

April 30, 2003

Delivered by Courier and Electronically

The Joint Forum of Financial Market Regulators and
The Canadian Securities Administrators and
The Canadian Counsel of Insurance Regulators
C/o Mr. Steven Paglia
Senior Policy Analyst
Joint Forum Project Office
5160 Yonge Street
Box 85, 17th Floor
North York, ON M2N 6L9

Dear Sirs:

**RE: CONSULTATION PAPER 81-403
RETHINKING POINT OF SALE DISCLOSURE FOR SEGREGATED FUNDS AND MUTUAL FUNDS**

ADP Investor Communications ("ADP") is pleased to respond to the request for comments by The Joint Forum of Financial Market Regulators (the "Joint Forum"), The Canadian Securities Administrators (the "CSA") and The Canadian Counsel of Insurance Regulators (the "CCIR") on Consultation Paper 81-403, Rethinking Point-of-Sale Disclosure for Segregated Funds and Mutual Funds (the "Paper").

➔ **ADP AND IT'S BUSINESS**

ADP is an industry leader in providing investor communications services in the financial marketplace since 1987. Investor communication services range from beneficial and registered shareholder communications, regulatory document fulfillment, and transaction reporting production and mailing. We service over 230 banks, brokers, and dealers and the majority of the fund industry in Canada. Unique to ADP is our industry, regulatory and data processing expertise. Clients rely on ADP for products and services that comply with securities laws and regulations, and as a result, depend on ADP to ensure they are in compliance. Clients leverage ADP's industry and regulatory knowledge to fulfill their obligations to deliver information to investors. ADP is responsible for distributing the majority of disclosure documents to investors in Canada, and is by far the largest provider of fulfillment of mutual fund annual reports, prospectuses and amendments, and public corporation materials.

➔ **WHAT IS INVOLVED IN DELIVERING POINT-OF-SALE DISCLOSURE?**

Fulfillment and delivery of disclosure documents is a complex and costly job. The traditional warehouse pick-and-pack fulfillment process is labour-intensive, error-prone and carries a high compliance exposure due to stock-outs and delays in tracking and incorporating new documents. The issues for industry participants are significant as the Paper outlines.

Fund manufacturers must coordinate at a high cost distribution of materials on thousands of fund products to hundreds of destinations. The actual costs of waste are impossible to quantify.

Dealers must be able to fulfill their compliance obligations to send disclosure documents on every product they sell, and inventories (English and French), are large and cumbersome as a result.

Advisors find it difficult to keep up with the regulatory requirements and the need for physical space to store documents. As a result, they often do not distribute the documents on the expectation that head office does the job.

ADP's current manual fulfillment service relies on an extensive inventory and large warehouse with significant resources, in 2 facilities, to satisfy our clients' needs.

There is evidence that fulfillment technology is evolving, with the introduction in the industry of "Smart" mutual fund annual reports, which operators like AIM, Mackenzie Financial, and AIC leverage to deliver only the required fund financials to investors based on their holdings.¹ Technology is advancing and the "emerging" fulfillment solution combines both electronic delivery and print on demand of "smarter" documents, that replaces traditional physical warehousing and handling completely by leveraging electronic warehouses such as SEDAR.

➔ **ADP'S ROLE IN POINT-OF-SALE DISCLOSURE**

As described above, ADP plays a pivotal role in delivering point of sale disclosure to mutual fund investors. In the course of managing the physically complex process of mailing to mutual fund investors, ADP is responsible to industry participant clients for helping them meet their regulatory obligations. As a practical matter, discharging the regulatory delivery requirements becomes ADP's responsibility subject only to receiving correct and timely information from its clients. ADP's role is therefore much more than that of a mail house: ADP has a real interest in the fundamental requirements and practicalities involved in distributing required information to investors. That role has driven ADP to develop certain technology solutions to facilitate the provision of more efficient and timely services. ADP has also been active in finding ways to implement technology solutions under the current regulatory scheme.

A Decision dated April 21, 2003 under the Mutual Reliance Review System from each of the jurisdictions in Canada permits ADP, on behalf of registered dealers, to provide mutual fund investors with more efficient, effective and useful point of sale disclosure, namely a "Smart ProspectusSM", which is described in detail in the Decision Document.

➔ **WHY ADP WANTS TO COMMENT**

ADP's experience in fulfilling regulatory delivery requirements puts ADP in a unique position to comment on the proposals made in the Paper. ADP is a major participant in communication of point of sale disclosure and has a key interest in the provision of accurate, full and relevant information to investors. Providing communications to investors is the essence of ADP's business. It has directed a great deal of time, energy and resources towards excellence in that activity. Therefore, ADP is well qualified and very interested in providing to the Joint Forum, the CSA and the CCIR its thoughts on how to achieve effective and excellent point of sale disclosure that meets the needs of various participants.

