Eric Adelson
Senior Vice President, Legal
T: 416.228.3670
F: 416.590.1621
Email: eric.adelson@invesco.com

Invesco
5140 Yonge Street, Suite 800
Toronto, Ontario M2N 6X7

Telephone: 416.590.9855 or 1.800.874.6275
Facsimile: 416.590.9868 or 1.800.631.7008

www.invesco.ca

September 6, 2012

VIA E-MAIL

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
Registrar of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Registrar of Securities, Nunavut

Attention:
The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Notice and Request for Comment – Implementation of Stage 2 of Point of Sales Disclosure for Mutual Funds

We are writing in respect of the Request for Comment dated June 21, 2012 regarding the proposed amendments to National Instrument 81-101 and related amendments. We appreciate the opportunity to comment on these important matters.

Invesco Canada Ltd. is a wholly-owned subsidiary of Invesco, Ltd. Invesco is a leading independent global investment management company, dedicated to helping people worldwide build their financial security. As of July 31, 2012, Invesco and its operating subsidiaries had assets under management of over US$659 billion. Invesco operates in 20 countries in North America, Europe and Asia.

Invesco Canada continues to support the Fund Facts Documents initiative (the "FFD Initiative"). In this letter we provide our feedback to the specific questions asked in the Request for Comments, as well as additional comments with respect to some of the other proposed changes.

1. Risk disclosure

As noted in our previous comment letters on the FFD Initiative, Invesco Canada strongly supports additional disclosure in the Fund Facts Documents relating to risk, as we believe that it is in the interests of investors to have an understanding of investment risk in general, as well as an awareness (at the very least) of the other specific risks involved in selecting particular mutual funds. Further, we believe that it is difficult for investors to assess the risks of any investment by reference solely to a scale that is not explained. As such, we fully support the inclusion of specific risk factors in the Fund Facts Document as well as an explanation for the risk classification scale. As discussed below, however, we do not believe that the proposed explanation of the risk classification scale is adequate or appropriate

(a) Proposed explanatory text regarding risk methodology

The Canadian Securities Administrators ("CSA") requested feedback on whether or not the proposed explanatory text regarding risk methodology will assist investors in understanding how to interpret the risk scale in the Fund Facts Documents.

We believe that the explanatory text has to be consistent with the risk classification methodology used by the fund manager and, in our view, the proposed language is consistent neither with our methodology nor that of the majority of the mutual fund industry in Canada. As you know, the majority of mutual fund manager have adopted IFIC's Recommendations for Fund Managers Regarding Fund Volatility: Risk Classification (the "IFIC Approach"), which is based on the volatility of fund returns, subject to certain qualitative factors. The IFIC Approach is based on the premise that fund risk is best measured by volatility. The proposed language in the Fund Facts document is really about the risk of loss rather than volatility risk and, therefore, for the majority of fund managers, the proposed language is non-sensical, if not misleading. Our suggestion would be a simple statement as follows: "Please read the Fund's simplified prospectus for an explanation as to the meaning of a risk classification on the following scale." We note that such disclosure is mandated in the simplified prospectus form and, further, Staff has been quite diligent in ensuring mutual fund prospectuses contain this disclosure.

As a second step, if the CSA is committed to a risk classification scale, we urge, the CSA to mandate a scale. When one considers the comments on the IFIC Approach from the investor advocate community, it is clear volatility risk is not acceptable to them. However, the IFIC Approach was the result of several years of hard and thoughtful work by IFIC members and it is a shame that it has been derided and abused to the extent that it has. We acknowledge that the CSA tried to enshrine the IFIC Approach in earlier iterations of the FFD Initiative and, as such, we acknowledge that the CSA has attempted to resolve this issue. But it is also clear from both industry and investor comments at the time that such an approach would not have been adequate. Therefore, we urge the CSA to strike a proper task force, involving regulators, academics, industry representatives and investor advocates to devise a risk classification scale (or to decide that such a simplistic approach is inadequate) and only then to mandate explanatory language.

(b) Other specific risks

The CSA requested feedback on whether the proposed inclusion of a fund's main specific risks will assist investors in better understanding the risks associated with investing in that fund. The CSA also requested feedback regarding how a narrative description might be used for each risk factor.

We agree with the proposals to (a) require disclosure of other specific risk factors in the Fund Facts Document, and (b) to allow the manager to choose which risk factors are the most applicable to the funds. We also agree that Managers should be required to pick a limited number of risk factors, so as to not render the entire exercise meaningless to investors by simply listing out every single possible risk.

