



THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

IFIC Submission

Re: CSA Notice and Request for Comments – Proposed
Amendments and Proposed Changes to Modernize the
Continuous Disclosure Regime for Investment Funds

January 31, 2025





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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
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Dear Sirs and Mesdames:

RE: CSA Notice and Request for Comments – Proposed Amendments and Proposed Changes to Modernize the Continuous Disclosure Regime for Investment Funds

The Investment Funds Institute of Canada (**IFIC**) appreciates the opportunity to comment on [CSA Notice and Request for Comment – 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 \(Consultation\)](#).

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

Summary

IFIC welcomes initiatives to reduce the regulatory burden for industry and commends the CSA for the Consultation. Overall, IFIC supports the proposed rule amendments and guidance changes aimed to make improvements to the continuous disclosure requirements for investment funds (**Proposal(s)**). IFIC agrees with the CSA's aims to improve the continuous disclosure regime governing investment funds to benefit investors by streamlining the existing requirements.

IFIC members are nevertheless concerned with some proposed disclosure requirements that are new as compared to the existing requirements. IFIC members are also concerned that some of the streamlining Proposals go too far, potentially impeding investors' ease of understanding or not fulfilling their needs, and some do not go far enough in eliminating content that would be of little use to an investor's buy, hold, or sell decision or duplicates content that is in the financial statements.

Areas of Agreement

IFIC agrees with the following improvements resulting from the Proposals:

- streamlining the existing requirements with content that better responds to investor needs, preferences, and ease of understanding
- eliminating content that investors would not find of practical use in continuous disclosure material (i.e. refer to paragraph (a) to (e) at the bottom of page four of the Consultation)
- eliminating the requirement to disclose certain financial information in an investment fund's financial statements that is not currently required by International Financial Reporting Standards (**IFRS**)
- reducing the regulatory burden for IFMs that results from the CSA initiating the above three measures

IFIC also agrees with the Proposal to implement the FER into costs disclosure in the Fund/ETF Facts (**FER Revisions**) to create alignment with other regulatory disclosure documents (i.e., the use of FER in the Fund Report and in an investor's annual cost reports delivered by dealers under Total Cost Reporting).

Recommendations for Improvement

In response to some of the streamlining measures proposed, IFIC provides recommendations for improvement on many areas of the Proposals which we explain in detail in this submission. Our recommendations are on the basis that the requirements proposed are not aligned with one or more of IFIC's guiding principles (set out below) and/or do not help an investor better understand the information required to be provided in the proposed "**Fund Report**" (previously, the "MRFP").

IFIC's recommendations include the following in respect of certain Proposals that we believe overly streamline the existing MRFP requirements:

- require two years' comparative Fund Expense Ratio (**FER**) cost information for all series/classes (without the need for a written summary explaining the difference) so that all investors can readily see the increases and/or decreases in the FER cost information for the class/series that they specifically hold. This is in response to the Proposal to provide only one year cost information (MER, TER, and FER) for all classes/series and include a brief written summary that explains the difference in the change of the FER only where the FER of a class/series increased from the previous financial year.
- require performance information for all classes/series so that all investors can readily see/find the performance of the investment fund class/series that they specifically hold. This is in response to the Proposal to only require performance information for the series or class with the highest management fee.

IFIC also provides recommendations in response to certain new Proposals that did not previously exist in the MRFP disclosure requirements, including:

- the Proposal requiring an IFM to report on the achievement of investment objectives and strategies in the Fund Report, specifically, the inclusion of a requirement for IFMs to assess the "fund's satisfaction of its investment objectives and use of investment strategies." This creates unintended regulatory burden and increased liability risk. We also note that no other major jurisdiction requires

IFMs to assess a fund’s success in achieving its investment objectives and strategies. Instead, we recommend reverting to the existing MRFP “Results of Operations” and “Recent Development” disclosure requirements and maintaining them in the Fund Report.

- the proposed instructions for providing ESG-specific disclosure for funds with ESG-related aspects. Instead, we recommend that the CSA refers to the CSA Staff Notice 81-334 for an IFM’s disclosure obligations in the case of funds with ESG-related aspects so as to not create a new rule with ESG-specific disclosure requirements that is not consistent with the existing CSA ESG-related disclosure guidance and before that guidance has been sufficiently tested.
- the proposed disclosure requirements for the Liquidity Profile, Risk Profile, Statistics, Portfolio Holdings, and Borrowing and Leverage sections of the Fund Report. Instead, our recommendations include:
 - eliminating the proposed Liquidity Profile section on the basis that we do not consider the proposed required information (i.e., the liquidity of portfolio securities) to be material to mutual fund investors and even less significant for ETF and closed-end fund investors where the primary liquidity for investors is typically through trading on public markets. Also, the CSA is undertaking a review of fund liquidity and therefore we suggest the CSA revisit this disclosure concurrently with the release of substantive liquidity rules.
 - eliminating the proposed Risk Profile section and instead have material changes in an investment fund’s risk rating disclosed under the Other Material Information section, thereby taking up less space in the Fund Report.
 - reframing the proposed content for the Statistics section by carrying over the required information to the end of the Performance section as it is supplemental performance information.
 - reframing the proposed content for the Portfolio Holdings section to instead carry over from the existing MRFP the requirements related to discussing material changes in specific portfolio assets and overall asset mix and changes to the composition of the investment portfolio, and also moving its placement to be under other discussion related to “Results of Operations Over the Last 12 Months,” which is a new heading we have proposed, similar to the existing MRFP, thereby eliminating the need for the standalone Portfolio Holdings section.
 - eliminating the Borrowing and Leverage section as it would have very limited application, resulting in that space in the Fund Report being underutilized. Instead, the proposed disclosure requirement would be more appropriate for the Other Material Information section, thereby taking up less space in the Fund Report.
- the proposed requirement in the Proposed Form 81-107A [Conflict Reporting] to report on related party transaction information that is not a requirement for the current reports. Instead, we recommend not adding more than the existing reporting requirements which is consistent with burden reduction.

Our basis for the above recommendations stems from considering the type of continuous disclosure information that would be (i) practical, useful, and relevant for investors, (ii) make the Fund Report easier to read and understand, and (iii) support investors in making a buy, hold, or sell decision.

We also provide many suggestions to improve the substantive content of the disclosure requirements in many sections of the Fund Report, including moving required information from certain sections that are more relevant to instead be included in other sections, on the basis that we believe it will help investors better understand the information provided in the Fund Report.

Further, we provide many suggestions for changes and improvements on the format, layout, appearance, and style of the “sample” Fund Report that the CSA created and included in the Proposals for illustrative purposes.

IFIC also recommends an additional burden reduction measure related to the preparation of an investment fund’s financial statements. We propose that the CSA eliminate the requirements in section 3.12 [*Disclosure of Use of Leverage*] on the basis that it removes unnecessary duplication, as the Fund Report also requires disclosure of information on borrowing and leverage.

Recommendations for Implementation Timing

With respect to implementation timing, IFIC requests that the CSA have a phased approach for the final publications/effective dates and the time-limited compliance exemptions for each of the Workstreams and FER Revisions (as both terms are defined below). With respect to the time-limited compliance exemptions, IFIC members request:

- a minimum 24-month compliance exemption from the effective date for Workstream One [Fund Report], and
- a minimum nine-month compliance exemption for Workstream Two [Conflicts Report], Workstream Three [Financial Statements] and the FER Revisions. With respect to Workstream Three, we specifically request that they become effective soon but also provide a sufficient time-limited compliance exemption that is synchronized with the new IFRS rules that come into effect on January 1, 2027.

IFIC emphasizes the importance of these requested time-limited exemptions for our members which provides them the opportunity for early adoption from the time of publication of the final amendments. This would allow, for those IFIC members that may need it, a sufficient implementation period to make required IT changes, and changes to policies and procedures, training and operational matters.

Guiding Principles

The following guiding principles inform the analysis and discussion of our members concerning the Consultation:

1. Improve investor understanding by simplifying the form.
2. Reduce regulatory burden by reducing the amount of unnecessary disclosure and disclosure where associated costs/risks are disproportionate to its potential benefits.
3. Focus on content of disclosure information that supports an investor's decision to buy, hold, or sell investment fund securities.
4. Alignment with other regulatory documents.
5. Having a self-contained disclosure document without cross-references within it or to other external sources (including the investment fund's designated website).

Below please find our responses to the CSA's specific questions contained in the Consultation. Also included in our responses under some of the CSA's specific questions, we provide comments and recommendations regarding IFIC members' additional concerns if they relate to the context of the question. For other additional concerns that do not relate to the context of the CSA's specific questions, we also provide additional comments under the last heading of this submission titled "*Additional Concerns and Recommendations.*"

Responses to the CSA's Specific Questions for Comment Related to the Proposals

The defined terms (i.e. capitalized words) used in this submission have the same meaning as the corresponding definitions in the Consultation (refer to the link to the Consultation in the first paragraph of the first page above).

General

- 1. Other Areas for Modernization: Are there any other areas of the continuous disclosure regime for investment funds that should be modernized, and which have not been addressed as part of this project? Please provide detailed rationale for each suggestion.**

IFIC acknowledges, as the Consultation states, that the scope of the CSA's review to modernize the continuous disclosure regime for investment funds did not include an investment fund manager's (IFM) delivery requirement that apply to continuous disclosure documents, and that work on that initiative is ongoing. IFIC supports the CSA's ongoing efforts on that initiative and its collaboration with IFIC to solicit input from its IFM and dealer members with the aim to achieve a modernized approach that facilitates a shift from the default paper delivery obligation, such as an access-based model that permits IFMs to provide investors electronic access to continuous disclosure documents, with an investors' option to ask for paper

copies. To this point, as a tool for an access-based model, IFIC members suggest that the CSA use SEDAR+, in addition to IFMs' designated websites, for IFMs to meet their continuous disclosure obligations.

Although IFIC members generally support the continuous disclosure modernization initiatives put forward by the Proposals, we request that the CSA remain open, in the immediate future, to revisit whether investors' currently low uptake of the MRFP improves with the new Fund Report. If it does not, IFIC members request that the CSA reconsider the requirement to prepare and deliver a Fund Report or at least eliminate the interim Fund Report. See our response to question #3 below.

2. Effective Dates and Exemptions: As described in the Notice, the CSA is proposing that the final amendments and final changes have an effective date of three months following final publication. However, the CSA is also proposing time limited exemptions from compliance with the final amendments and final changes. In particular, we are proposing to provide an exemption from compliance in respect of each Workstream and the FER Revisions, for approximately a 9-month period following the effective date. (See also the transition provisions at the end of each amending instrument, which have been drafted with the intention to give effect to these arrangements.)

- a. **In respect of each Workstream and the FER Revisions, please comment on whether the proposed effective date is appropriate and whether the proposed length of the exemption from compliance is sufficient to enable investment funds to prepare for the new requirements. If not, provide alternative timelines and an explanation of how any additional time would be used.**
- b. **In respect of Workstream One – Fund Report, please comment on whether an investment fund that prepared an interim MRFP using the requirements set out in the Current Form 81-106F1 should be able to file its subsequent annual MRFP also using the requirements set out in the Current Form 81-106F1, even where the currently envisioned exemption period has ended. If yes, please explain why.**

IFIC supports having time-limited exemptions from compliance with the Proposals following the effective date which would allow for early adoption of the Proposals. This is a welcome approach so that the regulatory burden reduction benefits can be realized sooner for those IFMs that are able to achieve earlier compliance.

