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Attention:

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September 14th, 2012

Dear Sirs and Mesdames:

RE: Canadian Securities Administrators Notice and Request for Comments on Proposed Amendments to NI 31-103 regarding Cost Disclosure, Performance Reporting and Client Statements (the 2012 Proposal)

The Investment Industry Association of Canada (IIAC or the Association) appreciates the opportunity to comment on behalf of our membership to respond to the request for comments issued on June 14th, 2012 by the Canadian Securities Administrators (CSA) on the 2012 Proposal to implement cost disclosure, performance reporting and client statement requirements.

The IIAC submitted extensive comments on the CSA's previous proposal regarding cost disclosure and performance reporting requirements in National Instrument 31-103 by letter dated September 20th, 2011 (the 2011 Submission). We are pleased that a number of our comments were incorporated in the 2012 Proposal; however, we continue to have concerns with certain proposed amendments contained in the 2012 Proposal, which are expressed below.

This submission is organized into the following parts:

Part 1 – Overview
Part 2 – Responses to Questions posed by the CSA
Part 3 – Additional Comments on the 2012 Proposal
Part 4 – Conclusion

Part 1 – Overview

As the IIAC previously stated in our 2011 Submission, the Association fully supports the objective of providing clients with meaningful information regarding the performance of, and costs associated with, their accounts. However, there are aspects of the 2012 Proposal that will detract from these goals. Certain disclosure requirements of the 2012 Proposal mandate disclosure in respect of non-material costs, but involve complex calculations that are not easily understandable by clients. This complexity will decrease the meaningfulness of the performance reports and client statements to the retail clients. Moreover, the disclosures discussed below, do not provide significant value to the client and may ultimately result in increased costs for the client, as these disclosures will require extensive and costly systems changes and a longer implementation period. There is a balance that can be achieved that allows clients to receive core information and enhanced disclosure while being mindful of the cost, operational impact and the client experience resulting from making the proposed changes.

The IIAC applauds the CSA for making harmonization with the self-regulatory organizations (SROs) a priority of this initiative. Harmonization will result in a better client experience and in further efficiencies for both the regulators and industry. The IIAC is hopeful that the CSA and SROs will be successful in their harmonization endeavours. In addition, the IIAC continues to recommend that the SROs should be exempted from the 2012 Proposal, as the SROs are in the best position to regulate their own members.

The 2012 Proposal is designed primarily to enhance retail investor protections and the IIAC supports the CSA's focus on retail investors. The modification to the permitted client exception for institutional clients removes an unnecessary compliance burden on firms without compromising the goals of the 2012 Proposal.

The CSA made additional positive changes to the 2012 Proposal that will increase efficiencies in compliance, such as allowing clients to consent to consolidated performance reports for multiple accounts, which can allow the client to have a more complete view of their investments' performance.

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Part 2 – Response to Questions posed by the CSA

Set out below are our answers to the questions posed by the CSA in the 2012 Proposal. We have included the CSA's issue for comment in bold. Our response follows.

Disclosure of fixed-income commissions

In the interest of making fixed-income transactions more transparent, we invite comments on whether it is feasible and appropriate to mandate the disclosure of the compensation and/or income earned by registered firms from fixed-income transactions. This would include disclosure of commissions earned by dealing representatives as well as profits earned by dealers on the desk spread and through any other means.

The IIAC believes that Investment Industry Regulatory Organization of Canada's (IIROC) recently enacted Rule 3300, Fair Pricing of Over-the-Counter Securities (Rule 3300) as well as the amendments to IIROC Rule 200.1(h) regarding trade confirmation requirements relating to fixed-income yield disclosure and the over-the-counter traded security remuneration disclosure statement to retails clients, fulfill the CSA's objective of providing clients with increased transparency regarding remuneration for fixed-income transactions. IIROC's regulatory regime ensures that the client receives a fair price on fixed-income instruments, requires disclosure of yield and embedded features of the security and provides transparency regarding remuneration received by the dealer. Dealers have an obligation to provide fair pricing, and by disclosing yield, clients are better able to compare and confirm prices to make an informed decision on whether they paid or received a fair amount.

