



October 12, 2007

**BY ELECTRONIC MAIL: [jointforum@fsco.gov.on.ca](mailto:jointforum@fsco.gov.on.ca)**

Joint Forum Project Office  
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**Attention: Mr. Neil Mohindra  
Acting Policy Manager**

Dear Sir:

**Re: Submission to the Joint Forum of Financial Regulators  
- Comment on the proposed National Instrument #81-406**

Steadyhand Investment Funds Inc. is a manufacturer and distributor of mutual funds. We opened our doors to the public on April 10<sup>th</sup> of this year. Our clients can hold our funds directly in their Steadyhand accounts or through other dealers.

Steadyhand has a unique perspective on 81-406 for a number of reasons. First of all, we are both a manufacturer and a dealer. Second, as a new firm, we have a small asset base, which means that the cost of dealing with regulatory matters is very important to us (it currently accounts for 25-30% of our budget). And third, our mantra is to *connect investors to professional money managers as efficiently as possible*. Our goal is to change the landscape of an industry that is characterized by high cost and lack of transparency.

In this letter, our comments will be of a general nature and will refer to mutual funds only, as that is what we're familiar with.

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There are four elements to our comment:

- We will outline the benefits and costs of 81-406 as we see them. We encourage the Joint Forum to critically assess both sides of the ledger and only go ahead if the benefits substantially outweigh the costs.
- We will discuss one of the principles behind the point-of-purchase document, namely the recognition of the role advisors play in the sales process.
- We will outline the need for the Joint Forum to make adjustments to the other parts of the regulatory reporting package in conjunction with the implementation of 81-406.
- We will make specific recommendations.

### ***A Balanced Scorecard – Is the investor better off?***

We believe that the benefits of the Funds Fact document must be rigorously compared to the costs incurred to deliver such benefits.

### **Benefits**

Great effort has been taken to make the Fund Facts as effective as it can possibly be. It would be more readable, transparent and available than the current alternatives (prospectus and Annual Information Form).

Unfortunately, measuring the benefit derived from 81-406 involves more than just assessing the Fund Facts for readability and transparency. The Joint Forum has to assess what impact the document will have on investor behavior. Will investors make better investment decisions because of 81-406?

There are a number of factors that will affect the Fund Facts' impact:

- How readable and transparent it is.
- How engaging a document it is – *specific* in its descriptions versus *generic* to the point of being irrelevant.
- How available it is.
- How predisposed investors are to read any regulatory or reporting document.
- How close is it to the clients' wallet.

As noted above, we find the Fund Facts to be readable and transparent. The Joint Forum has done a good job in this regard.



Will the document be engaging enough such that investors will read it with regularity? On this measure, we worry that it will quickly begin to look like all the other run-of-the-mill marketing documents that investors receive over the course of the year. There are two unavoidable reasons for this. First, the investor will receive a number of Fund Facts in a year, each of which will look visually identical. And second, the language in Fund Facts, while clear and readable, is still too general and generic to engage the reader.

Mailing Fund Facts to the investor will improve the chances of it being read. The chances will decline, however, if it is sent out too often. The more often an investor receives it, the less likely it will be read. If the Joint Forum insists on the distribution of a Fund Facts for every fund transaction, it risks making the document just another part of the fine print that nobody ever reads. An average investor who holds eight funds and makes regular contributions could easily receive 20 or more Fund Facts a year.

When assessing the benefit to the investor of 81-406, the Joint Forum has to be realistic about how often these types of documents are read. In reality, investors rarely read all the information they are provided. Analyzing this factor is difficult and expensive to do, but we would suggest the results of such research would look something like this:

#### Expected Investor Behavior?

- Read all Fund Facts	2-5% of investors
- Read the first Fund Facts sheet, ignore others	15-25%
- Read the first few (2-5), then ignore	10-20%
- Read the first Fund Facts for a new fund	10-20%
- Only read their statement	40-60%

With regard to fees, investors are less likely to understand what they are paying if the information is one or many steps removed from their wallet. If fees are described in percentage terms and are in a general document that doesn't have their name on it, the chance of the information having an impact is minimal. For example, in the proposed Fund Facts, the information on advisor compensation is so general that it will have little or no impact. It is not clear what the dealer is getting paid and there is no way of calculating it.

