

April 12, 2013

VIA EMAIL

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, Ontario 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: Canadian Securities Administrators Discussion Paper and Request for
Comment 81-407 – Mutual Fund Fees**

Thank you for the opportunity to provide comments on the Canadian Securities Administrators (“CSA”) Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees* (the “Paper”).

General Comments

Before providing feedback on some of the specific issues raised in the Paper, we would like to provide context for some of our comments by setting out some of our higher level concerns.

The industry is working well. We are of the view that the current mutual fund fee structure is working well. The Canadian mutual fund industry is large, successful, and operating efficiently. It provides Canadians with useful products that deliver results. Moreover, in our view, Canadians enjoy working with financial advisors, and many advisors favour mutual funds. The economy in Canada has a different

scale and structure than other jurisdictions and requires a made-in-Canada solution tailored to our particular market. We are hesitant to force radical changes onto a model that is functioning well.

Level Playing Field. Mutual funds are only one vehicle in a wide range of investment products, many of which can be substituted for one another. In this light, we strongly support the CSA's goal to achieve a more consistent, fair and functional regulatory regime across the investment product spectrum. We urge the CSA to consider the issues raised in the Paper in connection with all investment products, not just mutual funds, as many of the issues raise similar investor protection and fairness issues for investors in other products as well, and it's important that any new regulations do not unfairly prejudice mutual funds.

Financial Literacy and Investor Preferences. We believe that most Canadian investors do not have the financial literacy they should. The concerns raised in the Paper are a natural consequence of the fact that mutual funds are designed for people who do not want to manage their own financial affairs. We do not believe it is fair to single out mutual funds to bear an inordinate share of the burden caused by the lack of financial literacy. Mutual funds are, by their nature, a vehicle to delegate investment management responsibilities. Often, the kinds of investors who prefer mutual funds are also inclined to delegate to others the rest of their financial management responsibilities, including an analysis of appropriate fee levels and structures. Thus, in many cases, they hire an advisor to tell them what to do. This is their freely chosen course of action, based on their own personal preferences. Although it might be better if these people were informed consumers making sophisticated choices in this important arena, we believe regulators should be very hesitant to second-guess how any individual investor chooses to manage his or her personal affairs. Unfortunately, one cannot mandate financial literacy, investor engagement, or critical analysis, and we do not believe those goals can be achieved by forcing changes to mutual fund compensation structures. We would also caution that there could be unanticipated consequences flowing from changes to mutual funds that (a) will not address the real issue, and (b) may make things worse in unintended ways.

Public Policy Issues. As a matter of public policy, society allows people to make uninformed decisions in a wide range of circumstances, some of which are much more significant than incurring an unduly heavy load in mutual fund fees and yet there is minimal regulation in these other areas. For example, housing is many people's most significant purchase, yet the structure of real estate commissions is largely unregulated and not well understood. There is an attempt to provide disclosure, but particular fee structures are neither mandated nor prohibited. Similarly, although Canadians spend significant amounts of money on travel and vacations, very few consumers understand how travel agents are paid. In fact, travelers frequently do not even understand when they are dealing with a professional travel agent, whose compensation is often opaque and embedded in the cost of the trip. Clearly, from a public policy perspective, it would be better if people were always well-educated, had clear disclosure, understood the issues, and made informed, rational choices about items that matter to them, whether it is where to live, how to best enjoy a vacation, or what investments to select. But society does not generally seek to regulate fee structures in commercial markets. We do not believe that mutual funds are so different and so much more important, that they need additional regulation beyond what exists today. Mutual funds are already subject to significant, and increasingly demanding, requirements for fee disclosure, strict regulation of conflict of interest matters, and stricter compliance and regulatory reviews than most other industries. We question whether public policy considerations support the kinds of changes that appear to be under consideration in the Paper.

Comments on Specific Options

1. Advisor services to be specified and provided in exchange for trailing commissions

We do not believe this option is practicable. Although we acknowledge that mutual fund managers could more clearly define and disclose the purpose of trailing commissions and a minimum level of ongoing services that advisors provide to investors in exchange for trailing commissions, we do not believe mutual fund managers have the ability to effectively monitor ongoing services provided by advisors to their clients. We are of the view that advisors' servicing of their clients should continue to be monitored by dealer firms. In our submission, it would be impracticable and unduly onerous to force mutual fund managers to oversee advisor servicing activities, resulting in a significant administrative burden for the industry which would raise distribution costs, without any commensurate benefit to investors.

We also believe this option may be unnecessary, since significant improvements have already been made in disclosure and the alignment of services and fees in recent years with the recently developed rules for Point of Sale disclosure documents and the Client Relationship Model.

