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BY ELECTRONIC MAIL: jstevenson@osc.gov.on.ca, comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

April 12, 2013

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
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:

John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1900, 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 / Madames:

Re: CSA Discussion Paper 81-407: Mutual Fund Fees

We are writing to provide you with comments on the Canadians Securities Administrators' ("**CSA**") *Discussion Paper 81-407 – Mutual Fund Fees*, published on December 13, 2012 (the "**Discussion Paper**"). We appreciate the opportunity to participate in this discussion.

As a bit of background for you on our business, Sun Life Financial is a leading financial services organization providing a diverse range of protection and wealth accumulation products and has been serving individual and corporate customers for nearly 150 years.

Of the Sun Life Financial group of companies, Sun Life Financial Investment Services (Canada) Inc. ("**SLF Investments**") is registered as a mutual fund dealer in all provinces and territories of Canada. One of Canada's largest dealers, SLF Investments has over 2,900 representatives registered to sell mutual funds in approximately 90 financial centres across Canada.

We appreciate the CSA's willingness to discuss these issues with industry participants. We note that Sun Life Financial is a member of and has various representatives on committees with the Investment Funds Institute of Canada ("**IFIC**") as well as the Regulatory Committee of the *Conseil des fonds d'invertissement du Québec* ("**CFIQ**"). We would like to highlight that we support the comments and recommendations of IFIC's submission letter.

Each of the compensation alternatives proposed by the CSA in the Discussion Paper is of interest to us. We would like to take this opportunity to specifically comment on a few of these proposed options.

(A) General Comments

There appears to be a general underlying theme throughout the Discussion Paper that the sales charge and trailing commission are intended only to compensate the advisor serving the client. We would like to begin our comments by emphasizing that a portion is intended for and paid to the advisor, but a portion also remains with the mutual fund dealer. We are aware that allocation of trailing commissions between advisors and dealers can vary from dealer to dealer.

At the dealer level, the trailing commission helps fund the daily operation of a dealer's business. This would include satisfying client reporting obligations, general compliance obligations, supervision requirements, regulatory fees, operational costs, product due diligence, etc.

At the advisor level, the trailing commission does not operate solely as income for the advisor. Advisors with SLF Investments have administrative staff for which they are responsible, rental payments owing, other costs of doing business, regulatory fees, and work associated with satisfying compliance obligations.

We trust that the CSA will consider such realities in completing any future research or proposals on this topic and we are happy to assist in providing additional information or input if needed.

(B) Specific Comments on CSA Proposed Topics for Consideration

Topic (i) - Advisor services to be specified and provided in exchange for trailing commissions

At SLF Investments, we support initiatives intended to increase transparency to clients on what services can be expected in exchange for the costs of the investment. We do not, however, favour a requirement for a minimum level of ongoing services or a requirement for advisors and dealers to record and monitor these services in exchange for trailing commissions.

Service and service standards are important to us at SLF Investments and we monitor the services provided by SLF Investments and its advisors on a regular basis. Certain services to clients are already mandated by securities commissions and self-regulatory organizations. There are already obligations on both mutual fund dealers and advisors around service standards which would include

compliance obligations (i.e. know-your-client and suitability), reporting obligations to clients, complaint handling, etc.

It is unclear to us what services the CSA would expect to see provided by advisors in exchange for trailing commissions. We would note that attempting to track any such services provided by an advisor in an exchange for trailing commissions and monitoring the daily activities of an advisor would be extremely complex from a compliance, audit, and compensation distribution perspective. The processes and systems that would need to be put in place to monitor such a requirement would be intricate and costly. Resourcing and staffing would also have to increase in the audit, compensation distribution, operations, and compliance departments. All of these costs would be borne by a mutual fund dealer and then likely passed to the client as a result of the increased costs to the mutual fund dealer. Given the potential costs involved, it is arguable that client benefit from such a proposed alternative would be limited.

We also note that ongoing services to clients are part of a competitive practice for dealers and advisors. We would argue that the less service to a client, the less likely the client will stay with an advisor or dealer. We do not necessarily believe it is appropriate for the CSA (aside from the currently regulated compliance and reporting requirements) to become involved in mandating the amount or type of services that need to be provided in a competitive market.

Topic (iv) - A separate class/series for each purchase option (i.e. front-end sales charge, DSC, low-load, no-load)

We would suggest that mandating fund companies to create a separate series or class of funds for each purchase option would create significant administrative burdens. This proposed compensation alternative would, for example, significantly increase the number of Fund Facts to be produced by fund companies and distributed by advisors to clients. Having a different Fund Facts for each purchase option would likely unnecessarily complicate the advisor-client relationship when explaining and comparing the different purchase options with clients.

Given the increased production of Fund Facts and administrative work that would be involved in this option at the fund company level, we would also suggest that implementing this proposed alternative would not necessarily mean cheaper fees to a client. There may be a higher cost to enter into an investment if such a requirement were introduced.