In June 2010, IIROC considered requiring disclosure of a dollar amount for fixed-income compensation similar to the provisions in the 2012 Proposal, however, after carefully considering comments received, acknowledged the challenges in determining the actual dollar amount of remuneration received by a dealer with respect to fixed-income transactions and that providing clients with inaccurate information would not be in the clients' best interests. IIROC's proposal was revised to the disclosure regime described above.

The IIAC urges the CSA to adopt IIROC's approach to fixed-income market transparency as embodied in IIROC Rule 3300 and amendments to IIROC Rule 200.1(h). If, however, the CSA should view IIROC's approach as being insufficient and further disclosure of compensation earned for fixed-income securities transactions is to be mandated by the CSA, then the appropriate disclosure should be the gross commission paid by the retail client to the dealer. This disclosure reflects the commission earned by the retail dealer from the fixed-income transaction, which includes the amount paid to the dealer representative and excludes the mark-up/mark-down at the wholesale level. This disclosure would be comparable to the disclosure required for equity transactions. Requiring any further break-down of the compensation the dealer receives (e.g. how dealers allocate expenses internally to the dealer representatives) does not add value to the client's understanding of their investments and will likely inject confusion into the disclosure statement.

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Requiring disclosure of mark-ups or mark-downs is fraught with difficulties in establishing a meaningful comparison value for the client. For fixed-income securities traded in the secondary markets, it is not possible to establish an actual or inferred wholesale market price that can be applied on a consistent basis across all investments dealers. The federal government tried and failed to allocate spreads among intermediaries when the Goods and Services Tax was introduced, which highlights the difficulties of providing this type of disclosure. The cost of the position in the dealer's inventory will vary by dealer. Dealers that have their own wholesale trading desk would include its full mark-up/mark-down, while a dealer that sources its securities would only be including the mark-up/mark-down on the securities purchased and that may not reflect a mark-up/mark-down from the source. These challenges may make it appear that one firm marked up a security more than another, when in fact the fairness and price of the security to the client is equivalent. As such, comparing mark-ups or mark-downs across dealers will mislead clients and is a potentially problematic exercise. Importantly, these cost allocations and internal structures do not impact the performance of the security or the fairness of the price of the security.

As a result of the complexities in determining and allocating costs (overhead, human resource costs etc.), as well as the long length of time some securities are held in inventory, it would be extremely difficult for firms to disclose profits or losses for fixed-income transactions. Such information should, therefore, not be required to be disclosed.

Regarding disclosure of remuneration for primary market issuances of fixed-income instruments, the compensation structure in this market place differs from that of the secondary market. In the "New Issues" market, the issuer typically pays the dealer an amount for services rendered, rather than the client being charged a commission. The IIAC requests that the CSA exempt fixed-income securities purchased in the primary market from any remuneration disclosure. This would be consistent with the approach accepted by IIROC in formulating their Rule 3300.

The IIAC requests that a definition of fixed-income security be provided in the final rules. We recommend that the definition of fixed-income security be drafted consistent with the IIROC definition of fixed-income instruments. For example, it should be clarified that products such as Guaranteed Investment Certificates (GICs) do not fall under the CSA rules.

If the CSA does mandate disclosure in excess of the current IIROC enhanced fixed-income disclosure regime, then the industry will require a three year implementation period following rule finalization in order to build and make operational systems compliant with the new requirements. In addition, any mandated disclosure requirements beyond the recommended disclosure of gross commission paid by the retail client to the dealer, will require additional implementation periods and further clarifications regarding the requirements and scope of disclosure.

Expanded Client Statement

We understand that all securities transactions are carried out through an account, even when the securities are not held in that account. We have drafted the Rule on this understanding and invite

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comments on the practicality of this or other approaches to including the securities listed in section 14.14(6.1) in the client statements and performance reports.

