



Murray J. Taylor  
President and Chief Executive Officer

September 6, 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  
Nova Scotia Securities Commission  
Registrar of Securities, Prince Edward Island  
Superintendent of Securities, Newfoundland and Labrador Securities Commission  
Superintendent of Securities, Government of Yukon Territory  
Superintendent of Securities, Government of the Northwest Territories  
Superintendent of Securities, Nunavut

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Dear Sir/Madam:

**RE: CSA NOTICE and REQUEST FOR COMMENT: IMPLEMENTATION of STAGE 2 of POINT-OF-SALE DISCLOSURE FOR MUTUAL FUNDS PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 81-101 (“NI 81-101”), Form 81-101F3 (“Fund Facts” document) and COMPANION POLICY 81-101CP (THE “Proposed Amendments”)**

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We are writing in response to the request for comment issued by the Canadian Securities Administrators (CSA) on June 21, 2012 regarding the Proposed Amendments.

Investors Group Inc. (Investors Group) is a diversified financial services company and is one of Canada's largest mutual fund manufacturers, managing over \$58 billion in assets on behalf of clients as of July 31, 2012. Investors Group is a wholly owned subsidiary of IGM Financial Inc., which is a member of the Power Financial Corporation group of companies.

### **General Comments**

**We believe that this initiative, which is focused on changes to the content of Fund Facts, is premature. This document has only been in place for a relatively short period and, more importantly, has not yet being widely delivered to investors in lieu of the short form prospectus. The CSA should take steps to have the Fund Facts sent to clients with the trade confirmation so that investors begin to have experience with it. Once there is a real basis to determine how useful investment fund purchasers find Fund Facts, a more meaningful assessment can be made as to what content changes are warranted.**

Turning to the Proposal Amendments themselves, we support a number of its aspects, particularly the CSA's desire to require delivery of the Fund Facts in lieu of the simplified prospectus as soon as possible, as well as using data that is within 45 days (rather than 30 days) of the date of the Fund Facts (although for the reasons set forth below we believe that 60 days would be a more appropriate time frame since it would better coincide with the prospectus renewal process).

However we believe with the proposal to move to a Fund Facts of four pages in length is extremely ill-advised. Central to the whole concept of the Fund Facts Joint Forum discussion was that it would be a concise document of no more than two pages. It would include key facts that would enable investors to make an informed investment decision in a manner that would facilitate comprehension and comparison with other funds. Lengthening the document severely (and possibly fatally) compromises its core purpose. The CSA should retain the current framework in the existing rule that contemplates a Fund Facts that is no more than two pages.

We have now gone through two cycles of the Fund Facts preparation process. For this year's filing we have prepared 684 separate Fund Facts for the various series of Investors Group mutual funds and each one is two pages in length. We are one of the few manufacturers who have been able to rely to date on the interim relief issued by the CSA to get Fund Facts into the hands of the fund unitholders and understand that our clients are finding this to be a very useful document. Since investors may be purchasing four or five funds when making an investment, if the Fund Facts expands to four pages, that client would now be receiving a package of 20 or more pages. This is not the result this initiative intended.

In addition, as we set out in greater detail below, in our view certain aspects of the Proposed Amendments will create investor confusion, detract from comparability and increase potential civil liability risk. In particular, we draw your attention to the following points:

## **1. Risk Disclosure (Item 4 of Part I - Risks)**

We support referencing the risk/return relationship, but believe that moving the Risk section before the Past Performance section (now Item 5) – which by necessity, due to space constraints, will likely mean it will extend on to a different page – is a step backwards. In our view risk should be discussed in the context of performance and we would suggest that the disclosure concerning Risk should be better integrated with the Past Performance. With respect to the risk disclosure specifically, we make the following comments:

