August 30, 2012

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

The Secretary
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Me Anne-Marie Beaudoin
Corporate Secretary
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Dear Sirs/Madames:

Re: Proposed Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* ("NI 81-101"), Form 81-101F3 and Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure* and Consequential Amendments

The Canadian Advocacy Council[1] for Canadian CFA Institute[2] Societies (the CAC) appreciates the opportunity to comment on the proposed changes to NI 81-101 relating to the Fund Facts disclosure requirements.

[1] The CAC represents the 13,000 Canadian members of CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at http://www.cfaadvocacy.ca/. Our Code of Ethics and Standards of Professional Conduct can be found at http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx.

[2] CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the

The CAC supports the CSA's goals of providing investors with easy to understand, comparable, key information about mutual funds at a time when the information is most relevant – prior to the investment decision. The CAC wishes to comment specifically on the following aspects of the proposed amendments.

Risk Scale

The CAC supports the inclusion of stronger warning language about the risks of investing in mutual funds and the new explanation of the risk scale and the relationship between risk and losses, and believes it is an improvement over the current disclosure. However, the CAC believes that the visual representation of the risks of any one particular fund can be enhanced so that an investor without any financial background can better understand the fund's level of risk. Fund returns alone may not be sufficient to measure risk, as in many cases the fund will not have been in existence long enough for the fund's track record to have any statistical meaning. There are a variety of methods that can be used to express such risk, and a number of possibilities are set out in Appendix A to this letter. While the CAC does not advocate one such method over another, it does believe that including additional information in conjunction with the existing risk scale, particularly in graphic form, would provide additional transparency to retail investors.

Depiction of Worst Return

The CAC also supports the inclusion of the worst quarterly return of a fund since its inception. However, as noted in prior comment letters, the CAC does not believe that this requirement goes far enough and that the Fund Facts should also present the length and duration of the biggest decline over one year, three year, five year and ten year periods for the fund.

List of Fund Risks

The CAC disagrees with the requirement to list no more than four of the top risks that may affect the fund's returns with no ability to describe the meaning of those risks. We do not believe the cross reference to the simplified prospectus for a more detailed discussion of the risks sufficiently negates the impression that will be left with investors that the four risks listed are the only relevant risks. Explanation for *all material and probable* risks should be provided in plain language within the Fund Facts document.

In addition, without a uniform definition or understanding, the same description of a risk factor may have a vastly different meaning from one fund manager to another. If a fund manager must choose the top four (or more) risks to include (based on the order of listing in the fund's simplified prospectus), we would suggest that the CSA provide sample language in 81-101CP to

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investment industry. The CFA Institute has more than 110,000 members, who include the world's 110,000 CFA charterholders, in 135 countries and territories, as well as 135 affiliated professional societies in 58 countries and territories. More information may be found at www.cfainstitute.org.

provide guidance on the extent of disclosure expected. For example, "currency risk" might be described as the risk that if the Canadian dollar increases against the currency of the investments of the fund, it can reduce the value of the fund.

Comparison to One-Year GIC

The CAC does not believe that the information under the heading "How has the fund performed" in the Fund Facts document is useful for investors and would in fact be misleading in many cases. The proposed amendments would require a fund to show how its returns compare to the return of a one-year Guaranteed Investment Certificate ("GIC"), based on data from the Bank of Canada. The use of a GIC as a benchmark may be entirely inappropriate for a number of different mutual funds. Comparing a fund's performance to that of a one-year GIC will not assist investors in assessing performance of a fund relative to its associated risk, as in many cases the objective and strategy of a fund and the associated risks of such strategy will have no correlation at all to an investment in a perceived risk-free security such as a GIC. The perceived increase in risk from an investment in a GIC will also be different depending on the strategy of the particular fund, but the proposal would compare all types of funds with different risk profiles to the one low-risk benchmark. An investment in a fund with a higher risk profile than that of a one-year GIC is entirely suitable for many investors in specified circumstances, and forcing investors to compare such returns could lead to erroneous conclusions about the appropriateness of the mutual fund investment.

In the CAC's view, it would be more appropriate and helpful to an investor trying to assess performance of a fund relative to its risk by comparing a fund's returns to those of an established, widely published and highly recognized index or other benchmark that has a relationship to the investment objective and strategy of the fund. Alternatively, a fund could present more than one such index or benchmark to provide alternative points of comparison and reflect different levels of risk, such as the S&P / TSX Composite Index, the DEX Universe Bond Index and the MSCI World Index. To maintain comparability among funds and fund managers, the CSA could prescribe the requisite indexes. Whichever measure is chosen, it should be prescriptive enough to allow for comparison between all funds with respect to comparable calculations, timeframes, and comparative indexes.

