

January 27, 2025

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: Modernization of the Continuous Disclosure Regime for Investment Funds

FAIR Canada is pleased to provide comments in response to the above-referenced Consultation.

FAIR Canada is a national, independent, non-profit organization known for balanced and thoughtful commentary on public policy matters. Our work includes advancing the rights of investors and financial consumers in Canada through:

- Informed policy submissions to governments and regulators.
- Relevant research focused on retail investors.
- Public outreach, collaboration, and education.
- Proactive identification of emerging issues.¹

¹ Visit www.faircanada.ca for more information.

A. General Comments

We welcome the opportunity to comment on this important initiative. Continuous disclosure is vital for public capital markets to operate transparently and efficiently. Retail investors could not participate confidently in Canada's public capital markets without it.

The quality, content, and accessibility of continuous disclosure are increasingly important because increasing numbers of Canadian retail investors are choosing do-it-yourself (DIY) investing. Research by the CSA has found that 45% of Canadian investors manage at least some of their investments themselves.² Research by the BCSC has found that 43% of Canadian investors have at least some DIY investments.³ Moreover, 58% of DIY investors agree that it is easy to access quality information regarding investments, but 60% also agree that it is time-consuming.⁴ In FAIR Canada's investor focus groups:

- Many participants expressed frustration with the channels used to distribute information about their investments or potential investment opportunities.
- Many believed that the amount of information available online was overwhelming and that it was easy to get tricked by "illegitimate" sources of information.⁵

Given the trend toward DIY investing in Canada and indications that some investors struggle with accessing reliable information, the Consultation is very timely.

While much of the Consultation concerns the CSA's proposed replacement for the current form of Management Report on Fund Performance (MRFP), we believe the behavioural research process followed by the CSA is worthy of comment in its own right. Accordingly, our comments will touch upon:

- The CSA's approach to developing the proposed Fund Report.
- The proposed Fund Report itself.

We support both the CSA's approach and the Fund Report that has been developed.

B. Enhancing the Retail Investor Experience

Behavioural Research

We congratulate the CSA on the process followed in developing the proposed Fund Report. We support and endorse the use by regulators of behavioural science methodologies to:

² [2024 CSA Investor Index](#) (CSA: April 2024), at 15.

³ [DIY Investing National Survey Report](#) (BCSC: April 2024), at 9.

⁴ [Understanding Do-It-Yourself \(DIY\) Account Holders](#) (FAIR Canada: October 2024), at 68.

⁵ [Focus Groups – Understanding Canadian Investors](#) (FAIR Canada: January 2024), at 27.

- Understand the barriers that prevent retail investors from fully benefitting from continuous disclosure.
- Identify interventions with the potential to address those barriers.
- Develop new document designs based on insights from behavioural science and investor surveys.
- Test new document designs with real investors to assess their usability and ease of comprehension.

We also support the further experiment that the CSA and Behavioural Insights Team (BIT) plan to test a final version of the Fund Report with investors, which the responses to this Consultation will inform.

This process is precisely what we, as investor advocates, would like regulators to do more of. We strongly encourage the CSA to use this same approach for all prescribed investor-facing disclosure documents, including periodically reviewing existing forms to ensure they remain easily accessible and understood by retail investors.

This data-driven approach to regulation will benefit the public and improve the experience of retail investors. It is a form of “burden reduction” for investors, and we look forward to seeing more of it.

Embracing Investor Preferences for Digital Delivery

Overall, we favour the CSA's proposed Fund Report. We appreciate that the CSA has sought to respond to the insights of BIT's research and recommendations by striking a balance between what information to include and what to leave out.

We suggest CSA also consider:

- **Using Digital Tools and Delivery to Enhance Content:** While prescribing the right content is crucial, it is equally important to consider how that content is delivered. Today, many investors access an issuer's information online from their computer or mobile device. If the information is presented to investors in a format that is not easily accessible, navigable, or readable on these devices, its utility will be significantly diminished. Therefore, the CSA should also focus on modernizing the delivery of the Fund Report to ensure it is suited for digital transmission and consumption. This includes, for example, ensuring the format can easily be read on digital devices, allowing for layered information, and enhancing overall accessibility and comprehension through digital means. By giving equal attention to content and delivery mechanisms, the CSA could significantly enhance the utility and impact of the Fund Report for investors.
- **Including Direct Links to Online Documents:** The Proposed Fund Report contains references to documents posted elsewhere online (for example, Quarterly Portfolio Disclosure to be posted on an investment fund's designated website). We believe it

would be easier for retail investors to find those documents if the Fund Report contained direct links to those documents.

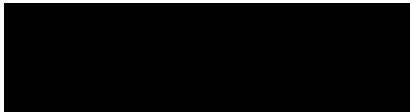
- **Requiring the Use of eXtensible Business Reporting Language (XBRL) to Facilitate Data Analysis:** Requiring financial statements and other disclosure documents to be tagged with XBRL metadata provides many benefits. These include making financial data machine-readable so that it is easier for investors and others to find, understand, compare, and analyse. XBRL also improves the efficiency and accuracy of data analysis by reducing human errors associated with manual data entry.⁶

C. Other Comments

We have provided brief responses to the specific Consultation questions in the attached Appendix.

Thank you for considering our comments on this important issue. We welcome any further opportunities to advance efforts that improve outcomes for investors. We intend to post our submission on the FAIR Canada website and have no concerns with the CSA or its members publishing it on their websites. We would be pleased to discuss our submission with you. Please contact Jean-Paul Bureaud, Executive Director, at jp.bureaud@faircanada.ca or Bruce McPherson, Policy Counsel, at bruce.mcpherson@faircanada.ca.

