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Sent via email to kwoodard@mfda.ca

Re: MFDA Bulletin #0748-P | Discussion Paper on Expanded Cost Reporting

I applaud the MFDA for pushing forward on this important initiative to bring greater clarity to clients of MFDA member dealers. HighView Asset Management Ltd (my employer) is registered in the category of Portfolio Manager in Ontario, Alberta, British Columbia, Manitoba, and Saskatchewan. While the above-reference consultation does not affect our firm, we nevertheless felt it important to participate in this and the previous consultation for the benefit of the broader industry and individual investors.

Long before this consultation and broader regulatory initiatives to improve cost and compensation transparency; HighView created full cost and compensation transparency in pre-engagement client proposals, client investment policy statements, and ongoing client reporting. I have personally spent the vast majority of my 24-year career advocating for higher standards; which included helping to creating total cost transparency as far back as 21 years ago. Despite not having any effect on our business, it is an issue about which I am passionate.

The remainder of this submission directly addresses the MFDA's consultation questions.

Expanded Cost Reporting

1. Should regulators consider expanding cost reporting for Investment Funds?
2. Should regulators consider expanding cost reporting for other investment products? Costs Considered for Expansion

   People investing in investment funds of all kinds should be receiving total cost transparency. This has been discussed and debated for most of my career. While CRM2 was a good first step; meaningful investor-friendly total cost disclosure is long overdue. Since the broader industry has failed to create this transparency, it is up to regulators to legislate it. This transparency should be required regardless of the product being used.

3. Do you agree that the costs considered in this Discussion Paper (i.e. MER, short-term trading fees, redemption fees and client costs paid directly to third parties) should be disclosed to clients?

   Yes. All costs should be disclosed to investors before they make any kind of commitment to a particular investment dealer or financial advisor. Moreover, a reporting of fees and other costs should be part of periodic reporting to clients.

4. Are there any other costs that should be reported to clients?

   Any cost that isn't already landing on the CRM2 report should be added to the list of disclosures. I can't think of one that isn't already covered by legislation and your list. Ideally, any added cost disclosure should be integrated into existing CRM2 reports on compensation and charges so that we don't overload investors with paper and piecemeal disclosure.

   I deliberately chose the words "transparency" and "meaningful" in my answers to the first two questions. That is because more information only creates transparency if it is meaningful to the recipient. And it is only meaningful if presented in a way that end investors can truly understand. So simply adding disclosure is the easy part. Making it investor-friendly and understandable is the hard part – and where a lot of effort needs to be focused. I cannot stress this enough.

We back up our words with actions. We designed a client reporting package that is laser-focused on striking the balance between creating transparency – by reporting on all information that clients want – while presenting it in a way they understand. We devoted a lot of resources to creating our reporting; and our efforts to improve and enhance it based on feedback from client meetings continues.

Cost Reporting

5. What are your views on the reporting examples provided in this Discussion Paper?

   Figure 1 in your consultation paper is too summarized and lacks a total account or total portfolio cost figure – which is key. While I like the detail in Figure 2, the vast majority of investors will not make sense of it because it's too detailed and too product-focused. I think Figure 3 (for non-proprietary dealers) and Figure 4 (for proprietary firms) are much closer to the right solution.

   Figure 3 would still need some work to better organize and simplify the information. And some thought is needed on how to deal with a mix of the two scenarios mapped out in Figures 3 and 4. For example, bank branch advisors have access to and sometimes recommend third party funds. Those situations require an integrated reporting solution.

   I don't have specific answers for those challenges today but I have no doubt that a solution would not be difficult to design – both in terms of presentation and to operationalize.

6. Are there better ways to report the costs of investing to clients?

   One idea is to group the cost elements by how they are paid – e.g., costs you pay directly; costs that are charged by the product; etc. Another could be to simply keep it very high level and summarized. The benefit there is that it's easy to understand and digestible; but it leaves out a lot of the details.