ADP agrees with the Joint Forum, the CSA and CCIR that there is a difference between theory and practice in point of sale disclosure to mutual fund investors. ADP welcomes the opportunity to comment on the proposals set out in the Paper to remedy it. In this letter, we provide first a summary of our comments and follow it with discussion of the principal issues addressed in the Paper. In the course of our remarks, we will address certain of the issues for comment identified in the Paper.

SUMMARY

- 4 Disclosure of the important and relevant information about an investment in mutual funds to investors in a way that allows them to make an informed decision is essential and the paramount objective of any point of sale disclosure scheme.
- 4 Current disclosure objectives are valid and largely met by current disclosure content requirements.
- 4 Consumers do not read and understand current disclosure because it is daunting to read and the information relevant to a particular fund is difficult to identify and absorb.

¹ The technology takes the electronic filed document containing the information for all funds in the group, reorganizes the material and prints and packages only the information on the funds that an investor owns.

- 4 Insufficient research has been conducted to determine why consumers find current disclosure daunting and difficult to identify and absorb.
- 4 ADP has conducted investor research that indicates the problem is with the packaging and presentation of the disclosure material.
- 4 Electronic delivery of investment information and documentation currently has a very low level of investor acceptance.
- 4 Relying on electronic access will not achieve the objective of providing investors with sufficient information to make an informed decision to purchase a mutual fund.
- 4 Electronic access to large documents will not be more effective at communicating current and up-to-date, essential investment information than our current delivery methods.
- 4 Technology solutions exist and can be developed that would more effectively, accurately and quickly provide investment information to a consumer than the solution proposed in the Paper.
- 4 Technology solutions should be investigated and canvassed before a new and potentially costly disclosure scheme is implemented.

1. THE DISCONNECT BETWEEN THEORY AND PRACTICE

As previously stated, ADP agrees that the current disclosure does not result in well-informed consumers who understand the implications of their investment decisions. The Paper examines the reasons from feedback of industry participants of the point of view of investors, sales representatives and operators. The extent to which the views of investors were sought directly is not clear.

Issue for Comment 01: ADP agrees that many consumers do not read or use current point of sale disclosure documents to make investment decisions. ADP believes that the reason is because they find the current documents daunting and do not perceive their significance. ADP's view is based on research directly with investors, as well as industry participants. The results of that research are discussed under the heading "Content of Disclosure". ADP is of the view that the interests and attitudes of consumers must be paramount when considering how to structure disclosure as the ultimate objective is to allow them to make well-informed investment decisions.

While sales representatives play a critical role in the decision to purchase securities, the fact that marketing brochures are found to be more effective as sales documents should not drive the determination of appropriate disclosure. The primary objective of marketing material is to sell the product and quite different from the primary objective of disclosure, which is to provide the consumer with information materials required to make an informed decision. Some material information such as risk factors, for example, do not support the sales objective and so is not part of the marketing material. ADP agrees that disclosure documents will be more widely used when also useful to the sales process.

Cost of disclosure to an operator is also relevant to consumers as ultimately the costs are passed on to the consumer. Therefore, a cost effective solution is to the benefit of all. However, when considering cost, one also needs to take into account the costs that would be transferred directly to each consumer by requiring them to seek out the more detailed information provided by the foundation and continuous disclosure documents and, if a printed copy is desired, to print these documents themselves.