To the extent possible, IFIC members request that the CSA provide advance notice of the status of the publication of the final amendments (e.g. notification whether there will be a second publication for comment and/or at least six-months' notice of the proposed timing for publication of the final amendments). If the effective date of the final amendments is three months following the final publication as proposed, such notification helps IFMs with their need to, significantly in advance of the final publication, start on estimates and the approval process for the budget allocations necessary for such a large regulatory change project.

IFIC recommends that the time-limited exemptions from compliance with the Proposals be a minimum of 24 months from the effective date, especially in respect of the Workstream One (Fund Report) Proposals. For those IFMs with limited financial and non-financial resources, including limited IT capability, and especially those who use outside service providers to implement the Proposals, much more time will be needed than the proposed 9-month period. IFMs and service providers will have to substantially modify their existing systems and processes to do a complete redo of entire current annual and interim MRFP to conform to the new Fund Report requirements. This includes a complete redesign to adopt the format for all Items in Part A and Part B of the annual and interim Fund Report and create new tables and data fields and style changes to assist investors to better understand the reporting. The additional time is also needed to create the new Proposed Form 81-106B (**Quarterly Portfolio Disclosure**), which will also require system modifications, even though less substantial, to satisfy the new requirements. Also, depending whether the CSA accepts our recommendations in response to question #9 below, relocating the Related Party Transactions disclosure from the Fund Report to a new appendix in the independent review committee's (**IRC**) annual report to securityholders and reassessing the extent of detailed disclosure on related party transactions to provide for this new requirement will also impact the cumulative time needed to implement compliance with the Proposals. Another factor impacting the additional time needed for compliance implementation with Workstream One is ensuring the new Fund Report complies with the federal and provincial accessibility law requirements, such as the Accessible Canada Act (federal), *Accessibility for Ontarians with Disabilities Act* (Ontario) (AODA), and similar accessibility laws in any other

province (i.e., British Columbia, Manitoba, New Brunswick, and any other applicable jurisdictions) (**Accessibility Laws**), which is a challenge when incorporating charts and graphs into a document.

Print vendors and other third-party service providers will need to update their systems to be able to create or accept and use the new data files. Changes will be required for the new Fund Report layout and design. Bottlenecks could arise at major third-party service providers that will be undertaking changes for significant portions of the investment funds industry all at once. It will be particularly important that the exemption from compliance period provides sufficient time to build and test the revised functionalities.

The recommendation above for a 24-month minimum compliance exemption following the effective date is especially critical in respect of the Workstream One (Fund Report) Proposals. The impact of the Proposals for Workstream Two (Conflicts Reports), Workstream Three (Financial Statements), and the FER Revisions are less onerous for operational and compliance implementation. Therefore, the proposed 9-month period compliance exemption from the effective date would only be possible for Workstream Two, Workstream Three and the FER Revisions.

Based on the above, IFIC members request that the CSA have a phased approach for the final publications/effective dates and compliance exemptions for each of the Workstreams and FER Revisions. With respect to the time-limited compliance exemptions, IFIC members request the following:

- a minimum 24-month compliance exemption from the effective date for Workstream One, and
- a minimum nine-month compliance exemption for Workstreams Two and Three and the FER Revisions.

With respect to Workstream Three, IFIC reminds the CSA that International Financial Reporting Standards (**IFRS**) 18 becomes effective beginning on or after January 1, 2027 (with retrospective application). The application of IFRS 18 may warrant further modifications to Part 3 of NI 81-106 to eliminate potential inconsistencies between IFRS 18 and NI 81-106, Part 3. IFIC members have just begun evaluating the impact of IFRS 18 on the presentation of an investment fund's financial statements. Therefore, IFIC requests that the final publication/effective date of Workstream Three be as early as the CSA can finalize it, however, provide a sufficient time-limited compliance exemption that is synchronized with the new IFRS rules that come into effect on January 1, 2027. This alignment will allow IFIC members with sufficient time to evaluate the impact of IFRS 18 on the presentation of an investment fund's financial statements while also providing an option for early adoption by those IFMs who may want to avail themselves of the burden reduction earlier.

Also, we suggest that if the final publication and effective date of FER Revisions is no later than three months after the January 1, 2026, effective date of the TCR Enhancements, having the proposed 9-month exemption from compliance would allow for early adoption of the FER Revisions by those IFMs who can implement compliance earlier. Depending on the timing of the publication of the final FER Revisions and their effective date, it may be possible for IFMs to have the FER Revisions implemented in line with the timing investors will receive their first annual cost report with the TCR Enhancements (i.e. January 2027). Related to this, also see our response to question #20 below.

Regarding question 2. b. above, IFIC members recommend that an investment fund that used the Current Form 81-106F1 for its interim MRFP should be permitted to file its subsequent annual MRFP also using the requirements set out in the Current Form 81-106F1, even where the currently envisioned exemption period has ended. We believe allowing IFMs the flexibility in this regard is consistent with burden reduction. For investors that focus solely on annual reports, the continuity of presentation format and style is a non-issue. Therefore, we support permitting IFMs to have this option. We also urge the CSA to adopt our recommendation above to provide a 24-month compliance exemption from the effective date for Workstream One, which would provide many IFMs sufficient time to plan for preparing their interim and annual reporting using the Proposed Form 81-106A within the compliance exemption period.

Workstream One – Fund Report

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.

It appears that the behavioral insights research and testing of investors referred to in the Consultation did not test investors' preferences or need for an interim Fund Report in the case of reporting issuer investment funds. The best data we have to date is that there is a very low investor take up for receiving continuous disclosure materials¹. We note that the testing referred to in the Consultation measured investors' preferences and ease of understanding of several various designs of the Fund Report (i.e. three mock-ups vs the existing MRFP) and that the testing showed that the Proposed Form 81-106A is easier for investors to understand and navigate. However, if there has not been testing whether also having an interim Fund Report is a critical investor need, it appears that continuing with the interim Fund Report requirement for a reporting issuer investment fund that is not a scholarship plan has not been substantiated. Investors have also been noted to have a greater preference for annual over quarterly reporting (61% versus 34%) and several jurisdictions currently require annual but not quarterly reporting, suggesting a greater benefit for investors at the former frequency.² Therefore, we recommend that the CSA undertakes investor research on investors' preferences or need for an interim Fund Report before mandating this disclosure.

In addition, since the interim Fund Report is not for a full financial year period, investors are not getting a clear/complete picture. In making a buy, hold, or sell decision, investors should base it on complete and accurate information, which is provided by the information in an annual Fund Report. Instead of keeping investors current with the status of their investments as the CSA proposes in the Consultation as its benefit, the interim Fund Report may divert investors from having an accurate picture and may incent them to make investment decisions based on limited information. Considering it takes a lot of time and cost for IFMs to prepare an interim Fund Report for investors to have a less complete picture of the investment fund, the costs of which are ultimately borne by investors, IFIC urges the CSA to reconsider their proposition for maintaining the interim Fund Report requirement.

Further, for IFMs with investment funds with different financial year ends, it is a greater regulatory burden to prepare and produce annual and interim Fund Reports multiple times per year, as opposed to if the requirement was to prepare only an annual Fund Report.

Therefore, consistent with IFIC's guiding principle #2 above and the CSA's regulatory burden reduction objectives, IFIC strongly recommends that the CSA eliminate the requirement for reporting issuer investment funds to prepare an interim Fund Report, pending obtaining data that investors seek this additional reporting and that it would be materially helpful to them. The CSA has not provided the policy basis for distinguishing scholarship plans from other investment funds in this respect. In IFIC's view, the treatment of investors in scholarship plans and other investment fund reporting issuers should be the same. Moving to an annual only reporting cycle for the Fund Report would also be aligned with the CSA's policy position on the TCR Amendments, which indicate that annual client cost reporting satisfies investors needs.

¹ Based on previously obtained IFIC data and reported in [IFIC Submission Re: CSA Consultation Paper 51-405 Consideration of an Access Equals Delivery Model for Non-Investment Fund Reporting Issuers](#) March 9, 2020, page 3:

"The cost of sending the annual request to securityholders varies with the size of the investment fund complex, but for the 15 members who responded to our survey, this cost varied from \$13,365-\$838,058 in 2017, \$22,737-\$880,958 in 2018 and \$20,727-\$1,117,905 in 2019. Further, while the absolute number of annual mailings sent each year varies depending upon the size of the investment fund complex the percentage of securityholders who opted to receive paper documents by mail is quite similar:

- the median percentage who opted to receive interim documents was 3.5% in 2017, 2.6% in 2018 and 3.3% in 2019
- the median percentage who opted to receive annual documents was 3.0% in 2017, 3.1% in 2018 and 3.9% in 2019.

[Therefore, the cost to send the annual request is not merited in light of the percentage of investors who opt to receive the interim and annual documents in paper. (*edit added*)] These costs are borne by each investment fund and, indirectly, by the fund's investors. Further, these results support the move to an access equals delivery model. The low opt-in rates clearly demonstrates that only a small number of retail investment fund investors want to receive the interim and annual financial statements and MRFPs in paper."

² United States Government Accountability Office (2021). *Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them*. <https://www.gao.gov/assets/d21357.pdf>

Further, the CSA points out in the Consultation that maintaining a twice-per-year filing requirement means Canada would be aligned with other foreign jurisdictions that also require annual and semi-annual reports. However, IFIC does not agree that following other jurisdictions should be a basis for imposing or maintaining regulatory requirements in Canada. The appropriate continuous disclosure regime for Canada should be based on research and analysis of Canadian investors' needs and take into consideration that Canada already has a very robust disclosure regime for investment funds, including the Fund/ETF Facts required at point of sale which are also accessible after point of sale on an investment fund's designated website. As a related matter, we note that because of the January 2022 amendments to NI 81-106 *Investment Fund Continuous Disclosure*, investment funds must have a designated website on which investment funds intend to post regulatory disclosure. In the notice publishing the amendments, the CSA stated, "*This requirement provides future opportunities for investment funds to leverage their websites to reduce regulatory burden, while also improving investor access to disclosure.*"³ As another related matter, with SEDAR+ now fully implemented, SEDAR+ should also serve a similar function as an easily accessible source for investors to find offering and continuous disclosure materials, such as Fund/ETF Facts and the Fund Reports. This means there is an improved and modernized infrastructure in Canada through which investors have access to annual disclosure related to their investment funds. Maintaining the interim Fund Report requirement is more a legacy practice and is not in keeping with a tailored for investment funds modernized disclosure regime.

If the requirement for an interim Fund Report remains, IFIC recommends eliminating from the interim Fund Report those requirements that are not maintained in the interim MRFP compared to the annual MRFP, to not add regulatory burden. For example, for performance reporting in the interim MRFP, there is no requirement to include the annual compound return table that is required in the annual MRFP. In addition, in considering this, the CSA should also note that some of our recommendations throughout this submission propose the elimination of some sections entirely or portions of certain sections proposed for the annual Fund Report, in which case, we intend that those recommendations apply in respect of the interim Fund Report as well.

