

Scholarship Consultants of North America Ltd.

Distributor of USC Education Savings Plans

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Delivered by email

December 19, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of Northwest Territories
Registrar of Securities, Government of Yukon
Registrar of Securities, Legal Registries Division, Department of Justice, Government of
Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario
M5H 3S8
email: jstevenson@osc.gov.on.ca

And to –

Commission des valeurs mobilières du Québec

c/o Denis Brosseau, Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Québec
H4Z 1G3
email: consultation-en-cours@cvmq.com

Dear Sir/Madam:

Re: Proposed National Instrument 81-106 (“National Instrument”) and Form 81-106F1, Investment Fund Continuous Disclosure (collectively the “Proposed Disclosure”)

Scholarship Consultants of North America Ltd. (“SCONA”) is a registered dealer of scholarship plans and is owned by the sponsor of these plans, The International Scholarship Foundation (the “Foundation”). SCONA is also a member of the RESP Dealers Association of Canada, which, as an association, has provided comments in a separate letter dated December 13, 2002, the contents of which we endorse as part of our comment process. This letter is intended to express the views and concerns of SCONA as well as the plan sponsor, being the Foundation, with respect to the Proposed Disclosure.

First of all, we are pleased to see a standardized set of disclosure rules to apply to the investment fund industry, including scholarship plans. We believe that transparency in reporting and consistency in performance measurement is important to investors and other stakeholders. Insofar as we welcome standardization, we also recognize that investment funds may differ in character and, accordingly, the application of a single standard raises some concern as to its application in a meaningful and useful way. Our comments, while addressing the broad principles outlined in the Proposed Disclosure, also serve to point out these unique nuances when a broad set of disclosure rules is proposed in these circumstances.

Scholarship Plan Outline:

A Scholarship Plan (the “Plan”) is a Registered Education Savings Plan (“RESP”) with specific savings goals. The deposit schedule for each Plan sets out the deposits that a subscriber to the Plan must make for the purchase of a single unit or any fractions thereof. The number of units held by a subscriber in a Plan is only relevant in that the deposit schedule for a Plan is expressed in terms of dollars per unit held by a subscriber of that Plan. The number of units is also relevant insofar as the Education Assistance Payments (“EAPs”) paid to qualified students in a Group Plan are expressed in terms of dollars per unit, typically determined on or after maturity of a subscriber’s agreement in a Plan.

The Foundation Education Assistance Payment (“FEAP”) Account is an account that is set up to hold: (i) income that has been accumulated on the subscribers’ deposits made to the Plan; and (ii) any Canada Education Savings Grants (the “Grants”) received in respect of the student along with any income earned thereon. At the earlier of: (i) the Plan subscriber agreement termination, if terminated prior to maturity; or (ii) the maturity date of the subscriber agreement in the Plan, any such accumulated income and Grants are transferred to the FEAP Account.

(a) Group Plans:

Income that is earned on deposits in respect of active Group Plan subscriber agreements, as well as income earned in respect of Group Plan agreements which have terminated prior to their maturity date and that have the same year of maturity as other subscriber agreements in the Group Plan, are transferred into a separate FEAP Account for that specific year of maturity. Income that is earned on deposits made by the subscriber are pooled with the income that has been earned on

deposits made by other subscribers whose Group Plan agreements have the same year of maturity (including those Group Plan agreements that have terminated prior to maturity).

On or after maturity, the Foundation determines, based on the income accumulated in the FEAP Account for a particular year of maturity, together with other information relating to those students anticipated to qualify to receive EAPs with respect to a particular year of maturity, the EAP's to be paid per unit held by a subscriber in the Group Plan. In this respect, a qualified student benefits from the tontine effect in connection with those Group Plan agreements that terminated prior to maturity, and hence forfeited the income earned, as well as those Group Plans held to maturity where the student could not qualify to receive EAPs. Units in these Plans are relevant to a subscriber to the Plan only in respect of the determination of the aggregate EAPs to be received by a qualified student (expressed in dollars per unit) after maturity.

(b) Individual (Single and Multiple Student) Plans:

In Single Student Plans and Multiple Student Plans (“Individual Plans”), income earned on deposits made to the Individual Plan is transferred to a separate FEAP Account for the nominated student or students (in the case of a Multiple Student Plan). Subject to certain limits, EAPs will be made to the student or students from this separate FEAP Account according to the subscriber's/student's request and pursuant to the needs of the qualified student(s).

