

**CANADIAN SECURITIES ADMINISTRATORS  
IMPLEMENTATION OF A NEW TAILORED PROSPECTUS FORM  
FOR SCHOLARSHIP PLANS**

**NOTICE OF AMENDMENTS TO  
NATIONAL INSTRUMENT 41 - 101 *GENERAL PROSPECTUS REQUIREMENTS*, FORM 41-  
101F2, FORM 41-101F3 AND  
COMPANION POLICY 41-101CP *COMPANION POLICY TO NATIONAL INSTRUMENT 41-  
101 GENERAL PROSPECTUS REQUIREMENTS***

## **Introduction**

We, the Canadian Securities Administrators (the CSA or we) are making amendments to National Instrument 41-101 *General Prospectus Requirements* (the Rule), Form 41-101F2 *Information Required in an Investment Fund Prospectus* (Form 41-101F2) and new Form 41-101F3 *Information Required in a Scholarship Plan Prospectus* (New Form 41-101F3) and Companion Policy 41-101CP *Companion Policy to National Instrument 41-101 General Prospectus Requirements* (collectively, the Final Amendments). Subject to Ministerial approval requirements, the Final Amendments will come into force on May 31, 2013.

The Final Amendments aim to improve the prospectus disclosure provided by scholarship plans by introducing a prospectus form tailored to reflect the unique features of scholarship plans. This is an important investor-focused initiative. We know that many investors have trouble understanding the unique features and complexities of scholarship plans. New Form 41-101F3 will require scholarship plans to provide investors with key information in a simple, accessible and comparable format to assist them in making a more informed investment decision.

Central to the new prospectus form is the Plan Summary document. It is written in plain language, will generally be no more than four pages, and highlights the potential benefits, risks and the costs of investing in a scholarship plan. It will form part of the prospectus, but will be bound separately.

The amendments were first published for comment on March 26, 2010 (the 2010 Proposal) and then again for comment on November 25, 2011 (the 2011 Proposal). After reviewing the comments received and further considering the Final Amendments, we are proposing a number of changes to the 2011 Proposal. Appendix A sets out the key changes we have made to the 2011 Proposal.

The text of the amendments follows this Notice and can be obtained on the websites of members of the CSA. We expect the Final Amendments to be adopted in each jurisdiction of Canada, following the satisfaction of applicable Ministerial approval requirements.

## **Background**

Scholarship plans are eligible for registration with the Canada Revenue Agency (CRA) as a Registered Education Savings Plan (RESP). The number of investors, particularly investors with low to modest incomes, in scholarship plans has grown substantially since 1998 when the Government of Canada actively began encouraging saving for post-secondary education through the Canada Education Savings Grant (CESG). As of December 2011, the aggregate value of assets held in scholarship plans was \$9.1 billion. This represents approximately 28.9% of all the assets currently held in RESPs.

There are three types of scholarship plans, all of which are offered by prospectus: individual scholarship plans, family scholarship plans and group scholarship plans. Group scholarship plans account for approximately 95% of the total assets under management of scholarship plans.

The disclosure requirements for scholarship plan prospectuses are currently found in the Rule and in Form 41-101F2, the disclosure form for all investment funds other than those that file a simplified prospectus form under National Instrument 81-101 *Mutual Fund Prospectus Disclosure*. While Form 41-101F2 is an improvement over predecessor prospectus forms for scholarship plans, it contains many aspects that are not applicable to scholarship plans. As a result, the prospectus disclosure for scholarship plans does not provide as meaningful or effective disclosure as it could for investors. This was illustrated in the report prepared for the department of Human Resources and Skills Development Canada (HRSDC)<sup>1</sup> on RESP industry practices (the Federal Report), which identified the need for clearer and simpler prospectus disclosure, particularly as it relates to causes of forfeiture, fees and the operation of group scholarship plans.

We expect that adoption of the Final Amendments will lead to more understandable and effective disclosure for investors, enabling them to better understand the possible outcomes and risks associated with investing in scholarship plans, particularly group scholarship plans.

You can find additional background information in the earlier publications of the 2010 Proposal and 2011 Proposal on the websites of members of the CSA.

## **Substance and Purpose of the Final Amendments**

The Final Amendments propose to address the shortcomings of the current disclosure regime for scholarship plans by focusing on providing investors with key information about a scholarship plan and providing the information in a simple, accessible and comparable format.

Scholarship plans disclose a great deal of information to investors through the prospectus, the financial statements and the plan contracts. While these documents are intended to provide critical information to investors who are considering whether to buy a scholarship plan, we know that many investors have trouble finding and understanding key information because these documents tend to be long and complex. Investors also find it difficult to compare information about different scholarship plans.

Further, we know that for some of these investors, a scholarship plan is the only security they will ever purchase. Many of these investors have little to no financial literacy. In some instances, they may not speak or understand English or French as a first language, making the information in the prospectus even more difficult for them to access.

The new disclosure form tailored to scholarship plans will address these issues and codify some of the prospectus disclosure that is currently requested during the prospectus review and renewal process. We have organized the format and content of the prospectus in a meaningful order for investors considering the purchase of a scholarship plan, in order to make the document more understandable, accessible and readable.

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<sup>1</sup> *Review of Registered Education Savings Plan Industry Practices – Report* prepared for Human Resources and Social Development Canada prepared by Informetrica Limited, Final Report, released August 2008.

