

April 4, 2013

BY EMAIL: comments@osc.gov.on.ca;
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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
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention: The 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, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

Re: CSA Discussion Paper on Mutual Fund Fees (81-407) (the “Paper”)

Background

Capital International Asset Management (Canada), Inc. (“CIAM”) is part of The Capital Group Companies, Inc., a global investment management firm originated

in 1931. CIAM serves as the manager and trustee to the Capital International mutual funds, which are subadvised by Capital Research and Management Company and Capital Guardian Trust Company (part of Capital Group International, Inc.), which are both wholly owned subsidiaries of Capital Group. The Capital Group companies manage equities through three investment divisions that make investment and proxy voting decisions independently. Fixed-income investment professionals provide fixed-income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups. Capital International funds are distributed primarily through third-party distributors in Canada.

CIAM is currently registered as an investment fund manager and portfolio manager in Ontario as well as an exempt market dealer in the provinces of Ontario, Quebec, Alberta, British Columbia and Nova Scotia. Please note our comments below on the Paper.

General Comments

CIAM is pleased to have the opportunity to present comments on the Paper.

CIAM is generally in support of the CSA's various proposals and initiatives currently underway to enhance disclosures and transparency to the end investor. We also support the recent developments in the investor advocacy arena with respect to the creation of the OSC's Office of the Investor, the Investor Advisory Panel and other educational resources available to investors.

We understand the CSA's position in examining the mutual fund fee structures from the standpoint of investor protection and fairness. We have outlined below our views on the regulatory responses to address any issues regarding these fee structures.

CIAM generally supports the positions asserted in the Investment Funds Institute of Canada comment letter (the "IFIC letter") dated April 12, 2013 as submitted to the CSA and we wish to further address certain aspects of the Paper as follows:

Conflicts of Interest

We are concerned with the assertions in the Paper regarding potential conflicts at the mutual fund manufacturer and advisor levels. As mentioned in the IFIC letter, we do not believe that the payment of embedded fees represents a conflict at the fund manufacturer level. We believe the existing regime for the identification and review of conflict matters prescribed by National Instrument 81-107 is sufficient to address fund manager conflicts.

While the payment of embedded fees may create a potential for or perceived conflicts at the advisor level, we believe there are ample safeguards available to mitigate such conflicts that already exist in securities legislation as well as in the recent new regulatory proposals and initiatives.

We believe that the existing regulatory initiatives impacting mutual funds have already adequately addressed potential conflicts in addition to National Instrument 81-107. Examples of such other existing requirements and new proposals include, but are not limited to:

- 1) CSA Consultation Paper 33-403 re the standards of conduct for advisors and dealers introducing a statutory best interest duty for advisors of retail clients. While advisors are already subject to suitability standards among other regulatory requirements such as disclosure obligations and ongoing conduct, this consultation paper is aiming to impose a statutory “best interest” standard on such advisors over and above the existing requirements.
- 2) CRM II – The recently issued amendments to NI 31-103 regarding client relationship disclosures prescribe specific disclosures on performance and costs reporting for investors. These amendments prescribe specific pre-trade and ongoing disclosures which are in addition to the existing requirements for continuous disclosure documents. The new disclosures are intended to enhance transparency and investor understanding of the specific operating and transaction charges related to their accounts.
- 3) Point of Sale disclosures – we are in support of the new Fund Facts document summarizing the key information for investors in a clear and simple format. The Fund Facts document also contains information on costs and fund expenses including trailing commissions. We look forward to the next phase of allowing delivery of the Fund Facts document in lieu of the current prospectus.
- 4) National Instrument 81-106 – the form requirements of the MRFP mandate disclosure of the major services paid out of management fees including trailing commissions and other charges.
- 5) IIROC draft guidance on compensation structures for retail investment accounts. In August 2012, IIROC issued a paper requesting comments on advisor compensation structures. The paper highlighted considerations for commission vs. fee-based accounts, including the requirements already in place under the Client Relationship Model. The guidance document suggested the following enhancements to their existing rules: (1) suitability assessments for commission and fee-based structures in particular; (2) increased transparency regarding the features of both commission and fee-based structures; and (3) effective supervision of such compensation structures to prevent double-charging of clients as a result of embedded commissions or inappropriate account transfers.

