Murray J. Taylor
President and Chief Executive Officer

September 22, 2011

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
Superintendent 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

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, ON M5H 3S8
Fax: 416-593-2318
E-mail: jstevenson@osc.gov.on.ca

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
E-mail: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

RE: Proposed Amendments to National Instrument 31-103 *Registration Rules and Exemptions*- Performance Reporting and Cost Disclosure

We are writing in respect of the request for comments issued by the Canadian Securities Administrators (CSA) on the proposed amendments (Amendments) to National Instrument 31-103 *Registration Rules and Exemptions* (NI 31-103) regarding performance reporting and cost disclosure. Investors Group, which is a wholly owned subsidiary of IGM Financial Inc., is a diversified financial services company and one of Canada's largest managers and distributors of

mutual funds. We are greatly interested in this rule since its subsidiaries include members of the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

A. General Comments

While we support a number of the specific proposals the CSA has made, this is overshadowed by several overarching concerns we have that go to the heart of this initiative. We would summarize these as follows:

1. The Proposal Unwisely Usurps the Role of Self Regulatory Institutions

Self regulatory organizations (SROs), such as IIROC and the MFDA, play a crucial role in the Canadian securities regulatory model. That structure delegates most oversight of securities dealers to the SROs, including rule development for the industries they supervise. SROs, because of their day to day contact with the industry and the detailed and comprehensive knowledge they have developed as a result, are in the best position to fulfill this role. In the model that has evolved, the CSA's role is primarily to oversee the SROs through several key mechanisms including, among others: approval of proposed SRO rules, periodic audits of the SROs and regular reporting from the SROs. Over time, this SRO model has proven itself to be effective and responsive to both the needs of the public and the efficient operation of member firms.

The proposed Amendments seem to completely disregard the SROs and undermine the extensive work already done by them. This is ill advised. In particular:

- the MFDA has new rules (5.3.5) coming into force in June, 2012 dealing with account performance reporting, changes that were implemented after extensive consultation with the industry and the public and approved by the CSA.

- IIROC published proposed rule changes on January 7, 2011 to implement the core principles of the client relationship model, including performance reporting, cost disclosure and rates of return, which have received extensive comment by the industry and others.

The proposed Amendments raise concern as they are either inconsistent with or modify these SRO rules in a number of respects. **Accordingly, the CSA should either abandon the proposed Amendment or ensure that it is completely consistent with the SRO requirements.**

The proposed Amendments would create significant problems for clients, who will experience two significant account statement changes over a relatively short period of time. For the industry, we should only have to address new performance measurement and cost disclosure rules once. Compliance with these requirements has large information systems development costs and significant effects on business processes. Forcing the industry to do this twice, with the disruptions and inefficiencies that will inevitably result, makes no sense..

2. Proposed Disclosure Needlessly Duplicates Information in the Fund Facts and Other Documents

There is significant overlap between the proposed Amendments and the Fund Facts disclosure requirements regarding costs and compensation introduced with the Point of Sale (POS) initiative that has recently come into force as well as with other existing documents, such as the Management Report on Fund Performance (MRSPs). In addition, this is also a key element of the relationship disclosure document (RDD) requirements adopted by the MFDA, which come into force later this month (which greatly expand the information that clients will receive as to the costs they will pay and compensation their dealers receive in respect of their accounts). We strongly believe that disclosure relating to investment funds is being comprehensively addressed through the MRFP process, the POS initiative and the RDD requirements and attempting to do so through changes to NI 31-103 is both redundant and potentially confusing to investors.

3. Proposed Cost and Compensation Disclosure Treats Similar Capital Market Participants and Products Differently and Unfairly

A key focus of the proposed Amendments is on compensation paid to dealers and its advisors. But embedded in the proposal is a fatal flaw. It would only cover payments made to certain kinds of participants. By doing so, the required disclosure would necessarily be misleading, since it would suggest to investors that compensation is not paid in situations where it in fact is. Inevitably the public would compare the two distribution channels and conclude – wrongly – that certain advisers were receiving compensation when others were not. This is inherently unfair and is an untenable regulatory result.

The new emphasis in this proposal on aggregating charges and disclosing fees such as trailer fees may cause investors to double count charges that have already been charged to their investments and are disclosed elsewhere. This may cause investors to believe their mutual fund investments are being overcharged relative to other products, and lead them away from suitable mutual fund investments to less suitable and less transparent investment options in the banking and insurance sectors where such detailed disclosure is not required.

This concern can be illustrated when, for example, an adviser at an independent MFDA or IIROC member is compared to an individual at a dealer located in a branch of a financial institution. With the former, the proposals would require that the dollar amount of the trailer fees paid that are attributable to the account be disclosed to clients. However, for an adviser at a bank branch, who traditionally are paid on the basis of a salary and a bonus based on factors that would include incentives to sell mutual funds, no such disclosure would be required. Since the reason this information is believed to be relevant is to ensure that clients are aware of all of the incentives advisers have to recommend products to them, requiring it in one case and not the other will mislead clients as it will understate the compensation that the adviser located within a financial institutions is entitled to.