2. CONTENT OF POINT OF SALE DISCLOSURE

- 4 **The Objectives of Disclosure:** ADP believes that the disclosure objectives identified in the Paper under the heading "Why do we ask for the disclosure we do?" are important for consumers. To make an informed investment decision, consumers need to be informed about what they are purchasing, how much it costs, who the operator is and the duties of the operator, and have the ability to compare the fund with other investment products. The other disclosure objectives identified, such as consumer education and use of disclosure as a check and balance, are also important but, in ADP's view, may not be essential as point of sale disclosure.
- 4 **The Simplified Prospectus as Disclosure:** A document that provides all information relevant to an investment decision in a simple, standardized easy to read format would be ideal. The Simplified Prospectus ("SP") mandated by National Instrument 81-101 ("NI 81-101") for mutual funds generally meets that objective. However, the Paper concludes that the SP is not useful for informing consumers because it contains too much information, some or all of which may be available elsewhere. The document is daunting to read and the information difficult to identify and absorb. The Paper has, therefore, concluded that a comprehensive document like the SP should be, available to but not provided to the investor.
- 4 **Investor Research:** ADP's experience from conducting investor focus groups is that the SP is not read and understood mainly because of the way it is packaged and presented. The practice is that the SP for a fund is combined in one document with the disclosure for all of the other funds in the same fund family. The resulting combined document can be very large and is sent to each investor containing all funds in the fund family. This solution minimizes the risk perceived by operators and dealers that the consumer is not provided with the required information due to physical packaging errors. This solution also minimizes the complexity and the perceived higher costs and inconveniences of designing, printing, warehousing and fulfilling separate documents. The result is that the consumer receives a very large, confusing publication that contains very little information that is relevant to their purchase. ADP can easily demonstrate that technology can eliminate both perceived risk and perceived inconvenience while delivering to the consumer a meaningful document.
- Further, this large, confusing document is received often without any indication of why it was sent or its importance. ADP's research indicates that investors often are not told why they are sent the SP and other disclosure or what the significance of the information is. Many assume that it is marketing material. A clear statement that accompanies the information would remove this confusion.
- ADP has attached a copy of our investor research results for review, as Appendix A to this letter.
- 4 **The Problem is with the Presentation:** It has not been demonstrated that the content of the document as opposed to its presentation is daunting and confusing to investors. ADP's research indicates that, if properly packaged without irrelevant material and explained, a SP for a mutual fund is indeed a useful and readable document for consumers. Further, the current standardized format is one that allows comparison between funds. While it may be advisable to slightly amend the content of the SP (see, for example, the discussion of educational material and disclosure as a check and balance above); the information it contains is generally well designed to enable the investor to make an informed decision.

Issue for Comment 04: The decision of whether to allow a foundation document to describe more than one fund depends largely on the form in which it is to be delivered. For example, if consumers were to request paper access to a foundation document, the presence of all funds in a fund family in that document would create the same degree of consumer confusion and disinterest as is today's experience with the current packaging and delivery methods of the SPs for all funds in a fund family. That confusion and disinterest would only be exacerbated if access were to an electronic document containing the foundation documents for all funds, unless it was combined with a sophisticated search engine or electronic directories. Again, ADP is of the view that technology can assist in providing solutions that would allow meaningful access via paper or electronically to critical fund information. We believe those alternatives should be explored before settling on a method of point of sale disclosure.

- 4 **Proposed Regime Adds Unnecessary Costs:** Much work was done to produce the revised mutual fund disclosure rules that are now ensconced in NI 81-101. The proposed fund summary document is largely duplicative of the disclosure in the SP. In 2000, the industry completely modified its disclosure documents at great cost to comply with the requirements of NI 81-101. It will be a burden to the industry and consequently to investors to require yet another document to be produced and provided to investors when so much effort has already been put into development and filing of the SP.² As ADP's experience indicates that the main reason the SP is not a useful document to investors relates to its presentation and packaging, more effort should be made to solving those problems rather than to requiring a new form of document.
- 4 **Investigate Technology Solutions:** Technology exists to provide a meaningful document to consumers that is prepared in accordance with the existing disclosure system but that avoids many of the pitfalls identified in the Paper.

For example, ADP's Smart ProspectusSM service produces a personalized welcome letter, trade confirmation and prospectus, together with necessary amendments, in one single bound document for an investor. The first page is the welcome letter that provides a detailed explanation, from the dealer, of the package contents. The document confirms all transactions for a particular account and includes all required documents based on the type of purchase (first time, subsequent, switch, etc.). Prospectus and amendment documents are obtained from SEDAR in their electronic form, and printed on demand when triggered by a trade. Costs for fund companies and dealers decline, as commercially printed documents are not necessary to produce or warehouse when using the Smart ProspectusSM service. In addition, the document is "smarter" because only the segments of the overall prospectus and amendments required for the funds purchased are included. Mailing costs for dealers are lower because the package is smaller. Because the documents are obtained directly from SEDAR, the disclosure is always up to date and waiting times for commercially produced documents are eliminated. Delivery of a Smart ProspectusSM is timely because it is triggered by an event in the system, in this case, notice of a purchase. A detailed audit report is available to dealers that provide proof of compliance. Also, research suggests investors would prefer a Smart ProspectusSM to the current package of information they receive.

The Smart ProspectusSM is an example of how technology can achieve the objectives of sending more timely, relevant and less costly disclosure documents to investors. Any regulatory examination of point of sale disclosure should take advantage of technology solutions that are currently available before compromising the level of helpful disclosure given to an investor in an SP.