- 4. Forward Looking Information: The Proposed Form 81-106A will require standardized language regarding forward looking information to be placed towards the beginning of a Fund Report (see proposed Item 3 of Part A), with an option to provide additional disclosure in the Other Material Information section at the end of the Fund Report. The standardized language is intended to be more easily understood by investors, and the option to provide additional disclosure later in the document is intended to provide investment funds with the flexibility to supplement the required language. Please comment on whether this proposed approach to forward looking information disclosure in the Fund Report meets investor needs for transparency around the forward-looking information, and the needs of investment funds. If not, please propose an alternative approach along with detailed rationale as to why the alternative approach would represent an improvement.**

In line with IFIC's guiding principle #5 above, IFIC members do not support having cross-references to other sections within the Fund Report. We do not think that it is a positive experience for investors and would not facilitate investors' ease of understanding the information provided if they are expected to search within the Fund Report to find supplemental disclosure. Also, although IFIC supports improvements to ease investors' understanding of this disclosure, it should not be at the expense of an investment fund's ability to mitigate against liability risk, which is the purpose of a more detailed forward-looking information disclaimer. It may present more liability risk if the additional disclosure may only be split into another section at the very end of the Fund Report. IFIC recommends that an IFM be provided the option to add additional disclosure together with the standardized language required by the Proposals. Specifically, IFIC recommends that the standardized language for forward-looking information and the option to provide additional disclosure to supplement the standardized language all remain in one place, up front as proposed, in the sample Fund Report (i.e. consistent with the placement and approach for disclosure in issuer MD&A).

³ Page 3 of CSA Notice issued October 7, 2021, contained in OSCB publishing the amendments (8 workstreams) that came into force January 6, 2022. https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf

5. Years of FER Disclosure: The Costs section of the Proposed Form 81-106A includes a requirement to provide FER information for only one year, with a statement regarding any increase from the previous year in the summary, where such a summary is provided (see proposed Item 6 of Part A). Please comment on whether additional FER information should be required (e.g., two years' worth of information). Alternatively, please comment on whether increases or decreases in FER as compared to the last prepared Fund Report should be identified in their own column in the table that appears in the Costs section, with the corresponding removal of such information from the summary. If writing in support of a particular approach, please describe how the approach selected would support making the Fund Report easier to read and understand, easier to use, and easier to navigate, for investors, than the MRFP.

IFIC members believe that providing investors with very clear, detailed, and comparable information about costs in the Fund Report is important.

The Costs section does not address the changes in costs for all classes or series which could lead to investors searching for costs pertaining to the series or class they are invested in. Since transparency of costs is being emphasized in other regulatory initiatives (e.g. Total Cost Reporting), IFIC members believe that additional information should be required to include comparative costs information. Without it, investors are left searching for comparative costs pertaining to the series or classes they are invested in.

To achieve this, IFIC recommends the following for the Costs section of the Fund Report:

- eliminate the “Summary” text box at the top of the Costs section as required under Proposed Form 81-106A Item 6(a)(o) and (ii) requiring a brief summary of the information presented in the table and, if the FER of any class or series of the investment fund increased from the previous financial year, the amount of the increase (**FER Increases**). We propose this for the following reasons:
 - a summary is not useful because investors hold different series or classes which would make the summary meaningless if the summary does not capture information relevant to their holdings.
 - providing a summary of only FER Increases does not provide sufficient information to an investor to support their understanding of changes in costs increasing and/or decreasing, and it may not be relevant for a particular investor’s holdings.
 - see our comments/recommendation in subheading d. under the heading “*Additional Concerns and Recommendations*” below, in relation to removing the proposed “Summary” requirement from all other sections in the Fund Report.
- add an additional column to the table so that the FER ratios will show:
 - for the interim Fund Report, should it remain a requirement (see our response to question #3 above), one column providing the annualized FER for the current interim Fund Report period ended and another column providing the FER for the previous annual Fund Report period ended, and
 - for the annual Fund Report, one column providing the FER for the current annual Fund Report period ended and another column providing the FER for the previous annual Fund Report period ended.

We believe this is a better way to help investors see the FER comparisons that are relevant for a particular investor’s holdings. This approach is preferred over putting a summary of the FER Increases in the Summary text box for the following reasons:

- it provides the FER ratios for the current and previous period for all the classes/series which allows investors to see information on not only increases, but *also decreases, and/or no changes* of the classes/series they hold, alleviating their need to go search for it in a previously filed report or the financial statements.
- it is more meaningful for investors to have comparative cost information on the investments specific to them.
- from a burden reduction perspective, it’s easier to produce a table from source documents than calculating and writing up a summary about FER differences where there was an

increase each time the Fund Report is prepared. It is not a regulatory burden reduction to have to revise the Summary part for each reporting period.

- it alleviates the need to have a summary of FER Increases because the comparative FER ratio information is immediately proximate in the same table, therefore, the FER ratio difference need not be quantified.
- eliminate the last column for Fund expenses per \$1,000, as investors will be provided similar information as required under the TCR rules. This also frees up more space in the table to add more columns for including comparative information.
- Allow for a “Commentary” text box under the table to give IFMs the optionality to include a short description of the reasons for a change in values provided in the table, as applicable. This is preferred over requiring the “Other Material Information” section as the place for additional information to avoid cross-referencing within the report which we do not support, as we stated previously. Additional commentary should be kept within the section to which the information is relevant. Also see our comments/recommendation in subheading e. under the heading “*Additional Concerns and Recommendations*” below, in relation to providing, at the end of all sections of the Fund Report, a “Commentary” box and space under it for an IFM, at its option, to provide explanations that will help an investor to better understand the required disclosure provided.

Additional comments/recommendations on the Costs section in the sample Fund Report:

- move the wording inside the red rectangle we have marked in the green heading in the picture below (i.e. the description of what the fund expense ratio represents) to either the “Did you know...” text box above the table or add it as footnote 2 under the table. The placement of that wording (i.e., explaining what the fund expense ratio represents) is not consistent with the other headings across the top of the table. Moving it will allow room for more columns in the table per our recommendations above.
- eliminate the wording in the “Did you know” text box which we highlighted in yellow in the picture below (i.e., the wording “Fund expenses reduce the return on your investment”). We believe it is misleading as it is an incomplete explanation about fund expenses. For Fund Facts, under the subheading “Fund Expenses,” the disclosure requirement is to “include an introduction using wording similar to the following: *You don’t pay these expenses directly. They affect you because they reduce the fund’s returns.*” The required wording in the Fund Report should be consistent with the Fund Facts.

Did you know...					
A fund’s management expense ratio (“MER”) is the total of the fund’s management fee (which includes the trailing commission) and operating expenses.		A fund’s trading expense ratio (“TER”) represents the fund’s trading costs.		Fund expenses reduce the return on your investment. A fund expense ratio (“FER”) is the total of the fund’s MER and TER.	
				Each investment fund can have different classes or series of securities and each class or series can have different costs and therefore different returns – make sure you know which class or series you hold.	
For the year ended March 31, 2022	Management expense ratio (%) ¹	Trading expense ratio (%)	The fund expense ratio represents the total of all ongoing expenses set out in this table and does not represent a separate expense charged to the investment fund.	Fund expense ratio (%)	Fund expenses (\$) per \$1000 invested
Series A	2.50	0.07	→	2.57	26
Series B	2.40	0.07		2.47	25
Series T5	1.81	0.07		1.88	19
Series D	1.05	0.07		1.12	11
Series F	0.77	0.07		0.84	8
Series FT5	0.77	0.07		0.84	8
Series I	0.25	0.07		0.32	3
Series O	0.02	0.07		0.09	1

¹ See Other Material Information for MER without waivers or absorptions.

- update the instructions relating to the description of the MER to match the description under the Fund Facts document (i.e. Part II, Item 1.3 of Form 81-101F3, instruction (2.1) which requires the following:

“If applicable, include a reference to any fixed administration fees in the management expense ratio description required in the table under Item 1.3(2).”

6. MER Without Waivers or Absorptions: The Proposed Form 81-106A requires the presentation of MER in the Costs section. No space has been included within the Costs section to disclose MER without waivers or absorptions, where expenses have been waived or absorbed. Instead, instructions have been provided to disclose MER without waivers or absorptions in the Other Material Information section, along with a cross-reference, in the Costs section, to that information (see proposed Item 6 of Part A). This approach to presenting MER without waivers or absorptions is being proposed because we are of the view that it assists in making the Fund Report easier to read and understand. Please comment on whether the proposed disclosure is effective in achieving this aim. If not, please propose an alternative approach (e.g. presenting MER without waivers or absorptions as a new column within the table in the Costs section) and explain why it would represent an improvement.

In line with IFIC's guiding principle #5 above, we reiterate our response to question #4 above that IFIC members do not support having cross-references to other sections within the Fund Report. Firstly, including any supplemental information about MERs without waivers or absorptions in the Other Material Information section rather than the Costs section of the Fund Report is misplaced and may be confusing to investors. It would not provide for a positive experience for investors and would not facilitate an investors' ease of understanding the information provided if they are expected to search around within the Fund Report to find more supplemental disclosure. Also, see our responses to question #12 below.

Secondly, while we understand the concern that some fund companies' funds may have many waivers or absorptions and that providing that information gives an investor a sense of what the cost would be if the waivers or absorptions did not occur, the gross MER is not required to be provided in the Fund/ETF Facts. Consistent with the Fund/ETF Facts, if applicable, there should be a line stating that the manager has waived and/or absorbed some of the fund's expenses and, if it had not done so, the MER would have been higher. We do not believe that investors purchase an investment fund on the basis of gross MERs. Gross MERs are not relevant to investors at the time of purchase and would not be on a continuous basis (i.e. in line with IFIC's guiding principle #3 above). Accordingly, for alignment with the Fund/ETF Facts requirement, we believe it should be sufficient to footnote those series that have waived or absorbed expenses with a note stating that expenses have been waived or absorbed and may not be waived or absorbed in the future, which would lead to a higher MER/FER (i.e. in line with IFIC's guiding principle #4 above).

In addition, the net MER represents the costs included in a Fund's NAV and therefore directly impacts a fund's performance. Requiring detailed disclosure about the gross MER in the document is less meaningful than disclosing the net MER information already required in the Costs section.

Lastly, it is consistent with the spirit of Total Cost Reporting to focus on the fees the investor actually paid. Therefore, requiring any detailed breakdown of what the MER would have been without waivers or absorptions is not materially relevant for the investor.

Therefore, IFIC recommends the following:

- eliminate the requirement to include detailed disclosure regarding MERs/FERs without waivers or absorptions entirely from the Fund Report. Specifically, do not require a cross-reference from the Costs section to the Other Material Information section of the Fund Report nor including it as a new column within the table in the Costs section. Instead, for consistency with the Fund/ETF Facts disclosure requirements under Part II, Item 1.3 of Form 81-101F3, instruction (1), replace it with a footnote under the table in the Costs section, where applicable, with a statement in substantially the following words:

“[Insert name of the manager of the mutual fund] waived and/or absorbed some of the fund's expenses. If it had not done so, the MER would have been higher.”

7. ESG-Specific Disclosure: The Proposed Form 81-106A includes a requirement that an investment fund provide a brief summary of the IFM's assessment of the investment fund's success in achieving its investment objectives and using its investment strategies to achieve those investment objectives, during the period covered by the Fund Report (see proposed Item 4 of Part A). Detailed instructions are also provided regarding how the disclosure should be completed in the case of an investment fund that has ESG-related aspects to its investment objectives or investment strategies. These instructions are not intended to create any additional burden for such investment funds. Rather, they are intended to clarify how those investment funds can appropriately satisfy the requirements that apply to all investment funds in that section. Please comment on whether these detailed instructions would make it challenging to provide concise disclosure in the Investment Objectives and Investment Strategies section of the Fund Report. If a challenge is identified, please provide details and suggest an alternative approach.

