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April 12, 2013

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 Territory
Superintendent of Securities, Nunavut

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8
Fax : 416-593-2318
Email: comments@osc.gov.on.ca;

-And-

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
Fax : 514-864-6381
Email : consultation-en-cours@lautorite.qc.ca

Dear Sirs and Mesdames:

Re: CSA Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees*

CI Investments Inc. ("**CII**"), is pleased at the opportunity to respond to the CSA's issues for comment regarding mutual fund fees further to your request for comments and discussion published on December 13, 2012 ("**Discussion Paper**").

Topic for Consideration ii. *A standard class for DIY investors with no or reduced trailing commission*

Generally speaking, CII believes that investors who engage financial advisors are better off in terms of investment growth, retirement preparedness and savings discipline, than investors who do not. This is supported by recent researched published by the Center for Interuniversity Research and Analysis on Organizations ("**CIRANO**")[1]. We encourage people to find an advisor who listens to their needs and goals and can provide general wealth planning advice.

Topic for Consideration iii. *Trailing commission component of management fees to be unbundled and charged/disclosed as separate asset-based fee*

CII has been offering unbundled trailing commissions from management fees for over six years through its F, E, I and O classes of funds. These classes are known as "fee-disclosed", and already create the transparency the CSA is looking to regulate. Canada has had a greater focus on disclosure than the other jurisdictions noted in the report. A great deal of progress has been made in the Canadian regulatory environment, dating from the 1995 release of OSC Commissioner Stromberg's report "*Regulatory Strategies for the Mid-90's - Recommendations for Regulating Investment Funds in Canada*" to today's initiatives such as the "*Point of Sale Disclosure for Mutual Funds*" project which enhanced disclosure requirements effective January 1, 2011, and the CSA amendment to National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations (Cost Disclosure, Performance Reporting and Client Statements)* ("**NI 31-103**"). Additionally, point of sale initiatives, such as fund facts, disclose the various trailer fees being paid to the dealer. These initiatives have significantly enhanced disclosure and set us apart from the other jurisdictions in the report where current regulatory initiatives seem to be aimed at closing the gaps Canada has already dealt with.

By virtue of the competitive landscape for mutual funds in Canada, investors have an array of fee structures to choose from; these include purchase options such as deferred sales charge units, low-load units, front-end sales charge units and F-class units. In addition, the introduction of the amendments to NI 31-103 will significantly increase the awareness of investors to the cost of investing attributable to their advisor. It is between the advisor and investor to determine what best suits the investor's needs. Market forces combined with current disclosure initiatives by the CSA have already been fostering this

[1] C. Montmarquette, Ph.D. and N. Viennot-Briot, *Econometric Models on the Value of Advice of a Financial Advisor*, (Montreal: CIRANO, 2012).

trend organically; additional regulation in this area may be disproportionately costly, unnecessary and unwieldy.

According to research completed by Investor Economics and Strategic Insight there has been no evidence that unbundling fees has resulted in cost savings to the investor. In fact, the total cost of ownership to investors may have actually increased in US, in some cases, because of this initiative. In the US, fee-for-advice fees range between 1.0% and 1.5% and first fee reduction tiers only occur at asset levels of $200,000 or even $500,000[2]; higher than for similar services in Canada.

Mandating securityholder approval for increases in trailer fees would not serve the purpose it is aiming to achieve. Again, current disclosure initiatives make trailer fees readily apparent to investors. The services and advice that advisors offer to investors is a matter between those two parties. We would not support regulation requiring the fund manufacturer to intervene.

In reviewing the mutual fund pricing model, the Discussion Paper outlines the argument that the increasing level of management fees and trailer fees from money-market funds to equity funds gives rise to a conflict of interest that results in a greater emphasis on the sale of the high fee, high compensation funds. This belies the fact that the lower cost fixed income funds have been where advisors and their clients have been investing over the past few years, reflecting a response to the investment environment rather than levels of fees and compensation. In addition, all things being equal, such as a stable investing environment, the differing fee levels reflect the differing levels of complexity from money-market funds to equity funds, both by the portfolio manager in researching and assembling the portfolio of investments and by the advisor in understanding the elements of the investment and the risk characteristics so that they can be explained to their clients.

Topic for Consideration

iv. *A separate series or class of funds for each purchase option*

The Discussion Paper raises concerns over cross-subsidization between purchase options. CII addresses this by having a pricing model that effectively balances the overall cost to the investor across purchase options. Market competition and increasing investor sophistication are already key drivers in this sphere. In addition, the scale of the Canadian investment funds industry does not likely support further fragmentation of fund classes and therefore costs to the investor may increase if this initiative is pursued.
There has already been a shift away from the deferred sales charge ("**DSC**") purchase option towards initial sales charge. This is confirmed by the research done by Investor Economics where between 2002-2006 front-end load accounted for 61% of gross sales versus 35% back-end (DSC) and 4% low load, compared to 2007-2011 where front-end load accounted for 71% gross sales versus 14% back-end (DSC) and 15% low load[3].

[2] *Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Canada – U.S. Perspective* (Canada: Investor Economics and Strategic Insight, 2012)
[3] *Mutual Fund MERs And Cost to Customer In Canada: Measurement, Trends and Changing Perspectives* (Canada: Investor Economics, 2012)

Furthermore, for the reasons stated in our response to Topic of Consideration iii, we do not think further regulation in this area is needed considering the current disclosure regimes already being undertaken. We submit that these initiatives should be given adequate time to play out in the marketplace, before additional initiatives are implemented.

Topic for Consideration v. *Cap Commissions*

Current disclosure initiatives under NI 31-103 are aimed at achieving greater transparency and allowing the investor to determine whether they are receiving value for the fees they are paying. Trailer fees have not materially changed in the past two decades[4] indicating investor satisfaction with the cost of advice they are receiving. It would be a slippery slope for the CSA to begin regulating business models that are naturally market driven. There are over 100 fund companies offering thousands of funds in Canada and competition is fierce among them. There are currently no caps, or proposed caps, on any other types of fees that mutual funds charge. A free, open and competitive market is what dictates prices and additional regulation may not be necessary at this point.

Topic for Consideration vii. *Discontinue the practice of advisor compensation being set by mutual fund manufacturers*

Discontinuing the practice of advisor compensation being set by mutual fund manufacturers would be a drastic change to the mutual fund industry's business model with wide ranging and unforeseeable consequences. We appreciate your commitment to monitor the effects of similar regulations and prohibitions in the United Kingdom and Australia before any such change is contemplated in Canada. It will be many years before any empirical evidence will be able to document the effect of the current regulatory initiatives of NI 31-103, Stage 2 of Point of Sale Disclosure for Mutual Funds and Client Relationship Model Project, phase 2, and until any determination can be made one way or another we think that market forces are sufficiently adequate to ensure investors are protected and receiving the benefit they are paying for.

The Discussion Paper suggests there may be a conflict between the mutual fund company and the investors in the mutual fund based on the setting of trailer fees that are embedded in the management fee. This potential conflict is directly addressed through the requirement of each mutual fund to have an independent board of governors. One of the responsibilities of this independent board is to assess the potential for conflicts between the fund and the manager.

[4] *Ibid* at 32

Thank you for the opportunity to provide comments with respect to this proposal. If you have questions or wish for us to clarify any comments, please contact Derek J. Green, the undersigned below, at 416-364-1145.

Sincerely,

CI Investments Inc.

"Derek J. Green"

Derek J. Green
President and Chief Executive Officer

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