Provided that language directing investors to the simplified prospectuses remains, we do not believe that narrative descriptions of each risk factor are required, especially given the CSA's objective of limiting the number of pages of and amount of text in the Fund Facts Documents. In our view, if descriptions of risk are included, there are only two realistic ways in which to ensure that such descriptions convey meaningful information but remain short. The first is to impose a strict word/character count on Managers, and second is to have standard descriptions for each risk factor that must be used by all managers. From a practical perspective, neither alternative is particularly appealing. Word/character counts reduce the effectiveness of disclosure, while imposing specific language with respect to risk factors takes away manager flexibility and is administratively impractical. As such, we agree with the CSA approach of simply listing the risks and directing investors to the simplified prospectuses for more information.

From a technical drafting perspective, we would suggest that the following change be made in the language immediately following *Other specific risks*: "To understand risk better, you may also want to look at the specific risks for this <u>series of the</u> mutual fund and how they could affect its value." We suggest this because managers may determine that certain funds' series carry specific risks that are not applicable to the entire fund (such as capital depletion risk, which is often only applicable to series of funds that are designed to distribute returns of capital), and without such language an investor may be misled into thinking that the same risks apply equally for each series of a fund.

(c) Effectiveness of risk disclosure

We note that the proposed revisions to the Fund Facts Documents require additional boilerplate warning language to investors. In particular, the documents will now require each of the following:

i) Under *What are the risks of this fund*, a graphic of an exclamation mark before the risks section;

ii) A general statement that "All investments involve risks";

iii) A description under *Investment Risk* that the value of the fund can go up or down;

iv) A statement that the higher the risk rating of a fund, the greater the chance of losing money;

v) A note under the risk scale stating that that the higher the risk rating of a fund, the greater the chance of losing money;

vi) A statement (in bold and underlined) that low risk funds still entail risk and can still lose money;

vii) Under *How has the fund performed?*, a note that the fund holds investments that are riskier than GICs (which are guaranteed investments);

viii) Under *Are there any guarantees?*, a note stating that the fund is not guaranteed and investors may lose money; and

ix) Under *Who is this fund for?*, a statement (in bold) to consider risk tolerance before investing.

In our view, it is absolutely appropriate to use the Fund Facts Documents to warn investors that they may lose money by investing in mutual funds, and by warning them with text that is prominently displayed in the document. However, constantly warning of risk so many times in a single document may unnecessarily discourage the purchase of mutual funds, to the detriment of both investors and the industry. Ironically, making these statements so many times may also *reduce* the impact of these warnings, as investor apathy may develop by continuously telling purchasers that investing is risky. Canadian investors are generally well aware that purchasing mutual funds carries some risk but also has rewards, and our view is that the Fund Facts Documents should not be used to continuously highlight this point so as to discourage purchases or reduce the effectiveness of these important warnings. We would ask the CSA to consider whether it is necessary and effective to state on nine separate occasions in a single document that there are risks to investing in mutual funds.

2. Performance data

(a) Benchmark

The CSA requested feedback on whether the proposed inclusion of GIC performance is a helpful benchmark and whether there are other appropriate benchmarks to illustrate this comparison. We note that benchmark comparison information is already provided in the Management Report of Fund Performance, which investors ought to read during the decision-making process and we would strongly encourage the CSA to publicize the MRFP as an important disclosure document to a greater extent than it has historically. Based on the number of pages in a Fund Facts Document and the purpose of the document, we do not believe repeating that disclosure in the Fund Facts Document is necessary. Therefore, our preference would be for this disclosure to be omitted from the Fund Facts Document.

We believe there are two problems with using GICs as a comparison:

(1) We do not believe that GICs are generally considered an applicable substitute to mutual funds by investors. If an investor seeks a diversified portfolio, it is simply not a consideration for them to consider a GIC. An investor may decide that the cash portion of a portfolio should be invested in a GIC, but

not the entire portfolio. While some investors may decide to invest their entire savings in a GIC, we do not believe those investors are interested in mutual funds and, therefore, would represent an infinitesimally small proportion of readers of a Fund Facts Document.

(2) GICs must generally be held to maturity in order to obtain the interest payments in full, and therefore do not have the same liquidity that most mutual funds do. This fact is not disclosed in the Fund Facts Document but is an important consideration, and makes a comparison less valid.

Notwithstanding the foregoing, we believe that, over time, mutual funds compare favorably to GICs and, therefore, we do not view this as a major issue.

(b) Worst return

We support the inclusion of 'worst return' data in the Fund Facts Document, as it provides a very practical demonstration of the potential risks involved in owning a mutual fund. However, our view is that measuring the worst return over a very short timeframe, such as a three month period, overstates the risk that may be associated with a fund and encourages investors to take a short-term view to investing. For example, if a fund loses 30% of its value in three months, it may be highly detrimental for investors to pull out of the fund or asset class at that time and move into a safer substitute. Indeed, this was the experience of many investors during the recent financial crisis, and framing the analysis as a short-term consideration should be discouraged.