IFIC's response to this question #7 regarding ESG-specific disclosure follows in the next heading "ESG-specific disclosure" below this first part of our response. First, we are providing our general concerns and recommendations for the entire Investment Objectives and Investment Strategies section of the Fund Report.

General concerns with Investment Objectives and Investment Strategies section applicable to all Investment Funds, including ESG Funds

IFIC and its members recognize the importance of providing meaningful, clear, and concise disclosure to investors to enhance their understanding of investment funds. However, we have significant concerns with the Proposals related to reporting on the achievement of investment objectives and strategies in the Fund Report, as outlined in Proposed Form 81-106A. Specifically, the inclusion of a requirement for IFMs to assess the "fund's satisfaction of its investment objectives and use of investment strategies" introduces ambiguity, substantial potential liability, and investor confusion. In the explanation of question #7 above, the CSA states that "[t]hese instructions are not intended to create any additional burden for investment funds." IFIC members respectfully contend that they actually create unintended regulatory burden and increased liability risk which we explain in detail below.

1. Conflation of Objectives and Performance

The proposed language and format of the Fund Report risk conflating the achievement of investment objectives and investment strategies with fund performance. For example, the column headers in the sample Fund Report – "Fund's satisfaction of its investment objectives and use of investment strategies during the last 12 months" and "Factors that may impact the fund's satisfaction of its investment objectives and use of investment strategies going forward" – imply that any change in the fund's net asset value (NAV) is indicative of the success or failure in achieving its objectives. This is not only misleading but also does not align with how investment objectives are defined and disclosed in the prospectus. A decline in NAV, for example, may occur due to market conditions or other external factors that are consistent with the fund's stated objectives and strategies.

We recommend that the CSA avoid using terms such as "success" or "satisfaction" in connection with investment objectives. Instead, the report should focus on summarizing significant activities, market conditions, and their impact on fund operations over the reporting period without implying direct causality between performance metrics and the achievement of objectives.

2. Practical Challenges and Investor Clarity - proposed disclosure requirements do not line up with sample Fund Report wording

In the sample Fund Report, the example wording under the columns with the headings "Fund's satisfaction of its investment objectives and use of investment strategies during the last 12 months" and "Factors that may impact the fund's satisfaction of its investment objectives and use of investment strategies going forward" (i.e. the middle and third columns) do not line up with what instructions (2) and (3) in Item 4 of the Proposed Form 81-106A requires.

For example, regarding the middle column, the meaning of "success" should be clarified as the example wording appears to equate satisfaction of the fund's investment objectives and use of investment strategies with an increase (or decrease) in net asset value (**NAV**). Also, a decrease in the fund's NAV doesn't

necessarily mean the fund did not satisfy its investment objectives and use of investment strategies in the period (i.e., certain instruments held by the fund may have decreased in value, but the investment objectives/strategies may have required the fund to hold such instruments). Also, the sample wording suggests that the increase in NAV is solely attributed to net sales, which is unrelated to achieving the fund's investment objectives and investment strategies. The component of performance that increases a fund's NAV is reflected in the Performance section of the Fund Report.

Regarding the third column, requiring proposed disclosure for the third column to be “going forward” suggests including predictive comments on future events. This requires an IFM to predict economic and fiscal policies and outcomes of geopolitical tensions and how those will impact the fund. This is dangerous because portfolio managers are not economists or political analysts and even if they were, economists do not have a homogenous view on economic outcomes and thus there is a high possibility of error. This is speculative. Although this section contains a forward-looking disclaimer, we do not believe this type of crystal-balling is appropriate and it raises serious liability concerns for funds (also see #3 “Liability Concerns” below).

If the disclosure requirement is to state what is reflected by the wording in these two columns of the sample Fund Report, the form requirements and instructions should be changed for this section and the section should not be called “Investment Objectives and Investment Strategies.”

We suggest keeping similar requirements to the current MRFP requirements by changing the column 2 and 3 headings as follows:

Column 2 - Results of Operations Over the Last 12 Months

Column 3 - Recent Developments

We believe that guidelines/instructions in the current MRFP related to the above two suggested headings would provide better disclosure for investors.

If this entire Investment Objectives and Investment Strategies section is not reframed as suggested above, much more clarity is needed as to how to address the requirements to state the “Fund's satisfaction of its investment objectives and use of investment strategies during the last 12 months” and “Factors that may impact the fund's satisfaction of its investment objectives and use of investment strategies going forward”. There should be guidelines on the specific data that is expected to be disclosed and a reasonable time period. Using “the last 12 months” is inappropriate because many funds' investment objectives and investment strategies are broad and meant for a medium or long-term time horizon. A fund with a medium- or long-term investment objective can not meet its objective within a 12-month period, so it is inappropriate to use a 12-month measuring period. Further, we believe that the focus on short-term performance for funds with medium- or long-term investment objectives encourage investors to take a short-term view on investing which we do not believe is appropriate. Also, the “going forward” disclosure expectation should be eliminated for the reasons explained above.

The proposed tabular format for this section, while well-intentioned, is not conducive to clear and concise disclosure. The 2nd/middle column in particular – “Fund's satisfaction of its investment objectives and use of investment strategies” – could result in overly lengthy and complex text that detracts from the usability of the document. Therefore, we recommend rotating the tabular format counterclockwise 90 degrees so that the headings are on the left vertical access (not the top horizontal access) which will prevent the table from becoming too long if one of the columns has more lengthy disclosure.

3. *Liability Concerns*

Regarding instruction (2) in Item 4 of the Proposed Form 81-106A (i.e., the 2nd/middle column in the sample Fund Report), the proposed disclosure requirement could expose IFMs to unwarranted legal risks. As reflected in our guiding principle #2, the litigation risk to the fund should not be disproportionate to the value of the disclosure to investors. By requiring commentary on whether a fund has satisfied its investment objectives, investors may interpret any negative assessment as a breach of fiduciary duty or failure to adhere to the fund's stated strategy. Even accurate disclosures could lead to legal claims if investors allege that the fund's performance did not align with its objectives, irrespective of compliance with those objectives.

For liability risk management, an IFM would be unduly incented to provide positive response to their assessment of a fund's success in respect of achieving its investment objectives and using its investment

strategies to achieve those investment objectives. It is unclear how this subjective assessment by the IFM would be helpful for an end investor.

IFIC recommends that CSA reframe the disclosure requirements to focus on providing contextual information about market conditions and major portfolio management decisions during the reporting period, rather than requiring IFMs to make a subjective assessment of “success.” This can be addressed by making the third column requirement be “Recent Developments” in keeping with the current MRFP.

4. Ensuring Alignment with Existing Prospectus Requirements

Under NI 81-102, any change to a fund’s fundamental investment objectives requires securityholder approval. The prospectus already provides a detailed description of these objectives, ensuring that investors have access to comprehensive information. Adding an additional layer of disclosure in the Fund Report may create inconsistencies or redundancies that confuse investors.

We recommend that the CSA focus on harmonizing the proposed disclosure requirements with existing requirements under NI 81-101F1 to ensure clarity and consistency.

5. Comparison with International Jurisdictions

The alignment with international practices is not necessarily justification for avoiding or adopting any one regulatory intervention; however, it is notable that no other major jurisdictions require IFMs to assess a fund’s success in achieving its investment objectives and strategies. While in the US, shareholder reports must include detailed information about the fund’s financial performance, operations, and significant events, it does not mandate IFMs to summarize the fund’s success in achieving its investment objectives and using its investment strategies. In the EU, the Key Investor Information Document (KIID) must include details about the essential characteristics of undertaking for collective investment in transferable securities (UCITS), such as investment objectives and policies, but it does not require disclosure on whether those objectives and policies were met. In the UK, the Authorized Fund Manager’s report must review investment activities, provide a portfolio statement, and comparative information for the last three annual accounting periods. However, it does not include a discussion on the fund’s success in meeting its objectives and strategies. This illustrates a focus on verifiable objective information rather than a requirement to set out subjective information. We believe this is the right approach.

ESG-specific disclosure

IFIC and its members have identified additional concerns related to the proposed ESG-specific disclosure requirements in Item 4 of Part A of Proposed Form 81-106A. While we support transparency regarding ESG investment strategies, the proposed requirements impose disproportionate burdens on ESG funds compared to other fund types and risks misalignment with existing ESG guidance.

1. Disproportionate Burden on ESG Funds

The detailed instructions for ESG disclosure introduce complexity that is not required for other types of funds. The requirement to include quantitative metrics to assess the satisfaction of ESG-related objectives and strategies is problematic for several reasons:

- Not all ESG funds employ standardized quantitative metrics, and many rely on qualitative assessments or customized criteria that are not easily comparable across funds. In some cases, such as when using ESG Integration as a strategy, quantitative assessments are made at the issuer level, which do not always aggregate meaningfully at the portfolio level. Moreover, data availability and quality issues for underlying securities, particularly in fixed-income asset classes, further complicate the reporting of metrics.
- Without standardized ESG definitions and strategies, the proposed requirements could lead to inconsistent disclosures that hinder comparability rather than enhance it.
- Requiring quantitative metrics for ESG-related funds imposes an unnecessarily strict and inconsistent standard compared to other types of funds. While quantitative metrics may be available for certain ESG-related funds, such as an ESG Objective Fund with measurable carbon reduction benchmarks, mandating this level of disclosure creates an uneven playing field. Notably, quantitative metrics are not explicitly required for non-ESG funds, even when these funds have

clear financial performance metrics. In the case of ESG integration strategies, which represent most funds in the market, there is typically not a single, consistent, ESG-related metric used for an entire portfolio.

We recommend that ESG funds be allowed to report on their performance, and alignment with stated objectives and strategies to the extent required, in the same manner as other funds, without additional prescriptive requirements. This approach would ensure consistent treatment of all funds while still providing relevant information to investors.

1. *Integration with Existing Guidance*

We suggest that ESG-specific disclosure obligations for the Fund Report refer to CSA Staff Notice 81-334 (Revised) *ESG-Related Investment Fund Disclosure*⁴ (**CSN 81-334**). This guidance already provides a robust framework for ESG-related disclosure, focusing on clarity and preventing greenwashing. Investments funds with ESG-related aspects should refer to established guidance, which supports consistency and reduces duplication of effort. However, we suggest that ESG limited consideration funds would not need to provide this level of disclosure.

The CSN 81-334 provides comprehensive guidelines for ESG-related disclosure and emphasizes the importance of aligning fund names, objectives, and strategies with the ESG criteria employed by the fund. It also addresses the use of quantitative and qualitative metrics, the evaluation of ESG outcomes, and the prevention of greenwashing.

We also note that the industry and securities regulators continue to have valid discussions and disagreements as to what the ESG-related guidance means for certain investment fund issuers and their disclosure obligations, and we are not confident that the guidance in the ESG staff notice has been sufficiently tested to incorporate it into a rule.