The IIAC believes that IIROC members should be exempt from the proposed requirements in section 14.14(6.1) to include securities owned by a client that are held by a party other than the registered dealer or registered adviser in the client statements, as such requirements are problematic.

Section 14.14(6.1)(b) of the 2012 Proposal requires firms to report on securities when the "registered firm has trading authority over the security or the account of the client in which the security is held or was transacted". It will be challenging for firms to provide clients with accurate, quality information regarding client-name securities held outside of the firm.

The following scenario highlights the practical problems this requirement could create: if a client purchases securities in their own name through a firm and the client received physical certificates for those securities, the firm might not have knowledge that the client independently sold the securities at a later date. The firm would not be able to internally verify that information and would be preparing the client statement with inaccurate information. Firms cannot confidently report on client ownership of securities held outside of the firm and would be subject to significant risk and liability in attempting to comply with this requirement.

Currently, firms are not required to track client-name information held outside the firm and consequently, many firms do not have IT systems in place to allow for that information to be tracked and integrated into a single client statement. Firms would be required to undertake significant IT systems builds and operational changes to essentially create an entirely new shadow system to monitor these off-book client-name securities. The systems build itself would be very costly and would require several years before it could be implemented.

The requirement for firms to disclose "off-book" mutual fund securities registered in client-name does not provide the client with additional meaningful information about his or her investments and may actually cause unnecessary confusion for the client. This requirement is unnecessary because the client already receives this information directly from the fund companies. The firms are immediately at an informational disadvantage trying to provide this duplicative information to clients and will have to rely exclusively on the fund companies in order to comply with this requirement. Under this proposal, the client would receive two reports regarding the same securities from different sources. The information in each report could differ, causing confusion for the client rather than increasing the client's understanding of his or her investment performance.

Moreover, production of client statements may be delayed as the information required is coming from external sources and once it is received, it would have to be integrated into the client statement. These issues would be exacerbated in larger firms that are required to process numerous accounts. Clients expect their statements within five to six business days following month-end. Going forward, as a result of these requirements, that expectation may be unrealistic. As mentioned above, there are significant IT

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systems builds and operations changes required and this additional compliance burden on firms does not produce a corresponding benefit to the client.

Finally, requiring IIROC firms to include client-name securities not held by the firm on the client statement may end up misleading clients as to their insurance coverage. Section 14.14(6)(e.5) of the 2012 Proposal requires the firm to disclose whether the account is covered under an investor protection fund or recognized by the securities regulatory authority and, if it is, the name of the fund. IIROC members are also required to include the official Canadian Investor Protection Fund (CIPF) symbol and an explanatory statement on the client statements to warrant that the securities presented on the client statement are covered by CIPF. Securities held in client name outside the firm are not covered by CIPF and their inclusion on an IIROC firm's client statements could result in clients incorrectly inferring there is CIPF coverage for those securities. Even if firms take additional steps by including an explanatory or legal disclosure note, there may be confusion and the inclusion of notes makes the statements less readable. To avoid this potential confusion, IIROC's current position regarding client-name securities is that IIROC firms should not show those holdings (as the firm does not hold those positions) on their client's statements.

While the IIAC believes that IIROC members should be exempt from this requirement for the reasons stated above, if the CSA intends to nonetheless implement client-name disclosure, we recommend that the requirement be implemented on a going-forward basis only. There are additional concerns regarding the accuracy of information for historical transactions or legacy accounts. In many cases, firms will have a lack of data and regardless of any new systems build, would be unable to provide clients with accurate information. IIAC members do not feel confident that for historical accounts they would have sufficient cross-referencing ability to verify information. In the 2012 Proposal, the CSA commented that "we do not believe it is in the interests of clients to receive unreliable information". Requiring legacy or historical client-name "off-book" information in client statements is an example where clients would potentially receive unreliable information.