Where appropriate, we have considered the content and approach to the mutual fund simplified prospectus and annual information forms, as well as the Fund Facts document now required pursuant to the CSA point of sale initiative for mutual funds.<sup>2</sup>

We expect the Final Amendments to benefit investors by providing them with disclosure that gives them a simpler, clearer understanding of the potential benefits, risks and costs of investing in a scholarship plan, and allows them to meaningfully compare one scholarship plan to another. By making disclosure more effective, we are giving investors the opportunity to make more informed decisions. We are also enhancing transparency in the marketplace.

## **Feedback on the 2011 Proposal**

We received 7 comment letters on the 2011 Proposal. Copies of the comment letters have been posted on the Ontario Securities Commission website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). Copies are also available from any CSA member. You can find the names of the commenters and a summary of the comments and our responses in Appendix B to this Notice.

## **Summary of Changes to the 2011 Proposal**

We have considered all of the comments received and thank everyone who took the time to comment. In response to the comments, the CSA have proposed a number of changes, particularly to the Plan Summary, in response to investor advocate feedback and to provide greater clarity around prescribed disclosure requirements.

A description of the key changes we made to the 2011 Proposal is set out in Appendix A to this Notice.

## **Summary of the Final Amendments**

### **Application**

The Final Amendments apply only to scholarship plans subject to National Instrument 41-101 *General Prospectus Requirements*.

### **New Prospectus Form**

The Final Amendments require scholarship plans to prepare their prospectuses in accordance with New Form 41-101F3. It consists of four parts:

- Part A is the Plan Summary. It must be bound separately from the rest of the prospectus. It is written in plain language, generally fits on no more than four pages (or two pages double-sided), and highlights key information that is important to investors, including a number of statements to help investors understand the key risks and the costs of investing in a scholarship plan.
- Part B describes the features common to all the scholarship plans offered under the prospectus.

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<sup>2</sup> *CSA Implementation of Stage 1 of Point of Sale Disclosure for Mutual Funds - Notice of Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, Form 81-101F1 and 81-101F2 and Companion Policy 81-101CP Mutual Fund Prospectus Disclosure and Related Amendments* published October 8, 2010.

- Part C provides plan-specific information. A separate Part C will be required for each type of scholarship plan offered under the prospectus.
- Part D provides information about the organization and management of the scholarship plan(s) as well as appropriate certifications from the scholarship plan, its investment fund manager, principal distributor and promoter as applicable.

Parts B, C and D of New Form 41-101F3 are now collectively referred to as the Detailed Plan Disclosure. Accordingly, the scholarship plan prospectus is comprised of the Plan Summary and the Detailed Plan Disclosure.

### **Incorporation by reference**

The Final Amendments permit the incorporation by reference into the prospectus of the most recently filed annual financial statements, any interim financial statements filed after the annual financial statements and the most recently filed annual management reports of fund performance.

### **Delivery**

The Final Amendments contemplate delivery of the prospectus, which consists of the Plan Summary (Part A) and the Detailed Plan Disclosure (Parts B, C and D). Delivery must occur as currently required under applicable securities legislation, which is within two days of the purchase. We understand that the current practice for delivering the scholarship plan prospectus continues to be before or at the point of sale.

### **Transition**

Subject to Ministerial approval requirements, the Final Amendments will come into force on **May 31, 2013**.

Accordingly, an existing scholarship plan will have approximately five months from the date of publication of this Notice to make any changes to compliance and operational systems necessary to produce the new scholarship plan prospectus form. A new scholarship plan that files a preliminary prospectus after the date the Final Amendments come into force must comply with the New Form.

### **Alternatives Considered**

The 2010 Proposal outlined the alternatives we considered in developing the new prospectus disclosure form for scholarship plans. You can find the publication of the 2010 Proposal on the websites of members of the CSA.

### **Anticipated Costs and Benefits**

The 2010 Proposal outlined some of the anticipated costs and benefits of implementation of a new prospectus disclosure form for scholarship plans. We consider these costs and benefits to still be valid. Overall, we continue to believe that the potential benefits of the changes in the disclosure regime for scholarship plans as contemplated by the Final Amendments are proportionate to the costs of making them.

## Local Rule Amendments

Elements of local securities legislation may need to be amended in conjunction with the implementation of the Final Amendments. The provincial and territorial securities regulatory authorities may publish these proposed local changes separately in their jurisdictions. These local changes may be to rules/regulations or to statutes. If statutory amendments are necessary in a jurisdiction, these changes will be initiated and published by the local provincial government.

Proposed consequential amendments to rules or regulations in a particular jurisdiction or publication requirements of a particular jurisdiction are in Annex I to this Notice published in that particular jurisdiction.

Some jurisdictions may need to modify the application of the Final Amendments using a local implementing rule. Jurisdictions that must do so will separately publish the implementing rule.

## Questions

Please refer your questions to any of the following CSA staff:

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### **January 10, 2013**

The text of the Final Amendments and related materials is contained in the following appendices to this Notice and is available on the websites of members of the CSA. Certain jurisdictions may include additional local information in Annex I.

Appendix A Summary of Key Changes  
Appendix B Summary of Comments and Responses on the 2011 Proposal  
Appendix C Sample Plan Summary  
Appendix D Amendments to National Instrument 41-101 *General Prospectus Requirements*

**Schedule 1:** Consequential Amendments to National Instrument 41-101 *General Prospectus Requirements* and Form 41-101F2 *Information Required in an Investment Fund Prospectus*

**Schedule 2:** Form 41-101F3 *Information Required in a Scholarship Plan Prospectus*

Appendix E Amendments to Companion Policy 41-101CP – *Companion Policy to National Instrument 41-101 General Prospectus Requirements*  
Annex I Local Information