Therefore, IFIC strongly recommends removing the proposed instructions related to ESG disclosure in this section (i.e., instructions (2)(b) – (e)) and instead state that, in the case of an investment fund that has ESG-related aspects in its investment objectives and investment strategies, the IFM should refer to the CSN 81-334. As stated above, this will support consistency across regulatory disclosure requirements (i.e., in line with our guiding principle #4 above) and does not create new rules for ESG-related disclosure that have not been sufficiently tested. Requiring anything other than this for ESG-related disclosure in the Fund Report will result in added confusion and disagreements over what it means to satisfy regulatory compliance and may cause investors' confusion in understanding ESG-related disclosure provided across regulatory documents due to inconsistency.

IFIC also strongly recommends that the CSA's directions to refer to the CSN 81-334 for the ESG-related disclosure requirements for the Fund Report should be placed in the Companion Policy 81-106 *Investment Fund Continuous Disclosure* instead of as instructions placed in the Fund Report. Placing such instructions in the Fund Report would make the CSN 81-334 guidance a rule. The existing CSN 81-334 guidance should not be inadvertently made a rule requirement only in the case of Fund Report disclosure obligations, which would be the case if the reference to it is placed in the instructions for the Proposed Form 81-106A.

⁴ https://www.osc.ca/sites/default/files/2024-03/20240307_81-334_sn-related-investment-fund-disclosure.pdf, published March 7, 2024.

- 8. Classes/Series of Performance Information:** The Proposed Form 81-106A includes a requirement that performance information be disclosed in respect of the class or series of the investment fund with the highest management fee, and any other class or series for which performance would vary based on a characteristic besides management fees (see proposed Item 7 of Part A). This varies from the Current Form 81-106F1, which requires that performance information for all classes or series be provided (see Item 4 of Part B of the Current Form 81-106F1). We are of the view that the proposed requirements for presenting performance information will generally reduce the number of classes or series for which performance information will need to be provided in a Fund Report. We are also of the view that this will have the effect of making the Performance section of the Fund Report easier to navigate for an investor, while presenting the most essential performance information for an investor to be aware of (i.e. the class or series of the investment fund with the highest management fee, and any other class or series for which performance would vary based on a characteristic besides management fees).
- a. Please comment on whether this proposed approach for determining which classes or series of an investment fund for which performance information should be provided, meets investor needs for a Fund Report that is easy to navigate but which also contains sufficient information for an investor to make decisions. If not, please describe an alternative approach in detail that would meet the same objectives. In particular, provide specific criteria that might be used to determine which class or series of performance information should be included.
 - b. 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.
 - c. For situations where a particular class or series of an investment fund has the highest management fee but no performance information that can be disclosed, please propose an alternative form of disclosure.
 - d. Please comment on whether investment funds should be required to present performance information on their designated website for any class or series that does not have its performance information included in a Fund Report, together with a cross-reference to such information in the Fund Report. If yes, provide detailed comments on the challenges that an IFM would face in meeting this requirement.

In response to showing only the highest management fee class/series for disclosure of performance information, we have considered the following:

- Investor experience and ease of understanding: presenting only the highest management fee class/series may not cater to the majority of investors and would be meaningless on its face to those who do not hold the class/series presented. We believe that investors would expect, similar to the disclosure of costs, that performance for each fund security will clearly be set out. Additionally, having the remainder of the performance information on the website requires investors to locate and cross reference this information with the other data included within the Fund Report.
- Accessibility: utilizing charts and graphs may be visually appealing, however they take up more space which is not aligned to a condensed format. Additionally, they may not be as accessible for all readers when considering the requirements of Accessibility Laws. It may be best to avoid colour and charts. Adding colour also incurs higher printing costs.
- Burden in preparation: if only certain information is presented within the Fund Report and other information is on the website, one concern is that it will incorporate the website into the prospectus by way of the Fund Report. Another concern is in storing static information on the website where most IFMs keep more dynamic return information on the website. As not all fund managers show performance on their websites it could be a huge technology lift to show the remainder of the performance information on the fund website. For certain fund companies who show performance, they may not show benchmark comparisons and if so, not the broad based.

- Review standards and future retrievability: having the remainder of the performance information on the fund website would mean that the component is no longer auditor-reviewed as part of the Fund Report and it is not filed on SEDAR+ for future access.

IFIC members do not support presenting the performance of a select class/series only. IFIC believes that the Proposal to provide performance information, for both year-by-year returns and annual compound returns, for only the class/series of the investment fund with the highest management fee, and any other class/series for which performance would vary based on characteristics besides management fees, would not be a positive investor experience if the class/series they hold is not included in the Fund Report. Having information on only one class/series of the investment fund is only useful for investors who hold that class/series of the investment fund. It is useless information for other investors which, overall, results in it not being a meaningful use of the space in the Fund Report. Requiring IFMs to prepare performance information for only the class/series with the highest management fee in the Fund Report and for all other classes/series to be placed on the investment fund's designated website increases an IFMs burden requiring them to now prepare and manage performance disclosure information in both places, unlike with the current MRFP. Consistent with our guiding principles #3 and #5 above, for investors to have sufficient information to make a buy, hold, or sell decision, performance data for all classes/series should be provided in one standalone/self-contained report. Presenting all classes/series may also assist investors in understanding the different levels of service available and alternative fee structures.

Further, relating to question 8.d. above, the proposed approach would not be a burden reduction for investments funds. To make it a mandatory requirement that an investment fund should provide performance information on their designated website for any class/series of investment fund that is not included in the Fund Report would defeat the purpose of the regulatory burden reduction. It would also mean an investor would need to move outside the Fund Report to the designated website to find performance information specific to their holdings, which is not the plainest and simplest way to provide information to investors. Also, in line with IFIC's guiding principle #5 above, we reiterate that IFIC members do not support having cross-references to sources external to the Fund Report and that the Fund Report should be a self-contained document. Also, see our responses to questions #13 and #14 below.

Therefore, IFIC recommends:

- the proposed performance information for both the *year-by-year returns* and the *annual compound returns* should be presented for all classes/series in the annual Fund Report (and only year-by-year returns in the case of the interim Fund Report), not only for the class/series of the investment fund with the highest management fee, and any other class/series for which performance would vary based on characteristics besides management fees. We believe this will help investors have performance information that is relevant for a particular investor's holdings readily available for them in one place.
- for the year-by-year disclosure requirement, do not require bar charts. Instead, allow the data to be presented in table format. Bar and pie charts are much more challenging for investors and compliance with Accessibility Laws and therefore, add additional regulatory burden.
- for the year-by-year returns disclosure, require only the lesser of each of the five most recently completed financial years (instead of 10), or for each year the fund was in existence. We propose this in case the CSA's view is that the page would be too busy for investors' ease of understanding by including the performance information for all classes/series, as we recommend in the first bullet above.
- eliminate the "Summary" text box requirement which would help reduce the length and busy look of the Fund Report, which is one of the concerns documented in the CSA's behavioral study. Also see our comment/recommendation in subheading d. under the heading "*Additional Concerns and Recommendations*" below, in relation to removing the proposed "Summary" requirement from all other sections in the Fund Report.

Regarding question 8.c. above, for situations where a particular class/series of an investment fund has no performance information that can be disclosed, we think that this should be footnoted stating that the class/series was not in existence for the entire period, which is consistent with the current MRFP.

Comparison against the broad-based benchmark

While consistent with the current standards and in line with the CSA staff letter issued in May 2008, comparing the investment fund's return to the broad-based benchmark poses certain difficulties. For example, this does not consider the inherent issues for balanced funds which are required to compare to the broad fixed-income benchmark and broad equity benchmark separately. This does not have much meaning and instead, we recommend a blend similar to that of the portfolio's investment universe consisting of two or more well-known broad-based benchmarks. This would properly contextualize the fund's performance.

Further, sometimes broad-based/publicly available benchmarks may not be appropriate for comparison as the fund may have a narrower objective/strategy. To capture those instances, IFIC recommends that those funds not be required to compare themselves against a broad-based benchmark but rather compare themselves against a narrowly based (i.e., more precise) benchmark that is well known and/or publicly available and appropriate for the investment fund to comparatively benchmark against. We believe that this comparison is more consistent with the intent of the information box, namely "By comparing a fund to an appropriate benchmark, you can see how the investments held by the fund performed compared to the market or sector in general" and therefore, will be more useful information for the investor. For example, comparing the performance of a fund whose investment objective is to select investments solely from the Energy Sector of the S&P/TSX Composite Index against the performance of the whole S&P/TSX Composite Index does not provide the investor with useful information about the fund's or portfolio manager's performance relative to its investment goals. Such information may be interesting but is not highly relevant to an investor's investment goals. For that matter, the performance could be compared against any benchmark, such as a government T-bill index designed to illustrate a more or less risk-free rate of return. The benchmark that a fund and its portfolio manager use to compare the fund's and portfolio manager's performance is the benchmark that investors should use for the same purposes.

Similarly, with funds that track indices, the discussion and comparison should be against the index which that fund seeks to track.

Further, IFIC recommends that the CSA remove the requirement to report broad-based index comparative performance, given this information imposes unnecessary regulatory burden to IFMs in having to provide additional index returns data for each investment fund for the MRFP/Fund Report. For example, for some funds that are blends of fixed income and equity, this means an additional two to three indices' worth of annual compound returns data required to be disclosed. It is further burdensome when IFMs are expected to comment on not just how the fund performed relative to its benchmark, but also how the fund performed against these broad-based indices, which often are quite different than the fund's investment objective. This information is not needed to support an investor's buy, hold or sell decision as stated in guiding principle #3 above and therefore, does not provide any additional benefit to investors.

Additional comments/recommendations on the Performance section in the sample Fund Report:

- eliminate the proposed disclosure requirement for the first column of the first table which requires a brief description of the performance for each class or series of securities of the investment fund measured against the benchmark of the investment fund. This is overlapping considering the requirements under the "*Annual Compound Returns*" heading and table in this section requires disclosure of a fund's annual compound returns, compared with its benchmark. Requiring a fund's benchmark comparative disclosure in both tables adds regulatory burden, clutters the presentation of benchmark comparative information, and would be potentially confusing for investors to understand benchmark comparison information. We think the benchmark comparison requirements under the "*Annual Compound Returns*" heading is sufficient, and because the comparative information is immediately proximate in the same table, the performance difference need not be quantified.
- subject to the CSA accepting our recommendations in our response to question #7 above under the heading "*General concerns with Investment Objectives and Investment Strategies section applicable to all Investment Funds, including ESG Funds*" related to changing the requirements for the second column of the table in that section to be "*Results of Operations Over the Last 12 Months*", eliminate the proposed disclosure requirements for the second and third columns in the first table of the Performance section. Given our recommendations under question #7, that information would become redundant.

- merge the total distributions disclosure requirements from the Statistics section as we propose in our comments under the heading “*Additional Concerns and Recommendations*”, subheading “*b. Statistics section*” below. We believe that most of the information required under the Statistics section is additional information related to understanding a fund’s performance, and therefore it is more suitable to place it in the Performance section.

9. Related Party Transactions: The Proposed Form 81-106A does not include a section requiring disclosure pertaining to related party transactions. Instead, a different requirement has been developed and added as an appendix (to be prepared by the IFM) to the annual report to securityholders that an investment fund’s IRC must prepare pursuant to section 4.4 of NI 81-107. This contrasts with the Current Form 81-106F1 which includes a section entitled “Related Party Transactions” (see Item 2.5 of Part B of the Current Form 81-106F1). Please comment on whether this proposed approach to disclosure regarding related party transactions is an effective method of providing this information to investors while ensuring that the Fund Report contains the appropriate amount of information and is easy to navigate.

