



February 7, 2025

VIA EMAIL

To:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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Re: Proposed Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, National Instrument 81-102 *Investment Funds*, National Instrument 81-106 *Investment Fund Continuous Disclosure*, National Instrument 81-107 *Independent Review Committee for Investment Funds*; and Related Proposed Consequential Amendments and Changes; Modernization of the Continuous Disclosure Regime for Investment Funds (the “Consultation”)

The Canadian Advocacy Council of CFA Societies Canada (the “CAC”)¹ appreciates the opportunity to provide the following general comments and specific responses to the questions set out below.

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 21,000 Canadian CFA charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

As the global association of investment professionals, CFA Institute sets the standard for professional excellence and credentials. The organization is a champion of ethical behaviour in investment markets and serves as the leading source of learning and research for the investment industry. CFA Institute believes in fostering an environment where investors' interests come first, markets function at their best, and economies grow. With more than 200,000 charterholders worldwide across 160 markets, CFA Institute has ten offices and 160 local societies. Find us at www.cfainstitute.org or follow us on LinkedIn and X at @CFAInstitute.

We appreciate that the Canadian Securities Administrators (“CSA”) have indicated in the Consultation how this regulatory initiative relates to its published strategic goals and past consultations. In our view, this promotes accountability and provides a framework for commentators to assess whether the means achieve the end. We would encourage the CSA to continue to do the same for future regulatory initiatives.

In this case, it is noted that the Consultation is aimed at furthering the strategic goal of delivering regulation that balances investor protection with regulatory burden reduction, as set out in the CSA’s 2022-2025 Business Plan. In our experience, the current regime of producing annual and interim Management Reports of Fund Performance (“MRFP(s)”) is not only burdensome for market participants, but also fails to meaningfully communicate information to retail investors to aide investment decisions. As a result, we were pleased that the CSA has targeted this area for reform. We are also pleased regarding the methodology used by the CSA to underpin this regulatory initiative. A data-driven approach coupled with access to the data promotes transparency and confidence in the rulemaking process. We strongly encourage the CSA to conduct its future regulatory initiatives in a similar fashion. For other regulatory initiatives involving disclosure to retail investors, we encourage the CSA to consider as a best practice the use of disclosure prototypes and testing of same to substantiate its proposed regulatory reforms.

Below are our responses to the specific questions set out below:

3. Frequency of Preparation. Currently, an investment fund that is a reporting issuer must file an annual MRFP and an interim MRFP (see section 4.2 of NI 81-106) and an investment fund that is a reporting issuer and a scholarship plan must file an annual MRFP but is not required to file an interim MRFP (see section 4.3 of NI 81-106). We are proposing that these filing requirements would remain unchanged for the Fund Report. Please comment on whether this proposed approach meets investor needs for remaining current as to the status of their reporting issuer investment fund holdings.

We disagree with the CSA’s position that these filing requirements should remain unchanged insofar that believe that requirements in section 4.3 applicable to a scholarship plan should be harmonized with the requirements for other investment funds in section 4.2, with a requirement for an interim MRFP. Overall, we agree and are supportive of the filing requirements for annual and interim MRFP remaining unchanged, and agree with proposed requirement of having investment fund reporting issuers produce annual and interim Fund Reports, as we believe this appropriately balances investor protection with regulatory burden reduction, particularly given that the contents of the Fund Report are designed to reduce burden and improve utility to investors. To lower the frequency of reporting as well would shift the balance too far in favour of burden reduction at the expense of investor protection. Additionally, the usefulness of certain information in the Fund Report will rely on more frequent reporting, for instance, the new requirement to disclose the liquidity profile of an investment fund’s investment portfolio.

8b. Should the proposed requirements for which classes or series of performance information be provided, be modified to also require the disclosure of



performance information for the class or series with the lowest management fee that is available for purchase by a retail investor? We are particularly interested in feedback on this issue given the increasing popularity of no-load classes or series and fee-based accounts.

We would be strongly in favour of this approach, to show both the performance information of the class or series with the highest management fee alongside the performance information of the class or series with the lowest management fee available for purchase by a retail investor. As noted, this approach would better reflect the various fee structures utilized in the industry, and help retail investors to better understand their costs of investments and of their choices in distribution channels (and potentially of investment advice). However, for investment funds that would provide performance information for a class or series with no management fee that is available only through fee-based accounts, we would also support accompanying disclosure to clarify to investors how fee-based accounts operate, the impact of a representative account fee on the returns, and the limitations of the displayed performance information of that class or series.