Units held in an Individual Plan have little meaning to a subscriber insofar as the EAP's which a qualified student may receive are solely dependant on the income earned on the deposits made pursuant to the Individual Plan agreement for the particular student(s).

Objectives of Proposed Disclosure:

We understand the principal objectives of the Proposed Disclosure include:

- To address the need to provide more timely and useful ongoing financial and non-financial information about an investment fund; and
- To allow an average investor to better assess an investment fund's performance, position and future prospects.

With these objectives in mind our specific comments on the Proposed Disclosure are as follows:

1. Definition of ‘Group Plans’ used in the National Instrument:

Part 8.5 of the National Instrument provides that, in addition to the other financial statement requirements, Group Scholarship Plans must disclose, as a separate statement or schedule, certain additional information. The question becomes whether these requirements apply to all Scholarship Plans, or simply to the Group Scholarship Plans, as so defined.

The definition of Group Scholarship Plans in the document is focused on the securities as opposed to the traditional elements of the group, leading one to question whether or not all Scholarship Plans may be included in these disclosure requirements. However, by virtue of the fact that the definition adds to the concept that the securities are being held for beneficiaries it

does tend to lead the reader to conclude that it is attempting to limit the application to Group Scholarship Plans as we understand them and as outlined above.

We would therefore suggest that there is a distinction needed in the definition of Scholarship Plans to capture the aspects of a Group Scholarship Plan in contrast to an Individual Scholarship Plan, in keeping with the attributes noted above. In this respect, we would propose that the additional information to be disclosed as a separate schedule or statement, pertaining to agreements by year of maturity, be limited to Group Scholarship Plans and that this definition capture the concept that a Group Scholarship Plan provides that education assistance payments paid to eligible students are made from a pool of income for a particular year of maturity that may include the effect of attrition in terms of forfeited income from other plan holders.

2. Use of Plain Language in Management Report of Fund Performance:

The Proposed Disclosure mandates (Part 5 of National Instrument 81-106) that an investment fund shall file an annual Management Report of Fund Performance for each financial year, following a specified form, using plain language and a format that assists in readability and comprehension. While the goal of 'plain language' is commendable, the Proposed Disclosure does not define what it means and the form really does not provide much assistance in that regard.

As a matter of background, the 'plain language' concept first arose in the life insurance industry back in the 1970's when companies began rewriting their policies to eliminate the 'legalese'. While this certainly made the insurance policies easier to read, it didn't necessarily make them easier to understand and interpret. What resulted was that the 'legalese' that was removed and which had well defined and understood meaning (because it had been subject to year's of interpretation by the courts), was replaced by words and phrases which was not well defined and which had not been interpreted by the courts. As a consequence, 'plain language' initially created a lot of confusion and litigation as disputes arose.

In response to the difficulties encountered, many jurisdictions passed laws which required policies to be written in 'plain language', while at the same time mandating what 'plain language' should be used and how it would be interpreted. It was only with the advent of these legal changes that 'plain language' in the life insurance industry became more popular and 'user friendly'.

Therefore, we would respectfully submit that while the goal of 'plain language' is certainly worthwhile, it needs to be balanced with the precision and clarity that comes from using generally accepted and understood industry terminology. The Income Tax Act (Canada), for example, uses phrases for RESPs that are unique to that investment (such as Beneficiary to mean the student who will receive the EAPs), which will not be easily converted to 'plain language' in connection with our industry. Recognizing that the users of the information may have varied needs and interests, and with varying levels of investment and financial knowledge, we would caution that too liberal an interpretation of the application of 'plain language' may actually present information that is potentially misleading.

3. Financial highlights:

The Proposed Disclosure outlines a number of financial highlights relating to an investment fund expressed in dollars per unit. Given that Scholarship Plans are typically not unitized in the same

way as other investment funds, for the reasons noted above, we would respectfully submit that assets, income and expenses, expressed in terms of dollars per unit, is not meaningful and may be potentially misleading to investors and other users of this information.

The financial highlights relating to Scholarship Plans should therefore be presented only in terms of aggregate dollars.

