Via e-mail

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March 7, 2014

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Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Re: CSA Notice 81-324 and Request for Comment – Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts

http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_20131212_81-324_rfc-mutual-fund-risk.pdf

The Panel appreciates the tremendous efforts of the CSA/OSC in preparing this consultation paper. We acknowledge that disclosing risk to retail investors is a very real challenge. The consultation has generated a number of excellent ideas that we feel, if implemented, will make the Fund Facts an improved disclosure document. The Panel supports this disclosure enhancement initiative and is committed to working together with regulators on continuous improvement.

Overview

The use of mutual funds as the primary investment/savings vehicle of choice has risen because other "pooled investment" opportunities, such as employer-sponsored pension plans, have declined and, in no small measure, because of the compensation incentive for distributors of these funds. Often acquired within a tax-sheltered plan (e.g., RRSP, RRIF TFSA), mutual funds are chosen to satisfy specific medium- to long-term financial planning goals: education, family planning, home purchase and especially retirement.

Therefore, clear, unambiguous and high-quality risk disclosure is essential for the protection of retail investors, particularly for seniors and retiree/ RRIF account holders. This submission outlines our perspective on this issue, which can be summarized in three key points:

1. The Panel is concerned that standard deviation is an insufficient, inappropriate and not well-understood measure of risk.
2. We believe that additional descriptions of risk exist and are preferable and propose a table/graph of worst-case and best-case historical return scenarios be used to demonstrate fund volatility.
3. We recommend that Investor Education Fund description, logo, and link should be a mandatory component of every Ontario registered Fund Facts document.

Standardization of methodology

The Panel supports the move to standardization of disclosing variability. We believe it is essential that investors have the benefit of common standards and methods of risk disclosure and congratulate the CSA for carrying out work that will improve consistency in methods applied to measure and disclose variability of fund performance.

The Panel believes there should be one standard for mutual fund risk disclosure and it should be prescribed by regulators. Where the chosen standard is impractical to implement or when it

would lead to meaningless or misleading results, exemption requests should be entertained by the respective provincial securities commission(s) in advance of exemption.

Expand the understanding of risk

Most mutual fund and similar pooled investment products are chosen by investors who are typically risk-avoiders. These investments are made with specific goals in mind. The monies used for these investments, should a loss occur, present an absolute loss, in the sense that additional savings may not be available to replace the lost capital, or the investor's time horizon is such that internal growth within the remaining portfolio will be insufficient to reach the investor's financial goals.

An additional critical point is the somewhat "forced" nature of the investment decision, in that the retail investor finds her/himself having to make a retirement-related decision that in the past their pension plan manager would have made – a manager who would have *all* the training, tools, information, and access to product choices to satisfy the investment goals of the portfolio.

We wish to underscore the critical choice that the mutual fund investor is about to make when choosing a fund or a portfolio of funds. The regulators of the capital markets are right, very right, to ensure that all opportunities are available for such an investor to receive assistance in choosing wisely.

With this in mind, the Panel encourages the CSA to seek ways to expand the investor's understanding of riskiness beyond a presentation of volatility as measured by standard deviation. In our view, the investor requires an understanding of the following points as set out by Jeffrey M. Stark, MBA, CFP:

> "*Investing is inherently risky and losses can be expected, but it's important to keep those losses small-to-moderate. Large losses can do serious damage to long-term performance, even if the market recovers strongly.*
>
> - *The reason is that long-term investment performance is not a result of simply adding and subtracting annual returns - it is determined by the compounding affect of positive and negative returns on the portfolio over time. In that reality, losses count more than gains.*
>
> - *Portfolio losses, on a percentage basis, have a much greater impact on long-term performance than do gains, so minimizing losses is critical to long-term success.*