3. METHOD OF DELIVERY

- 4 **Consumers Do Not Want Electronic Delivery:** The Paper compares physical delivery of the current point of sale disclosure with electronic delivery. ADP concurs that the industry and investors have not embraced electronic delivery wholeheartedly. ADP believes that the failure to embrace electronic delivery is not a question of the industry dragging its feet but rather reflects industry response to consumer preference. For example, an average of 1% of those who are asked if they would like to receive their account statements electronically have elected to do so. In the United States an average of less than approximately 4% of shareholders elect to receive proxy materials electronically in lieu of paper. This rate of user adoption of electronic delivery is very low and it is not increasing. As a result of persistent low user adoption rates, the use of electronic delivery is declining. A large majority of investors do not want to be forced to choose electronic delivery instead of mail as evidenced by the low adoption rate. Because it is expensive to provide parallel delivery services, operators are closely examining the need for supporting both a mail and an electronic delivery option. Due to low adoption rates some operators are ceasing to offer electronic delivery services.

² These costs include professional advice, investor education efforts, training sales staff and technology development.

- 4 **Proposed Electronic Documents Still Overwhelming:** The Paper states that consumers do not see value in reading through printed documents. Typically retail investors find reading through large documents in electronic form even more cumbersome and less accessible. Further they resent the inconvenience and cost involved in printing the documents themselves. ADP's view is that most investors would not agree that "access should equal delivery".
- 4 **Electronic Access Will Not Inform Consumers:** ADP has substantial experience in the difference in effectiveness between information that is provided to investors and information investors must seek. Experience shows that investors do not seek information even when they are made aware that it is available. For example, there was a very low return rate of response cards sent to investors asking whether they wished to receive the most recent mutual fund annual report. An average of less than 5% of recipients returned response cards requesting mail delivery. Less than 1% requested electronic delivery. The low response could indicate many things: investors do not realize the significance of the information, view it as a marketing information request or simply do not notice the message or response card and make no effort to respond at all. Most likely, investors view the information as marketing material, which they neither need nor want. It is difficult to draw firm conclusions about the investor's reasons based on the research done to date. However, the lack of response does give us an idea that investors are unlikely to seek important information available to them for a variety of reasons. Therefore, having important information available is unlikely to be successful as a means to provide investors with the information on which they can base their decisions to purchase a security, sell a security or continue to hold a security.
- 4 **Currency of Disclosure:** The Paper indicates concern that information in printed material is stale dated. It is not clear how that is addressed by the proposed disclosure regime in the Paper. Annual and semi-annual performance financial information is already available to consumers. Changes to the material information in the SP require that an amendment be filed and the amended document must be sent to investors. It does not appear that the fund summary document will provide any more current information than that which is already available. Therefore, the printed information available now is no staler than the information available under the proposals in the Paper, with the possible exception of the quarterly financial information proposed to be included in the continuous disclosure record. ADP's experience is that the practical problem with the currency of information is a result of dealers either not receiving current information or not sending it to the consumer if it is received. In either case the problems are a result of the current delivery mechanism not the content or availability of the disclosure documents. There are technology solutions available that enable the most current information to be delivered as demonstrated in the preceding discussion of the Smart ProspectusSM.
- 4 **Verbal Delivery:** The Paper suggests that the proposed fund summary document may be either delivered or explained verbally by the sales representative at the time of purchase. The Paper notes that verbal delivery is not yet sanctioned by law and regulation. As noted in the Paper, the fund summary will contain largely the material already in the SP, possibly in shorter form, except the general fund information. We have discussed earlier our concerns that information essential to the purchase decision is not available in the fund summary document. Even simplified, the information is complex. Verbal communication of the information and verbal notice of the web site are of limited practical utility if the investor wishes to have more information about a purchase. Practical experience suggests that without enforcement, verbal communication if left up to the sales representative will not take place, and there will be no paper trail to provide evidence that the communication took place. ADP suggests that the proposal to allow verbal delivery of the fund summary document does not support the objective of enabling the investor to make an informed investment decision.
- 4 **Investigate Technology Solutions:** In conclusion on this issue, it is not clear that the electronic availability and verbal notification will do anything to achieve the regulatory objective of enabling consumers to make informed purchase decisions. Again, the issue seems to be the form of the information provided. ADP suggests that other solutions be examined to provide alternatives that would more completely address the regulatory objective and fit consumer behaviour.