4. Investment valuations at current value:

The Proposed Disclosure requires that investments be reported at current value. We would first like to note that the accounting policy for our Plans does not necessarily involve carrying the investments at current value. This would be a departure from our current accounting policy where “investments are carried at cost or amortized cost” such that realized gains and losses are deferred and amortized to income over five years. Unrealized gains and losses are not recognized in the carrying value of the investments in the Plans but are instead disclosed in the notes to these financial statements.

In the event that the investments in our Plans are reported at current value, we would expect that this change in policy will result in our earnings from operations being more volatile, as the effect of both realized and unrealized gains and losses are recognized in the period. Considering the long term nature of the investment programs associated with our plans, we would propose that the accounting policy and disclosure currently adopted presents more meaningful disclosure for the subscribers to our plans.

5. Timing of filing annual and interim financial statements:

The Proposed Disclosure outlines the following required deadlines for the filing of financial statements (together with other continuous disclosure documents):

- 90 days after the end of the fiscal year of the fund for annual materials (currently 140 days); and
- 45 days after the end of each fiscal quarter for interim materials (currently 60 days).

We recognize and support the fact that more timely financial information is necessary for investors to make more informed decisions in connection with their investments. To this end, we support the reporting deadlines proposed with the exception of the first year the Proposed Disclosure becomes effective. The first year will not only present an additional burden on investment funds to compile, approve and report the required information but, in the first year, the Proposed Disclosure requires that all of this information be mailed to all plan holders. This, we understand, is necessary until plan holders can submit their requests for annual and interim financial information in conjunction with the investment fund compiling a supplemental mailing list for subsequent mailings.

As a transitional measure, we would propose that the deadline for filing annual and interim financial information, in the first fiscal year following adoption of the Proposed Disclosure, should be 120 days and 60 days, respectively.

6. Fund performance reporting:

In Form 81-106F1, Part B, Item 3.1 (Contents of Annual and Quarterly Management Report of Fund Performance, Past Performance), it indicates that the investment fund shall comply with parts of National Instrument 81-102, Part 15 (Mutual Funds, Sales Communications and Prohibited Representations) with respect to calculating standard performance data. With reference to the comments submitted by the RESP Dealers Association of Canada, scholarship plans are not unitized in the same manner as other funds; units are more indicative of the final value of the contract, rather than the current value. Because of this, calculations based on initial value and redeemable value of units are not appropriate or meaningful for scholarship plans.

A more appropriate alternative, would be to measure the performance based on the change in income attributable to the investors in the plans which is based on the performance of the underlying investments using the current income recognition rules referred to above and in the RESP Dealers Association of Canada letter. The current income recognition rules do not recognize unrealized gains and losses, with realized gains or losses amortized over some period in the future.

7. Annual Information Form requirements:

The Proposed Disclosure outlines the requirements to file an Annual Information Form (“AIF”). We understand this to be that an investment fund must file an AIF, subject to an exemption in the case where a current prospectus is prepared and filed for the investment fund.

In the case of the Scholarship Plans sponsored by the Foundation, of the nine plans in total, six of these plans are being actively sold under an annual prospectus while three such plans are no longer being sold. As such, we would interpret the Proposed Disclosure in connection with an AIF to require these three latter plans, which are not actively being sold (hence there is no annual prospectus renewal), would require an AIF.

In our review of Form 81-101F2, we have also noted many aspects of an AIF that are not relevant to a Scholarship Plan and yet have not been specifically excluded from the AIF requirements in the case of Scholarship Plans in the Proposed Disclosure under section 10.3.

We would therefore respectfully propose that: (a) Scholarship Plans be exempt of the requirements to file an AIF altogether; and (b) that certain of the information that may be otherwise useful to subscribers of a Scholarship Plan, but no longer being sold pursuant to a prospectus, be informed in the annual Management Report of Fund Performance to the extent needed to supplement the financial statement disclosure for the Scholarship Plan.

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We appreciate the opportunity to comment on the Proposed Disclosure and look forward to assisting, where possible, the Canadian Securities Administrators in finalizing the National Instrument and related Form so as to achieve the stated objectives.

Yours truly,
SCHOLARSHIP CONSULTANTS OF NORTH AMERICA LTD.

“Mark George”

Per: Mark George
Vice-President, Finance

On behalf of **THE INTERNATIONAL SCHOLARSHIP FOUNDATION**

“Don Barkley”

Per: Don Barkley
Vice Chairman, President and Chief Executive Officer