Adjustment. In my 2nd Quarter statement from LifeCo 1-5% of my fund units had disappeared in every fund I owned in my Group RSP (details in formal complaint). The starting number of units plus units purchased in the quarter did not equal the final units in the quarter.

With some investigative queries to LifeCo, the disappearance was attributed to a 2nd quarter consolidation in the units in *every employee account* holding mutual funds. It took about 6 weeks to get this information. This consolidation occurred on June 14 and is due to an undocumented sale and repurchase of mutual funds to lower the management fee. No money disappeared, but LifeCo did it's best to make sure nobody noticed because (a) it would stimulate client questions that cost them money to handle; and (b) their computer systems are incapable of providing this basic information. Over 1,000 YYYY Canada employees remain completely in the dark about these transactions.

Would units be allowed to disappear from the transaction records presented to mutual fund owners?

Role of Plan Sponsor

If the legislative or regulatory hope is that the plan sponsor, my multi-national employer, is somehow a "sophisticated investor" who can protect the employees – it is time to think again! Our Corporate Human Resources staff has no securities training that I know of, and it would be unrealistic to expect them to screen, filter or adjust questionable materials provided by LifeCo. The reality is that the response from the employer to my concerns could best be summarized as:

- Complicity in the misleading sales tactics by developing internal communications based on gross return information fed to the employer by LifeCo
- Confusion on the ethical issues – despite a program elevating ethics within our firm

- Lack of support to pressure LifeCo to change its practices – possibly complicated by conflicts of interest caused by LifeCo being a significant customer of YYYY Canada
- Lack of alternatives to LifeCo when employees participate in the Group RSP plan where the employer contributes approximately 2% of salary.
- Refusal to discuss my concerns prior to and after filing my complaint with the regulators.

Head in the sand? None of this provides much protection to employees. The individual really is powerless to have any effect on questionable business practices, especially when not free to "vote with his feet" and change financial firms.

If this is Legal…Investors are in Trouble

My formal complaint requests that the FSCO investigate these allegations of misleading sales practices and false and misleading client statements; clarify whether these questionable business practices are legal or not; and if not, then compel LifeCo to rectify them immediately.

It is conceivable that after due consideration FSCO may determine that, as LifeCo contends, such behavior is indeed perfectly legal and acceptable under current legislation, and that LifeCo is right – they do not have to change anything – now or in the future.

This is why regulatory "harmonization" has to look more like current mutual fund regulation than current seg fund regulation.

Ombudsman Process – Foxes guarding the hen house?

LifeCo is a large and prominent financial services firm defending itself vigorously at several VP levels and the Ombudsman.

Indeed, the Ombudsman process does not work well for this kind of case. The LifeCo Ombudsman was engaged in my case for 5 months prior to the filing of my formal complaint, and most likely played a behind-the-scenes role advising the executives who wrote letters justifying the LifeCo position.

The first thing FSCO did with my formal complaint was to ask him to respond – triggering another two month delay before I got a fourth letter restating LifeCo's position. It appears that LifeCo, having helped design the current regulatory system, is adept at stringing out complaints in the hope that investors will give up.

With the odds already stacked so heavily against the individual investor, we don't need a system that continues to leave the foxes guarding the hen house. The LifeCo Ombudsman, in reality, is nothing more than a defense attorney for LifeCo, and is in no way helpful to investors nor any kind of internal investor advocate. There don't appear to be any investor advocates in the system, so there is no dynamic check and balance from which we might expect effective regulation.

Where my complaint will go from here in the current regulatory framework will be a revealing test case for FSCO regulatory effectiveness.

Time has entrenched some fundamentally flawed behaviour

Group clients are likely to directly compare information from LifeCo with the prospectuses from their mutual fund companies. My employer actively promotes such comparison by recommending that we consolidate mutual fund investments at LifeCo to enjoy a (possibly) lower management fee. The employer never mentions the loss of information quality that we will suffer.

Each time the cycle of misleading information is repeated, it becomes even more entrenched and difficult to change. LifeCo is able to completely ignore two fundamental principles:

- The investor needs to know the cost of the investment – his personal MER
- The investor needs to get an accurate transaction record (receipt) for every transaction.

Within a few months, LifeCo will probably issue another Pseudo-Prospectus based entirely on gross return. Only with prompt action from the appointed regulatory guardians of consumer and investor interests, can we get attention to the concerns of individual investors and avoid more cycles of misleading sales practices and false and incomplete client statements from LifeCo and other miscreants (if any) in the seg fund industry.