If the CSA does require IIROC members to include "off-book" client-name securities information in client statements, firms would need sufficient time to implement the new IT systems, and operations policies and procedures. The scope of these builds is significant and would necessitate a transition period of at least three years following the finalization of the rules.

Percentage return calculation method

We invite for comment on the benefits and constraints of the proposal to mandate the use of dollar weighted method, in particular as they related to providing meaningful information to investors.

We are not prohibiting the use of the time-weighted method, but if a firm uses such a method, it must be in addition to the dollar-weighted calculation.

The IIAC does not believe that the CSA should mandate the methodology firms use to calculate the standard for performance reporting. Allowing firms to choose a generally acceptable global performance

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calculation methodology to provide appropriate disclosure to clients will benefit the clients and firms alike as the disclosure can be customized to suit the client/circumstances. A flexible approach will prevent disruption in how information is presented to the client and avoid confusion for the client. There are particular business models and types of accounts that lend themselves to certain types of calculation methods. For example, a client may want to know how the underlying investments are performing, and another client may be concerned with gain/loss information. As long as a firm is consistent and provides the client with comprehensive disclosure in a meaningful way of how the calculation was arrived at, the firm should be able to choose their own methodology.

If the CSA does not adopt a flexible approach, we believe that the time-weighted methodology is the most appropriate approach based on the objectives of the 2012 Proposal: to provide clients with fundamental information to assess their investments. The purpose of providing a performance calculation is in large part so that the client can compare his or her "experience" with alternatives. These alternatives can include index funds, exchange-traded funds, and mutual funds, all of which are reported using a time-weighted methodology. Comparisons to these alternatives would be useless to a client if a dollar-weighted methodology is imposed, or even worse, any comparison could be potentially misleading.

Moreover, the internationally recognized Global Investment Performance Standards (GIPS) use the time-weighted methodology. The GIPS were created and are administered by the CFA Institute. The mission of the GIPS standards is to build a level field of comparison by standardizing the way investment managers calculate and present performance to clients. The standards are based on the fundamental principles of full disclosure and fair representation of investment performance results. Global standardization of investment performance reporting gives investors around the world the additional transparency they need to compare and evaluate the performance results of investment managers. As a result, Canadian clients may be disadvantaged because they will be unable to compare their investments to international alternatives.

It is not a broad industry-accepted practice to use dollar-weighted methodology, and most firms currently use a time-weighted approach. Even among the firms that use a dollar-weighted methodology, there is no consistent standard of how each transaction and product is treated. It is not a standardized methodology. It will be difficult for firms to ensure that clients understand the difference between the approaches and why their reports have changed so dramatically. By using dollar-weighted reporting, the CSA will be introducing significant confusion to the marketplace, which runs counter to the purpose of the CRM and the 2012 Proposal: ensuring investors are better informed in order to assess the performance of their investments in their accounts and make future investment decisions.

Once a system has been built to provide dollar-weighted calculations, there are additional operational issues. Vendors have stated that as the history of the account increases, the calculation process becomes more intense, longer and requires more resources to complete. These operational issues could delay the production of statements.

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In addition, it would not be appropriate or feasible to prescribe the dollar-weighted methodology and merely allow firms to offer additional performance reporting using the other methodologies. Firms would be required to double their operational costs to provide information that may be more relevant and useful to the client than the methodology being prescribed in the 2012 Proposal. These costs may ultimately be passed on to the client.

Part 3 – Additional Comments on the Proposed Rules

Cost Information - Book Cost

The IIAC in its 2011 Submission advocated for the use of book cost over original cost as the preferred reporting method and supports the CSA's adoption of book cost. While book cost is the preferred methodology, the Association would like to highlight certain challenges that remain for firms trying to determine book cost.