- The use of the phrase ‘chance of losses’ in the new explanatory language under “Investment risk” and in the risk level classification chart provides no context as to whether this means risk of losses over the short-term or the long-term. Similarly, use of wording such as ‘typical’ returns/risk could be misleading to investors as it is unclear whether this is specific to the particular fund or not. We suggest that the language be simplified to reference the variability of annual returns which is, in essence, the nature of the risk the CSA is attempting to describe;
- We strongly urge the CSA to adopt the objective volatility rating methodology used by IFIC for purposes of the risk level classification chart. As mentioned above, it appears from the new explanatory wording that the chart is intended to illustrate variability in returns. To assist with comprehension and comparability, we suggest that the volatility ranges for each risk classification be shown in the chart as it is a straightforward and completely objective measure of variability. The IFIC methodology provides a standardized rating system for the industry, and would eliminate concerns that different managers might adopt divergent risk assessment methodologies, which negates comparability – a key objective of the Fund Facts. To further facilitate investor comprehension, the rating scale could be accompanied by a simple explanation (similar to that already found in the prospectuses of many funds), such as the following:

*“This means that a fund with a medium risk and having an expected average annual return of 5% may expect its returns to vary between -11% and +21% each year under normal circumstances.”*

We submit that this will be easily understood by investors and provides a useful measure of risk that is objective, comparable between funds and relates to the performance disclosure.

- The new requirement under ‘Other specific risks’ to select ‘up to’ four main risks is arbitrary and potentially misleading to investors and may increase the potential civil liability risk to funds. There are two key problems with this. The first is that summarizing a risk in a brief reference raises the real potential that it will inadequately capture the concern. Second, determining which are the main risks is necessarily a subjective exercise, which may result in similar funds disclosing different risks in different ways, which may be confusing to investors and making the document less useful to base comparisons. If a fund excludes a particular risk based on this assessment, which later proves to be material, it could be exposed to civil liability as a result. Accordingly, the CSA should instead require that Fund Facts indicate that there are risks and that investors should look to the prospectus for the main risk factors.

## **2. GIC Benchmark and Worst 3 Month Return (Item 5 of Part I – Past Performance)**

In our view the inclusion of a specific benchmark in the Fund Facts should not be required. To the extent benchmarks are useful to investors, it is in the context of their entire account, as opposed to a specific fund. This issue is addressed in the Client Relationship Model proposal.

With respect to the proposed requirement to disclose a fund's 'worst' three month performance, in our view this is totally inappropriate for several reasons:

- it focuses on short-term performance, which is fundamentally at odds with the long-term nature of most mutual funds (other than money market funds);
- it will cause confusion because the worst three month performance does not match the risk level classification disclosure under Item 4;
- most importantly, it is inherently misleading as by definition such performance is an aberration. Given the stated purpose of the Fund Facts is to provide only the most critical decision making information to investors, it is wrong to highlight a fund's once-in-a-lifetime worst performance as being a key indicator of expected performance upon which to base a purchase decision.

We note that reference to a fund's worst or best three month performance in a sales communication would be prohibited under NI 81-102 *Mutual Funds*, unless accompanied by other standard performance data (which is absent in the Fund Facts and which we do not propose be added). Fund Facts already provide historical annual returns on a calendar year basis, which provides investors with clear disclosure as to the volatility of performance (both positive and negative) over the long term. Adding additional disclosure of the worst three month performance detracts from this balanced presentation and focuses instead on the worst short term performance of the fund, which is both unbalanced and out of context. This is inconsistent with the long term perspective that mutual funds are intended to promote and can only have a negative influence on investment behavior.

## **3. Trailing Commissions (Item 1.3(7) of Part II – Costs of Buying, Owning and Selling the Fund)**

We strongly believe that the new proposed conflict of interest wording is out of place in the Fund Facts. Investment funds have no involvement in the remuneration arrangements between dealers and their advisors. In addition, the mandatory use of this wording does not take into account situations where a conflict of interest does not exist (or is mitigated), such as where a fund is distributed through a dedicated distribution network, nor is the wording accurate when used in circumstances where the trailer paid to an advisor is less than that paid for other funds/products, given each advisor's circumstances. Further, this disclosure is not required for competing investment products such as segregated funds. This may leave investors with the impression these costs are only associated with mutual funds, when they are not, which is both misleading to investors and unfair to manufacturers. Therefore, we believe it is misleading and unfairly represents the relationship between the investor and his or her advisor - even if the statement is qualified (i.e. 'may create a conflict of interest'). For these reasons, we believe this should be deleted in its entirety. We note that the statement advising investors to speak to their representatives about trailing commissions is a more acceptable approach.