What about the Future? LifeCo claims their current practices already comply with the insurance seg fund draft regulations under consideration. If this is true, these critical regulatory questions of gross return sales material, inadequate cost disclosure and opaque financial structures are obviously not yet adequately addressed in the draft regulations of 81-403.

Final Word

Investment regulation is a very complex subject with subtle outcomes. Good basic principles laid down years ago in the mutual fund industry (and taken for granted by most consumers) have been forgotten in the seg fund industry. Shameful practices have become entrenched. Personal experience with seg funds and the regulatory response to them is very disquieting.

- Will a quirk of the Canadian regulatory system allow LifeCo to continue to get away with extensive gross return presentations (sometimes in the complete absence of fee disclosure) when such sales material is illegal in the mutual fund industry?
- Will there be no regulations compelling LifeCo to provide *simultaneous and complete, personally relevant* management fee and expense information?
- How well served are investors when the regulatory framework permits LifeCo to give wide-ranging investment "education" without meaningful discussion of management fees?

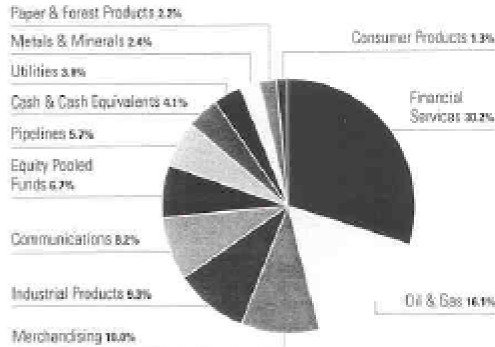
I welcome the opportunity to have provided my input and sincerely hope that the future will be better.

Exhibit 1: Sample page of sales material from 130-page LifeCo "Pseudo-Prospectus" exclusively devoted to gross return representations.

Canadian Equity Fund (Jarislowsky Fraser) (S232)

JARISLOWSKY FRASER LIMITED
INVESTMENT COUNSEL

This segregated fund invests in the Jarislowsky Fraser Canadian Equity Fund, a pooled fund managed by Jarislowsky Fraser Ltd.



INVESTOR PROFILE

Suited to the investor with long-term investment goals.

INVESTMENT OBJECTIVE

The objective of the fund is long-term capital appreciation. The fund invests primarily in Canadian equities.

INVESTMENT STRATEGY

- The manager of the fund relies primarily on internal research to develop investment strategy with a focus on long term fundamentals.
- The manager limits the industry weightings to a maximum of 20%, while keeping specific company weightings under 10%.
- Invests in high quality stocks employing a large capitalization low risk investment approach.

CANADA LIFE BENCHMARK

TSE 300 Total Return Index

UNDERLYING FUND FACTS 1998-2001

Life's segregated fund size:	$62.9 Million
Jarislowsky Fraser's pooled fund size:	$529.4 Million
Inception of Life's segregated fund:	May 1999
Inception of Jarislowsky Fraser's pooled fund:	April 1997
Number of years matched/outperformed benchmark:	3/4
Number of holdings:	36

TOP TEN HOLDINGS as at December 31, 2001

Royal Bank of Canada	6.9%
Bank of Nova Scotia	6.2%
Toronto-Dominion Bank	5.2%
Manulife Financial Corp.	4.6%
Talisman Energy Inc.	3.7%
Nexen Inc.	3.3%
The Thomson Corp.	3.2%
Enbridge Inc.	3.1%
Shell Canada Ltd.	2.9%
Great West Life	2.9%
TOP 10 TOTAL PERCENTAGE OF FUND	**42.0%**