IFIC members request that the CSA reconsider this proposed approach in its entirety. Related party transactions disclosure is a requirement in the financial statements under IFRS. In light of this, IFIC members’ view is that moving related party transactions disclosure from the Fund Report to an appendix of the IRC report is not eliminating this duplicative disclosure. Therefore, as a more improved regulatory burden reduction measure, IFIC recommends eliminating this duplicative disclosure and consider the financial statement disclosure a more effective method of providing this information to investors while ensuring the Fund Report is easy to navigate, over moving it to an appendix of the IRC report. Investors would not be negatively impacted as they can pick up the IFRS level of related party disclosure in the financial statements. As an additional point, the function of the IRC and NI 81-107 is to report on the processes in place, therefore, it is somewhat misplaced to move this duplicative related party disclosure to the IRC report to securityholders.

If the CSA retains this proposed requirement, IFIC recommends not making it a new appendix in the IRC report, which adds another paper to create, and not requiring the proposed amendments under NI 81-107 for the reasons explained by our following concerns. Instead, maintain the existing related party disclosure requirements that are in Part B, Item 2.5, of the existing MRFP if the disclosure requirement is moved to be a section within the IRC report.

IFIC members have several concerns with the proposed amendments under NI 81-107. Firstly, they are concerned the scope of disclosure proposed by the new amendments under NI 81-107 is broader than the existing related party disclosure requirements in the Current Form 81-106F1. It appears that the proposed amendments to NI 81-107 expand the types of related party disclosure for inclusion in the appendix, which does not reduce regulatory burden. The proposed ss. 2.5(1)(c)(i) of NI 81-107 requires that for any related party transaction that is not identified in any report filed on SEDAR+, an IFM is required to also provide a brief description of the type of transaction. However, proposed ss. 2.5(1)(c)(ii) also requires “a brief description of any provision in securities legislation or any order made under securities legislation that imposes a requirement to do any of the following: (A) provide disclosure about the transaction; and (B) keep a record in respect of the transaction.” This proposed ss. 2.5(1)(c)(ii) amendment (specifically, the wording underlined for emphasis) would not be a burden reduction as the requirements under section 2.5(1)(c)(ii) are more detailed requirements than what is currently in Current Form 81-106F1. IFIC members are unclear what the CSA’s rationale is for requiring this additional level of detail and recommend removing it.

Secondly, IFIC members are concerned that the proposed amendments to NI 81-107 adds a new definition of “related party to an investment fund” by the proposed ss. 2.5(2) (captioned below)⁵. Item 2.5 of Part B of the Current Form 81-106F1 states: “*In determining who is a related party, investment funds should look to the Handbook. In addition, related parties include the manager and portfolio adviser (or their affiliates) and a broker or dealer related to any of the investment fund, its manager or portfolio adviser.*” We note that the lead-in to the proposed ss. 2.5(2) does not refer to looking to the Handbook in determining who is a related party and that it states: “*For the purposes of preparing a report under subsection (1), a related party to the investment fund includes, for greater certainty,...*”. This is potentially confusing because, depending on the “purposes,” there will be two places that define who is a related party (i.e., the Handbook and the new proposed definition in NI 81-107). Further, under NI 81-107 there is also a similar definition “entity

⁵ Page 70 of the Consultation; Annex B-14, proposed amendments to NI 81-107 ss. 2.5(2).

related to the manager” which is also used with “related parties” in NI 81-106. These three variations of definitions should be clarified/aligned to remove compliance risk.

Thirdly, IFIC members are concerned that this new definition may create a broader definition of “related party”. IFIC members recommend that the CSA maintain the existing definition which is also in line with the Handbook. Overall, if, by not carrying forward into the Fund Report the related party transactions disclosure which is currently in the MRFP, the intent is to only move it to a different location in the regulatory disclosure regime for investment funds, we think that these proposed amendments do more than that and would not be a regulatory burden reduction.

ss. 2.5(2) “For the purposes of preparing a report under subsection (1), a related party to the investment fund includes, for greater certainty, all of the following: [underlining added]

- (a) the manager*
- (b) an affiliate of the manager*
- (c) the portfolio adviser*
- (d) an affiliate of the portfolio adviser*
- (e) a dealer that is related to the investment fund*
- (f) a dealer that is related to the manager*
- (g) a dealer that is related to the portfolio adviser*
- (h) another investment fund that is managed by the manager or an affiliate of that manager.”*

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.

One of our guiding principles to determine whether information should be in the Fund Report is whether the information would be material to an investor’s buy, hold or sell decision. We do not consider the liquidity of portfolio securities to be material to mutual fund investors and consider it even less significant for ETF and closed-end fund investors where the primary liquidity for investors is typically through trading on public markets.

IFIC members believe that the disclosure required by Item 11(1)(a) to (c) of Part A of the Proposed Form 81-106 is premature, in that the appropriate type of liquidity disclosure should be considered together with substantive rules related to liquidity when the CSA releases them for consideration. We suggest the CSA revisit this disclosure concurrently with the release of substantive liquidity rules.

If liquidity, in the context of an overall review of liquidity rules, is later determined by the CSA to be a material disclosure factor, it is the fund’s liquidity that should be considered in its entirety, and not simply the liquidity of its portfolio securities or the liquidity of such securities at only a moment in time. For investors to understand a fund’s liquidity, a detailed explanation and context would need to be provided specifically as the prospectus provides that funds are redeemable on demand and suspending redemptions may only be made with securities regulatory approval. In addition, as the data provided in the Fund Report would be at a point in time it may not be reflective of the fund’s liquidity risk.

Importantly, the classification of portfolio securities in the manner required by Item 11(1)(e) of Part A of the Proposed Form 81-106A is inherently subjective, forward-looking and hypothetical, and would provide a misleading appearance of comparability among funds.

Firstly, given the inherent judgment calls involved in assigning specific liquidity classifications to portfolio securities, there is a high likelihood that some fund managers will categorize securities differently, and even inconsistently, based on their own evaluation criteria. Further, the ability to convert a portfolio security to cash may be impacted by external or idiosyncratic events that cannot be predicted or measured accurately. As a result, the information required by Item 11(1)(e) may not be comparable across funds managed by different managers and may be harmful to investors and the public who may use it for that purpose.

Secondly, evaluating portfolio liquidity is a fundamental part of the portfolio and risk management processes, and fund managers employ numerous tools in this analysis, including assessment of trading

volumes, quality of each security, pricing, and the macroeconomic environment. Disclosure of portfolio securities in specific buckets based on how quickly the fund manager believes they can be converted to cash applies a rigid classification system that ignores all these factors and therefore presents a distorted or incomplete picture of the fund's actual liquidity.

Thirdly, the information required by Item 11(1)(e) is disclosed on a delayed basis as of a single point in time, which further compounds the potentially misleading nature of this disclosure. A fund's liquidity at a point in time is determined by the amount of cash it holds, whether it is in a positive or negative net sales trend, its borrowing capacity and the liquidity of its portfolio securities and may therefore differ significantly from time-to-time; something not captured by the pie chart.

Finally, the illustrative pie chart disclosure format can be difficult to read and is more challenging for IFMs to prepare in compliance with Accessibility Law.

Based on the foregoing, the time, effort and expense of identifying and disclosing portfolio securities within prescribed liquidity buckets far outweighs any benefit of the related disclosure to investors and may in fact cause investor harm. This approach would therefore add burden for no meaningful benefit to investors, which would be inconsistent with the regulatory objectives of providing meaningful disclosure. Removing the proposed new Liquidity section would make the Fund Report disclosure more concise. This would be consistent with the CSA's streamlining objectives to not require information that most investors would not find to be of practical use in the Fund Report and that may lead to investor confusion. It would also achieve burden reduction.

Therefore, for the reasons set out above, IFIC recommends eliminating the proposed new Liquidity section.

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.**

IFIC has no comment.

12. Other Material Information: The Proposed Form 81-106A includes a section entitled "Other Material Information" (see Item 13 of Part B of the Proposed Form 81-106A). A similar section is also present in the Current Form 81-106F1 (see Item 6 of Part B of the Current Form 81-106F1). Please comment on whether there are alternative methods for presenting the information that might currently be placed in this section. When responding, please consider not only the disclosure requirements of the section itself but also any places in the Proposed Form 81-106A where cross-references to the Other Material Information section are a possibility (e.g. the Forward Looking Information section for supplementary disclosure an investment fund wishes to provide, and the Costs section for information on MER without waivers and absorptions – see Items 3 and 6, respectively, of Part A of the Proposed Form 81-106A).

IFIC members believe that the Other Material Information section should only be used to capture fundamental changes material to the investment fund that occurred during the reporting period of the Fund Report (i.e., mergers, structural changes to an investment fund, material changes requiring press release).

In addition, IFIC members do not support using the Other Material Information section for adding supplemental information cross-referenced from other sections within the Fund Report for the reasons set out in our responses and comments to questions #4 [Forward Looking Information] and #6 [MER Without Waivers or Absorptions]. Requiring investors to find supplemental information related to a particular section by going to the end of the Fund Report would make it less easy for investors to read and understand. All information pertaining to a particular section in the Fund Report should stay within the same section and

investors should not be expected to search within the Fund Report to try to find the supplemental information in the Other Material Information section.

13. Designated Website Disclosure: Under subsection 16.1.2(1) of NI 81-106, an investment fund must designate one qualifying website on which the fund intends to post disclosure as required by securities legislation. Please comment on whether any disclosure from the Fund Report should be removed and, instead, replaced with a requirement to place that disclosure on the designated website of an investment fund. If yes, please provide details regarding any challenges that an IFM might face with respect to such placement and comment on whether such disclosure should be subject to a separate filing requirement.

In line with IFIC's guiding principle #5 above, we reiterate that IFIC members believe that the Fund Report should be a self-contained disclosure document. Therefore, we do not support moving any of the required disclosure from the Fund Report with a requirement to instead place it as stand-alone disclosure on the investment fund's designated website. Having all the required disclosure within the Fund Report is the simplest way to present information to investors and the easiest way for investors to find it.

Having said that, as we stated under question #1 above, IFIC fully supports the use of the investment fund's designated website as a location for investors to access the Fund Report, as well as any other regulatory required disclosure information that is not required disclosure for the Fund Report and/or other information or updates an investment fund voluntarily wishes to provide to improve and keep current an investor's understanding about their fund holdings.

14. Cross-References to Designated Website: The Proposed Form 81-106A includes several cross references to information that may be available on the designated website of an investment fund (see Item 5 of Part A of the Proposed Form 81-106A which references Quarterly Portfolio Disclosure, and Item 7 of Part A of the Proposed Form 81-106A which references performance information where it is available). Please comment on whether any other information that is, or may be, disclosed on the designated website of an investment fund, should also be cross-referenced in the Fund Report.

In line with IFIC's guiding principle #5 above, we reiterate that IFIC members do not support having cross-references to other sections within the Fund Report or to other external sources, including the investment fund's designated website. Some investment funds provide a range of additional information on their websites. Listing it all in the Fund Report and cross-referencing would be an increased regulatory burden. While we have not indicated any opposition to the Quarterly Portfolio Disclosure being moved from the Fund Report with a cross-reference to it as proposed by Item 5 of Part A of the Proposed Form 81-106A, we think there should not be multiple more standalone disclosures of information moved from the Fund Report and cross-referenced to the investment fund's designated website.