The Impact of Negative Returns		
Year 1	Year 2	
	Return Need to Recover Loss	
Portfolio Loss	Accumulation Portfolio	Distribution Portfolio
-10%	11%	24%
-15%	18%	32%
-20%	25%	41%
-25%	33%	51%
-30%	43%	63%
-35%	54%	76%
-40%	67%	92%
-45%	82%	135%
-50%	100%	135%

- *Recovering from a large loss requires a much greater effort because there are fewer dollars remaining to earn a return. For example, referring to the chart above, a 25% loss requires a 33% gain in order to breakeven. A 50% loss requires a 100% gain. Notice that the required return to breakeven accelerates in size as the loss gets bigger, making the road to recovery much more difficult. In contrast, a 10% loss only requires an 11% return to breakeven. A 15% loss only requires an 18% return, making a recovery more likely.*
- *The attached chart, **The Cost of Recovery,** from Allianz Global Investors illustrates how the math works and how difficult it is to recover from large percentage losses. While it covers a specific time period in the recent past, it nevertheless serves as an excellent example.*
- *Moreover, recovering from a large loss could take many months or even years, putting in complete jeopardy an individual's or couple's retirement plans.*
- *For **pre-retirees**, large portfolio losses may inhibit the accumulate of sufficient assets for retirement, at a time when they have fewer years to recover.*
- *For **retirees** who are taking income from their portfolios, large losses can be devastating. The required gain to breakeven increases significantly because they have to make up not only for the investment loss but also for the income taken, or else risk early depletion of their portfolio.*

For example, in the above chart, a 5% income withdrawal at the beginning of the year, followed by a 25% loss, and then another 5% withdrawal, would require a 51% gain in the second year to breakeven. A 50% loss would require a 165% gain to breakeven – making it all but impossible to recover.

Even moderate portfolio losses can be especially dangerous for retirees. A 10% loss would require a 24% return to breakeven in year 2. A 15% loss needs a 32% return.

Moreover, if portfolio shares need to be liquidated for income, those shares are no longer available for recovery. Consequently, the loss is not just a price decline, but also a loss of assets, and the impact on the portfolio is permanent. The danger is that a continued erosion

of the asset base over time may send the portfolio into a irrecoverable downward spiral and significantly increase the likelihood of running out of money." [1]

Even if it is accepted that standard deviation is an acceptable fund risk measure, it is only appropriate for measuring the risk of an individual fund. The figure cannot be combined for more than one fund because the standard deviation for a portfolio of mutual funds is a function of not only the individual standard deviations but also of the degree of correlation among the portfolio funds' returns.

We do not believe that these fundamental risk concepts are adequately captured and explained in the proposed Fund Facts disclosure and we see this as a significant weakness. In particular, the asymmetric effect, wherein "losses count more than gains" is neither captured nor communicated by the proposed standard-deviation–based methodology. We suggest that this leads to significant misperceptions by investors with respect to the consequence of variability of returns in achieving their goals.

Theoretical risk versus investor perception

What we find most disturbing about the Fund Facts disclosure of volatility is that it is presented and used as though it gives an indication or assurance of future variability/risk. Consider for example this statement, which is used by one institution in their Fund Facts document: "When you invest in a fund, the value of your investment can go down as well as up. [XYZ Mutual Funds] has rated this fund's risk as medium." This statement of risk rating is not a past-oriented comment. It is written as though the reader would think it is commenting on a present condition and relevant to an investment about to be made to earn money in the future. The date at which this statement was written is not even placed close to the statement in the Fund Facts document. That is why readers interpret it as current and time-neutral information and written to inform them about future fund performance.

Of equal concern is the fact that the limitation of using time series of returns regression analysis in describing and predicting market and asset class behaviour, especially in turbulent or volatile markets, has been proven and well documented[2]. This means that the underlying data measure itself may or may not be statistically appropriate given market conditions. Market crises are not infrequent, and it can take the investor several if not many years to recover from a crisis or a correction, as indicated above.

However, based on a measure of standard deviation (translated into a label of low, medium, etc.) the average investor will draw a conclusion about how "safe" their investment will be in future, whether their investment will ever go down, whether they might possibly lose money, and whether it will be enough when they need it to be enough.

