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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

John Stevenson, Secretary Ontario Securities Commission Secretary Ontario Securities Commission 20 Queen Street West, Suite 1903, 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 Sirs / Mesdames:

RE: Proposed Amendments to NI 31-103 Registration Requirements and Exemptions – Cost Disclosure and Performance Reporting

The Federation of Mutual Fund Dealers (the "Federation") is an association of Canadian mutual fund dealers and affiliates whose members, since 1996, have been working to be the voice of independent mutual fund dealers. We currently represent 30 dealer firms with over \$114 billion of assets under administration and 17 thousand licensed advisors that provide financial services to over 3.5 million Canadians and their families.

The Federation is writing to provide comments with respect to the above captioned Proposed Amendments ("Proposed Amendments").

Disclosure Duplication, Cost Burden & the Consultative Process

While we support the general principles of proposals to provide clients with clear and transparent reporting on performance and costs, we are curious as to why the Canadian Securities Administrators ("CSA") would release proposals that we believe are now duplicative, promote misleading cost comparisons with products that do not require similar disclosures, go beyond the new requirements they are now actively working to adopt at great resource and financial cost, and will ultimately serve to confuse the client.

And we agree with the concerns expressed in comment letters already submitted in that these proposals appear to indicate a disregard for the Client Relationship Model ("CRM") consultative process under the Registration Reform project where performance reporting and cost disclosure were delegated to IIROC and the MFDA for rule development and then readdressed in the current Proposals – with respect we believe this draws into question the integrity of the consultative process.

The Mutual Fund Dealers Association ("MFDA") and the Investment Industry Regulatory Organization ("IIROC") have been engaged in extensive consultations with stakeholders over the last five years; both have developed rules addressing performance reporting and cost disclosure. The MFDA developed their Rule 5.3.5 which represents a balance of interests, provides for a simple measure, flexibility to provide annual gain/loss information or percentage return and aligns well with the expressed needs of clients, was approved by the CSA in June of last year for implementation by July 2012 and MFDA Members are now in the process of redesigning client statements and building or rebuilding systems for compliance with that Rule.

In addition to the costs being incurred by dealers, fund companies and FundSERV will be impacted as their systems will require a reengineering in order to record the annual amount of trailer commissions payable per account in a year and to deliver this data to dealers in such a way that the dealers will then be able to provide it to clients.

Ultimately, higher costs are passed on to the client and we believe in addition to other suggestions, that a cost benefit analysis should be undertaken before further amendments are imposed on existing requirements.

If adopted without change we believe that these amendments will create a further imbalance in the mutual fund dealer industry resulting in an undue and unparalleled regulatory burden which will undoubtedly contribute to the further decline in the number of mutual fund dealer registrations which has already dropped by over 50% in the last ten years.

Echoing another comment, we are concerned that conclusions reached following the public consultation by the MFDA as reflected in MFDA Rule 5.3.5 mentioned above, are balanced in their application and believe that they should not be set aside by the current Proposals. We agree that this would undermine the value of the extensive and valuable work contributed by those who participated over the last seven years of public consultations, and would place at risk the credibility of the public consultation process itself.

We suggest the CSA allow the SROs to develop rules for the regulation of performance reporting and cost disclosure of their members, and exempt SRO members from compliance with the Proposals.

There appears to be a significant overlap with the Point of Sale (POS) disclosure requirements and we believe that disclosure of mutual fund information should be mandated through changes to NI 81-101, not additionally mandated in advance of Phase 3 of POS through changes to NI 31-103.

Within the discussion of pre-trade and annual proposed mandatory disclosure no reference was made to existing and readily available continuous disclosure documents regarding an investment fund which provide cost and performance information.

The abundance of repetitive cost disclosures found in the Proposal will confuse investors and may lead them to draw misleading cost comparisons which call into serious question their value. The proposed emphasis on aggregating charges and disclosing fees such as trailer fees may cause investors to double count charges that have already been assessed on their investments and disclosed elsewhere. This misleading practice may cause investors to believe their mutual fund investments are being overcharged relative to other products, and lead them away from suitable mutual fund investments to less suitable and less transparent investment options in the banking and insurance sectors where such detailed requirements are not required.