Despite every effort being made to ensure accuracy when determining book cost, complexities inevitably arise from:

1. Changes to the Income Tax Act and Canada Revenue Agency (CRA) interpretations and rulings;
2. Creation of new financial products that may contain features of both debt and equity, or new blends of interest, dividends and return of capital, that have different tax treatments;
3. Corporate actions, including mergers, spin-offs and other events that can have varying tax outcomes and uncertainties at the time of the event;
4. Varying sources of data that firms must rely on which not only can include errors but also can pass the effect of errors widely due to the inter-related nature of the investment industry.

IIAC members work together to try to identify the appropriate tax treatment in emerging situations, the most recent case being capital trusts, where different interpretations by different firms would have led to differing results in cost determination. IIAC members also work with the Canadian Depository and Clearing Services Inc., service providers, custodians and, where possible, the CRA to identify ways to improve consistency, however, the CRA is not always able to provide timely answers given the complexity of a particular transaction or need to consider all possible impacts of a new product or transaction.

As these examples highlight, factors beyond an individual firm's control may result in later changes to a book cost value for a security. In order to capture the complexity and potential changes to book cost, the definition should reflect that firms are providing the book cost value based on the information available at the time.

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Correspondingly, we propose to amend the definition to the following:

> "book cost" means the total amount paid for a security, including any transaction charge related to purchasing the security, adjusted for reinvested distributions, returns of capital, and corporate reorganizations**, based on the available information at the time**

Furthermore, as more accurate information may become known considerably later, or may be minimal in individual effect and disproportionately costly to correct, we believe that there should be provision for a *de minimis* variation in outcomes without revision throughout the transaction chain, provided that the amounts per account are small, the error did not result from a breach in the standard if care, and the related policies are consistently and equally applied.

In addition, the use of book cost should be implemented on a going-forward basis only. Firms require a minimum of two years following the finalization of the 2012 Proposal to implement the use of book cost. Firms require the additional time to work together and with third parties such as the CRA to achieve greater standardization to improve the accuracy of reporting for clients

Market Valuation Methodology - Securities without Determinable Market Value

The IIAC agrees with the CSA that it is not always possible to determine the market value for a security and that the correct approach is to exclude these securities from performance reports. It is the IIAC's understanding that "excluding" the value means using a value of zero for the security or reporting the security with an asterisk to indicate the market price is not determinable in the performance reports. The IIAC requests further clarification regarding the CSA's interpretation of "excluding" the security. The IIAC notes that it would not be feasible for firms to "back-out" or remove the security completely to "exclude" the security, and that a valuation of zero provides a more accurate picture of the security's value and risk to the client.

Market Valuation Methodology - Calculation of Long and Short Securities Market Value

The proposed methodology for determining a long and short security's price in section 14.11.1(i) poses potential difficulties and injects confusion for clients when comparing the new proposed market value to the CRA's pricing rules, indices and their previous performance reports or trying to confirm the value of their securities with independent sources. The current last trade calculation is a simpler, established methodology that is understood by investors and therefore better suited for client-facing reports.

The IIAC understands that the proposed calculations may be based on International Financial Reporting Standards; however, these calculations are more appropriate for regulatory reports than for client-facing documents. Clients want be able to use their performance reports and the values presented for most CRA purposes, and to compare the securities to indices. Clients will be unable to make meaningful comparisons if the calculation methodology is altered.

Moreover, these values may be misleading to clients as there could be large bid/ask deviations that do not reflect the market value of the security. Dealers may conduct a sequential transaction and the value

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of the security should be the same, but if the bid/ask price is the value, it may change during the transactions and artificially appear to the client that there were gains or losses that do not exist. Furthermore, the 2012 Proposal is introducing “book cost” and the proposed calculation of long and short securities is not consistent with a “book cost” methodology. For the reasons above, the IIAC recommends that the 2012 Proposal’s market valuation methodology be revised to the last traded price, and not the bid/ask price.

Trailing Commissions

In its 2011 Submission, the IIAC expressed its concern regarding disclosure of trailing commissions, citing the fact that the information would duplicate information already provided to clients by fund companies, the information required is currently not available to firms, and requiring firms to produce the same information would unnecessarily increase costs to the industry, and potentially the client, without providing additional benefits to the client.

