

CSA Notice and Request for Comment

**Proposed Amendments to
National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, National Instrument 81-102 *Investment Funds*, National Instrument 81-106 *Investment Fund Continuous Disclosure*, National Instrument 81-107
*Independent Review Committee for Investment Funds***

and

Related Proposed Consequential Amendments and Changes

Modernization of the Continuous Disclosure Regime for Investment Funds

September 19, 2024

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are proposing to modernize the continuous disclosure regime for investment funds.¹ The CSA's proposals aim to improve the quality of disclosure provided to investors and reduce the unnecessary regulatory burden of certain current investment fund continuous disclosure requirements under securities legislation.

We are publishing, for a 120-day comment period, proposed amendments to all of the following:

- National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**);
- National Instrument 81-102 *Investment Funds* (**NI 81-102**);
- National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**);
- National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**)

together with related consequential amendments to all of the following:

- National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**);
- National Instrument 44-101 *Short Form Prospectus Distributions* (**NI 44-101**)

as well as, in all Canadian jurisdictions other than Alberta, Ontario, Quebec, and Nova Scotia, related consequential amendments to Multilateral Instrument 11-103 *Failure-To-File Cease Trade Orders in Multiple Jurisdictions* (**MI 11-103**)

(collectively, the **Proposed Amendments**).

The CSA are also publishing, for a 120-day comment period, proposed changes to all of the following:

- National Policy 11-207 *Failure-to-File Cease Trade Orders and Revocations in Multiple Jurisdictions* (**NP 11-207**);
- National Policy 12-202 *Revocation of Certain Cease Trade Orders* (**NP 12-202**);
- National Policy 12-203 *Management Cease Trade Orders* (**NP 12-203**);
- Companion Policy 41-101 *General Prospectus Requirements* (**41-101CP**);
- Companion Policy 81-101 *Mutual Fund Prospectus Disclosure* (**81-101CP**);

¹ The British Columbia Securities Commission (**BCSC**) is not publishing the Proposed Amendments (as hereinafter defined) and the Proposed Changes (as hereinafter defined) for comment at this time. Staff of the BCSC anticipate doing so following the British Columbia provincial election.

- Companion Policy 81-102 *Investment Funds* (**81-102CP**);
- Companion Policy 81-106 *Investment Fund Continuous Disclosure* (**81-106CP**);
- Commentary in National Instrument 81-107 *Independent Review Committee for Investment Funds* (**81-107CP**)

(collectively, the **Proposed Changes**).

We encourage commenters to provide any data and information that could help us evaluate the effects of modernizing the investment fund continuous disclosure regime on investors and the investment fund industry. In addition to general feedback on the Proposed Amendments and Proposed Changes, we are also seeking responses to specific consultation questions we have set out for stakeholders to consider.

The text of the Proposed Amendments and Proposed Changes is contained in Annex B of this Notice and will also be available on the websites of the following CSA jurisdictions:

www.asc.ca;
 www.fcaa.gov.sk.ca;
 www.mbsecurities.ca;
 www.osc.ca;
 www.lautorite.qc.ca;
 www.fcncb.ca;
 nssc.novascotia.ca.

Substance and Purpose

The Proposed Amendments and Proposed Changes aim to make improvements to the continuous disclosure regime governing investment funds that will benefit investors, investment fund managers, and other stakeholders. The objectives of the Proposed Amendments are to:

- replace the annual Management Report of Fund Performance (**Annual MRFP**) and the interim Management Report of Fund Performance (**Interim MRFP**), and together with the Annual MRFP, the **MRFP**) with a new annual fund report (the **Annual Fund Report**) and interim fund report (the **Interim Fund Report**, and together with the Annual Fund Report, the **Fund Report**), by implementing a revised version of Form 81-106F1 *Contents of Annual and Interim Management Report of Fund Performance* (the **Current Form 81-106F1**) (**Workstream One**);
- provide an exemption from certain conflict of interest reporting requirements in securities legislation where other similar requirements are satisfied (**Workstream Two**);
- eliminate certain required class or series-level disclosures from investment fund financial statements (**Workstream Three**)

(each a **Workstream**, and together, the **Workstreams**).