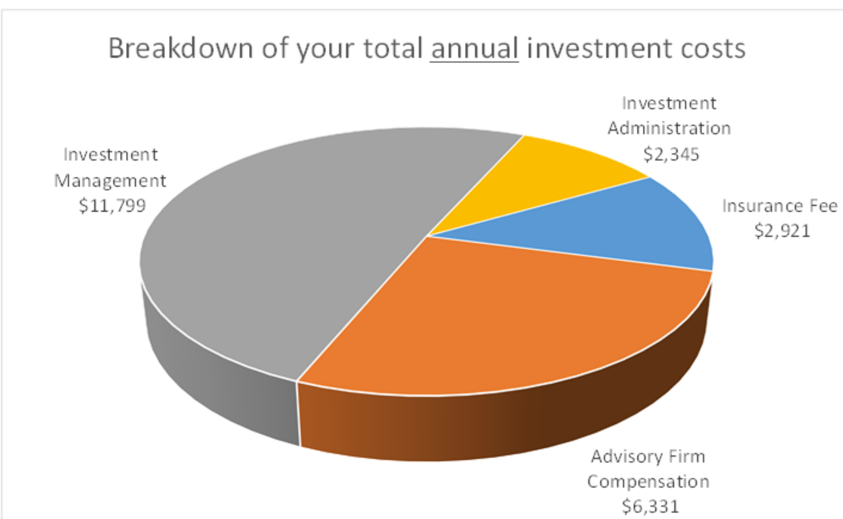
   For example, in my many past (pre-HighView) efforts at creating cost and commission disclosure for investment fund investors I provided total portfolio costs in percentage terms (i.e. like an asset-weighted MER for the whole portfolio) and dollar terms. The dollar amount was not a precise historical accounting of fees; but rather a forward-looking dollar estimate; the product of the asset weighted MER and the total portfolio value as of a specific date.

For clients who didn't like a lot of details, the only additional breakdown was the commissions generated – up front and ongoing. See the example below.

Fund Name	Approximate Value	MER %	MER $
XYZ CanadianEquity	$104,000	2.25%	$ 2,340
ABC Global Equity	$57,000	2.22%	$ 1,265
DEF Global Small Cap	$55,000	2.46%	$ 1,353
GHI Bond Fund	$106,000	2.07%	$ 2,194
TOTALS	*$322,000*	*2.22%*	*$7,153*

For the few detail-oriented clients, I created something along the lines of your Figure 2. An example of this is below.

Based on the current value of your portfolio (approx. $782k) your total investments costs are approximately $20,475 per year - equal to about 2.62% per year. The accompanying chart shows an estimated breakdown of your dollar amount of costs across the four cost components. While the breakout of advisory compensation figures are precise today[4] the amounts attributed to investment administration and insurance are calculated estimates.



7. What challenges or issues do you foresee in obtaining and reporting expanded cost information to clients?

   For your member dealer firms, the challenges will be the resources required to design, test, and implement additional system changes just a couple of years after CRM2. That said, systems changes made to operationalize CRM2 may well make the next step incrementally easier. The extent to which this is true across your membership, however, will depend on details that I do not have about individual dealer systems and business models.

8. Are there different challenges or issues to expanding cost reporting for investment dealers or other securities registrants?

   I don't know if the differences stem from the differences in registration categories or ages of the firms and resulting legacy issues. A firm of any kind starting up today begins with a clean slate with no legacy issues or need to transition from old to new ways of reporting. This makes it easier to implement full transparency from inception. Firms with wider profit margins will also have an easier time; mostly because they can devote more resources to implement enhanced reporting.

Implementation

9. Based on the cost reporting approaches detailed in this Discussion Paper, what would be a realistic time frame for implementing expanded cost reports to clients?

   My intuitive estimate is that a two-year time frame should be adequate once details of requirements are finalized. Depending on the amount of additional CSA-driven rules that also affect your member firms, this may need to be extended to three years.

The investment industry has too often articulated reasons why investor-friendly measures are not feasible and are bad for the industry. What is missing is a focus on clients who own the assets that generate its revenues. This lack of client focus was on full display during the Ontario Securities Commission's September 2017 Roundtable Discussion on Discontinuing Embedded Commissions[1]. I wrote about my frustrating experience of sitting through so many misleading arguments in favour of the status quo. The industry needs to change its perspective toward understanding what clients want and being honest about the transparency they deserve; and stop listing reasons why it can't be done.

The industry instead must decide that greater transparency is a must; and focus its energy on figuring out a feasible way to give clients what they deserve[2]. There are examples of smaller firms throughout the industry that have accomplished this; so there is no reason why the broader industry can't follow.

Don't hesitate to reach out to further discuss any of this submission or any other issue related to enhanced disclosure and higher industry standards in general.

Sincerely,

Dan Hallett, CFA, CFP
Vice-President & Principal
HighView Financial Group

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[1] See http://www.osc.gov.on.ca/en/NewsEvents_speeches-events_index.htm#54660

[2] I stated this almost verbatim both in person during my time on the OSC panel and in my blog recap of the day. See https://www.highviewfin.com/blog/recap-of-the-osc-roundtable-discussion-on-discontinuing-embedded-commissions/