10. Liquidity. Investment fund liquidity risk management is an area of increasing regulatory focus. We are of the view that investors should have access to in-depth yet understandable disclosure regarding the liquidity of the investments held in the investment portfolio of their investment fund. For this reason, the Proposed Form 81-106A includes a Liquidity Profile section (see Item 11 of Part A of the Proposed Form 81-106A). The Current Form 81-106F1 does not contain a comparable requirement. Please comment on whether the disclosure proposed for the Liquidity section of the Fund Report is understandable to investors and contains the appropriate amount of information for them. If not, please describe in detail an alternative approach.

We agree that investors should have access to this information in a digestible format and support its inclusion in the Fund Report. It is the type of disclosure that would serve as an important investor protection mechanism, and in our view, its benefit outweighs any concern that as a net-new item, it unfairly raises regulatory burden. We also agree that as currently proposed, the relevant section of the Fund Report provides the information in an understandable format. However, we would encourage the CSA to consider if alongside this disclosure there should be an accompanying legend to the pie chart that sets out the types of investments that correspond to each segment. Such information might help investors compare Fund Reports of different investment funds and might also allow informed investors to make investment choices that are better aligned to their liquidity preferences as it relates to an investment fund's underlying investments.

Considering that retail investors may not always comprehend the implications or limitations of liquidity and illiquidity, and that liquidity is inherently discontinuous and unstable in times of market stress (either market-wide or idiosyncratic/security-specific), additional descriptive and comparative statistics, graphics, and language may help to illuminate potential concerns to investors. For example, comparing how liquidity of the investment fund's investments has changed periodically year over year, and over a range of observations over the year (or longer periods) might help an investor better digest the liquidity risks of the investment fund and its investments.



11. Scholarship Plan MER. The Proposed Form 81-106A requires that a scholarship plan provide its MER, and where applicable, its MER without waivers and absorptions (see Item 6 of Part A of the Proposed Form 81-106A). In contrast, the Current Form 81-106F1 does not require that a scholarship plan provide such information (see Item 3.2 of Part B of the Current Form 81-106F1).

a. Please comment on whether an investor in a scholarship plan would find this information less useful than an investor in another type of investment fund. If yes, please provide a detailed explanation.

b. Please comment on whether scholarship plans will experience any unique challenges in preparing this information for a Fund Report. If so, describe the challenges in detail and explain whether there are any ways through which scholarship plans can address those challenges.

As a general comment, we would be strongly in favour of the harmonization of reporting requirements between investment funds and scholarship plans, as we believe the differences between these investment vehicles and investment funds to be increasingly artificial in all but antiquated regulatory contexts. We believe the requirements for scholarship plans should be made to be functionally equivalent to those of comparable investment funds in this instance, and that this should be an area of focus for further regulatory harmonization initiatives.

16. Additional Suggestions. Please comment on whether the content and format of the Fund Report can be further enhanced to support the needs of investors and other stakeholders, to the extent such comments have not already been provided as part of responses to earlier questions. Please support any comments with reference to findings in the Investor Testing Report or other applicable research. Where other research is referenced, please provide citations.

We are concerned that the requirement in Fund Reports for IFMs to insert an assessment of whether an investment fund successfully achieved its investment objectives and whether the use of its investment strategies to achieve the investment objectives were successful will not have the intended effect. Ideally, IFMs would provide a dispassionate assessment, grounded in an objective analysis with both quantitative and qualitative elements. However, given that this would be a self-reported assessment, IFMs would be conflicted by their own interest, as labeling their own fund as “unsuccessful” or that it “did not satisfy its investment objectives and use of investment strategies” could severely diminish the attractiveness of the fund for further investment and may prompt redemptions to the detriment of the fund and other unitholders. This is further compounded by the difficulty of communicating a fulsome and expert assessment requiring specialized practitioner knowledge and comprehension to a retail investor in useful terms. Given this negative potential, we would encourage the CSA to consider whether the instructions to Item 4 of Form 81-106A *Contents of Annual and Interim Fund Report* should further clarify what the expectations are for IFMs for this disclosure. We note that the sample fund report provided did not include an assertion of whether the



fund was “successful,” but rather merely disclosed applicable metrics, and as such, if that is the expected approach, that should be clarified. Overall, we are supportive of these additional disclosures, but believe that additional clarity is required for these disclosures to be meaningful and effective.

In other jurisdictions, this has been an area in which expert fiduciaries responsible to investment fund unitholders play an expanded role in examining an IFMs performance for unitholders/the investment fund and their assessment of their success. We believe examination of such a model, potentially as a substantial evolution of the role, responsibilities, and accountabilities of the IRC concept would be a worthwhile policy exercise to more properly accomplish the seeming policy objective underlying this requirement.

Concluding Remarks

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in the future.

(Signed) *The Canadian Advocacy Council of
CFA Societies Canada*

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