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
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Invesco
120 Bloor Street, Suite 700
Toronto, Ontario M4W 1B7

Telephone: 416.590.9855 or 1.800.874.6275
Facsimile: 416.590.7742

www.invesco.ca

23 September 2011

Dear Sirs/Mesdames:

Re: Notice and Request for Comments on Proposed Amendments to National Instrument 31-103 – *Registration Requirements and Exemptions* and to Companion Policy 31-103CP – *Registration Requirements and Exemptions*: Cost Disclosure and Performance Reporting

Thank you for the opportunity to comment on the Proposed Amendments to National Instrument 31-103 – *Registration Requirements and Exemptions* and to Companion Policy 31-103CP – *Registration Requirements and Exemptions* CSA Consultation Paper 91-402 - *Derivatives: Trade Repositories* (the "Proposed Amendments").

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Invesco is supportive of improved investor disclosure and transparency and, as such, we are generally supportive of the Proposed Amendments. We have limited our comments to areas where we think the Proposed Amendments could result in impacts opposite of those stated in the Notice and Request for Comment (the "Notice") and where the Canadian Securities Administrators ("CSA") have specifically

asked for input. We would expect that the CSA would not interpret that as opposition to the Proposed Amendments. Rather, we seek to enhance their effectiveness while meeting the stated regulatory objectives.

Trailing Commission Disclosure

We are concerned that the prescribed language in clause 14.2(4.1)(g) is not technically correct and, therefore, could mislead investors. Specifically, the statement "trailing commissions affect you because they reduce the amount of the fund's return to you" is not necessarily true. As a technical matter, trailing commissions are funded through management fees. Accordingly, the prescribed language inherently assumes that, absent trailing commissions, management fees would be reduced by a commensurate amount. While in most cases this assumption is likely correct, there are many instances where this would not be the case. Mutual fund managers would have discretion in this regard and we believe it is more likely that, absent trailing commissions, there would only be a partial reduction in management fees. We note, however, that prior to the widespread adoption of trailing commissions, mutual fund management fees were materially the same as they are today. That is, mutual fund companies did not seek to increase management fees when faced with trailing commissions and we do not believe that all mutual fund companies would thus reduce management fees absent trailing commissions. Therefore, the prescribed language is potentially misleading and may create false expectations. We urge the CSA to eliminate this particular aspect of the prescribed language as prescribed statements should be truthful and the absence of the prescribed statement would not detract from the message being given to investors.

Reporting Cost of Investment

The Notice specifically asks whether the tax cost should be permitted as an alternative to the original cost in the annual performance and cost statement provided to investors. If the goal of the Proposed Amendments is to provide information to investors about the performance of their investments, we believe that tax cost is inappropriate as it could distort the true performance of the investment and lead to erroneous decisions by investors. In addition, where a client holds an investment in multiple accounts and across multiple dealers, the tax cost information will not be accurate.

Taking the second point first, if an investor bought 100 shares of ABC for $70 per share and holds that investment in an account at Dealer A and the investor bought 100 shares of ABC for $80 and holds that investment in an account at Dealer B, the tax cost of the 200 ABC shares is $75/share. However, Dealer A would report a cost of $70 and Dealer B would report a cost of $80. If the investor sold shares from one account only, it is predictable that the investor would use that dealer's tax cost in computing income taxes for the year and, therefore, the investor would over report or under report as the case may be. For example, if the Dealer A shares were sold for $75, the client may report a capital gain of $5 per share and pay taxes on that when, from an income tax perspective, the client had no gain on the disposition and, therefore, no tax owing. The purpose of a client statement from a dealer should be to evaluate the performance of the investment in relation to the client's investment goals, as stated in the Notice.

Other rules in the *Income Tax* Act (Canada) must also be considered if reporting tax cost. Especially problematic would be the suspended loss rules which would be invoked in certain circumstances where an investment is sold from one dealer account and then bought within a prescribed period of time in an account with another dealer. The second dealer would have no way of knowing the tax cost of the securities since the tax cost would be that applicable to the securities when held with the first dealer. This is further complicated by the fact that these rules apply to affiliated persons of the taxpayer, which could include spouses, common law spouses, and certain trusts, among others.

We also believe the tax cost could be misleading in relation to evaluating investment performance. This can best be seen by way of illustration. Assume that:

- Client has an investment with a cost of $100.
- At the end of the year, the client receives a $1 dividend on the investment.
- The market value of the investment was $102 immediately prior to the dividend and $101 immediately after.
- The Client sells a few days later for $101.

In the foregoing scenario, the client has made $1 in capital appreciation and $1 in dividend. Ignoring tax impacts, the client has earned 2% on the investment. This is what the client should, in our view, be considering. However, assume that the dividend was reinvested (and the position was still sold a few days later without further capital appreciation). As the investment itself has already appreciated by $1, the client did not gain on this additional investment and therefore, still has $102 upon disposition. But compared to a tax cost of $101, the client may be misled into believing that the investment returned less than 1%. While those of us versed in these concepts easily spot the differences in these examples, given the comments in the Notice about investors not being familiar with certain terminology, it seems likely to us that a significant number of investors – especially those with the lowest levels of financial literacy who benefit most from the Proposed Amendments - would confuse these concepts and come to the wrong conclusions about their investment. As such, we do not believe that display of tax cost should be permitted.

Market Value of Investments

The Notice also requests feedback on the guidance, contained in the Proposed Amendments to the Companion Policy, for determining market value of securities (section 14.14). The guidance appears to be largely consistent with mutual fund valuation methodologies and practice, which we believe to be the appropriate approach, and therefore believe the guidance is sufficient as drafted.

Switches of Deferred Sales Charge Units to the Sales Charge Option

We note with interest the CSA's views regarding matured unit switches in Section 14.2 of the Companion Policy (2nd paragraph under "Switches and Change Fees"). We agree with the CSA's position and would urge such prohibition to be incorporated into the National Instrument itself. Notwithstanding this statement by the CSA and similar statements by the self-regulatory organizations, some dealer practices are contrary to this view and it is naïve to think that a statement buried in

a Companion Policy will have any effect on either reducing or eliminating this practice.

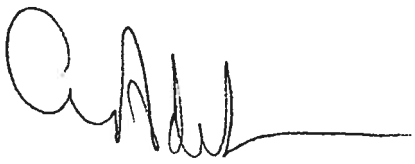
Costs and Benefits of Proposal

Lastly, the Notice discusses the anticipated costs and benefits of the Proposed Amendments and concludes that the anticipated costs outweigh the anticipated benefits. We have no opinion on the validity of this statement (although we suspect it is true); however, we are surprised by the boldness of the statement when there appears to be no attempt to quantify the costs of compliance with the Proposed Amendment, both from the perspective of the initial systems investments required and from the perspective of a firm's run rate with respect to ongoing implementation of the Proposed Amendment. If the costs were estimated at $1 billion, would the CSA still be of the view that the costs outweigh the benefits? Perhaps it would, but the lack of detail on this issue makes it impossible for interested parties to comment on the cost-benefit analysis. Cost-benefit analysis is a vital element of good regulation and, therefore, we urge the CSA to attempt to quantify the costs of implementation ahead of finalizing the Proposed Amendments.

We would be pleased to discuss our comments with you at any time. I can be reached at (416) 228-3670.

Yours Truly,

Invesco Canada Ltd.



Eric J. Adelson
Senior Vice-President
Head of Legal – Canada, Invesco