Issue for Comment 03: ADP supports having a comprehensive disclosure document available electronically, however, delivery of disclosure information in paper form to consumers in connection with purchase of a security is valuable. A comprehensive document would contain important information, which is not proposed to be in the "fund summary document", including information about sales charges, how the sales representatives are compensated and certain other rights which the investor will have. Such information is essential in making an informed purchase decision and should continue to be provided to the consumer. After having received clear, focused disclosure with a communication of why it is sent and is important, the investor may be offered the opportunity to decline further similar material. That decision is an informed decision, also consistent with the regulatory objective.

Issue for Comment 05: ADP supports making various documents available on web sites as well as on SEDAR. SEDAR is essential to provide a centralized regulatory database that is accessible to the industry. However, SEDAR is not an efficient or user-friendly database for consumers and should not be a sole electronic consumer reference point. Often, consumers are unaware of the correct or full legal name of the company as is generally required to search on SEDAR. Also, SEDAR postings are confusing as there are multiple entries for a single fund due to their posting as part of a combined document. SEDAR can be confusing even for the seasoned user of the service. Therefore, web site postings are also advisable. Nonetheless, it is ADP's view that neither satisfies the point of sale disclosure necessary to enable an investor to make an informed investment decision. Alternative forms of disclosure should be examined.

4. TIMING OF DISCLOSURE

An informed purchase decision requires disclosure information prior to the purchase. Current requirements are that the disclosure material is provided within a period of time after purchase and such delivery is tied to the right to withdraw or rescind. Research on which the Paper relies concludes that most consumers do not know they have the right to withdraw or rescind their purchase.

ADP is, however, well aware of the practical difficulties of delivering disclosure documents or information on one of potentially thousands of available mutual funds prior to purchase of that fund. Providing the investor with the limited information in the fund summary document immediately prior to committing to purchase as proposed in the Paper grants only a limited opportunity for the investor to be fully informed of relevant information before making the investment decision and becoming bound by the purchase. There are fundamental issues that make providing mail delivery or paper form of disclosure prior to the sale very difficult. The regulatory objective is thus not particularly well served. Again, ADP encourages examination of technology solutions for timely disclosure, which could serve to inform a realistic requirement for point of sale disclosure that will result in informed purchase decisions.

5. WHO DELIVERS DISCLOSURE

Ultimately, ADP's role is to ensure that full and relevant point of sale disclosure information reaches investors in a timely manner regardless of whose obligation it is to deliver the disclosure. Clear and standard requirements for delivery are important to the industry and to consumers. Each consumer should receive the same information within the same time frame regardless of who is responsible for the delivery. The technology solutions available should be able to be applied to discharge the delivery responsibility of any market participant.

CONCLUSION

ADP strongly supports the regulatory objective that mutual fund consumers receive clear and understandable information about their investments in a way that allows them to make an informed investment decision. Current methods of disclosure have not fully achieved this goal for mutual fund investors. Solutions other than those set out in the Paper exist to address the current problems in different ways that are more effective for consumers, industry participants and regulators. The underlying causes for the current problems and the full range of possible solutions should be examined in more detail before making a fundamental change in the disclosure scheme.

ADP would welcome the opportunity to consult with the Joint Forum, the CSA and the CCIR about available technology in order to inform the deliberations about appropriate point of sale disclosure for mutual funds and segregated funds. ADP has a great deal of experience, information and technological knowledge, which it believes would be helpful in these deliberations. ADP appreciates the opportunity to comment on the Paper.

Yours very truly,



Sue Britton
Vice President, Business Development

Copy: Kathryn Ash, Borden Ladner Gervais LLP
Tanis MacLaren

Attachment

ADP Investor Communications Smart ProspectusSM Qualitative Research Report

Presented to: ADP Investor Communications

From: Blue North Strategies

ADP Investor Communications – Smart ProspectusSM Research

Introduction

Blue North Strategies conducted qualitative research into two key areas on behalf of ADP Investor Communications:

- (1) what information investors require and expect after making a first-time fund purchase, and
- (2) how effective the Smart ProspectusSM concept is at meeting these requirements.

In order to understand general requirements and expectations, Blue North facilitators probed areas that tested investor sophistication and attitudes.

Beyond this general level of questioning, specific questions were asked about the usability and effectiveness of the newly proposed Smart ProspectusSM concept. In order to gain a clear understanding of investor reaction to this product, a number of concept mock-ups were developed to demonstrate different ways of approaching key issues. Investor feedback was ultimately used to determine whether or not the Smart ProspectusSM was a viable product and what the product specifications should be.

The italicized notes throughout the report are representative quotes from the mini group sessions.