We also note that the inclusion of this data may be biased against funds that have a longer track record or funds that have come into existence shortly before or during periods of significant market upheaval, such as the recent financial crisis. More importantly, providing this type of data may potentially be misleading in instances where a significant mandate or risk rating change has been made, or where a new manager took over the portfolio. For example, if the mandate of a high risk fund changes so that the fund is classified as a low or average risk fund, it may be misleading to provide this disclosure without some additional context. We therefore recommend that the CSA require the worst performance over a one year period as opposed to a three month period, and that the CSA further allow for the flexibility to provide a brief footnote underneath this disclosure to provide context in situations where the 'worst return' data could otherwise be misleading.

(c) Partial year performance

We understand that the CSA takes the view that if a fund is younger than ten years, it is not appropriate for the manager to provide a partial-year return for the fund for that first calendar year in which the fund was created. For example, if a fund was created in July of 2007, the first year of data that may be shown in the returns chart is for 2008, rather than 2007. This is based on the CSA's interpretation of the Item 4(3) of NI 81-101F3, which states: "Under the sub-heading 'Year-by-year returns', provide a bar chart the annual total return…*of each of the completed calendar years* in which the mutual fund has been in existence…" [emphasis added]

Our reading of this requirement is that it does not preclude a manager from including partial-year return information, since the form does not state that the bar chart must be for each *complete* calendar year (ie from January 1 to December 31); rather, only a completed year (ie a year that ends on December 31). As such, partial year performance should be allowed to be shown, in our view.

We would like to point out that substantially similar language is located in the MRFP form under the returns section, and that mutual fund managers (including Invesco Canada) have been including partial-year return information in the MRFPs for many years, along with a short footnote indicating when the fund came into existence.

We believe that providing these returns provides better disclosure and is in the interests of investors. For example, we struggle to see why the performance data for the first calendar year of a fund not be shown on a fund that comes into existence on, say, January 3. As such, we encourage the CSA to clarify in the companion policy that the inclusion of partial year performance is acceptable, provided that the manager also notes the actual start date of the series of the fund in a footnote below the chart.

3. Transition period

The CSA requested feedback with respect to the proposed six month transition period, as well as feedback regarding how to implement the changes for Fund Facts Documents that are produced prior to the expiry of the transition period.

As a producer of almost one thousand Fund Facts Documents annually (in French and English), Invesco Canada appreciates the six month transition period to implement the proposed changes. Given that the changes would require significant template updates, mutual fund companies will likely require this time to update the documents and perform sufficient quality control to ensure the changes are correct. We also expect that the analysis of what risks to include for each fund may take some time to complete.

However, we would ask that the transition rules be clarified in the following manner. Once the requirements become effective, they should apply to Fund Facts Documents produced after that date (other than amendments to existing Fund Facts Documents). As currently drafted, it is not clear whether a new set of Fund Facts Documents must be filed following approval of the amendments to NI 81-101. An interim filing would impose significant additional costs on managers, despite having filed compliant Fund Facts Documents at the applicable time of filing.

For example, if the instrument comes into force on January 1, then Invesco Canada would be required to amend and re-file all of its Fund Facts Documents by the end of June to meet the transition deadline (assuming there are no amendments to any funds). However, our annual renewal process typically concludes at the end of July, and therefore we would have to make a substantially similar filing only one month after spending significant time and resources producing amended documents. (It would not be practical to renew the prospectus and fund facts documents early for reasons we would be pleased to discuss with you directly.) As such, we believe that a longer transition period would be beneficial in avoiding such interim filings.

4. Other comments

(a) Material changes

We applaud the CSA's guidance that Fund Facts Documents may disclose a material change and proposed fundamental change. This was a gap in the form that led to confusion, and we appreciate the clarity surrounding this issue.

(b) Quick Facts – total value of series

We do not believe that including the total value of series in the Quick Facts section is necessary or helpful to investors, and recommend that this requirement be removed.

The rationale for providing the total value of the fund is that this knowledge is helpful in making an investment decision. For example, investors may prefer funds that have attracted large amounts of capital, suggesting managerial success and consistency. However, this rationale does not typically apply at the series level, because the decision of which series to invest is usually based on individual investor needs and situations. As such, we see little basis for how this information may influence investors or assist them in making investment decisions.

5. Conclusion

We would conclude by stating again that we believe that the proposed changes are generally a move in the right direction, and appreciate that the CSA is continuously trying to make Fund Facts Documents a better tool for investors.

Thank you for providing us with the opportunity to comment on this important initiative. We would be pleased to discuss our comments further should you so desire.

Yours very truly,

Invesco Canada Ltd.

Eric Adelson
Senior Vice President, Legal