We are also proposing some unrelated minor amendments to:

- implement the Fund Expense Ratio (**FER**), which describes the sum of the management expense ratio and the trading expense ratio of an investment fund, into the Fund Facts and ETF Facts (the **FER Revisions**);
- make revisions of an editorial nature to the version of Form 81-101F1 *Contents of Simplified Prospectus* (**Form 81-101F1**) that came into force on January 6, 2022,² as well as minor revisions to address feedback received following the in-force date of Form 81-101F1

(each an **Additional Initiative**, and together, the **Additional Initiatives**).

² https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf

Background

The CSA's 2022-2025 Business Plan identifies delivering smart and responsive regulation protecting investors while reducing regulatory burden, as a strategic goal.³ The Proposed Amendments and Proposed Changes aim to deliver on this burden reduction work while also enhancing the utility of investment fund continuous disclosure to investors.

We reviewed investment fund continuous disclosure requirements to identify areas that could be updated to benefit key stakeholders, primarily investors and investment funds. Within the scope of our review, we not only included continuous disclosure requirements outlined in NI 81-106, but we also considered select reporting requirements present elsewhere in securities legislation (e.g., provincial statutes or NI 81-102). While financial statements formed part of our review area, we focused on requirements in Part 3 (Financial Disclosure Requirements) of NI 81-106 that are not mandated by International Financial Reporting Standards (IFRS).

In making our determinations, we considered stakeholder feedback received in response to the CSA's request for comment on proposed amendments and proposed changes to investment fund regulatory requirements, titled *Reducing Regulatory Burden for Investment Fund Issuers – Phase 2, Stage 1 (Project RID Publication for Comment)*⁴. Comments on the Project RID Publication for Comment were summarized in final amendments and changes published on October 7, 2021.⁵ The CSA also considered comments received in response to the Ontario Securities Commission publication of OSC Staff Notice 11-784 *Burden Reduction*⁶ (OSC Staff Notice 11-784), as well as recommendations made by the Government of Ontario-established Capital Markets Modernization Taskforce, as described in its final report published in January, 2021⁷.

At the conclusion of our review, we determined that the Workstreams, described in detail in the following section, would be the focus of our Proposed Amendments and Proposed Changes. The scope of our review did not include any delivery requirements that apply to continuous disclosure documents. On September 27, 2022, the CSA proposed amendments and changes to implement an access-based model for investment fund reporting issuers.⁸ Work on that initiative is ongoing and is not anticipated to impact the Proposed Amendments and Proposed Changes.

Summary of the Proposed Amendments and the Proposed Changes

(a) Workstream One – Fund Report: Introduction of a new Fund Report to replace the MRFP

We are proposing amendments to the Current Form 81-106F1 that will significantly revise the content of the MRFP to better respond to investor needs and preferences. We are of the view that in addition to representing an improved update document for investors to review, the revised content will also be less burdensome for reporting issuer investment funds to prepare. We have also renamed the MRFP to the “Fund Report”, which is more intuitive and will be simpler for investors to recall.

To ensure that the Fund Report responds better to investor needs and preferences, we engaged the services of a third-party consulting firm with expertise in behavioural insights, to assist in the redesign efforts. Behavioural insights are tools that can be used to inform the development of regulations in a way that respond to how investors behave and process information.⁹ We also considered efforts made by the U.S. Securities and Exchange Commission (the SEC) to significantly redesign mutual fund and exchange-traded mutual fund (ETF) annual and semi-annual shareholder reports so that they are more concise and visually engaging.¹⁰

The disclosure in the new Fund Reports is an improvement in some of the following ways:

- (a) the required disclosure has been significantly streamlined so that investors can focus on information that is most pertinent to them in the limited amount of time they may have set aside to review a Fund Report;

³ https://www.securities-administrators.ca/wp-content/uploads/2022/10/2022_2025CSA_BusinessPlan.pdf

⁴ https://www.osc.ca/sites/default/files/pdfs/irps/ni_20190912_41-101_reducing-regulatory-burden-for-investment-fund-issuers.pdf.