Executive Summary

The research undertaken by Blue North Strategies involved a combination of in-depth-interviews (IDIs) and mini focus groups. These two methods were used to test both the usability of the Smart ProspectusSM prototype and to delve into general investor attitudes and expectations towards investor communications.

From a demographic perspective the participants were all active investors and a mix of male/female, age, income (over 40k), marital status and education (>post secondary).

A full set of data, demographic information, and methodology details is available as a supplementary document.

Smart ProspectusSM Specific Findings

- Generally participants reacted very positively to the Smart ProspectusSM because it was a shorter document and contained only information relevant to them;
- Due to the fact that the native page numbers (original page numbers) on the prospectus portions of the package are discontinuous, participants supported a second set of continuous numbers supplemented by a clear explanation as a way avoiding potential confusion;
- Participants supported black and white printed documents as long as they were professional and easy to understand;
- Efforts to make the document more professional, such as perfect binding, were appreciated by participants;
- Making the transaction confirmation detachable was suggested as many participants wanted to file that portion and discard the balance;
- Generally, people did not understand their investment relationships (broker/issuer/investor), and the Smart ProspectusSM has the potential to help clarify this.

General Issues

- Overall participants saw the Smart ProspectusSM concept as something that could add value to their investment relationships. They also provided key insights as to which of multiple Smart ProspectusSM mock-up variations were most effective and assisted in the final document design;
- Most participants claimed not to read or understand prospectuses and said that if content was relevant, and concise they would be more inclined to read it;
- Participants suggested that the Smart ProspectusSM cover page must clearly explain the function and author of both the Prospectus and trade confirm because they are coming from two or more (if multiple transactions with different issuers were made) organizations;
- Participants valued Internet documents but wanted a paper record for their file and they did not want to have to print it themselves.

Methodology Overview

As stated in the introduction, the research undertaken for ADP Investor Communications was qualitative research. Qualitative research utilizes open-ended interviewing to explore and understand the attitudes, opinions, feelings and behaviour of individuals or a group of individuals. Though qualitative research has many applications, some of the more common uses are:

- Investigating brand positioning;
- Identifying product strengths and weaknesses;
- Exploring alternative communication messages and themes;
- Understanding use and purchase motivations;
- Brainstorming and idea generation;
- Probing perceptions of current societal or public affairs issues.

The focus of this research assignment was two-fold:

1. to rate the usability of the Smart Prospect design concept, and
2. to more generally poll investor attitudes in the area of investor communication.

In order to accomplish both objectives we elected to utilize a combination of in-depth interviews (IDIs), and mini-groups. The IDIs allowed us to understand individual concerns and test the specific usability issues surrounding the Smart ProspectusSM concepts. IDIs were then followed by mini-groups with the same individuals, where they were given the chance to discuss more general issues. Participants were shown a number of Smart ProspectusSM mock-ups and provided feedback on which versions were most effective for a number of reasons.

The sample size was small – 16 participants in total – and they were divided into four mini-groups where there was less of a chance of skewed results as a result of one or two energetic participants. It should also be noted that this research was done to supplement other research done in this area and to investigate specific issues in detail. For this reason a relatively small sample size was deemed appropriate.

Other Background Research

Blue North Strategies consultants have facilitated dozens of qualitative research sessions in the banking, insurance and investment sectors. While this research assignment was stand-alone, clearly the methodology draws on previous research findings about client preferences and concerns. Such findings included:

- Privacy issues were secondary to concerns about the relevance and volume of material investors receive;
- People's first concern was their money - they want to be able to understand any math that has taken place. If they don't they will call for clarification;
- Although electronic access is seen as a benefit, paper copies of records are required.

In addition to such proven principles, other research was considered. An example of such research was the Dalbar study "Consumer Demand for Mutual Fund Transaction Confirmations". The results of this study were presented to the financial community in 2000 and included findings such as:

- 96% of consumers wanted to receive confirmations;
- Mail was preferred as a delivery channel by 85%;
- 85% of investors stored and filed their confirmations.

Smart ProspectusSM Specific Issues

Our qualitative research turned up a number of interesting findings that were considered when developing the final Smart ProspectusSM prototype. The observations in this section are supported by the supplementary information, in addition to this report, with specific responses and findings.

These findings also led to other observations that are included in the General Issues section to follow.

In general, it was clear in this research, as it had been in other research done by Blue North facilitators, that investors were clearly calling for a reduction in the amount of information that was sent to them and also wanted to see an increase in the relevancy of that information. The Smart ProspectusSM clearly accomplished this and so investors seemed genuinely appreciative that such a product was going to be introduced. While the direction was clearly embraced by investors, there were a few challenges in implementing this program successfully. These challenges were brought about by a combination of regulatory and technological constraints. These specific issues such as page numbering and colour to grey-scale conversion will be addressed individually in this section.