[1] Source: http://www.jeff-stark.com/The-Three-Biggest-Mistakes-Investors-Make.11.htm

[2] See, for example, J.P.Morgan Asset Management, *Non-normality of Market Returns: A framework for asset allocation decision-making*:
http://www.jpmorganinstitutional.com/blobcontent/42/35/1159384839488_Non_normality_long.pdf

The CSA research[3] on page 1 of the Fund Facts document indicated that the risk section of the document is the weakest section. Of the 211 very/fairly knowledgeable participants in the research, 50% believed that "understanding the fund's risk tells investors whether this mutual fund will make or lose money in the future." The other 50% did not. Clearly, knowledgeable investors do not agree on how to interpret the information that is being standardized.

Simply standardizing how one classifies risk, which is what this CSA proposal does, does not alleviate the interpretive issues that are so important to investor understanding. Without a best interest standard, the investor really does have to be able to understand the information they are given—especially to see the downside risks. The research showed very clearly that, "while mutual fund investors can often 'read' Fund Facts accurately, they do not always know how to apply this information to their own decision making. They may misuse historical data to predict future results. Implications need to be spelled out for the retail investor."[4]

The CSA proposal states that standard deviation was chosen to represent volatility or variability in returns because it is the "most widely accepted measure of volatility"; "its calculation methodology is well known and established"; "the calculation is simple." We are not confident that these statements resonate with the average investor; nor are we aware of research evidence that correlates a normal distribution with investor risk profiles and tolerances. Indeed, since "losses count more than gains," one might argue that a conditional risk model may be closer in alignment with an educated investor's actual perception of risk than the normal distribution that is being used.

Risk, like beauty, lies in the eyes of the beholder when it comes to protecting one's investments. For most retail investors risk means loss of capital and failure to achieve one's financial goals. Risk is much more than the symmetric distribution of historic returns around a historic mean return. One needs to understand the investor's risk/loss tolerance in order to protect them.

We would encourage the CSA to do exhaustive cognitive and behavioural testing to determine what patterns of variation a risk-averse investor would view as risky before finalizing the statistical models, the classifications and the ranges that have been proposed.

Use of words susceptible to misinterpretation

We ask that the CSA reconsider the labels that will be used to describe past variation in returns. Words like "low risk" or "medium risk" do not provide enough information or context for a fund investor to make an informed investment decision, and as labels, they are highly susceptible to misinterpretation by investors and advisors.

[3] See *CSA Point of Sale Disclosure Project: Fund Facts Document Testing*, September 2012: https://www.osc.gov.on.ca/documents/en/InvestmentFunds/pos_201209_fund-facts-doc-testing.pdf

[4] ibid.

In fact, the labels themselves are truly not "facts" but rather are themselves interpretive statements about ranges of standard deviations. The CSA has proposed that a range of +/– 12% annualized return, 95% of the time is "low to medium risk"; that +/– 24% annualized return 95% of the time is a "medium risk." Deciding where a "medium risk" begins and ends is an interpretation or judgement; it is not a fact. Unlike other information in Fund Facts, a reader may not be aware that the CSA has made an interpretation in creating the category ranges and assigning those particular words as labels, and may think these are verifiable facts.

The Panel asks the CSA to consider using "neutral" labels for the categories, by which we mean labels that do not evoke incorrect or inappropriate images of risk – hazard or safety. We are concerned that the average investor does not fully understand that a low-to-medium risk fund can have results that vary by as much as +/–12%, 95% of the time, and that is within a normal forecast range of +/– two standard deviations. We are concerned that the average investor, despite all cautions, will interpret past variation as an indication of future variability limits when past variability is communicated by the simple label of "low-to-medium risk."

We suggest that the investor is more likely to be open to correct interpretation if the category were simply designated "variability level 2," for example, and the categories were used as a means of a relative ranking of historic variability.