We believe that MFDA dealers should be exempt from having to report the trailer fees earned as this would be a duplication of the disclosure provided in the simplified prospectus, the Point of Sale Disclosure and the Client Relationship Document.

As well, it is not clear whether the proposed cost and performance disclosure is to be provided by account or on a consolidated basis, further clarity on this point would be required.

The proposed amendments require a dealer to provide a trade confirmation that will include information about any deferred sales charge ("DSC") that will be charged in respect of the transaction. This is information that is disclosed in the Fund Facts and the prospectus and we do not believe there is value in providing it on the confirmation, on the contrary we believe it will contribute to client confusion.

Transition Periods

Some provisions are proposed to become effective on the date the amendments come into force, others are subject to one or two year transition periods for compliance. Generally we believe that there should be a transition period for compliance with any change and in particular the changes being considered here and would suggest that a transition period be provided for where currently there is none contemplated; for example where a registered firm dealer (registered firm) must provide a client before each trade (purchase or sale) or recommendation provided to a client for a non-managed account (orally and possible also in writing):

- Information about the "operating charges" and "transaction charges" that the client will pay in respect of the transaction
- Information about DSCs if the client is investing in a DSC fund; and
- Information about the "trailing commissions" the dealer will receive in respect of the client's investments

Another example would be where, if adopted, the amendments could impact a dealer's current Relationship Disclosure Information ("RDI") which would necessitate print, systems and procedural changes and with no transition period provided could lead to implementation challenges.

Product Arbitrage

We are concerned that proposed amendments will further encourage financial advisors to recommend segregated funds and other products to their clients, in place of mutual fund investments. The recommendation of a product with less onerous regulatory requirements will be an attractive option to a dually licensed financial advisor.

Additionally the proposed amendments focus on mutual funds and fixed income products which gives rise to an undue and unwarranted emphasis on the costs of investing in mutual funds over other types of investments.

Client Confusion

Further to the points made in the IFIC comment submission, we agree that an overemphasis on the disclosure of fees and compensation that are encompassed in the MER and included in net return reporting could be misleading to mutual fund investors.

MFDA dealers have already invested many resources into these disclosures, and it is our belief that providing clients with yet another disclosure will inadvertently give clients the impression that mutual fund investments are more expensive than other similar but unregulated products.

While we agree with comments regarding the importance of providing clients with meaningful information on their account statements we are concerned with information overload and do not agree with duplicated information and information that goes beyond what a client considers useful to the point that the client will not read the statement because it is too dense.

Moving 10% Free to Front-End No Load

We do not agree with comments regarding advisors moving the 10% DSC free units to the sales charge option of the same fund. As these 'free' units become available on an annual basis, if they are not moved into a front end version of the same fund those eligible units are lost from a free transfer and could be subject to a fee should the client request a subsequent redemption. While transferring these units may result in a higher trailer fee for the dealer and advisor it is cost neutral to the client provided that the dealer/advisor does not charge a front-end load on the transfer of units. We would recommend therefore that the commission and SRO's continue to allow dealers to monitor these activities from a compliance perspective.

Request for Clarity

With respect to the pre-trade/recommendation disclosure proposal it is not clear whether this disclosure is required to be provided in writing.

The proposals require a trade confirmation to disclose the yield of any fixed income security however "yield" is not defined. We would recommend that a definition be provided.

The proposals require trade confirmations to provide specific disclosure regarding dealer "charges" with respect to the purchase or sale of fixed income securities but no definition of "charges" is provided. We would recommend that a definition be provided.

Timing of Release of Proposals

This is not the first regulatory proposal that has been released for comment at the beginning of summer and as such this will not be the first comment to be submitted criticizing this timing. While 90 days is not normally an unreasonable amount of time, given that it spanned the summer months we believe a longer period would have been more appropriate. Past publications that have garnered few comment letters have subsequently been determined of little importance to the industry they affect and we would not like the same thing to happen with respect to these proposals.

We appreciate the opportunity to provide comments and hope that the various commissions will consider our comments prior to finalizing these amendments. We agree and support the comments made by the Investment Funds Institute of Canada and we are pleased to provide our points.

Regards,

Federation of Mutual Fund Dealers

Sandra L. Kegie Executive Director