“Don’t send me a book to market other products, send me something concise.”

Page Numbering

Participants were generally frustrated by versions of the Smart ProspectusSM that only showed the native discontinuous page numbering that result from selecting only portions of the original underlying prospectus document. Investors understood the technical and regulatory challenges, but still did not see this as a problem they should be forced to confront. They responded much more favourably to versions with a second set of continuous numbers.

The root of this challenge is that when the prospectus changes from a colour litho document to a black and white, personalized document that is combined with a transaction confirmation, it turns into a valued legal document that will be filed. Lack of understanding had many clients previously viewing the full prospectus as a marketing document that they were not as concerned about, but the new demanded more focus. The result was that participants noticed gaps in the page numbering, assumed that a mistake was made in the printing process and then felt compelled to call for more information.

The recommended answer to this challenge is a two-pronged strategy. First: educate; second: duplicate.

Educate – in order to explain to investors exactly what was happening, a clear and obvious message must appear on the first page of the package explaining to investors that they will see discontinuous page numbering because they are only receiving the portions of the total document that apply to their transaction.

Duplicate – to set investors’ minds at ease, proceed with the version that had a second set of “smart” page numbers that provided a continuous flow of pages through the document. This second set should also be explained on the first page and should take investors through the Smart ProspectusSM package. Also, a Table of Contents has been included based on the investors’ requirements.

These two measures in combination helped create a highly targeted package that minimized investor confusion.

“As an investor I don’t know what companies are obligated to file and send. All I know is what I need. The second set of numbers is useful.”

Colour

The fact that the Smart ProspectusSM must be produced in black and white for production reasons presents two specific challenges. First, colour images and graphs must be carefully translated into greyscale, and second, the final output quality must be such that investors do not mistakenly see this package as a photocopy of the original.

In order to overcome these issues, once again it is important to clearly explain the package and the reasons for its format on the cover page of the document. Once investors understand why the document is being produced the way it is, they will be supportive of the approach. It also should be acknowledged that the Smart ProspectusSM composition and production process accounts for colour to greyscale translation issues.

“I don’t need all the information in the other one.”

“It looks like it might be a photocopy; I might think the original went to someone else.”

Quality and Binding

Participants did note that the traditional, commercially printed (lithographed) prospectus does have a higher quality feel to it. It was clear that participants wanted to see the companies they deal with balance fiscal responsibility and professionalism. They did not want companies they dealt with to be either extravagant or overly thrifty.

The challenge is balancing these two in a document like the Smart ProspectusSM. One area that seems to have significant impact over the perceived quality of the piece is the binding technique utilized. Participants were not impressed with the samples that were simply stapled in the upper left corner or side-stitched; however, saddle stitched booklet samples conveyed professionalism.

The key to meeting the investor’s needs seemed to be in the subtle things such as binding, a professionally designed cover page, and a prominent logo (when colour is not used the size should be increased).

“The (saddle stitched) document looks more professional.”

Branding

Investors tend to feel kinship with the broker because they are the ones with whom the relationship has been established. It is important to position the brand of both the brokerage firm (dealer) and fund manufacturers appropriately. It is obvious that in a document without the benefit of colour, it is the logo and the logo alone that provides relationship comfort to the investor.

With this in mind it is recommended that the broker/mutual fund company relationship be explained in the cover letter and that due consideration be given to the weighting of the logos that appear on the document.

The branding issue also raises a question in relation to the previous point on quality. The question was: "Does the black and white, laser printed document negatively affect the brand perception from a quality point of view?" Based on participant reaction the answer to this question was no, so long as attention is paid to the small things mentioned above (binding, document design, etc.). While the traditional prospectus was viewed as a marketing document and therefore carried significant branding considerations, the new Smart ProspectusSM document was viewed as a functional 'personal update' and since it was perceived as a more utilitarian document, the black and white nature was seen as providing practical value, which is a positive thing.

Understanding of Document

Clearly an issue that straddles the line between document-specific issues and general issues was investor understanding of the package in general. Many investors do not understand the purpose of a prospectus and saw it only as an attempt at marketing. For the most part these investors are confused by the amount of material they received and tended to ignore any document that was not personalized with their name and financial information on it.

The Smart ProspectusSM package clearly addresses this requirement. Investors will receive relevant portions of their prospectus in the same personalized package as their confirmation. In focus groups participants suggested that this would cause them to pay more attention to the document both because it was a more manageable length and because it was personalized to them. This raises two interesting questions:

- What will be the result of investors reading a document, many for the first time, that they don't understand?
- Will the Smart ProspectusSM ultimately drive investors to start reading prospectus information or ignoring their confirms?