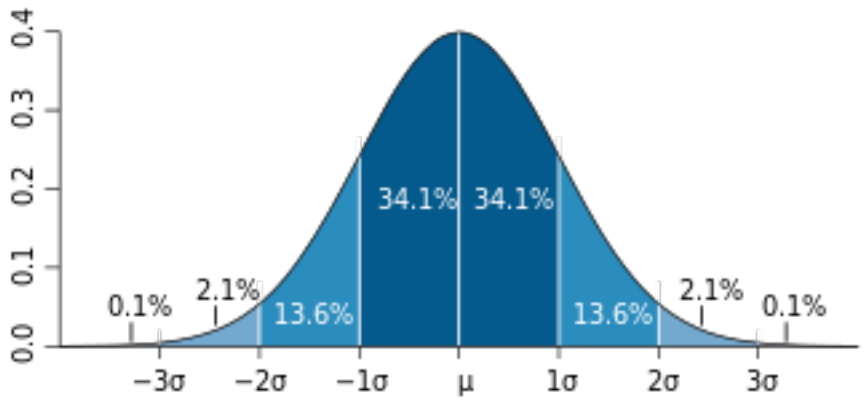
By using a labelling system that is seen as more fact-based and less interpretive, the information will, we suggest, be less susceptible to misinterpretation. We ask that cognitive and behavioural research be done to ensure that the labels and descriptors that are used in the classification are the least susceptible to misinterpretation and overreliance by the investor.

We suggest that this measure or categorization always be clearly referred to as "variability of past returns," or "volatility of past returns" rather than "investment risk"; that this be shown as one aspect or one indicator of investment risk. The investor must not be led to incorrectly interpret this as an unvarying or time-neutral measure that captures or interprets all investment risk on a prospective basis.

Range of possible outcomes

The full range of returns that an investor needs to consider regarding fund variability does not fall within +/– one standard deviation of average return. The investor needs to consider a range of returns that fall within +/– two standard deviations of average return, if not three. The reason for this is simple: +/– one standard deviation of the average return includes only 68% of outcomes; whereas +/– two standard deviations includes 95% of outcomes.

Looking at the normal distribution curve on which the standard deviation is based, one can see that a range that represents only one standard deviation above and below the mean understates the variability of fund performance that must be considered from an investor risk perspective. Further, the standard deviation, in itself, while an important measure, can only be used meaningfully when used in conjunction with the average or mean return.



We find it problematic that the method for classification does not take into account—or lead the investor to consider—the full range of data variability and that the concept of variability has been isolated from consideration of average return.

To illustrate this concern, we take a fund that has returned on average 6% annually with a standard deviation of 10% calculated and annualized based on monthly returns. This fund would be classified as "medium risk."

Would the average investor and advisor be clear on the fact that this means, *ceteris paribus*:

- the fund can be expected to return anywhere from an annualized loss of 4% to an annualized gain of 16%, 68% of the time;
- the fund can be expected to return anywhere from an annualized loss of 14% to an annualized gain of 26%, 95% of the time; and that
- the fund can be expected to incur an annualized loss of 4% or worse, almost 1 in 6 times.

If an advisor, who may or may not be statistically literate, tells an investor that a fund has "medium risk," and then goes on to say that this means the fund's standard deviation falls between 6% and 12%, will that investor understand that this is not the full range of variability they need to consider and that the full range is four or six times greater?

We are concerned that many investors and their advisors will infer a much lower degree of variability than is warranted when one standard deviation is used as a proxy for risk; that in reference to the category break-points they greatly underestimate the quantum of variability that is relevant to the investment decision.

Challenges in explaining risk

Explaining what risk does and does not mean is a challenge given the financial literacy level of Canadian investors. Most retail investors did not study statistics in school. Any explanation of risk that involves the statistical concepts underlying standard deviation and data correlation, etc., will be problematic. And yet, such an explanation must be attempted if one is to disclose faithfully and fully what the risk classification means—and does not mean.

