NATIONAL BANK INVESTMENTS

December 11, 2019

VIA ELECTRONIC MAIL

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers (the "AMF")
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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Re: CSA Notice and Request for Comment – Reducing Regulatory Burden for Investment Fund Issuers – Phase 2, Stage 1

We are writing in response to the request for comments on Canadian Securities Administrators ("CSA") Notice and Request for Comment – Reducing Regulatory Burden for Investment Fund Issuers – Phase 2, Stage 1, published on September 12, 2019. This letter is being submitted on behalf of National Bank Investments Inc.

We truly appreciate the CSA's initiative to reduce regulatory burden. As mutual fund disclosure rules have grown into a complex framework, with certain duplicative items that add little value to retail investors who rely mainly on the advice of their dealer, we view this exercise as both crucial and long overdue. We therefore would encourage the CSA to move forward as fast as possible on initiatives that are subject to a consensus to positively impact the industry and, consequently, the investing public. The proposals submitted for comment are good first steps, though we would encourage the CSA to continue streamlining disclosure even further.

We submit a few comments and suggestions outlined below.

Documentation

Prospectus
We salute the Ontario Securities Commission's intent, as discussed in its recent report on Reducing Regulatory Burden in Ontario's Capital Markets, to explore the possibility of reducing the frequency of investment fund prospectus filings and to consider options to adapt the shelf prospectus system to investment funds. Indeed, we view most of the information in an investment fund's prospectus as relatively static. Information that varies periodically can certainly be updated through requirements to post fresh information on a fund's dedicated website, rather than maintain stale information in a document that is accessed marginally, at best.

We also welcome and applaud the evolution of the Autorité des marchés financiers' ("AMF") practices in recent years to streamline prospectus renewal processes to truly focus on material renewal matters, rather than to use the opportunity to raise new substantive items in this time-sensitive context. We strongly believe this approach is consistent with the AMF's mission of promoting efficiency in the market while protecting investors.

Fund facts documents
Similarly, we submit that providing snapshots of a fund's investments as part of fund facts documents once a year is not optimal to aid investor decision-making. We point to the industry practice of providing more frequent "fact sheets" with fresher data on investment fund manufacturer websites as a more relevant way of conveying this type of snapshot to inform investment decisions.

Financial Information
Further, we wish to stress the significance of efforts involved in preparing interim and annual Management Reports of Fund Performance (MRFP) and financial statements, as compared to the considerably low pick-up rates they have year after year (generally observed in our experience as being under 2%, and trending downward). While providing certain financial results definitely makes sense for investment funds, we encourage the CSA to revisit both the extent and frequency of the information required to be disclosed.

In addition, considering the environmental values that our clients and investors increasingly cherish, we submit that requiring annual instructions or reminders of standing instructions for the receipt of such financial information is entirely misaligned with investor expectations. We stand with investors who request that this information be made available rapidly and free of charge upon request as well as through a fund's designated website, rather than soliciting instructions annually. In this regard, access *should* equal delivery.

Exemptive Relief
Codification of routinely granted exemptive relief should be considered at regular intervals, or through the issuance of blanket orders, to level the playing field for all investment funds and foster efficiency within the CSA and industry.

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SEDAR – Preparation and Transmission of Electronic Filings

Eliminating the SEDAR Form 6 requirement found in Section 4.3 (3) of National Instrument 13-101 appears to be an additional opportunity for reducing regulatory burden that adds little or no value in today's digital environments.

Fund Mergers

We believe the CSA may have unintentionally proposed to heighten the standard required in respect of a manager's proposal of a merger from one that is "beneficial to" securityholders to one that is "in the best interests of securityholders". We respectfully submit that the current standard is the appropriate one, and that the contrary would not amount to reducing regulatory burden.

Further, we would suggest that the CSA consider removing the requirement for securityholder approval in the circumstances where the merger is pre-approved by the CSA, given that (i) the merger would necessarily have to be considered beneficial to securityholders by the manager, (ii) the fund's Independent Review Committee will be required to approve any such merger, and (iii) advanced notice of the merger will be required to be provided to securityholders, giving them adequate time to redeem their investment. Considering the low participation rates for unitholder meetings, this would truly prove a significant way to reduce regulatory burden while enabling investment fund managers to more efficiently maintain viable fund line-ups.

Fund Facts Delivery Exemption

We entirely support the proposal, while encouraging the CSA to consider moving to a principles-based rule, as opposed to the prescriptive rules that currently exist and would be expanded through this proposal. Indeed, in the various circumstances where investors are not making an investment decision, we believe there should not be a requirement to deliver the fund facts document. This document is readily available, and can be requested at any time – its delivery in such cases adds no value.