#### **4. Transition Period**

We support the CSA's desire to implement the revised form Fund Facts as soon as possible, but believe that a six month transition period is too short for making the required system changes to incorporate the content changes to the documents. Our experience is that systems require 12 to 24 months to implement changes such as this and if a shorter period is mandated, reliance must be made on manual processes, which are more costly, time consuming and greatly increase the likelihood of errors. Furthermore, there is no systematic way to 'black-line' content changes for SEDAR filing purposes prior to completion of most system upgrades.

Therefore, we urge the CSA to mandate a six month transition period for delivery only of the current Fund Facts, and a longer transition period of 18 months for content changes. Further, once the Proposed Amendments are finalized, the CSA should follow the same approach as with the introduction of Fund Facts under stage 1 by requiring immediate compliance (after the effective date) for new Fund Facts, but allow existing Fund Facts to be updated upon their next amendment or renewal, rather than mandating that all Fund Facts be re-filed upon the effective date. In this manner all Fund Facts will be updated within one year after the changes become effective. Otherwise, funds will be required to re-file their Fund Facts up to three times within a 12 month period (i.e. for renewals before the effective date; on the effective date; and thereafter at the next renewal).

#### **5. Other Items**

As noted above, we believe that integrating the risk disclosure and past performance information in Items 4 and 5 of Part 1 better would further the objectives of the Fund Facts document and we have developed an illustration of how this could be done, which we attach as an appendix to this letter. In addition, we also attach a schedule that provides more detailed technical comments and suggestions on the Proposed Amendments.

#### **Conclusion**

As we noted at the beginning of this letter, we strongly believe that Fund Facts must remain no more than two pages in length otherwise the whole objective underpinning them – creating a short, concise document that investors would find useful and actually read – will be severely compromised. The Proposed Amendments would immediately double the size of the document to four pages. This is not in the interest of investors.

Our comments have been designed to preserve the overarching goal that the Fund Facts remain an investor friendly, concise document that facilitates comparisons with other funds. In so doing, we believe this will assist the CSA with its stated objective of harmonization with other types of investment funds in Stage 3 of this initiative.

We appreciate having this opportunity to provide you with our comments on the Proposed Amendments and would be pleased to answer any questions you may have about this submission.

Yours truly,

**INVESTORS GROUP INC.**



**Murray J. Taylor**

President and CEO Investors Group Inc.

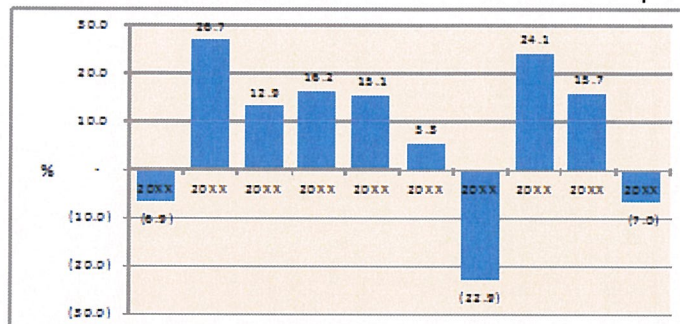
## APPENDIX

### Illustration of Integration of (Items 4 and 5 of Part I) Risk and Past Performance Disclosure

How has the fund performed?

#### Year by Year returns

This chart shows how this series of the fund has performed over the past 10 years



#### Things you should know

- This chart does not tell you how the fund will perform in the future.
- The series' returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

#### Average return

- A person who invested \$1,000 in the series 10 years ago would have \$1,930 as of May 31, 20XX. This is equal to an annual compound return of about 6.8%.