The CSA research on the Fund Facts document found that, notwithstanding disclosure to the contrary, "almost one quarter of the very/fairly knowledgeable investors believe that the risk ratings of mutual funds can never change over time"[5], and "20% of the participants believe that some mutual funds carry no risk at all."[6] These are fundamental issues and concerns.

The Fund Facts document was designed for a Grade 6 literacy level. A review of Ontario's public school curriculum indicates that classical statistics and regression analysis is not taught until much later in the education system. Therefore, the inherent numeracy level for the risk classification methodology is higher than Grade 6 and herein lies a significant problem with respect to investor interpretation of the statistically derived risk measure. It matters not that the literacy measure is Grade 6 if the reader has not been educated in the underlying subject matter.

When one factors in the low level of Canadian financial literacy[7] and numeracy[8], the chances of many investors making sense of the disclosure is low, in our view. We think the approach to risk disclosure using standard deviation has inherent weaknesses from an investor protection perspective because it cannot be explained with the necessary assurance that it will not be misinterpreted. There must be more done to assist in the interpretation of the risk measure.

Disclosure needs to include all key risks

We recommend that the Fund Facts should follow International Organization of Securities Commissions disclosure guidelines as set out in the 2011 Principles on Point of Sale Disclosure — Final Report[9]. This report makes the important point that inclusion of the principal risks of a fund should accompany any quantitative risk measure.

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[5] ibid.

6 ibid.

[7] Cécile Carpentier, Jean-Marc Suret. *Financial Knowledge and Rationality of Canadian Investors*: "… Canadian investors' financial knowledge is limited. On average, they obtain a mediocre knowledge score; only 5% score above 66%. The vast majority of respondents scored between 40% and 57%. Significant gaps were noted regarding knowledge of risk and return of asset categories. Knowledge of past returns of the main asset categories is abnormally low, particularly for equity, an area where all of the respondents are involved.. Three-quarters of investors do not systematically compare the return on their portfolio with that of a stock market index. …. **The risks associated with shareholding are largely underestimated.**" [emphasis added]: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2038930

[8] According to a May 2011 Ipsos Reid poll, "Seven in Ten (72%) Canadians Not Fully Confident Their Math and Money Management Skills Will Help them Plan for a Secure Financial Future": http://abclifeliteracy.ca/files/Financial_Literacy_Research-2011.pdf

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https://www.investorpos.com/documents/IOSCO%20Principles%20on%20Point%20of%20Sale%20Disclosure%20Final%20Report%2001022011.pdf

There are many risks involved in mutual fund investing that may not be captured by historical performance. An example of this would be the historically low interest rates that have prevailed over much of the last decade. Should rates accelerate, this would dramatically alter the risk-return profile of, say, bond funds. A poll from CIBC Asset Management by Leger, released January 24, 2014[10], reveals that almost 60% of Canadians with a retirement portfolio are unaware that rising interest rates can erode the value of some of their investments. Furthermore, those investors closest to retirement — the "baby boomer" generation between the ages of 55 and 64 — are particularly in the dark, with 65% unaware of the impact of rising rates.

Additionally, many non-random factors come into play over a 10-year period. These include such factors as fund mergers, portfolio manager changes, MER rate changes, style drift, increased transaction expenses or even changes in tax rules such as occurred with the introduction of the HST.

For some fund categories, the enumeration of risks may be the only way to communicate the risks of the fund. A good example of this is the category of target-date funds (a.k.a., life cycle funds), which Shirley Won has written about[11]. These funds have unique risks that many investors were unaware of. The funds utilize a monotonically decreasing risk glide path to the end date, and funds promise investors downside risk protection but also some potential for upside. Historical risk may have little meaning for such funds.