We also suggest the CSA consider expanding the exemption to also provide relief from the requirement to deliver a trade confirmation in respect of these trades, as they will be reflected in each investor's account statement.

In addition, here are our answers and comments on certain specific questions relating to the proposed amendments and changes.

1. Are there any areas that would benefit from a reduction of undue regulatory burden or streamlining of requirements, while preserving investor protection and market efficiency, which we should consider as part of Phase 2, Stage 2 (and onwards)? Please prioritize any suggestions you may have.

Various elements were identified in our comments above. We reproduce them here, ranked in order of priority:

- Allowing access to equal delivery for annual and interim financial reporting (MRFP and financial statements).
- Eliminating or reducing extent and frequency of required financial disclosures.
- Reducing frequency of investment fund prospectus renewal.
- Stripping snapshot of a fund's investments from fund facts to post instead to the designated website periodically.
- Moving to principles-based rule for exempting fund facts and trade confirmation delivery where the investor does not make the investment decision.
- Allowing pre-approved fund mergers to proceed without securityholder approval.
- Periodic codification / blanket order issuance for routine exemptive relief.
- Eliminating SEDAR Form 6 requirement.

2. With the exception of Workstreams 1, 2 and 3, the Proposed Amendments and Proposed Changes do not introduce any new requirements for investment funds. Instead, we are either removing requirements or introducing exemptions that are permissive in nature. As a result, we do not contemplate any prolonged transition period following the in-force date of the proposals. Are there any specific elements of the Proposed Amendments and Proposed Changes which investment funds and their managers would require additional time to comply with? If so, please explain why and provide suggestions for an appropriate transition period.

The consolidated prospectus will require some lead time to implement adequately, as an in-depth review of processes and disclosures will be required. We would seek flexibility in transitioning to the consolidated prospectus, so that funds whose lapse date is within 6 months of the final publication of the proposals be allowed to opt to move to the consolidated prospectus either at the next or subsequent renewal.

3. As described in footnotes 3 to 5 of the Notice, certain specific requirements from the existing Form 81-101F1 and Form 81-101F2 were not carried over into the proposed Form 81-101F1. Do you support or disagree with these changes? If so, please explain.
and
4. Are there any disclosure requirements from the proposed Form 81-101F1 that are redundant or unnecessary and that can be removed or modified without impacting investor protection or market efficiency? If so, what are the reasons why the disclosure requirements should be removed or modified and how will investor protection and market efficiency be maintained? Are there any significant cost implications associated with sourcing the required disclosure? If so, please explain. Please comment in particular on the proposed Item 4.14 (Ownership of Securities of the Mutual Fund and the Manager) of Part A and whether it should be narrowed in scope or removed entirely.

We support the changes listed in Question 3, though we would submit that the CSA could also revisit any requirement to provide information that rapidly becomes stale upon being made public. For example, listing investors holding more than 10 percent of any class or series of the fund as at a date 30 days prior to renewal does not aid in informing investment decisions. Additionally, information regarding holdings in a fund representing more than 10 percent of its net asset value over the preceding 12-month period is marginally helpful. Both items better benefit from disclosures pertaining to concentration risks or large investor risks.

Other elements that could be stripped from the consolidated prospectus are items that duplicate information disclosed elsewhere in a more accessible format, including how the manager exercised voting rights on mutual funds held by the fund (in Part A) and suitability for investors (in Part B), for example.

6. The proposed Item 7(2) of Part A of Form 81-101F1 requires a description of the circumstances when the suspension of redemption rights could occur. We are considering, however, whether to require specific disclosure in the prospectus regarding any liquidity risk management policies that have been put in place for the investment fund. This would include a list of any liquidity risk management tools that have been adopted as permitted by securities regulations, along with a brief description of how and when they will be employed and the effect of their use on redemption rights. Would the prospectus be the most appropriate place for this type of disclosure, or are there other alternatives that we should consider?

We note that this proposal does not align with the stated intent of the project, namely to reduce regulatory burden. Further, we caution that liquidity risk management is a complex topic that should be the subject of a distinct and comprehensive consultation, to engage stakeholders adequately in a fulsome and important dialogue. We fear that an attempt to address this vast matter incrementally could lead to inadequate disclosure that may lead to unintended consequences, such as misleading investors and misguiding investment decisions.