There are many other financial products in Canada where the distribution costs are part of the product structure, such as the spread on GIC products offered by banks and trust companies or

within life insurance products offered by the insurance industry, all of which compete in different ways for the investment dollars of Canadians. A client who purchases a mutual fund receives detailed information not only on what that fund has returned, but also (in the Prospectus, Fund Facts and Management Report on Fund Performance) on many of the costs relating to that investment, including management expenses. However that same client who purchases a competing product, such as a Guaranteed Investment Certificate (GIC), through the same dealer and adviser receives no such disclosure. Embedded in a deposit instrument like a GIC is a spread earned by the financial institution, which may often fund different forms of advisor or distribution compensation, but this would not be disclosed to the client in any way. As a result, the client is left with a misleading impression, that mutual funds have costs associated with them where a GIC (or an insurance product) does not. Because of this, partial disclosure results in a misleading situation.

As noted, cost and compensation disclosure for investment funds is already robust, particularly with the recent adoption of the Fund Facts document as part of the MRFP process, the POS initiative and the new RDD requirements.

4. Percentage Return Reporting Should be Optional and not Mandatory

The proposed Amendments would mandate the reporting of percentage returns to clients. In this regard, they differ from the MFDA approach. Although the draft MFDA rule originally required this as well, the direction was ultimately changed and percentage return reporting was made optional. The MFDA reached this conclusion after an extensive comment process, which led it to conclude that what clients really wanted was clear information as to whether their accounts made money. Its rules go on to state that members may choose to provide percentage return disclosure, but do not have to. If they do, the reporting must meet certain requirements to ensure that the information provided is valid.

In our view the MFDA rules, which have been approved by the CSA, are the appropriate standard and should be the approach applicable to all SRO and non-SRO registrants.

5. Use of Benchmarks Should not be Mandated

If percentage return information is ultimately mandated – and as noted above our view is that the MFDA approach makes more sense – it should not require the use of benchmarks. While the current proposal would not obligate firms to include these in their reporting, it would require them to enter into a written agreement with each client regarding the benchmarks shown on their statements. This approach is impractical and will fail to achieve the regulatory result it seeks. Instead it should be up to the firm to determine if they will offer to provide benchmark disclosure.

The biggest difficulty with benchmarks is in trying to provide one that is not misleading. Simply put, a client's individual portfolio is inevitable going to be different (usually substantially so) from a particular benchmark. Implicitly a benchmark is being provided as a basis for assessing the performance of the client's account, when the two are likely not comparable at all (the proverbial apples and oranges). In fact, it is arguable that each client account should have its

own benchmark, which is determined based on the planned asset mix in the account. By that we mean that if any disclosure is to be required, it should be a periodic assessment of the performance of the portfolio against the financial plan the clients have agreed to with their advisers, which ultimately is the only meaningful comparison that can be provided.

6. Proposal Does Not Include a Meaningful Cost/Benefit Analysis

One of the key underpinnings of the rule making process in Canada and elsewhere is the inclusion of a cost/benefit analysis as part of any proposed regulatory instrument. The reason for this is clear. Weighing the potential benefits against the anticipated costs of any new requirement is a crucial part of the process of determining whether the rule should go ahead. It is clear that the proposed Amendments would involve huge costs, both in terms of money and effort, on the part of the securities industry to implement. However the request for comments does not attempt to quantify these and assess them against the anticipated benefits. Instead the proposal includes a simple statement that "benefits are expected to exceed costs" without providing any support for this conclusion. Given the scope of this initiative, a meaningful cost/benefit analysis must be a crucial part of the process.

B. How Performance Reporting and Cost Disclosure Issue Should be Addressed

Based on our comments above, the following summarizes how these issues can be best addressed, in an efficient and cost effective manner:

- an incremental approach to the issue should be adopted. The focus should be on the enhanced disclosure that would be both meaningful to clients and can be provided within a fairly short period. In this way, the proposal should follow the approach taken in respect of the Point of Sale initiative, where the requirement to prepare Fund Facts was separated from the consideration of the delivery issue, to enable these documents to be available to clients as soon as possible.

- the requirements should treat different distribution channels and products fairly and consistently and be careful not to mislead clients through selective rules on cost disclosure.

- the key objective of performance reporting should be on providing clients with the information necessary to determine whether their account made money. As we noted above, this is the focus of the pending MFDA rule change.

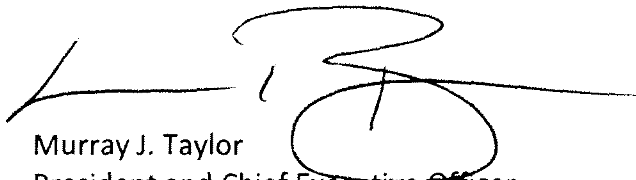
- firms should not be required to provide percentage return reporting to clients. Instead, this should be optional. if firms do choose to provide it, the method should be a generally accepted one and it should be disclosed to clients.

- the use of benchmarks should be discouraged. Instead, reporting should be provided to clients as to how the performance of their account compares to their financial plan.

We appreciate having this opportunity to share our views regarding the proposed Rules and Guidelines and would be pleased to discuss any of these concerns with you at your convenience. If you would like to do so, please either contact myself or David Cheop at (204)956-8444 or david.cheop@investorsgroup.com.

Yours truly,

INVESTORS GROUP INC.



Murray J. Taylor
President and Chief Executive Officer

cc: Mutual Fund Dealers Association of Canada
Investment Industry Regulatory Organization of Canada