As Ms. Won explained in 2009, "Last fall's market crash, however, forced all of Mackenzie's four Destination+ funds, which were launched in January, 2008, to shift into strip bonds to be able to make good on their high-water mark. Investors who were fully invested in equities with such target dates as 2020 and 2025 found themselves in all bonds, and would have to stick with this investment to get their fund's best return last year."[12]

What investors bought as an equity fund had become a fund of zero-coupon bonds. In the article, Jim Fraser, senior vice-president of marketing at Mackenzie, is quoted as saying, "It doesn't make sense to market those funds now to new investors because all they would be buying is zero-coupon bonds."[13]

Ms. Won gave another example, "Similarly, the BMO LifeStage Plus 2015 and 2020 portfolio shifted into all bonds last fall, and have also closed. Both Mackenzie and Bank of Montreal

[10] http://www.newswire.ca/fr/story/1294459/canadian-investors-unprepared-for-the-impact-of-rising-interest-rates-cibc

[11] Shirley Won, "Target-date funds miss the mark," *The Globe and Mail*, 25 August 2009: http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/target-date-funds-miss-their-mark/article4283341/?page=all

[12] ibid.

[13] ibid.

acknowledged that some investors in the capped funds have forsaken the guarantees and redeemed at a loss to invest elsewhere."[14] Such losses in an RRIF may be irrecoverable.

Another example is T-Class funds, which provide monthly income, including return of capital. Such funds have experienced unexpected behaviour (to the retail investor), resulting in undesirable outcomes and client complaints. Investors, many of which are seniors who were leveraged and were sold these funds on a DSC basis, suffered significant losses on risks that would not have been articulated by the proposed risk rating methodology.

We note that the U.S. Securities and Exchange Commission's comparable document, the Summary Prospectus, does not use a scale but does enumerate the principal risks of the fund. We see this as an integral part of risk disclosure.

Risk rating changes

The Panel has also considered the issue of risk rating downgrades. We are of the view that a fund that is downgraded, should not be upgraded again for a minimum of six to 12 months. The fact that it is going to take the investors a significant amount of time to recoup their situation — losses or underperformance — if they ever do, seems to make the proposed "two monthly indicators" a time frame that is frivolous by comparison. The fund recovers its reputation a lot faster than the unit holders recover their invested capital. We realize that this may seem to be an arbitrary constraint, but we believe there needs to be more balance here.

More effective communication of variability

The CSA Fund Facts research indicated a high level of comprehension and understanding by investors of all knowledge levels when tested on their interpretation of the Fund Facts document section, "How has the fund performed?" Indeed, almost 90% of participants indicated that "the performance section of the Fund Facts document explains the relationship between risk and return very or fairly clearly."[15]

The information in the fund performance section of Fund Facts is factual and shows the range of variability that makes up the fund's 10-year past performance. As such, it visually communicates variability in a way that a summary or statistical indicator, such as standard deviation, does not and cannot. Almost 90% of participants in the research study indicated that the bar graph helped them to consider whether their comfort level was with low steady returns or higher variable returns. The consistency of accurate interpretation across all levels of investment knowledge was notable.

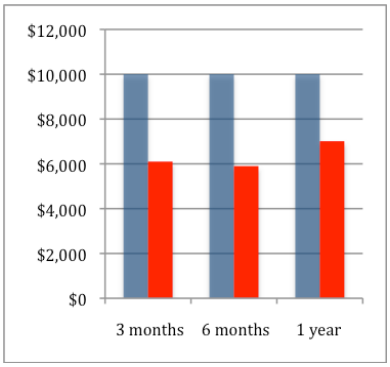
[14] ibid.

[15] *CSA Point of Sale Disclosure Project: Fund Facts Document Testing, September 2012*: https://www.osc.gov.on.ca/documents/en/InvestmentFunds/pos_201209_fund-facts-doc-testing.pdf

Other performance data that had resonance in communicating variability/risk include disclosure of the worst 3-month period and the best 3-month period, as well as the comparator GIC information.