If the CSA mandates disclosure of trailing commissions irrespective of the industry’s concerns, then the CSA must require that the fund companies provide the trailer information to firms, at a minimum, in order for firms to be able to comply with the disclosure requirements. Firms will need trailing commission information broken down by account and by fund from the fund companies. Even with this information, there are potential client experience issues. Firms are relying on third parties for the information. There may be delays receiving the information from the funds based on when the funds process the information themselves. That information must then be incorporated into the firms’ systems to produce the reports. It may be difficult for firms to continue to produce their reports in as timely a manner.

Similar to other requirements in the 2012 Proposal, firms would be required to develop new systems to capture the information provided by the fund companies and to incorporate the information in the reports, increasing the cost of these services.

Disclosure of Point of Sale

The IIAC appreciates that the CSA recognizes that it is not always possible to determine the exact costs associated with a transaction in real-time. The 2012 Proposal would require firms to provide a reasonable estimate of the amount of costs. While the IIAC supports the concept of providing a reasonable estimate of costs, we suggest a change to the wording of section 14.2.1(1)(a) to allow the most appropriate form of an estimate, dollar or a percentage, to be provided to the client to ensure the information is tailored to how the cost is presented for the type of security.

> 14.2.1(a) the charges the client will be required to pay in respect of the purchase or sale, or a reasonable estimate ~~of the amount~~, if the actual amount of the charges is not known to the firm at the time.

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Exempt Market Securities

The 2012 Proposal states that exempt-market securities are not required to be included in the client statement. The CSA did not include a definition of exempt-market securities in the 2012 Proposal. In order to avoid any potential confusion regarding what securities must be disclosed in the client statement, the Association requests clarification, and that a definition be included in the final rules.

Foreign Exchange Spreads

Requiring firms to disclose a dollar value of the foreign exchange spread as a transaction charge is an example of a disclosure that provides minimal value to the client, is extremely complicated from a technical perspective, given the data sources and timing aspect, to determine an accurate amount and it is costly.

Foreign exchange spreads are a non-material fraction of a client's transaction costs. Determining a dollar value of the spread involves extremely complex determinations as there is no cost base to compare the amount to, only reference points and the target is constantly changing given the volatility of certain currencies. The spread could be positive or negative. Firms are concerned about the accuracy of the amount cited because their comparison amount is not stable.

The IIAC suggests that firms instead provide a general notification on all trade confirmations and applicable client reports that the firm may have received remuneration from a foreign exchange transaction. This would increase transparency, further the goals of providing easy-to-understand disclosure, without the unwarranted costs, and accuracy issues associated with providing a dollar value. The report/trade confirmation could contain a note that clients should contact the firm if they have any cost questions.

Performance Reporting Exemptions

The 2012 Proposal needs further clarification regarding the applicability of the performance reporting requirements to certain registrants. Section 14.16 of the 2012 Proposal Companion Policy states that the responsibility for performance reports is with the registered firm that has the client-facing relationship. The IIAC requests clarification regarding the following scenarios where we feel it is not clear if the registrant would have a responsibility for performance reporting.

With respect to brokers/custodians who service portfolio managers, currently, it is the portfolio manager that provides the performance reports to his or her clients directly. Many portfolio managers firms are GIPS compliant and have their own guidelines and standards, which may differ from the requirements under the 2012 Proposal, for presenting performance reports. If the broker/custodian is required to report performance (as portfolio managers are already required to do), we believe it will be quite common for the two performance reporting figures to be inconsistent. End-clients will receive separate reports from two sources (portfolio manager and broker/custodian) reporting different periods of performance to them. This could be very confusing to the end-client.

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The exemption in the Companion Policy could be expanded to clarify that if the client account at the broker of record/custodian is managed on a discretionary basis by a third-party registered portfolio manager, the broker of record/custodian is relieved from conducting the required performance reporting.