Sincerely,



Jean-Paul Bureaud
President, CEO and Executive Director
FAIR Canada | Canadian Foundation for the Advancement of Investor Rights

⁶ The Canadian Securities Administrators established a voluntary XBRL filing program in 2007. However, very few Canadian companies have adopted XBRL filing to date. In contrast, the SEC made it mandatory for public company filings on EDGAR to tag financial statements and other required disclosure documents with XBRL beginning in 2009. The European Union also began requiring all public companies for reporting periods starting on or after January 2021 to use XBRL for annual financial statements.

Appendix

In this Appendix, we provide brief responses to questions posed in the Consultation:

1. Other Areas for Modernization

See our comments above regarding using behavioural research and the importance of digital delivery. Behavioural science research and testing regarding investors' preferences about how they wish to receive and access the prescribed content could provide valuable insights to CSA teams working on enhancing the investor experience. This research could lead to other significant insights. For example, should fund managers be encouraged to present the Fund Report digitally in a layered format?

2. Effective Dates and Exemptions

We recognize the industry will need time to create new document templates and change compliance and reporting processes. Subject to our comments on question #20 below, the CSA's proposed timelines appear reasonable.

With respect to exemptions, there are no obvious reasons why a fund manager who used the current interim MRFP form could not then use the new annual Fund Report form. However, the industry may have additional insights into why time-limited exemptions may be required.

Workstream One – Fund Report

3. Frequency of Preparation

We support maintaining the existing frequency of reporting and requiring:

- Investment funds that are reporting issuers to prepare annual and interim Fund Reports.
- Investment funds that are reporting issuers and scholarship plans to file an annual Fund Report.

4. Forward Looking Information

The CSA's proposal seems appropriate, given the investor testing conducted by BIT.

5. Years of FER Disclosure

In the next round of investor testing, we encourage CSA to test whether investors prefer and can better understand:

- Presenting cost increases in FER from the previous year in the Costs section summary of the Fund Report.

- Presenting cost increases or decreases in FER from the previous year in their own column in the table in the Costs section of the Fund Report.

6. MER Without Waivers or Absorptions

We do not have any particular insight regarding this issue. We suggest that the CSA's proposed approach be tested with investors as part of the next experiment planned by CSA. If the CSA adopts a different approach than in the current proposed Fund Report, that approach should be tested with investors to ensure that it is an improvement over the current approach.

7. ESG-Specific Disclosure

We support including concise but informative ESG disclosure in the Fund Report. After the Fund Report has been implemented, further behavioural testing regarding the ESG disclosure provided in Fund Reports would help regulators:

- Ensure the ESG disclosure produced is informative and understandable by retail investors.
- Identify opportunities to improve or amend the instructions provided to assist investment fund issuers with preparing their Fund Report ESG disclosure.

8. Classes/ Series of Performance Information

We support the general rule that the performance of the fund's class or series with the highest management fee should be reported. This would present all fund investors with a performance snapshot that their investment performed at least as well as that class or series, which should be true for essentially all investors.

We disagree that performance information should be based on the fund's class or series with the lowest management fee. The lowest-cost class or series is not necessarily available to all investors, and we believe presenting this data could bias investors toward believing their investments have performed better than they may have.

9. Related Party Transactions

In general, we believe that conflicts of interest should always be transparent, and such disclosure should be easy for investors to find and understand.

However, we recognize that many of the conflicts of interest that would be reported as related party transactions may be technical only, and retail investors may not understand how to interpret them.

Putting related party transaction reporting in the annual report of a fund's independent review committee (IRC) makes some sense, given that IRCs review such potential conflicts of interest. However, the CSA should conduct research to confirm how visible IRC annual reports are to retail investors and whether and how they could be improved so investors

can understand them. The CSA should also consider whether each Fund Report filed after an investment fund's IRC issues its annual report should include a direct link to the IRC's annual report.

10. Liquidity

We support the inclusion of this disclosure.

11. Scholarship Plan MER

We do not have any particular insights regarding these questions. To the extent there are differences between scholarship plan investors and other retail investment fund investors, the CSA should validate those differences through research and investor surveys, not industry commentary.

12. Other Material Information

We do not have comments regarding this question.

13. Designated Website Disclosure

We do not believe any of the proposed Fund Report's current content should be removed and moved to an investment firm's designated website instead.

14. Cross-References to Designated Website

In general, where the Fund Report refers to documents posted on the fund's designated website, the Fund Report should include a direct link to those documents. See the second bullet in the body of this letter under the heading "Embracing Investor Preferences for Digital Delivery" and our comments regarding questions # 9 and 16 in this Appendix.

15. Modifications for Specific Investment Funds

To the extent that modifications are proposed to the Fund Report for certain kinds of funds following this consultation, those modified Fund Reports should be subject to the same behavioural research and investor testing process as the CSA used to develop the Fund Report in this Consultation.

16. Additional Suggestions

Where the proposed Fund Report refers to specific documents available on the fund's designated website, it should include a direct link to those documents.

17. Investor Education

We suggest that behavioural insights and investor testing inform the CSA's educational tools and efforts regarding the new Fund Report before the CSA publicly launches its educational program.

Workstream Two – Conflicts

18. Additional Disclosure Elements

The CSA should research whether retail investors understand related party transaction disclosure. Investors may not understand the current or proposed disclosure in this Consultation. In that case, the CSA should subject this disclosure to research and investor testing to make it easier to understand and more useful.

19. Stakeholders that would Benefit from Maintaining Disclosure

We do not have any comments regarding this question.

Additional Initiative – Implementation of Fund Expense Ratio into Fund Facts and ETF Facts

20. Timing Considerations

The proposed amendments to add the Fund Expense Ratio (FER) to Fund Facts and ETF Facts should become effective when total cost reporting comes into effect, even if that means they come into force before the other Proposed Amendments or Proposed Changes in this Consultation.