In light of this, the Panel has questioned whether risk disclosure might not be enhanced through an expansion of performance information. This may help to counteract or avoid some of the weaknesses that exist in the proposed risk classification methodology and disclosure. Consideration should be given to requiring disclosure of the best/worst performance data, as suggested below. This data could be presented using bar charts or graphs similar to the current 10-year performance data. The importance is in showing the data in dollar terms, as research has shown that investors do not always correctly interpret variability when it is expressed in percentages.

Investment risk: variability of fund results in the last 10 years



Worst 3 months (39%).
An investment of $10,000 at the beginning of the 3 months ended the 3-month period with a value of $6,100.

Worst 6 months (41%).
An investment of $10,000 at the beginning of the 6 months ended the 6-month period with a value of $5,900.

Worst 1 year (29.9%).
An investment of $10,000 at the beginning of the year ended the 1-year period with a value of $7,010.

Best 3 month +27%.
An investment of $10,000 at the beginning of the 3 months ended the 3-month period with a value of $12,700.

Best 6 month +38%.
An investment of $10,000 at the beginning of the 6 months ended the 6-month period with a value of $13,800.

Best 1 year +32.8%.
An investment of $10,000 at the beginning of the year ended the 1-year period with a value of $13,280.

In requiring this disclosure, consideration must be given to how funds with less than 10 years of history should disclose their results. To use a more consistent approach than that contained in the

proposal, fee-adjusted index data could be used. To ensure computational consistency, the CSA should prescribe the methodology of integrating costless index data with after-fee returns to derive the best/worst 3-month, 6-month and 1-year performance. The CSA should also provide guidance on how the performance of a merged fund would be computed and presented.

Access to information and tools

As the foregoing has demonstrated, at the core of the Panel's concern is the ability of investors to become competent and conversant in the language and methods of risk disclosure. There is a minimum level of understanding that must be achieved in order for the investor to be aware of the implications of the choices they are making. There is much work to be done.

We urge the CSA member bodies to jointly consider the extent of the knowledge gap that exists with respect to volatility and risk, and to collaborate on developing tools and aids, such as a plain-language booklet or an interactive web-based guide, which may help improve investors' ability to correctly interpret this information. We believe that investors would be better served by the CSA mandating a link from Fund Facts to the Investor Education Fund, where investors will find critical information on these important decisions. To help the Ontario investor, we recommend to the OSC that the Investor Education Fund description, logo and link should be a mandatory component of every Ontario registered Fund Facts document.

Conclusion

In closing, we wish to assert that robust risk disclosure is key for retail investors, especially for retirees and the elderly. We support the CSA's use of Fund Facts to encourage retail investors to better understand the product they are being sold. Due to the very nature of the investment options, risk disclosure will not be able to capture all the nuances around risk for each fund.

While the standard risk methodology proposed by the CSA has the potential to provide improved comparability for investors and a higher degree of rigour by the preparers of information, we do not support the use of standard deviation for the disclosure of fund risk. We are concerned that there are too many weaknesses and issues in this approach, including oversimplification, misinterpretation, calibration, labelling and a lack of behavioural research to provide necessary evidence and support.

We propose that a table/graph of worst-case and best-case historical return scenarios be used to demonstrate fund volatility. This would be more effective in communicating the range and variability of past fund returns and would be less likely to be misinterpreted. Investors will be more aware of the risks involved. An investor should ideally use the enhanced performance information as a starting point and add traditional parameters for research, such as financial goals, risk tolerance, risk-return, time horizon and portfolio fit on top of it, before investing.

For disclosure to have any value, it must be delivered at or before the point of sale. We believe that Fund Facts should include a brief enumeration of the principal risks of the fund in addition to the risk disclosure approach we have suggested.

Additionally, we urge regulators to provide better guidance material to investors and to require a mandatory link to the Investor Education Fund, where investors will find critical information on these important decisions.

Yours truly,

Connie Craddock, Chair
Investor Advisory Panel