In addition, the exemption should clarify it is the introducing broker, and not the carrying broker, that has the performance reporting obligation.

Transition Timelines

As the IIAC noted in its 2011 Submission, the implementation and ongoing costs associated with cost disclosure and performance reporting will be significant across the industry. The IIAC does acknowledge that the 2012 Proposal increased the implementation time for certain requirements; however substantive aspects of the 2012 Proposal still have unattainable implementation timeframes. It does not appear that the CSA fully appreciates the extent of planning and the expenditures that will be required.

Firms have to coordinate with each other to develop industry standards on many aspects of the performance reports before systems can be built to capture that data. That in itself is a tremendous undertaking. Firms cannot begin to create the new IT systems and operational changes required until the rules have been finalized. The 2011 Proposal and the 2012 Proposal have material differences as to the content of the reports; correspondingly the IT systems requirements and procedures would differ between the proposals. Firms cannot assume that proposed rules will be finalized in their current form and are therefore are unable to proactively begin to make changes. In addition, many of the system builds are required to be compatible/interface with external systems, such as fund companies, Fund*SERV*, the TMX and other platforms. These third parties may also be required to upgrade or alter their systems. It can be very difficult for firms to satisfy implementation timelines when dependant on third parties for certain aspects. Firms require sufficient time to ensure that the performance information they will be providing to clients is accurate and free from errors. The process of ensuring that the quality of the information supplied is meaningful will be a huge task. Please see *Appendix A* for a sample systems development life cycle.

In addition, firms have limited resources and are accountable to their shareholders/investors for all expenditures. Generally, priorities and budgets are set a minimum 12-24 months in advance. Firms have many competing priorities and since the 2011 Submission, other significant regulatory initiatives, such as the Foreign Account Tax Compliance Act, enhanced suitability requirements of the Client Relationship Model and Point of Sale Disclosure Rules, require firms to expend unprecedented resources.

To this end, we encourage the CSA to implement the 2012 Proposal in a way that allows firms sufficient time to make the necessary changes to their systems – recognizing that both technology and operations will need to be changed – and to manage internal communication and client education communication that will be required after implementation.

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We suggest the following phased implementation timeline:

One Year Transition Period (After Implementation Date)

- Finalize industry standards for methodologies on reporting of certain transactions, and types of securities to allow data and performance reporting to be consistent within the industry.
- Begin to develop functional specifications for various required systems builds.
- Develop analyticals for various systems builds.
- Develop the systems specifications document for the various systems build.
- Test systems as they are being designed.
- Coordinate with third parties (such as the TMX, Fund*SERV*, fund companies, platform providers, etc.) to ensure that systems are compatible.
- Begin education programs for financial advisors and employees regarding requirements to be implemented in Year 2 and 3.

Two Year Transition Period (After Implementation Date)

- Continue with the systems build, modifications and testing to ensure the completed system will satisfy the requirements.
- Continue to coordinate with third parties (such as the TMX, FundSERV, fund companies, platform providers, etc.) to ensure that systems are compatible.
- Provide pre-trade verbal disclosure of charges under proposed section 14.2.1.
- Continue education programs for financial advisors, and employees regarding requirements to be implemented in Year 3, and review feedback.

Three Year Transition Period (After Implementation Date)

- Deliver information about benchmarks under proposed section 14.2(2)(m).
- Provide information regarding fixed-income securities under proposed sections 14.12(1)(b.1), (c.1) and (c.2).
- Provide performance reports (except for annualized total returns for 5 years, 10 years) under sections 14.16 and 14.17.
- Provide the proposed new or revised required information on client statements under proposed sections 14.14.

Four Year Transition Period (After Implementation Date)

- Conduct joint regulatory/industry focus groups with investors to determine what aspects of the performance reports and client statements were helpful, what the client did not understand, and what elements are unnecessary, if any.