⁵ https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf

⁶ https://www.osc.ca/sites/default/files/pdfs/irps/20191119_reducing-regulatory-burden-in-ontario-capital-markets.pdf

⁷ <https://files.ontario.ca/books/mof-capital-markets-modernization-taskforce-final-report-en-2021-01-22-v2.pdf>

⁸ <https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-106/csa-notice-and-request-comment-proposed-amendments-and-proposed-changes-implement-access-based>

⁹ See OSC Staff Notice 11-778 *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations* for a report on how behavioural insights are being used to improve outcomes for investors and market participants.

¹⁰ <https://www.sec.gov/news/press-release/2022-193>

- (b) information has been thematically chunked so that investors are better able to review information on a specific topic within a single section of the Fund Report rather than having to obtain and synthesize it from different sections;
- (c) the use of narrative forms of disclosure has been minimized in favour of bullets, to assist investors in processing the information contained in the report more easily;
- (d) key terms have been defined and key concepts have been explained in call-out boxes throughout the document to enable investors to better understand the information being presented to them;
- (e) opportunities to provide brief summaries of information contained in the various sections of the Fund Report have been provided, to enable investors to review key information in the Fund Report more quickly;
- (f) directions to more detailed sources of information have been provided in a number of places within the document so that investors who want to access and review more detailed information will know where to find it.

The streamlining referenced earlier includes elimination of the following requirements on the basis that most investors would not find practical use for them in a Fund Report:

- (a) several requirements in the “Results of Operations” and “Recent Developments” sections of the MRFP (required by Items 2.3 and 2.4 of Part B of the Current Form 81-106F1).¹¹ We note that the Investment Objectives and Investment Strategies section of the Fund Report will provide investors with a concise overview of the success of the investment fund in achieving its investment objectives and using its investment strategies to achieve those investment objectives. That section will also provide a brief description of factors that the investment fund manager (**IFM**) considers reasonably likely to materially impact the ability of the investment fund to satisfy its investment objectives and use its investment strategies to achieve those investment objectives, going forward (see Item 4 of Part A of the Proposed Form 81-106A, as hereinafter defined);
- (b) “The Fund’s Net Assets per [Unit/Share]” table in the Financial Highlights section of the MRFP (required by Item 3.1 of Part B of the Current Form 81-106F1). We note that investors that want details regarding the type of information provided by this reconciliation of beginning and end of financial year net assets provided in this table could review the financial statements of their investment fund. We also note that consolidated information on distributions is available in the Statistics section of the Fund Report, with specific information on return of capital also provided on the basis that investors may find value in that particular distribution-related information (see Item 8 of Part A of the Proposed Form 81-106A, as hereinafter defined);
- (c) several metrics (total net asset value, number of units/shares outstanding, net asset value per unit/share, closing market price) in the “Ratios and Supplemental Data” table in the Financial Highlights section of the MRFP (required by Item 3.1 of Part B of the Current Form 81-106F1) and provision of one year’s worth of information instead of five in a new Costs section of the Fund Report. We are of the view that most investors will find utility in reviewing only the most recent Cost-related information in the Fund Report, although we note that the Costs section includes a requirement to provide a statement regarding any increase from the previous year in the summary for that section, where such a summary is provided (see proposed Item 6 of Part A of the Proposed Form 81-106A, as hereinafter defined);
- (d) the “Management Fees” section of the MRFP (required by Item 3.3 of Part B of the Current Form 81-106F1). We are of the view that simplifying cost-related information in the Fund Report would better achieve our aim of ensuring that it contains an appropriate amount of information, as well as information that is easy to read and understand;
- (e) the requirement to provide performance information in respect of each series or class of an investment fund (required by section 15.14 of NI 81-102 and Item 4.1(1) of Part B of the Current Form 81-106F1) in favour of a requirement to provide performance information of the series or class with the highest management fee (and, if applicable, any series or class besides the series or class with the highest management fee, for