INVESTMENT STYLE GRID
As at Dec. 31, 2001

see page 5 for more information on investment style

Style / Size	Value	Blend of Value & Growth	Growth
Large		✓	
Mid			
Low			
Small			

ANNUAL RATES OF RETURN

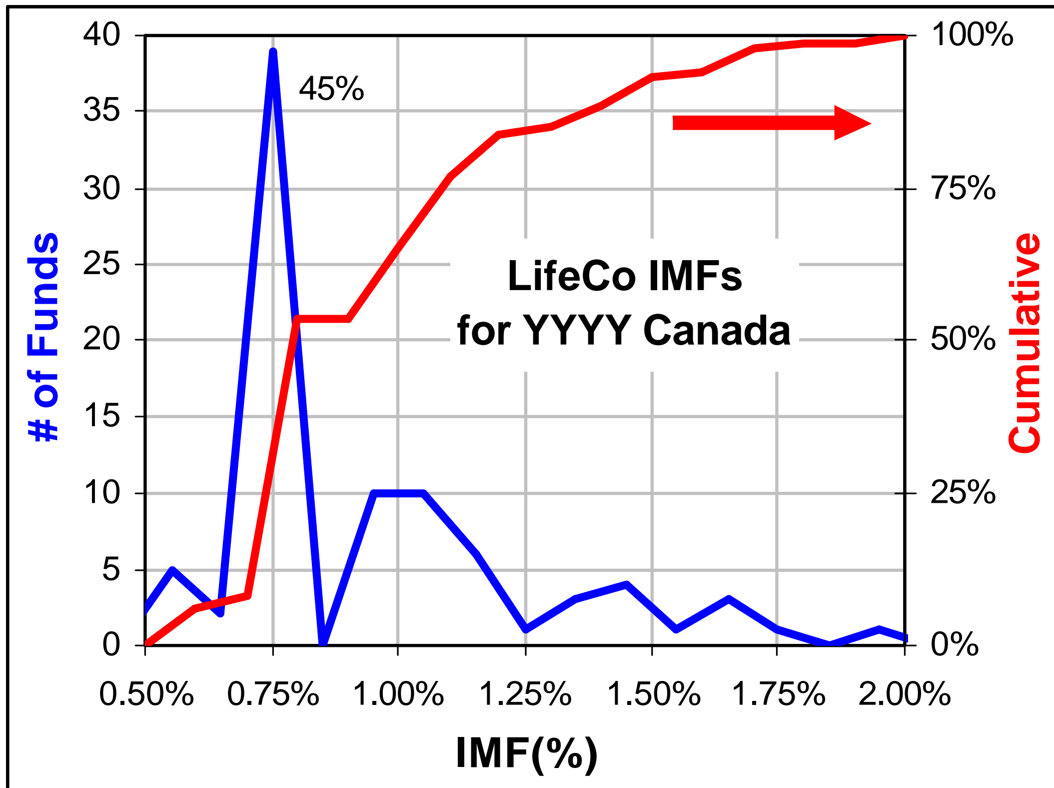
	12 months to December 31*										Annualized (to December 31, 2001)*		
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	3 yrs	5 yrs	10 yrs
Jarislowsky F. (S232)	n/a	n/a	n/a	n/a	n/a	n/a	11.4%	25.5%	31.5%	5.5%	20.3%	n/a	n/a
TSE 300 TR	-1.4%	32.6%	-0.2%	14.5%	28.4%	15.0%	-1.6%	31.7%	7.4%	-12.6%	7.3%	7.0%	10.4%

**

* The rates of return presented are gross figures as at December end dates, and are shown for comparison purposes only. They do not include deductions for administration and investment management fees. As the segregated funds that invest in Life's alliance partners' funds are new funds, to provide a longer history, returns shown are those of the pooled or mutual fund in which the Life segregated fund invests. Past performance is not necessarily indicative of future performance and returns are not guaranteed by LifeCo

Exhibit 2:

LifeCo Investment Management Fees (IMF) for YYYY Canada Group RSP.



Note: This EXCLUDES an estimated 6-30 bp of administrative and other costs that make up the total MER. The 6 bp estimate comes from a letter from LifeCo, but comparing the difference between gross and net returns below made the 30 bp estimate as shown below:

LifeCo Fund		2001	3-Year	5-Year	OLD IMF	Avg MER	Diff
Laketon S-34 Global Equity	Gross	-17.90%	-4.00%	6.60%			
	Net	-18.76%	-4.97%	5.53%			
Implied Approximate MER	Difference	0.86%	0.97%	1.07%	0.90%	0.97%	**0.07%**
Trimark S-51 Global Equity	Gross	11.90%	14.60%	13.90%			
	Net	10.39%	13.09%	12.39%			
Implied Approximate MER	Difference	1.51%	1.51%	1.51%	1.20%	1.51%	**0.31%**
Trimark S-52 Canadian Equity	Gross	6.20%	14.40%	8.90%			
	Net	4.79%	12.85%	7.40%			
Implied Approximate MER	Difference	1.41%	1.55%	1.50%	1.20%	1.49%	**0.29%**
Trimark S-54 Balanced	Gross	15.60%	15.70%	9.90%			
	Net	14.10%	14.21%	8.53%			
Implied Approximate MER	Difference	1.50%	1.49%	1.37%	1.20%	1.45%	**0.25%**

Note: This is **approximate**. MER/IMF apply to average assets; and there are different # of significant figures.
Gross Returns from Pseudo Prospectus
Net Returns from Dec 31, 2001 Client Valuation Statement

The conclusions are that:
IMF understates true MER by 6 to 30 bp and
true MER is very difficult for investors to compute.