#### What are the risks of this fund?

All investments involve risks. Understanding those risks can help you choose the right fund for you. To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. For a full list of these risk factors and details about them, see the Risk section of the fund's simplified prospectus.

#### Variability of returns

When you invest in a fund, the value of your investment can go down as well as up. In some cases the changes in value may be large and can happen quickly. The manager is required to rate the level of risk in its funds on a scale that ranges from Low to High. The manager assesses the level of risk mainly based on the range of past returns for this fund and similar funds (referred to as volatility or variability). The risk category shown for this fund may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the scale can still lose money.

**This fund's rating:**

Low	low to medium	medium medium	medium to high	high
Usual range of variability in annual returns:				
up to +/- 6%	+/- 6% to 11%	+/- 11% to 16%	+/- 16% to 20%	more than +/- 20%

A fund assessed as low risk typically has returns that vary within a narrow range while a fund categorized as high risk typically has returns that can vary more from year to year. For example, a low rating means that a fund with an expected long term annual return of 5% could usually expect its annual returns to vary between -1% and +11% each year under normal circumstances. This series has a medium level of variability in its returns:

- The series' value decreased in three of the last 10 years.
- The worst rolling 12 month return in the last 10 years was -24.7% in the 12 months ended November 30, 2008.
- The best rolling 12 month return in the last 10 years was 24.7% in the 12 months ended June 30, 2010.

## Schedule A

### Additional 'Technical' Comments

In addition to the issues discussed in the body of our comment letter, we would make the following more detailed comments on specific items:

- Order of items - better use of whitespace (General Instruction #8): It is critical that the Fund Facts not exceed two pages in order for it to meet the Joint Forum's objective as a concise user-friendly document. Funds should be provided more flexibility to re-arrange content to make better use of 'white-space' to help shorten the document. In our 'mock-ups' of the proposed changes, it was apparent that the length of the document will exceed two pages (especially the French translation), unless the available spacing can be better managed by moving the order of items, contrary to general instruction #8 which forbids doing so. For example, we suggest the ordering of only items 1, 2 and 3 in Part I (Introduction, Quick Facts and Investments of the Fund, respectively) be mandated. With this in mind, we suggest that new General Instruction 8.1 permit disclosure of material changes (such as mergers, change in objectives, etc.) to be made *either* in the most relevant section of the fund facts, or in a separate section under the heading "Other important information" which can be located anywhere within the document where space permits.
- References to name of the manager: The name of the manager is required to be disclosed at the Top of page 1 (Item 1(b) – Part I), and now again in the table under 'Quick Facts' (proposed change to Item 2 –Part I). In several instances the wording changes require that the name of the manager be inserted (i.e. Items 4(2) and 4(5) in Part I; Item 1.3(7) in Part II; Item 3(1) in Part II; etc.). Repetition of the name of the manager in these (and other) areas is redundant, does not add clarity, and makes the use of a generic template more complicated. (Also, where the efficient use of space is important, insertion of the full name of the manager is an important consideration!) Therefore, we suggest that the prescribed wording simply reference the word 'manager' rather than the specific name of the manager other than at the first instance where the name of the manager is referenced in the document. (Similarly, we suggest that the word 'series' instead of 'fund' be used throughout the document where appropriate when a fund offers more than one series: i.e., Item 4(5) in Part I references 'specific risks for this fund', but different series of the same fund may have different risks – such as where foreign currency risk may/may not apply when one series of a fund is hedged and the other is not.)
- Information within 60 days instead of 45 days: The changes allowing data to within 45 days (instead of the current 30 days) for Items 2, 3 and 4 of Part I are positive as this will facilitate data gathering and validation processes, and will permit funds more flexibility to file their final prospectus renewals up to 10 days after the lapse date. Currently, as it is more practical to gather data as at a month-end, and as the final prospectus cannot be filed more than 3 business days after the date of its execution, most funds must date their final prospectuses as at a month-end and request that their final Receipts be withheld until commercial copies become available. We suggest increasing the period to 60 days so as to provide greater flexibility.