Requiring this practice may also result in added liability risk for an investment fund as the information cross-referenced in the Fund Report could be considered disclosure incorporated by reference into the simplified prospectus. This would give rise to the need for an auditor's review of everything that is on the designated website, which is unlikely to be possible without offsetting the intended regulatory burden reduction benefits. Also, information cross-referenced in the Fund Report to the website would not be filed which would preclude it from being accessed later on SEDAR+. We think that the most positive experience for investors and to facilitate their ease of understanding is if the information provided in the Fund Report is in a self-contained disclosure document. We do not think it would be a positive or easy experience if investors are expected to move outside the Fund Report to find more multiple standalone regulatory continuous disclosure, even if it is to the investment fund's designated website.

15. Modifications for Specific Investment Funds: The Proposed Form 81-106A has been prepared in such a way that it will be applicable to all types of reporting issuer investment funds, with modifications for scholarship plans where appropriate (see Item 9 of Part A of Form 81-106F1). This mirrors the approach taken in the Current Form 81-106F1. Please comment on whether any additional modifications to the Proposed Form 81-106A are required for certain types of investment funds. We are particularly interested in types of investment funds that are less commonly held than conventional mutual funds and ETFs. Identify specific situations where additional instructions would be beneficial, as well as sample instruction language. Please also comment on whether any proposals would create concerns around maintaining a Fund Report that is easy to read and understand, as well as easy to use in making decisions.

IFIC members have indicated that, in the case of split share corporations, the lack of space for open commentary in the Costs section of the proposed Fund Report is problematic. In particular, we are concerned that the proposed Fund Report does not allow for the ability to present the MER of the Class A shares without including the fixed distributions paid on the preferred shares as an expense of the Class A shares. Historically split share corporations have included additional disclosure in connection with the MER of the Class A shares which highlights the portion of the MER of the Class A shares which is allocable to the fixed distributions paid on the preferred shares.

IFIC's recommendation under question #5 above to allow for a "Commentary" box with open space under the table in the Costs section (as well as being able to modify the table as indicated by Item 6 (1) Instruction (i.e. to add column(s) to the table)) for an IFM, at its option, to provide additional information relating to the cost of the preferred shares would be consistent with the current MRFP and will help an investor to better understand the required disclosure provided. Also, see our comments/recommendation in subheading e. under the heading "*Additional Concerns and Recommendations*" below, in relation to providing a "Commentary" box and flexible space at the end of all sections of the Fund Report for an IFM to add explanations that would help investors' understanding of the information provided.

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.

IFIC has provided additional comments and recommendations related to improving the content and format, including alternatives to the content proposed, in the Fund Report as part of our responses to earlier questions and under the heading "*Additional Concerns and Recommendations*" below. We also suggest that nothing more is added to the Fund Report than what is proposed in the Consultation and taking into consideration our comments and recommendations for improvements to the content and alternative approaches for some sections.

17. Investor Education: The CSA wants to ensure that investors understand why the MRFP is being replaced with the Fund Report. The CSA also wants to ensure that investors understand the new features and content within the document. Several avenues are being considered to achieve these aims, including a digital campaign and an annotated Fund Report. a. Please comment on whether these types of educational tools would be sufficient to support investor understanding of the Fund Report. If not, please provide detailed suggestions regarding additional measures that the CSA should consider. b. Please comment on how IFMs and investment fund dealers can play a role in supporting efforts to help investors understand the Fund Report. Please also comment on how the CSA can facilitate IFM and dealer efforts in this regard.

IFIC agrees with the CSA's proposed avenues for investor education. If the CSA were to adopt a digital campaign, IFMs could direct investors to the regulator's website for more information. IFMs could provide notice to investors using the opt-in card and inserting a link to the regulator's website. An additional tool we suggest is for the CSA to prepare a letter template that all IFMs can use and include with the first Fund Report when it's required to be sent out. That would provide consistency across the industry and be more effective and efficient than each IFM individually coming up with their own explanations. Also, we suggest that the CSA, in coordination with CIRO, send a reminder to investment fund dealers about the new Fund Report and its changes to help them be better able to communicate to those clients who contact their dealer

and investment advisor with questions. The CSA could also prepare separate educational campaigns for dealers and advisers to better equip them to speak to investors about the new Fund Report.

Workstream Two – Conflicts

18. Additional Disclosure Elements: The Proposed Form 81-107A will serve as a new, standardized form to be used for the filing of related party transaction reports under subsections 6.2(2), 6.3(3) and 6.4(2) of NI 81-107. The types of transactions to which the Proposed Form 81-107A applies include purchases by an investment fund but not transactions where the investment fund took part in the sale of securities. Please comment on whether any stakeholders would be disadvantaged by sale information being left out of the Proposed Form 81-107A. If any stakeholders are identified, please provide details on how they would use the sale information, if provided.

IFIC members do not believe that any stakeholders would be disadvantaged by sale information being left out of Proposed Form 81-107A. It is likely that most IFMs, either through exemptive relief or exemptive relief that has been codified, do not report sales transactions in any event.

We recommend that the CSA reconsider the requirement for IFMs to report on information that is not being provided in current reports as the utility of this information to an average investor is questionable and this would not contribute to burden reduction, a stated goal of the CSA.

With respect to form requirements set out in Proposed Form 81-107A, we note the following:

- i. Item 3(1) - Report Date and Period Covered: We suggest that the requirement to provide the date on which the report was prepared be removed from the form requirement. The requirement to disclose the date on which the report was prepared is not relevant and is not meaningful to investors. Further, IFMs prepare the related party transaction reports over a period of time, and as such it would be difficult to provide an accurate preparation date.
- ii. Item 4(h) – Related Issuer Investments: An IFM is required to, in the case of an investment in a debt security, list “each source of any independent quote or independent pricing used to determine the price per security in which the investment is made.” We believe the utility of this information to an average investor is not justified relative to the added burden for IFMs to provide this. Therefore, we request that the CSA reconsider and remove this requirement.
- iii. Item 4(j) – Related Issuer Investments: An IFM is required to list “the name of any related person or company that has received, or will receive, a fee in respect of the investment made”. We note that use of the word “fee” may be inaccurate in this context as an IFM would know only if a “commission” was paid in respect of the investment made and would not necessarily have insight if any other fees were paid. As such, the CSA should consider replacing the term “fee” with a reference to “commission.”

Workstream Three – Financial Statements

19. Stakeholders that would Benefit from Maintaining Disclosure: As part of the Proposed Amendments for this Workstream, we are proposing to eliminate certain class- or series-level disclosure requirements under Part 3 of NI 81- 106 that are not required by IFRS. Please comment on whether any stakeholders would benefit from these disclosure requirements remaining in place. If any stakeholders are identified, please provide details on how they currently use such information and comment on whether any alternative sources of information are available.

IFIC members support the Proposals related to eliminating certain class or series-level disclosure requirements under Part 3 of NI 81- 106 that are not required by IFRS. In so far as the timing of the effective date of the Workstream Three, see our response to question #2 above regarding the application of the IFRS 18 changes to a fund’s financial statements.

Additional comments/recommendations related to Workstream Three (Financial Statements) and the Borrowing and Leverage section in the Fund Report:

IFIC members believe that the detailed disclosure proposed for the Borrowing and Leverage section in the Fund Report should not be required and not take up space as its own section in the Fund Report. The

information that is of most importance to investors is if there is material borrowing/leverage. Many funds go into overdraft from time to time, and per Item 12, instruction (b)(i), in the Proposed Form 81-106A, this is not required to be disclosed where it is not material. Since only a limited number of investment funds (e.g. Alt. Funds) can use borrowing and leverage (beyond temporarily borrowing up to 5% of NAV to finance redemptions or settlement of portfolio security transactions), IFIC recommends that instead of it taking up space as its own section of the Fund Report, this type of disclosure would be more appropriate for the Other Material Information section of the Fund Report (i.e., assuming our response to question #12 above is adopted).

In addition, IFIC points out that this is a repetitive/duplicative disclosure requirement considering the disclosure already required in the financial statements. NI 81-106, section 3.12. [*Disclosure of Use of Leverage*] provides that:

“(1) An investment fund that uses leverage must disclose the following information in its financial statements:

- (a) a brief explanation of the sources of leverage including cash borrowing, short selling or use of specified derivatives, used during the reporting period covered by the financial statements,*
 - (b) the lowest and highest level of the aggregate exposure to those sources of leverage in the period, and*
 - (c) a brief explanation of the significance to the investment fund of the lowest and highest levels of the aggregate exposure to those sources of leverage.*
- (2) For the purposes of subsection (1), an investment fund must calculate its aggregate exposure to those sources of leverage in accordance with section 2.9.1 of National Instrument 81-102 respecting Investment Funds (chapter V-1.1, r. 39).”*

Under Item 12 of the Fund Report, similar leverage disclosure is mandated. Since disclosure relating to the use of leverage is not required by IFRS, IFIC recommends that this disclosure requirement be removed from the financial statements and only be required in the Fund Report. This would eliminate duplicative information and be an additional burden reduction measure in relation to the preparation of the financial statements.

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

20. Timing Considerations: The Proposed Amendments implement the FER into the Fund Facts and ETF Facts, namely the “Quick facts” and the “How much does it cost?” sections of those documents. Please comment on whether there are any timing issues that should be considered with respect to the implementation of these Proposed Amendments, given that the TCR Project amendments are expected to come into effect on January 1, 2026, subject to certain transition periods. When commenting, please consider that the effective date of the amendments and changes being proposed as part of this initiative have not yet been finalized.

As we responded in question #2 above, IFIC members recommend that the CSA provide a phased approach for the time-limited exemptions after the effective date of the final Proposals for implementing compliance with the three Workstreams and the FER Revisions, allowing a much longer exemption period (i.e. minimum 24-months) for implementing compliance with Workstream One. If the FER Revisions are published as final before the other three Workstreams and have an effective date that is no later than three months after the January 1, 2026, effective date of the TCR Enhancements, providing a 9-month compliance exemption would allow for early adoption of the FER Revisions by those IFMs who can implement compliance earlier. Depending on the timing of the publication of the final FER Revisions and their effective date, it may be possible for IFMs to have the FER Revisions implemented in line with the timing that investors will receive their first annual cost report with the TCR Enhancements (i.e. January 2027).

Additional Concerns and Recommendations

- a) **Risk Profile Section:** IFIC members question the rationale for the need to require a separate Risk Profile section in the Fund Report. This heading implies that a risk analysis needs to be done as of the date of the Fund Report which should not be expected. Risks impacting a Fund are specified in the prospectus and would change as and when the investment objective of an investment fund changes, which is rare, and with substantial changes in market conditions over the period of volatility analysis,

which does not frequently occur. Having said that, we acknowledge that a change in risk rating is material to an investor. However, as noted, this does not occur frequently and, as a result, most of the time this section will state no changes were made. IFIC members think that it would not support the needs of investors by taking up space in the Fund Report with disclosure that will most often be a repeat from reporting period to reporting period. Including such information would make the Fund Report too wordy and less easy to read. The Fund Report could be simplified and shortened without the content and format proposed. Instead, IFIC recommends that this type of material change be disclosed under the Other Material Information section. Also, the investor could be referred to the prospectus for a discussion on risk.