In order to influence the answers to these questions, the content of the Smart ProspectusSM package must educate investors and help them understand the function of both the prospectus and the balance of the document. In addition, the confirmation needs to be easily identifiable in the package and easy to separate. Several participants said that they would want to retain the confirmation for their files but discard the prospectus after reading it.

"I only understood it after you explained it to me."

The Final Word from Investors

When asked whether they preferred the traditional prospectus and confirmation or the new, all participants preferred the new, Smart ProspectusSM. The following were viewed as benefits:

- Reduction of paper;
- Personalization of content;
- Consolidation of elements.

The following were raised as cautions:

- A full prospectus should be available on request;
- Quality and professionalism should be kept in mind.

"It's (the Smart ProspectusSM) much better, if there's too much paper I just won't read any of it."

General Issues

In addition to issues surrounding the document itself, our mini-group sessions explored more general investor attitudes and thoughts. These discussions explored the thinking behind some of the specific responses to document issues. The general feeling in these sessions was that investors are exhausted by the deluge of information they receive related to their investments. Many do not have an in-depth understanding of the investment industry and are not looking for the amount of information they are being sent. They feel it is wasteful and a bother. While there were a few exceptions (individuals that wanted as much detail and information as possible), the majority want organizations to invest in screening information, and doing a 'relevance check' before sending it out.

Marketing Versus Valued Communication

Investors for the most part are frustrated by the amount of information they receive, but at the same time they are under-informed about their investment portfolio. Regulators and industry commentators are calling on investors to become more engaged and informed about their portfolios, and the current communications approach is clearly overwhelming the audience and not helping them to become more informed. The challenge is to ascertain how to help investors become engaged in the information they require in order to become more informed.

As noted previously, investors tend to put material they receive from their investment advisors into two distinct categories: marketing material, and valuable personal account information. This distinction has a clear impact on the life of these documents, as the marketing documents tend to be discarded once looked at, whereas the valued documents are filed. With near unanimity the groups saw the traditional prospectus as falling into the marketing category and the trade confirmation falling into the valued category.

Interestingly, the Smart ProspectusSM combines a document that was understood and valued (the trade confirm) by nearly everyone, with one that is neither understood nor valued (the prospectus) by many. This clearly had the potential to lower the value of the trade confirmation and/or raise the value of the prospectus.

By actively helping to reduce the volume of information that comes to investors and by melding these two types of documents into one, the Smart ProspectusSM was in an interesting position to be able to encourage investors to get more involved, and become more informed. If handled effectively, the Smart ProspectusSM package could go a long way to encourage investors to become more informed about the investments they

hold. In order to accomplish this, the document must clearly explain the communication and its purpose to investors and then encourage them to spend the time required to understand its content.

"I'd be more likely to keep the Smart ProspectusSM; I don't keep all that coloured marketing stuff."

Role and Relationship Confusion

Investors fall into different categories; those who deal with a brokerage firm and those who buy from an advisor, for example. From a relationship perspective, there are different sets of expectations. Most of the investors we spoke with had broker relationships. These investors are looking for information and communication from their brokers. As one investor put it, they pay their brokers commission, and so it was their broker they wanted to hear from.

The Smart ProspectusSM document includes an explanation of the relationship between the broker and fund company to the mutual fund investor. This should be part of the education process, and can be highlighted by the Smart ProspectusSM. This document will act as a catalyst, forcing investors to gain a clearer understanding of how their investment relationships are structured. While this is beneficial, it is important to ensure that the Smart ProspectusSM presents information clearly and simply or it will be lost on investors.

"The broker is the one that I have a relationship with, it needs to be clear it's coming from my broker."

Internet Use

Investors and their suppliers view the Internet differently. Investors see the Internet as a convenient supplement to their existing relationship, while brokers and fund companies view it as a possible replacement channel for paper. As the medium becomes more accepted this may change, but for the foreseeable future investors do not want to lose their paper documents in exchange for electronic ones. 24/7 access and additional information as required are benefits of an e-account but they do not eliminate the need for paper versions of all their documents.

The documents referred to as 'valued documents' above are filed and investors do not feel comfortable with an electronic-only version and do not feel that they should be responsible for printing them. For the most part, investors' environmental sensitivities disappear if the result is an inconvenience to them. An electronic document saves a stamp and an envelope, and possibly a paper document, but it requires effort.

"I need paper versions of all my key documents."