- Fund codes (Item 1(c.1) of Part I): We agree with allowing use of Fund Codes, but we question the CSA's new requirement that they be 'recognized and publicly available', rather than simply maintaining that they be suitable to the needs of each fund and its dealers. We note that certain fund companies use codes for tracking and identification purposes that may not necessarily be considered as widely 'recognized and publically available'.
- Quick facts (Item 2 of Part I): Only key information needed to assist an investor to make a purchase decision should be included in the Quick Facts section in order to keep the document as concise as possible. For example, reference to size of a series (new instruction 2.1) is generally not relevant unless the series pertains to a separate pool of assets from the other series. Also, to make use of generic templates easier, we suggest that the instruction 1.1 permit inclusion of the start date for each series even if it does not differ from the launch date of the fund.
- Investments of the Fund (Item 3 of Part I): Item 3(4)(a) will require disclosure of the percentage of net assets represented by each of the fund's top 10 positions. We concur that this will provide a greater understanding of diversification. Accordingly, we suggest that the requirement in Item 3(4)(c) to provide the total number of positions should be deleted to save space, both because it does not provide key information, and because it is often inaccurate as there is no industry consensus with respect to the methodology used for counting certain derivative and swap positions.

More importantly, the 45 day period now proposed for this information in instructions #4 and #9 of this Item may violate the portfolio disclosure policies of many managers (which are often IRC approved) in view of the new disclosure of percentage holdings by position. We remind the CSA that extensive representations were made by the industry when NI 81-106 was adopted, and again when the Fund Facts requirements were under discussion during Stage 1, that funds should not be required to disclose their portfolio holdings earlier than 60 days. The 60 day period currently applies for purposes of the Quarterly Portfolio Disclosure Statement in section 6.2(2) of NI 81-106, and should apply for these purposes as well.

- Tax disclosure (Item 8 of Part I): Disclosure of tax consequences should better indicate that the portion of distributions represented by a return of capital is not immediately taxable.
- Combinations of Fund Facts for Delivery Purposes: For purposes of section 3.2 of NI 81-101, we question why it will be necessary to include a table of contents bound with or attached to the Fund Facts if the only other document in the package is the transaction confirmation, as proposed by new sub-section 5.2(3)? Also, we reiterate that the change to General Instruction 16 prohibiting different Fund Facts from sharing the same piece of paper will likely increase mailing costs as we expect that many Fund Facts will spill-over onto 3 pages – which means that a blank page must be inserted between each Fund Facts when bound together for delivery.

- Fund expense (Item 1(1.3) of Part II): In our view the proposed requirement to disclose any fixed administration fees payable by a Fund is out of context and may confuse investors. We believe that the intention here is to draw investors' attention to any administration fees payable by a new fund and this would more appropriately be addressed by an amendment to item 1.3(4), as follows:

"The fund's series' expenses are made up of the management fee, administration fee and/or operating expenses and trading costs. The fund's series' annual management fee and annual administration fee (if any) are [see instruction 7]% of the fund's series' value, respectively. Because this fund series is new, total operating expenses and trading costs are not yet available."

- Delivery of Fund Facts for PACs: For purposes of section 3.2 of NI 81-101 *Mutual Fund Prospectus Disclosure*, we ask that the CSA confirm either by comment, notice or companion policy that delivery of the Fund Facts in lieu of the prospectus under securities legislation is applicable in circumstances where an investor purchases under a pre-authorized contribution (PAC) arrangement and has previously requested annual delivery of the simplified prospectus of their fund. We note that the instrument continues to require delivery of the simplified prospectus upon request, and that many funds have obtained relief allowing them to deliver the simplified prospectus to PAC investors annually if requested to do so, but it is unclear whether investors who made this request *prior to stage 2* should be sent the Fund Facts instead of the simplified prospectus.
- Harmonize rescission rights: We urge members of the CSA to take steps to harmonize the statutory rights of action and withdrawal, which we understand may be considered as part of the CSA's mutual fund modernization project.