As an example of one of the potential conflicts referenced in the Paper, the CSA suggests that, because trailing commissions paid on equity and balanced funds are generally higher than on fixed income funds, "advisors may be incentivized to favour such mutual funds in portfolio allocations". Flows into fixed income investments in recent years are not representative of this assertion. As mentioned in the recent draft OSC Notice 11-768, Statement of Priorities ("Statement of Priorities"), given the uncertainty of the global equity markets and historically low interest rates, more investors have been broadening their investments beyond equities. For this reason, the OSC is looking to expand its oversight of fixed income securities as mentioned in its Statement of Priorities.

Automatic Conversion Arrangements

With respect to such arrangements, the Paper concludes that these arrangements represent an alignment of interests between the mutual fund manufacturer and the advisor which could be detrimental to the investors. While these types of arrangements may potentially create a perception of conflict, we are concerned that the Paper fails to acknowledge that there are various types of structures with differing conversion features. Certain mutual fund structures, such as the automatic conversion arrangements associated with Series B (DSC) units of the Capital International funds, result in lower MERs to the investor. We also disagree with the assertion in the same section of the Paper stating that, "while longer term mutual fund investments yield economic benefits for the mutual fund manufacturer and the advisor, they may not yield the same benefits for the investor." We believe that mutual funds are intended as longer term investments, based on the individual circumstances of the investors, and generally continue to yield benefits over the long term.

Detrimental Impact to Investors

The CSA Paper notes the trends in MERs since 1990 in Figure 8 mentioning that the MERs have been declining since 2001 due to several factors including tax changes. The introduction of the HST in June 2010 materially increased taxes on mutual fund expenses. For example, in Ontario, where the majority of unitholders of the Capital International funds reside, taxes on management fees and operating expenses increased from 5% (GST) to 13% (HST).

In addition to the increase in taxes, mutual funds have been subject to additional regulatory requirements and disclosures as mentioned above. The implementation of the new CRM II model will lead to additional costs which will impact both dealers and mutual fund manufacturers.

In the best interests of investors, it would be prudent for the CSA to re-assess the perceived disclosure and transparency gaps following the implementation of the existing above-noted initiatives.

Product and Regulatory Arbitrage

We commend the recent efforts of the CSA in proposing to apply some of the mutual fund rules (NI 81-102) to other types of products such as non-redeemable investment funds. We also support the CSA's point-of-sale initiatives in considering the applicability of the summary disclosure document to other comparable products. We believe that further industry consultation in this area is warranted in order to ensure investors are afforded the same level of protections across the wide spectrum of investment funds available in the market. We were pleased to see that the CSA is encouraging comments on this Paper by participants in the broader financial products industry rather than exclusively from the mutual fund segment. While the Paper mentions that the CSA anticipates assessing the application of any regulatory initiative to other investment funds and comparable securities products, we are concerned about this particular initiative's impact on the mutual fund industry from the standpoint of fairness to investors. As mentioned in the OSC's Statement of Priorities, mutual funds comprise the "largest share of investable assets for the typical Canadian household". Such retail investors currently enjoy the benefit of professional money management through these mutual fund pools and may be disadvantaged if they are inappropriately steered toward financial products other than mutual funds, either directly or indirectly, as a result of changes in compensation structures or inconsistencies in regulation.

We acknowledge that the CSA may have little or no jurisdiction regarding the regulation of certain other financial products; accordingly, we urge the CSA to consider the existing regulation and protections that are already available to mutual fund investors.

Conclusion

We strongly urge the CSA to consider the above comments as well as the IFIC letter prior to prescribing such substantive changes which will have a significant impact on the mutual fund industry in Canada. We appreciate the opportunity to comment on this Paper. Thank you.

Yours truly,

CAPITAL INTERNATIONAL ASSET MANAGEMENT
(CANADA), INC.

(signed) "Mark Tiffin"

Mark Tiffin
President