7. The current prospectus disclosure rules were drafted at a time when inventories of physically printed prospectuses were required to satisfy prospectus delivery requirements. In recognition of this, flexibility exists in terms of how to deal with amendments to avoid significant costs that might be associated with having to reprint large quantities of commercially prepared copies of the prospectus. With the transition to delivery of the Fund Facts and the ETF Facts documents in place of the prospectus, along with the advent of print-on-demand technology and electronic delivery, is it still necessary to maintain this flexibility? Would it be less burdensome for investment funds and investment fund managers to follow the approach taken with the Fund Facts document and ETF Facts document by requiring that all amendments be in the form of an amended and restated prospectus, prepared in accordance with the proposed Form 81-101F1? Why or why not?
and
8. Item 11.2 (Publication of Material Change) of NI 81-106 sets out requirements that an investment fund must satisfy where a material change occurs in its affairs. Can these requirements be streamlined or modified in any way while maintaining investor protection and market efficiency?

Requiring that all amendments be in the form of an amended and restated prospectus can be akin to triggering a prospectus renewal process every time a material change occurs. This would depart significantly from a reduction in regulatory burden and would risk pushing investment fund managers to interpret material changes very narrowly, which we submit is contrary to the best interest of the investing public. Costs, delays and efforts tied to any material change are important enough as it is – flexibility is key in such circumstances and streamlining the impacts of material changes should be aimed for, not the opposite. We question the necessity to file a material change report, as this additional filing requirement does not add any information that the press release and prospectus

amendment do not already disclose. Reducing duplicative filings should be an achievable priority in the context of the regulatory burden reduction initiative.

9. Will any exemptive relief decisions be rendered ineffective as a result of the repeal of Form 81-101F2? If so, are there any transitional issues that need to be considered? Please explain.

We are pursuing our analysis to ascertain whether any elements of existing exemptive relief would be rendered ineffective as a result of the repeal of Form 81-101F2 but have not at this time identified any such items.

10. Are there any disclosure requirements in the proposed Form 81-101F1 that require additional guidance or clarity?

We do not require additional guidance or clarity at this time, but we anticipate that certain elements may require additional guidance at the time of implementation. We commend the CSA's availability to provide clarity in transitioning to newly implemented rules in the past and encourage the CSA to continue past practices of publishing Frequently Asked Questions, holding "town hall" type sessions and publishing contact person information to aid in such transitions.

11. Currently a final prospectus must be filed within 90 days of receiving a receipt for a preliminary prospectus. We are of the view that this requirement is more relevant to non-investment fund issuers and is not necessarily applicable to investment funds, particularly to investment funds in continuous distribution. As a result, we are currently considering whether to either extend the final filing deadline or remove this requirement entirely. Do you have any views on the applicability of this provision to investment fund issuers? If you agree that the provision is not required, please explain whether it would be preferable to extend or eliminate the filing deadline, including the reason for your preference. If an extension is preferred, would 180 days be sufficient?

We believe flexibility is key in circumstances where lapse dates or 90-day deadlines are looming. Streamlined processes that would enable investment funds faced with particular situations would prove more helpful than extending or eliminating the 90-day requirement, in our view.

16. Are there any aspects of the proposed guidance provided in 81-106CP that are impractical or misaligned with current market practices?

We believe that some clarity may be needed in order to encourage investment fund managers to continue to post fulsome and useful information on their websites voluntarily, as is standard industry practice today. We wish to ensure that interpretation of CSA oversight on a fund's designated website remains aligned with the reasons this designation is being implemented, namely to ensure regulatory requirements to provide access to certain information are complied with.

In addition, it remains unclear to us how the "designation" process is meant to unfold – presumably, statement of the website address in a fund's prospectus would meet the designation requirement, but this should also be clarified, as well as how any change in designation is expected to be handled.

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18. Will participation rates for investment fund securityholder meetings change under the notice-and-access system? In particular, is it anticipated that participation rates would change? Please provide an explanation for your answer.

We do not believe, based on past experience using notice-and-access, that participation rates for investment fund securityholder meetings will change as a result of modifying the method of communicating information related to the meetings. This makes it all the more important that notice-and-access be codified, as streamlining processes in such circumstances will prove important to ensure industry continues to go through the effort involved in this significant undertaking when appropriate.

In fact, we feel that the CSA could help in this regard by providing guidance to the effect that a concise cover letter to enhance investor understanding of the materials enclosed therewith is permissible, as this appears to curtail reliance on notice-and-access in certain circumstances.

We thank you for the opportunity to provide our comments and suggestions regarding the Consultation on Burden Reduction. Should you require any further information or have any concerns regarding the foregoing, please do not hesitate to contact us.

Yours truly,

Marie Brault

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