

Appendix B

Summary of Changes to the 2011 Proposal and Issues for Comment

This appendix describes the key changes we made to the 2011 Proposal and raises specific issues for comment in text boxes related to specific changes. Many of the changes respond to investor advocate comments relating to the presentation of risk in the Fund Facts.

Fund Facts

Content

We have made a number of revisions to the content of the Fund Facts. The changes respond to investor advocate comments to provide greater detail or clarity to the disclosure, specifically regarding the presentation of risk and performance. The changes include the following:

- We permitted all recognized and publicly available identification codes for the class or series of the mutual fund to be disclosed on the top of the first page.
- We improved the Quick Facts by adding background on the history and relative size of the class or series of the mutual fund. For example, we created separate headings for the “Date fund started” and “Date class/series started”.
- We added the percentage of each holding to the list of Top 10 investments to provide a greater sense of the fund’s concentration risk in a particular investment.
- We mandated stronger warning language about the risks of investing in mutual funds.
- We included an explanation of the risk scale and the relationship between risk and losses (i.e. higher returns typically result in greater chances of losses).

Feedback Sought:

1. The proposed explanatory text included above the risk scale is based on the assumption that fund managers use risk classification methodologies based on measures of market volatility, such as standard deviation.

We seek feedback on whether the proposed text will assist investors in understanding how to interpret the risk scale in the Fund Facts, and whether the explanation is compatible with the risk classification methodologies used by fund managers.

- We added a requirement to include a list of no more than four main risks of the fund, while continuing to direct investors to the simplified prospectus for a more detailed discussion of a fund’s specific risks.

Feedback Sought:

2. The intent of the proposed requirement to list the fund’s main risks under the heading “What are the risks of this fund?” is to highlight for investors some of the specific risk factors that may impact the fund’s returns. In an effort to avoid lengthy boilerplate disclosure, we are proposing to limit the list to no more than four risk factors, as identified by the fund manager, and to not allow any narrative description of those risks.

We seek feedback on whether the proposed inclusion of the fund’s main risks will assist investors in better understanding the risks associated with investing in the fund. If we were to allow narrative descriptions of each risk factor, we invite feedback on how we could ensure that such descriptions convey meaningful information to investors while remaining short, simple and in plain language.

- We added a comparison to the mutual fund’s performance with a lower risk investment, specifically the one-year Guaranteed Investment Certificate (GIC).

Feedback Sought:

3. We are proposing to compare the fund’s performance to a benchmark of a one-year GIC, to assist investors in assessing the performance of the fund relative to its associated risk. This comparison is intended to highlight the risk of investing in a fund by illustrating how a fund may have a higher return than a GIC in some years, but its return will generally vary from year to year and may sometimes lose money.

We seek feedback as to whether there are other appropriate benchmarks to illustrate this comparison.

- We added the worst 3 month return to the performance section to better inform investors about the possible loss of investing in the fund.
- We added a requirement to confirm whether trailing commissions are paid. We also added disclosure regarding the potential conflicts arising from the payment of trailing commissions.
- We permitted greater flexibility to include disclosure regarding a material change or a proposed fundamental change, such as a proposed merger.
- We extended the time frame for certain information disclosed in the Fund Facts from 30 days to 45 days to allow greater flexibility in complying with the disclosure requirements.

- We added a cross-reference to the brochure “Understanding mutual funds” which is available on the website of the Canadian Securities Administrators at www.securities-administrators.ca.

Binding

We made several revisions to reflect comments received. The changes include the following:

- We revised the list of documents which may be attached to, or bound with, the Fund Facts to include a cover page, account application documents and registered tax plan documents. We have also updated the order of documents attached to, or bound with, the Fund Facts.
- We replaced the term “trade confirmation” with “transaction confirmation” to more accurately reflect current business practices.
- We have repealed the list of documents which may be attached to, or bound with, the simplified prospectus (section 5.1(3) of NI 81-101).

Effective Date

- We have added a six month transition period from the date the instrument comes into force.

Feedback Sought:

4. To implement Stage 2 in a reasonable time period, we are considering a six month transition period to allow for the implementation of systems to facilitate the delivery of the Fund Facts. This will also allow for necessary changes to be made to the Fund Facts template. It is the CSA’s expectation that systems development to contemplate the delivery of Fund Facts will begin now.

We also are considering whether to require the Fund Facts be amended to include the proposed changes to the Fund Facts prior to the expiry of the transition period. Alternatively, we could allow existing mutual funds to amend the Fund Facts at the earlier of an amendment to the mutual fund or the filing of its pro forma prospectus.

We seek feedback on our proposed approach to implementation.