If necessary, then additional disclosure documents such as the *Report on Charges and Compensation* should be considered. This phased implementation timeline will allow firms to develop the necessary

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systems and corresponding industry standards to enable firms to satisfy the requirements. The introduction of investor feedback ensures that the industry develops standards that are responsive to the client's needs. It provides an opportunity to reassess the requirements and determine what aspects of the performance reports provide meaningful information, what aspects are confusing to the client, and what aspects may not be providing any value-add to the client.

Part 4 – Conclusion

In closing, the IIAC supports the principles behind the proposed cost disclosure and performance reporting rules; however, we believe that there can be improvements and clarifications in the rules, including allowances for the time and expense involved in implementing them. By increasing the complexity of the non-material information provided to the client, the CSA is increasing the likelihood that clients will be unable to absorb that information and it will decrease their understanding of the fundamental information that materially impacts the performance of the investments.

The IIAC would be happy to work with the CSA to improve the proposed cost disclosure and performance reporting rules to ensure an appropriate model is developed which will enhance the experience investors have when working with our member firms. If there are any questions regarding our submission, please do not hesitate to contact either of the undersigned.

Yours sincerely,

"Michelle Alexander" *"Adrian Walrath"*

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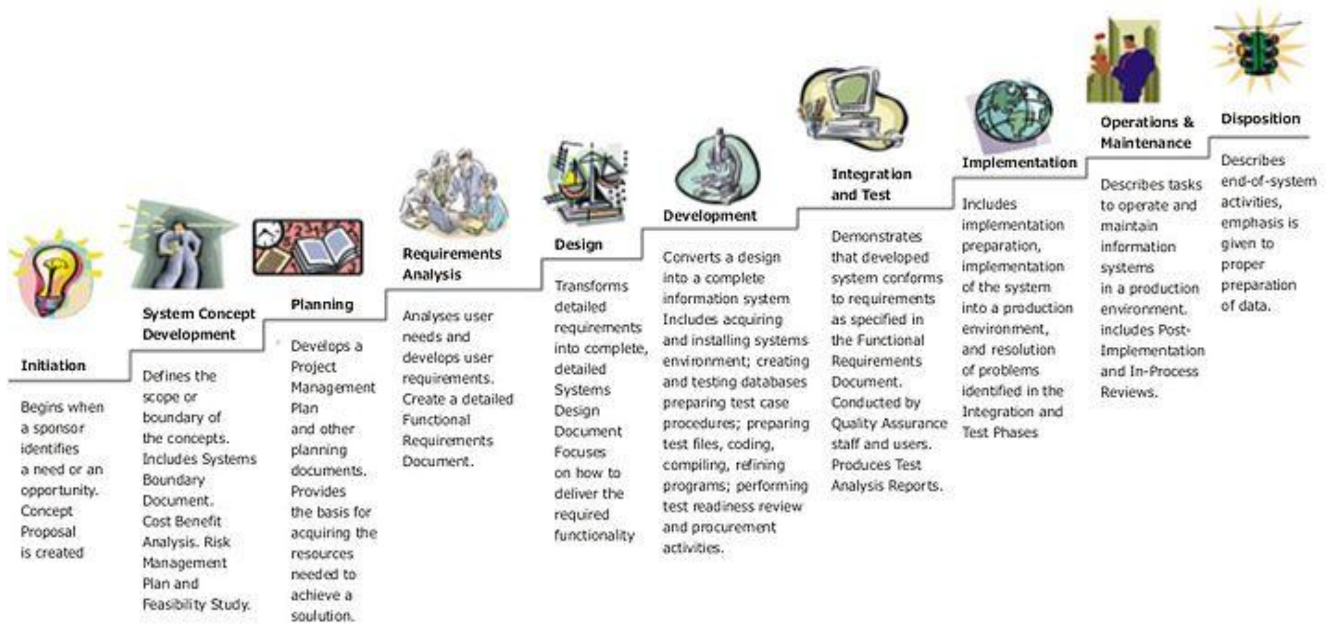
Appendix A
System Development Life Cycle



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