Finally, we believe this option raises "level playing field" issues if it were applied only to mutual funds. If this requirement were not applied to other investment products, investors may be advised to simply purchase other investment products, which would have an unfairly negative impact on the mutual fund industry. We acknowledge that the CSA recognizes that there are other investment fund products whose fee structure may raise similar investor protection and fairness issues and we urge the CSA to consider each of these proposals in respect of all similar investment products.

2. A standard class for DIY investors with no or reduced trailing commission

We believe this option needs to be approached with caution. We are not opposed to having a low-cost execution-only series or class of securities available for direct purchase by investors that would involve lower management fees, with nominal trailing commissions paid to advisors. We are, however, opposed to mandating the creation of a separate series for this channel, because it would be costly and uneconomic for most companies. Trailing commissions pay not only for advice, but also for a wide array of dealer services and functions. At discount brokers, trailing commissions help support dealer services such as the provision and upkeep of online tools, economic and market research, technology infrastructure and a wider product choice than is generally available at full service brokers. We also note that most mutual fund managers currently have a series that could be used for purchase by investors that offer a lower management fee and trailing commission, making it unnecessary to mandate a new and separate class for these purposes.

3. Trailing commission component of management fees to be unbundled and charged/disclosed as a separate asset-based fee

We believe this option requires careful analysis. We are of the view that it may be more confusing for investors, from a disclosure perspective, to unbundle management fees and trailing commissions as there could be multiple costs disclosed in such a way that investors may not appreciate all of the costs shown. We do currently have certain series, such as Series I securities, that have unbundled fees but they are tailored for institutional or sophisticated investors. We would also caution that having trailing commission paid directly by mutual funds to dealers as result of unbundling could have adverse tax consequences, under current tax laws, to the funds and their investors by forcing such payments to be deducted over a longer period of time, rather than in the year of payment.

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

We do not believe the benefits of this option justify the costs associated with it. Although we acknowledge the advantage of creating a separate series or class of mutual funds for each purchase option in that it would reflect the applicable distribution costs of each series, it would be extremely costly to do so, and would entail a significant administrative burden to divide assets into a separate series or class of securities for each available purchase option likely increasing costs to investors. In addition, it would appear that this option could potentially quadruple the number of Fund Facts documents that would need to be prepared, with significant incremental costs for very little benefit.

5. Cap Commissions

We do not support a cap on commissions. The level of trailing commissions has always been driven by market competition and should continue to be driven by competition. Imposing a cap could induce some advisors to reduce the level of service that they provide to clients and/or to restrict the range of clients that advisors choose to serve at all. As a result, many Canadian investors, who could benefit from the services of an investment advisor, may be denied some or all of the benefits of a good advisor relationship. Moreover, this option clearly raises “level playing field” concerns, since a cap on commissions could obviously render mutual funds less competitive than other investment products.

We are opposed to any regulatory action that would directly interfere in the choice of firms, investors and advisors as to the appropriate level of compensation for advisor and dealer services. Capping commissions is a form of arbitrary price control for which we do not believe there is a sound regulatory justification and it does not reflect the appropriate role of a regulator in a competitive marketplace.

6. Implement additional standards or duties for advisors

We have no comments on this topic, which is better addressed in the context of CSA Consultation Paper 33- 403: The Standard of Conduct for Advisers and Dealers.

7. Discontinue the practice of advisor compensation being set by mutual fund manufacturers

Many investors are already able to determine the compensation paid to their advisors through the use of fee-based accounts. The majority of fund companies currently offer a series specifically designed for use in fee-based accounts (e.g. Series F and/or Series I) whereby the management fee and trailing commission are unbundled, charged directly to the client’s account, and fully transparent. In those situations, advisors should discuss with their clients how they will be paid for the sales and ongoing services and subsequently choose the right series to meet those needs. We do not believe, however, that a fee-for-service model is always better for every client.

In many cases, we do not believe investors have sufficient financial literacy to have a meaningful discussion with their advisors about how the advisor will be paid for the sale and ongoing service of mutual fund investments. Further, we believe the mutual fund manager is the most appropriate entity to determine the appropriate level of advisor compensation since the mutual fund manager is most knowledgeable about the products being sold and the advice that is needed for each particular product. We do not support this option.

We appreciate the opportunity to contribute to this important discussion. If you have any questions or concerns regarding our comments, please contact us at (905) 331-9900 ext. 284305 (Jennifer Mercanti) or (519) 594-8774 x 248774 (Paul Lorentz).

Sincerely,

A handwritten signature in black ink that reads "Paul Lorentz". The signature is written in a cursive style with a large, prominent 'L'.

Paul Lorentz
Executive Vice President, Retail

A handwritten signature in blue ink that reads "Jennifer Mercanti". The signature is written in a cursive style with a large, prominent 'J'.

Jennifer Mercanti
Assistant Vice President and Chief Counsel, Manulife Investments