



**Federation of  
Mutual Fund Dealers**

July 9, 2012

VIA E-MAIL ONLY

Mr. Tyler Fleming  
Director, Stakeholder Relations and Communication  
Ombudsman for Banking Services and Investments  
[publicaffairs@obsi.ca](mailto:publicaffairs@obsi.ca)

Re: Request for Comments on Proposed Changes to OBSI's Suitability and Loss Assessment Process

The Federation of Mutual Fund Dealers (the "Federation") is an association of Canadian mutual fund dealers and affiliates whose members, since 1996, have been working to be the voice of independent mutual fund dealers. We currently represent 30 dealer firms with over \$114 billion of assets under administration and 17 thousand licensed advisors that provide financial services to over 3.5 million Canadians and their families.

The Federation is writing to provide comments with respect to the above captioned Consultation on Proposed Changes.

### **Proposed Changes for Public Comment**

Our first comment is with respect to comments made throughout the OBSI's June 15<sup>th</sup> 2012 presentation to MFDA Firms. As the OBSI presenters addressed each proposal in turn, it was noted that the OBSI "is already doing this". We wonder why then these changes are referred to as "proposed" when you have in fact already adopted them?

1. *Use common indices as performance benchmarks in most suitable performance comparisons.*

We believe that the use of any index is problematic and not the best choice when looking for a suitability comparison. A mutual fund is better than an index because:

- If the fund is from the same family or proprietary group it will be what the client would have bought if suitably invested.
- Indexes are generally less diversified than mutual funds; e.g. the TSX Composite is not as diverse as a Canadian equity fund, the bond index does not behave like an Income fund etc.
- Calculations are more complex when using an index because costs have to be calculated separately. This is not the case if you use a mutual fund.
- If OBSI used mutual funds rather than any index you would not have the initial and on-going expense of a Bloomberg terminal.
- In the mutual fund dealer industry, mutual funds (not indices) have been generally used in suitability analysis; we see no need to change this.
- Indices do not behave like mutual funds; they can be more volatile than actively managed funds.

## Federation of Mutual Fund Dealers

2. *Take fees and trading costs into account in all cases when making suitable performance comparisons.*

We do not have an issue with this point.

3. *As a general rule, add interest on compensable losses only if an Investigation Report is issued, but not add interest on facilitated settlements.*

We appreciate that the OBSI works with the parties to resolve complaints in a timely manner, however, if there is a delay at the OBSI interest should not be calculated for that period of time.

4. *Implement a self-imposed limitation period of six years from the time when we [OBSI] believe the investor knew or ought to have known there was a problem with their investments.*

Rather than adopting one limitation period nationally we would encourage the OBSI to align with the statutory requirements in each Province to avoid any conflict or confusion. For your information the guideline used by regulatory authorities is seven years.

5. *Provide firms with working versions of our loss calculation spreadsheets during our investigation.*

We believe that the written provision of the explanations of your calculations and PDFs of those calculations are valuable to dealers. We appreciated that as you use a Bloomberg terminal for your working spreadsheets the provision of 'live' versions of those might be difficult but we would encourage you to provide 'screen shots' at moments in time to the degree that this would be possible especially if it would go further to assist the dealer in understanding your calculations.

We want to thank the OBSI for the opportunity to comment. Should you wish to discuss further with the Members of the Board of the Federation or any general members, do not hesitate to contact the undersigned.

Regards,

Federation of Mutual Fund Dealers



Sandra L. Kegie  
Executive Director