Topic (v) - Capping commissions

As noted in part (A) of this letter, advisors and dealers have ongoing costs and obligations to support clients which would continue once any cap is reached. We believe that most dealers and advisors provide excellent service to their clients and we believe in the value of advice. Ongoing trailing commissions support advisors in providing excellent service and advice. A cap on commission payable on an account would undermine this support. It is our belief that market forces are sufficient to ensure that costs are kept at a competitive level and that no cap on commissions is needed or desirable.

Topic (viii) - Discontinue the practice of advisor compensation being set by fund manufacturers.

In response to the CSA's suggestion to discontinue the practice of advisor compensation being set by fund manufacturers, we would first like to note that it is not the mutual fund manufacturer that sets the compensation of an advisor. The fund company pays the mutual fund dealer a trailing

commission that is used by the dealer to pay for its regulatory, supervisory, operational, and contractual obligations, including the compensation of advisors.

In our opinion, eliminating embedded commissions would not be beneficial to the average or smaller investor. As suggested by the research identified in IFIC's submission and elsewhere, it appears that smaller investors in the fee-for-advice models in the U.K., Australia, and the U.S.A. are potentially losing access to advisor services because they can't or won't pay advisors directly for advice. We believe that if embedded commissions are eliminated, it is possible that some investors may choose not to invest with advice or at all due to the added complexities of paying for advice on mutual fund investments. It is also unclear that eliminating embedded commissions would result in lower fees to the investor.

Given that such an alternative would increase the complexity of the investor-advisor relationship, such a proposal may also have the effect of limiting a dealer's ability to recruit advisors. New advisors may believe that it would be too difficult to earn an income or be paid sufficiently for the services they would provide to investors. Fewer advisors in the industry may limit the availability of advice to investors seeking such advice, especially middle market Canadians and smaller investors. We would highlight that implementing this proposed alternative may result in public policy concerns on the availability of advice to clients who are not in a position to make informed investment decisions without the guidance of an advisor.

We also note that eliminating embedded commissions would require a complete overhaul of the processes and systems used by mutual fund dealers and fund companies. Established processes, such as training, payment of commission, advisor agreements, etc. would have to change significantly. This would result in increased costs to the fund manufacturing company and mutual fund dealer which would ultimately affect or be passed to the client.

We are not aware of any significant issues in Canada to create a need to eliminate embedded commissions. Given the potential implications and significant change to industry practice that banning embedded commissions would produce, we recommend that the CSA wait and seek to understand the full effects to the industry and the investor from the ban on commissions in the U.K. and Australia before implementing or proposing to implement such a significant regulatory change in Canada. We would also suggest that examining the effects of the evolution of a similar model in the U.S.A. would be beneficial.

In conclusion, we reiterate that SLF Investments is dedicated to providing excellent service to its clients. Existing compensation structures help to ensure that clients are provided with excellent service by giving advisors a stake in the quality of service they provide. SLF Investments supports reasonable regulatory initiatives intending to address investor protection concerns which would have the effect of making clients more informed and aware regarding their investments. However, we believe that the proposed compensation alternatives will have a negative impact on client service and the cost of mutual fund investing. Also, in our view, there is a significant risk that these proposals will have an adverse effect on access to financial advice, especially for mid-market Canadians and other clients with smaller accounts. In our view, the claimed benefits of the proposed amendments (e.g. reducing conflict of interest) are more theoretical than real. Concerns about conflicts of interest and suitability issues can be fully addressed through the robust regulatory regime that already exists to govern the advice that dealers and advisors provide to clients.

Other jurisdictions that have proposed or adopted initiatives similar to those in the Discussion Paper have done so in response to specific industry problems or issues in those jurisdictions. No such conditions exist in the Canadian context. We urge the CSA to wait and examine the effects of changes occurring internationally before pursuing any similar regulatory initiatives in Canada.

We also highlight that the CSA has recently introduced new rules on the Client Relationship Model (the "**CRM**") with amendments to National Instrument 31-103. We understand that these changes have been introduced to address relationship disclosure and conflict of interest concerns of the CSA and to enhance investor protection. As the CRM will be implemented over a period of three (3) years, it will take time for the industry to understand and appreciate any value presented by these amendments. Full implementation of the CRM may help alleviate some of the concerns of the CSA which led to the Discussion Paper. Mutual fund dealers will be investing significant time and resources to ensure compliance with these new requirements. Given the time and resources that will need to be dedicated to the new CRM rules and the potential improvements in client awareness on the costs of owning mutual funds, we ask that the CSA wait to understand the effects of these new rules before embarking on any further suggestions or plans to change the current compensation model for mutual funds in Canada.

We again note that the issues identified by the CSA in the Discussion Paper are of importance to SLF Investments and we appreciate the opportunity to provide comments. We hope that our comments are helpful to you and we would be interested in having SLF Investments representatives participate in any roundtable discussions or focus groups going forward.

Yours truly,

Sun Life Financial Investment Services (Canada) Inc.

Vicken Kazazian, Chairman