Providing the return of a comparable index is required by Form 81-106 F1 *Contents of Annual and Interim Management Report of Fund Performance*, where a fund must provide the historical annual compound total returns or changes of one or more appropriate broad-based securities market indices. It would appear to be inconsistent, and potentially misleading to investors, to require a comparison to a one-year GIC instead in the Fund Facts.

In addition, there are a number of concerns with presenting a GIC as a benchmark, as it is not truly a risk-free investment and presenting it as such may be misleading. For example, GICs are subject to inflation risk (the risk that the low return will not be greater than the rate of inflation); potential tax liabilities if held outside a registered plan (interest would usually be fully taxable at an investor's marginal tax rate); reinvestment risk (the risk that when the GIC matures, if an investor purchases the same investment again it will be at a lower rate); and the opportunity cost of having monies tied up in a low-yielding investment.

Providing performance information for a one-year GIC (even for reinvestment over a ten year period) combined with only providing the worst three month fund return, may focus investor attention on short-term goals. In many instances, investors have a longer-term time horizon and should focus on returns over a longer time frame. Nonetheless, while the CAC does not advocate for short term investing, it does believe that investors need to understand the impact of short term volatility on their long-term goals.

The CAC believes that the proposed mandated disclosure of the worst performing periods of the fund, with longer timeframes included in addition to the worst quarterly return, together with mandated disclosure to the effect that investors may sometimes lose money (to cover situations where a fund has not suffered a loss, even in its worst performing period) and disclosure of a more directly comparable benchmark, in addition to some of the suggestions set out in Appendix A, would be sufficient to highlight the risk and possibility of losses to potential investors.

Disclosure of Charges

The CAC supports the inclusion of additional information on whether trailing commissions are paid with respect to a fund. The CAC believes it is important to focus on the dollar cost of charges to the extent possible, and not simply a percentage figure, which may not resonate as thoroughly with investors. Therefore, we believe that wherever a percent cost is listed within the Fund Facts document, a corresponding dollar amount per $1000 investment should be provided.

Language

The CAC believes that plain language rather than industry terms should be used as much as possible in the Fund Facts document. Using such substitutions as “stocks” instead of “equities”, “annual commissions” instead of “trailing commissions”, and “portfolio manager decisions” instead of “active management”, would make it easier for investors to understand the risks discussed.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact us at chair@cfaadvocacy.ca on this or any other issue in future.

(Signed) *Ada Litvinov*

Ada Litvinov, CFA
Chair, Canadian Advocacy Council

Appendix A
Additional Risk Disclosure Options

1. Instead of the one line, one dimensional risk scale, the Fund Facts document could contain a risk/return graph, which would plot both the fund's returns and risk together with those of an appropriate benchmark. The graph would explain that those plot points in the lower risk and higher return quarter of the graph expresses the most advantageous risk for reward investment possibilities. Whichever risks and benchmarks are chosen, it will be important that the measure of risk is defined and standardized and that explanations be given for the desired outcome.

2. The proposed risk/return graph could include a larger sample of products or investments to provide investors with additional context.

3. The risk/return graph can be presented together with a chart showing the percentage and dollar losses for the fund's worst performing periods (e.g. worst day, week, 30 days, 90 day and annual period).

4. As an alternative to 1-3 above, the Fund Facts document could include a table demonstrating how many times the fund has lost $1000, $100, $50, $10, $0 or gained $1000, $100, $50, $10, or $0 on a $1000 investment on a monthly or quarterly basis since inception or another standardized point in time. A comparison can be made with similar performance numbers from a broadly recognized index. The value of the $1000 investment at the beginning of the measurement period could then be compared against the index as well as, if desired, the proposed one-year GIC investment.

5. As another alternative to 1-3 above, the Fund Facts document could illustrate in a graph the returns that would have been achieved had an investor purchased $1000 of fund securities 1, 5 and 10 year(s) ago as compared to a broadly recognized index.

6. The existing risk scale can be further enhanced by adding other investments to the scale, including, if desired, the proposed one-year GIC investment.

7. The Fund Facts document could also include additional data on the fund's downside risk and maximum drawdown. This data would illustrate actual losses that have been incurred to date in a fund, rather than measures such as standard deviation which are not easily understood by most investors. The downside risk may be described as the fund's financial risk associated with the probability that the fund's securities will fall in price, and would show actual losses sustained as a result of such a decline over defined periods. The maximum drawdown may be explained as the largest high-to-low decline in the fund's securities since inception, quoted in both percentage and dollar figures.

8. The data could use the fund's average annual return to illustrate the percentage and dollar amount, or number of years, that would be required to recoup an investment from the fund's biggest loss.