Vanguard®

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Delivered by Email

The Secretary
Ontario Securities Commission
20 Queen Street West
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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

Re: CSA Discussion Paper and Request for Comment 81 − 407 *Mutual Fund Fees* (the "Consultation Paper")

Dear Canadian Securities Administrators:

Vanguard Investments Canada Inc. ("Vanguard") applauds the Canadian Securities Administrators ("CSA") for choosing to highlight management fees, trailing commissions, and other expenses in its discussion paper on mutual fund fees, and we appreciate the opportunity to provide comments. Vanguard is a wholly-owned subsidiary of The Vanguard Group Inc. ("VGI") which is based in the U.S. and manages approximately US$2 trillion in assets, including about US$270 billion in exchange-traded funds ("ETFs"). VGI has a well earned reputation as a trusted partner of investors, financial advisors, and institutions in the United States, Europe/United Kingdom, Asia, Australia, and Canada. VGI is owned by the U.S. domiciled Vanguard mutual funds, which in turn are owned by the investors in these funds. This aligns VGI's interests squarely with those of its funds' shareholders. VGI manages its funds at cost, which keeps expenses low and maximizes investor returns. Vanguard and our clients benefit from this unique structure. We entered the Canadian market in December 2011, listing six ETFs on the Toronto Stock Exchange ("TSX"). In November 2012, we added five more ETFs to our line-up. Currently Vanguard Canada's ETFs have over $800 million in assets.

Executive Summary

We believe that mutual funds and ETFs are two sides of the same coin. Vanguard does not pay for distribution of Vanguard's Canadian ETFs. Accordingly, we would not be directly impacted by any additional disclosure requirements regarding fees, and in particular, trailing commissions. At Vanguard, we firmly believe in the value of advice that financial advisors provide their clients. In particular, we are supporters of the fee-based model for advisors, as this model provides investors full transparency in terms of fees. The value a skilled advisor provides his or her client is through the development of a carefully planned investment policy, including the right asset mix based on investor's individual goals, risk tolerance, and time horizon, as well as disciplined rebalancing and behavioural guidance, while minimizing taxes and investment costs.

Our business has been built on diversification, discipline, the benefits of low-cost investing, and working with our partners to give them and their clients the best chance for investment success. At Vanguard, we support disclosure that benefits investors and their advisors. Vanguard is pleased to provide our response to the CSA's paper and in particular, our feedback on the Topics for Consideration.

Topics for Consideration

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

We agree there needs to be alignment between the services provided and trailing commissions. We believe this can be achieved through additional disclosure.

As with any profession, advisors should be paid a fair price for the services that they provide. That fee should be transparent and the service expectations understood. An advisor, like any other professional, should disclose to clients the details of the fee and what services are provided for that fee.

As an investment provider, we have the same responsibility to disclose in plain terms the cost of our ETFs to our clients and what is included in our management expense ratio ("MER").

ii. A standard class for DIY investors with no or reduced trailing commissions

This type of standard class is essentially F-class, which already exists. F-class shares are currently available only to fee-based accounts and have a lower management fee due to the fact that they pay no trailer fee. D-class shares are available through certain discount brokerages and have a reduced trailer fee. The DIY investor however, does not currently have access to a share class without a trailer fee. Having F-class or a similar class of shares available to investors would be beneficial as it would provide access to a lower-cost alternative for the DIY investor.

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

Transparency of fees paid by investors is important. This issue has previously been recognized by the CSA and is currently being addressed through various regulatory initiatives, including the new "client relationship model" rules ("CRM") and new point of sale disclosure requirements. Until these initiatives are in place, any further proposals concerning the transparency of fees cannot be adequately evaluated. We would, however, support an accelerated pace of implementation. In addition, investor education is needed to help investors know where to look for relevant disclosure and have the ability to understand the negative impact of high fees on their long term net returns.

Vanguard supports fee transparency that enables investors to better understand their investment options and is practical and actionable in terms of making sound investment decisions. Vanguard does not charge trailing commissions, and we do not anticipate any significant changes to our funds should such disclosure be required.

In many ways, such disclosure reflects existing trends in the financial advisor market— cost compression (at least with respect to ETFs) and the growing shift to fee-based advisory approaches. We believe greater disclosure could accelerate these trends and bring greater cost competition in the marketplace.

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

Vanguard is in agreement with this proposal, and the elimination of any cross-subsidization of commission costs. As noted in the CSA's paper, U.S. investment companies are already required to offer a separate class of securities for each purchase option in order to avoid cross-subsidization between various load-type investors. We believe this gives investors greater flexibility and choice.

v. Cap commissions

We believe a potentially better way to protect investors is to require greater disclosure of commissions. While a cap may appear to be beneficial to investors, an investor may still end up paying a relatively high price. Only by making fees transparent and easy to understand can investors make an informed decision. The unbundling of fees provides investors with transparency and the opportunity for advisors to highlight their value proposition.

As stated in (iii) above, we commend the efforts already taken by the regulators to provide enhanced disclosure to investors. However, as previously stated, evaluating the impact of this approach to transparency will not be possible until the aforementioned regulatory initiatives have been fully implemented. We are in favour of rapid implementation of such regulatory initiatives.

vi. Implement additional standards or duties for advisors

The discussion concerning the standard of duty for advisors has previously been raised by the CSA in the CSA Consultation Paper 33-403: *The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients* (the "Fiduciary Duty Paper"). As a member of the CETFA, Vanguard's comments on the Fiduciary Duty Paper are reflected in the response letter dated February 22, 2013 sent to the CSA on behalf of the CETFA. Please refer to this letter for Vanguard's position on the implementation of additional standards or duties for advisors.

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

We believe that advisors and mutual fund manufacturers generally seek to act in the best interests of Canadian investors and that they both take their responsibility to their clients seriously.

However, we believe that regulators should provide an acceptable method for assessing and paying the costs associated with fund distribution. We support disclosure of the fact that a fund pays a third party intermediary for distribution.

Overall, greater competition in terms of pricing options and availability will benefit all investors. Beyond greater transparency of fees and lower cost share classes, all investment products including ETFs, should be available to investors through all channels including advisors, planners and discount brokerages. We would recommend that CSA consider other options to allow investors greater access to low cost investments, such as: (1) a restricted form of registration for MFDA representatives to trade in ETFs and (2) cross listing of ETFs from jurisdictions such as the United States to allow Canadians to better take advantage of the size, scale and low cost benefits of listed ETFs.

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We commend the CSA for addressing the issue of mutual fund fees and we appreciate the opportunity to comment on the proposals. We would welcome the chance to further discuss our comments with you at the roundtable scheduled for June 7, 2013.

Sincerely,

"*Atul Tiwari*"

Atul Tiwari
Managing Director
Vanguard Investments Canada Inc.

cc: 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