If the Joint Forum wants investors to know what they are paying, dealers should be required to disclose on their client statements exactly what fees were



charged in the reporting period, both in percentage terms and in dollars and cents. We recognize that this disclosure is not at the point of purchase, but it would nonetheless have the most impact on Canadian investors' understanding of fees. Steadyhand does this in its quarterly statements. It wasn't hard to do. Our clients know exactly what they paid in dollars and cents. In our view, the client statement, which gets read with interest, is the place where fee disclosure has to be improved. In almost all of the dealer statements that we have reviewed, the fees paid were not disclosed.

### **Costs**

The cost of implementing 81-406 will ultimately be paid for by the investing public. There are both hard and soft components to this side of the ledger.

The hard costs (i.e. dollars and cents) are not in dispute. It will cost investors tens of millions of dollars to benefit from 81-406. The expenses incurred by the fund companies will ultimately be charged to the funds and reduce investment returns.

There are also some soft costs that should be factored into the equation.

Adding to the regulatory burden of buying a mutual fund will push all players – the fund companies, dealers and investors – away from mutual funds and into less regulated areas of the wealth management market. Mutual funds are only part of a very competitive landscape. Investors and providers have choices. In the overall scheme of things, the Joint Forum would be no closer to accomplishing its objectives if mutual fund investors are encouraged to migrate to less suitable products where disclosure is, in some cases, nothing short of horrendous.

The heavier the burden placed on mutual fund firms and dealers, the less likely it is that low-cost alternatives will emerge. If we look at the industry landscape, the low-cost providers are generally smaller firms. The ever increasing regulatory burden discourages new firms from getting started and makes it tough for the existing (small) players to survive. None of the large mutual fund companies in Canada could be categorized as a low cost provider (with the exception of the exchange-traded fund sponsors). The low-cost providers in the industry are the small firms.



### ***Reliance on the Advisor***

One of the principles behind Fund Facts is to “recognize the role of the advisor in the sales process.” We think the Joint Forum should be careful in this regard, because there isn’t always an advisor involved in a fund purchase. Clients of discount brokers do not have a personal advisor, nor do clients of direct distributors like Steadyhand. In the area of fees and dealer compensation particularly, we believe the Joint Forum is putting too much reliance on the advisor to provide full and proper disclosure. This part of the process will regularly break down, either because the advisor doesn’t want to highlight fees to the client, or because there is no advisor involved.

Given the Joint Forum’s objectives with regard to 81-406, the Fund Facts has to do the job on its own.

### ***Concise + Bulky ≠ Concise***

We feel very strongly that if 81-406 is implemented, it must be done in conjunction with changes to the current reporting requirements. The creation and distribution of Fund Facts repositions the prospectus and AIF, which will no longer be required to complete a purchase transaction. In trying to make improvements, the regulators cannot just keep adding reporting requirements, the costs of which the investor ultimately pays.

### ***Recommendations***

1. *We do not believe the Joint Forum should go ahead with 81-406 as it is currently contemplated. To justify the additional cost to the investor, the Fund Facts document must achieve two key objectives: (1) Investors should know if the fund is suitable for their situation and (2) they should know how much they are paying. On the first point, we feel the objective is accomplished, but on the second (fees), we believe the Fund Facts is not specific enough and is too reliant on the advisor to meet the objective.*
2. *If the Joint Forum goes ahead with 81-406, we recommend that the Fund Facts delivery only be required the first time an investor purchases a fund. Requiring delivery on subsequent trades will diminish the effectiveness of the program.*



3. *With regard to disclosure of fees, we recommend that the Joint Forum implement new rules that require dealers to clearly disclose on their statements what the client is paying. Such a change would have a far greater impact on investors' understanding of fees than anything that is being contemplated in the Fund Facts document.*
4. *If the Joint Forum goes ahead with 81-406, it should only do so in conjunction with revisions to the other regulatory documents. It makes no sense to add a fifth document to the mix without adjusting for its impact on the other four.*
5. *If the Joint Forum goes ahead with 81-406, we recommend that the implementation date coincide with changes to disclosure requirements for other wealth management products. Implementation of 81-406 on its own will widen the regulatory gap between mutual funds and alternative products such as bank-issued notes. In a competitive industry, the gap is already very wide and is impacting the allocation of investors' capital.*

At Steadyhand, we are supportive of any efforts to help individual Canadians be better consumers of investment products. To get the best effect out of the Joint Forum's efforts so far, we would hope that our recommendations would be considered.

Yours truly,

Tom Bradley  
President