- b) **Statistics Section:** The Fund Report should not refer to the characteristics of the distributions (i.e., not require disclosure of the portion of distributions that is return of capital proposed for the third column of the table in this section). Distributions made to unitholders in the course of a fund's taxation year may be comprised of dividends, ordinary income or net realized capital gains, and/or may constitute a return of capital, depending on the investment activities of the Fund throughout the course of its taxation year. The characteristics of the distributions from a fund for Canadian income tax purposes will not be able to be determined until after the end of each taxation year. As such, it would not be possible to provide any such information before the end of a taxation year. The amount and frequency of distributions that will be paid for any class or series of units are not guaranteed and may change from time to time without notice to unitholders.

In addition, we have the following comments on specific instructions related to the Statistics section:

- i. Item 8, Instruction 5: *Except for the dollar value of distributions, calculate per security values, as applicable, on the basis of the weighted average number of units or shares outstanding, as applicable, for the most recently completed financial year of the investment fund for which audited financial statements have been filed.*

IFIC members believe that using the weighted average number of units of shares outstanding to calculate the distribution per unit will create a difference with the actual distributions per unit received by securityholders over the period which is based on the distribution per unit/class as at each distribution date(s).

- ii. Item 8, Instruction 6: *Provide the information required under this Item for the most recently completed financial year of the investment fund for which audited financial statements have been filed.*

IFIC members query whether this means that the Statistics section is only required for the annual Fund Report, as funds' interim financial statements aren't audited.

- iii. Item 8, Instruction 12: *Calculate the investment fund's distribution rate by dividing the distributions made by the investment fund during a financial year by the value of the portfolio securities owned by the investment fund at the end of the financial year.*

IFIC members note that the proposed yield calculation method (using value of portfolio securities) is also different/inconsistent from the current method of calculating yield using a fund's total net asset value, in particular for fixed pay series of funds.

Additional comments/recommendations on the Statistics section in sample Fund Report:

- next to the heading "Statistics," delete the wording "(information is provided as of March 31, 2022)." The first page of the Fund Report already states the 12-month period ending reporting period for the Fund Report. Removing it would also make it consistent with the presentation of all the other headings in the sample Fund Report.
- the heading of the second column of the table should be "Total distributions (\$/unit or share)," not (\$).
- the heading "Statistics" is meaningless in relation to the information required for reporting in this section. We suggest renaming the heading "Distributions" or "Supplemental Information" instead.

Despite our comments and recommendations above regarding the Statistics section, IFIC members strongly recommend that that it is more suitable to place the total distribution disclosure requirements from the Statistics section into the Performance section. As we stated under question #8 above, we believe the total distribution disclosure requirements is additional information that relates to fund performance

information. Therefore, it should not be in a separate section on its own under a heading that does not have a relational meaning. Therefore, IFIC recommends the following:

- move the total distribution disclosure requirements from the Statistics section to become subsection c. of the Performance section and title it “Distributions.” Doing this would eliminate the need to have a separate section in the Fund Report titled “Statistics.”
 - eliminate the portfolio turnover rate disclosure from the Fund Report because the more important related information is contained in the previously disclosed trading expense ratio (TER) in the Costs section. We do not believe the portfolio turnover rate would be understood by most investors and therefore would be confusing. Also, consistent with our guiding principle # 3, we don’t think this information is useful for an investor to make a buy, hold, or sell decision, particularly in light of the TER information. (**Note**, we recommend the elimination of this disclosure requirement regardless of whether the CSA retains the Statistics section.)
 - eliminate the disclosure requirements for the third and fourth columns in the table requiring reporting the portion of distributions that is return of capital (\$\$) and the distributions ratio (%) for the reasons we provide in the first paragraph above of this subheading b. Statistics section. It is based on information that would not be available in many scenarios (i.e., it is not able to be determined until the end of each taxation year and for many funds, financial year-ends may not coincide with the taxation year) and, therefore it would be incapable of being disclosed in many scenarios.
- c) **Portfolio Holdings Section:** IFIC members question the rationale for the proposed Portfolio Holdings section and its usefulness to support an investor’s decision to buy, hold, or sell investment fund securities, in line with our guiding principle #3 above. From an investor’s perspective, it does not add value to receive isolated information presented in a section all on its own without context. Also, the required disclosure is new compared to the current MRFP, the impact of which is an added burden for IFMs without commensurate benefit to investors. Instead, IFIC recommends that the proposed requirements for this section be eliminated, and instead, maintain the following requirements from Item 2.3(1)(a) and (b) under “Results of Operations” in the current MRFP, which serve investors well, to provide a discussion of:
- “(a) any material changes in investments in specific portfolio assets and overall asset mix from the previous period
 - (b) how the composition and changes to the composition of the investment portfolio relate to the investment fund’s fundamental investment objective and strategies or to changes in the economy, markets or unusual events”

IFMs already have established processes and procedures for preparing this existing disclosure requirement in the MRFP. Therefore, the regulatory burden impact would be neutral if it were maintained.

If the CSA adopts this proposed approach, we also suggest moving this requirement into the immediately preceding section of the Fund Report, depending whether the CSA adopts our recommendations in our response to question #7 above under the heading “*General concerns with Investment Objectives and Investment Strategies section applicable to all Investment Funds, including ESG Funds*” related to changing the requirements for the second column of the table in that section to be “*Results of Operations Over the Last 12 Months*”. If the CSA adopts this approach, this information would be provided in context with the Results of Operations discussion which would assist investors to better understand the information, as opposed to it being presented in isolation. Also in this case, the proposed Portfolio Holdings section in the Fund Report could be eliminated.

Despite our comments in response to question #14 above opposing cross-references to places outside the Fund Report, we support the cross-reference to the Quarterly Portfolio Disclosure (defined below) in this case only. Since we support the CSA’s Proposal to move the current required quarterly portfolio disclosure in the MRFP to the new Proposed Form 81-106B (i.e. Quarterly Portfolio Disclosure) required to be prepared quarterly in a standalone form, it makes sense to provide a cross-reference to it to streamline the content of the Fund Report.

- d) **Proposed requirement to include a “Summary” for select sections:** For several sections in the Fund Report (i.e., Costs, Performance, Statistics, Risk Profile, Liquidity Profile, and Borrowing and Leverage), the Proposals require adding a “Summary” heading/text to provide brief summaries of

information required to be presented within each section, if the summary “*is significantly shorter than*” the disclosure required. Firstly, it is not clear what is meant by this drafting. Would a brief summary not always be significantly shorter than the information required to be disclosed for each of those sections? In any event, IFIC members are opposed to the requirement to include a summary for these above listed sections. We reiterate our response to question #5 above using the Costs section as an example. A brief summary is not useful because investors hold different series or classes which would make the summary meaningless if the summary does not capture information relevant to their holdings. Removing the “Summary” text box requirements would free up more space in the Fund Report or make it shorter which would be simpler and easier for an investor to read. Further, it adds regulatory burden to writeup brief summaries for each of these proposed sections each time a Fund Report is prepared. Accordingly, IFIC recommends eliminating the requirement to add a “Summary” text box to include brief summaries of the information required to be presented in each section of the Fund Report where it is proposed.

- e) **Space for “Commentary” at the end of all sections:** There should be flexibility built into the Fund Report such that IFMs are permitted to provide commentary on any section where the IFM deems such commentary necessary or desirable to better inform investors about information that is required disclosure for the particular section. For example, for the Portfolio Holdings disclosure requirements, the section has only the table (i.e., to describe material increases/decreases in exposure) and a “More Information” text box (i.e., to refer where to find more detailed portfolio holdings information). This means there is no space to allow the IFM to provide context about the deciding factors as to why exposures to certain industries/securities increased or decreased.

As we indicated in response to questions #6 and #12 above, IFIC members feel strongly that the “Other Material Information” section should be use for only fundamental material changes during the period since the previous Fund Report, and not as a “collect all” place for supplemental information from other sections of the Fund Report (i.e., it is better for investors’ ease of reading and understanding if all pertinent information is disclosed in the same related section).

Accordingly, IFIC recommends that the Fund Report provide, at the end of all sections, a “Commentary” heading and open space under it for an IFM, at its option, to provide explanations that will help an investor to better understand the required disclosure provided. This approach is consistent with management discussions in continuous disclosure reporting for corporate reporting issuers. Allowing management to provide commentary is an important component of a management report.

- f) **Accessibility Laws:** It is not clear whether the CSA reviewed the new proposed sample Fund Report from an accessibility perspective, taking into consideration the requirements under certain federal and provincial legislation that require PDFs produced for regulatory reporting to comply with Accessibility Laws, as applicable. In this case, the PDFs need to be read through a screen reader. Based on the proposed layout and design of the sample Fund Report, the use of tables, pie charts, call out boxes (information boxes), etc., all add to the complexity and time in making these documents accessible. IFIC recommends that the CSA review the proposed sample Fund Report from the perspective of Accessibility Laws and make the general instructions regarding the layout and design more flexible and preferably remove pie charts and bar graphs from the sample Fund Report provided in the Proposals for illustrative purposes.
- g) **Preparation Date:** The requirement to disclose the “Preparation Date” in the Fund Report is not relevant or meaningful to investors. In addition, the Fund Report will be prepared over a period of time; therefore, no specific preparation date can be identified. There is a filing date, however none of the information or content of the Fund Report relates to a preparation date. Therefore, IFIC recommends removing the requirement to insert the date of preparation of the Fund Report.
- h) **Purpose and Content section:** The First Page Disclosure requirement in the existing MRFP requires the disclosure in substantially the following words:

"This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling [toll- free/collect call telephone number], by writing to us at [insert address] or by visiting our website at [insert the address of the designated website] or SEDAR+ at www.sedarplus.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's interim financial report, proxy voting policies and

procedures, proxy voting disclosure record or quarterly portfolio disclosure."
[underlining added]

This required wording has been eliminated from the Proposed Form 81-106A requirements under the first heading instructions and/or the Purpose and Content section of the new Fund Report. IFIC members support the removal of wording from the Fund Report, which is substituted with the following prescribed wording:

"This Annual Fund Report contains important information about your fund. Use this report and speak with your representative to assess whether your fund continues to be right for you. This document is intended for investors of all backgrounds and levels of investment experience. It includes the following information about your fund:"

However, the CP 81-106 still requires disclosure related to the wording underlined in the citation provided above (per Part 4 section 4.1 (5)). IFIC recommends revising the CP 81-106 to remove the following wording: *"Investment funds are obligated to state on the first page of their fund reports management reports of fund performance that this disclosure [i.e., the proxy voting disclosure record and quarterly portfolio disclosure] is available"*.

Secondly, we recommend removing the wording *"This document is intended for investors of all backgrounds and levels of investment experience."* from the prescribed wording proposed under the Purpose and Content heading of the Fund Report (i.e., cited directly above). We don't think that this sentence provides any useful information and does not relate to the rest of the content of the prescribed wording.

- i) **Additional Resources section:** IFIC members think it is sufficient to state that the Fund Report is prepared twice a year, instead of requiring the statement to include the date of the next interim or annual fund report.

CONCLUSION

IFIC is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at amitchell@ific.ca. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Andy Mitchell
President and CEO