¹¹ See the following paragraphs of Part B of the Current Form 81-106F1: 2.3(1)(c) (Unusual trends in redemptions or sales); 2.3(1)(d) (Changes to the components of revenue and expenses); 2.4(e) (Accounting policy changes); and 2.4(f) (Independent review committee composition changes).

which performance would vary based on a characteristic besides fees).¹² When developing this proposed approach, we noted that some investment funds have numerous classes or series, sometimes in excess of 20, and it may be challenging for investors to navigate the report with this information, much of which may show very similar performance. We are of the view that the streamlined presentation being proposed would provide investors with a baseline understanding of how their particular class or series would have performed, e.g. their class or series would have performed better if it had lower management fees. We also note that exemptive relief to allow a single consolidated Fund Facts to be filed for all the classes or series of securities of a mutual fund offered in an automatic switch program, which includes similar requirements around the presentation of performance information, has been in effect for a number of years and was codified as part of the burden reduction amendments published on October 7, 2021.¹³

We also note that some information which is currently in the MRFP is not being carried forward into the Fund Report but instead is being moved to different locations in the regulatory disclosure regime for investment funds:

- (a) the Related Party Transactions disclosure currently required by Item 2.5 (Related Party Transactions) of Part B of the Current Form 81-1016F1, has not been included in the Fund Report. Instead, a different requirement has been developed and added as an appendix (to be prepared by the IFM) to the annual report to securityholders that an investment fund's independent review committee (**IRC**) must prepare pursuant to section 4.4 of NI 81-107. While the Current Form 81-106F1 requires detailed disclosure on related party transactions, the new requirement will only require such details to be provided where they are not already available in existing conflict of interest reports that have been filed on SEDAR+ (and such existing reports will be required to be identified in the new appendix). We are of the view that the newly redrafted requirement in the appendix will be easier for investment funds to prepare, will highlight the related party transaction reports already prepared by the IFM and filed on SEDAR+, and will be simpler for investors to navigate;
- (b) the requirement in Part 6 (Quarterly Portfolio Disclosure) of NI 81-106 for an investment fund to prepare quarterly portfolio disclosure will remain in place, except that the investment fund will be required to prepare it on a standalone basis throughout the year, as opposed to the current circumstance where it appears in the MRFP at two points in the year (item 5 of Part B of the Current Form 81-106F1). The Quarterly Portfolio Disclosure includes information regarding the top 25 positions held by a reporting issuer investment fund. The content requirements of the Quarterly Portfolio Disclosure are substantially similar to what is currently required, and going forward will need to be prepared pursuant to a new form included in the proposed amendments to NI 81-106 (the **Proposed Form 81-106B**). We believe that since investment funds already prepare quarterly portfolio disclosure, they will not have to substantially modify their existing systems to produce it in the format required by the Proposed Form 81-106B. We also believe investors will benefit from being able to review key takeaways of this disclosure in the Fund Report while being able to find more detailed portfolio holdings information in the standalone Quarterly Portfolio Disclosure, when desired. The Proposed Amendments do not impact the Statement of Investment Portfolio, which is produced as part of the annual financial statements and interim financial report of reporting issuer investment funds, and non-reporting issuer mutual funds in Ontario. The Statement of Investment Portfolio includes disclosure regarding each portfolio asset held or sold short.

We also note some information in the Fund Report will be new as compared to the MRFP, and we specifically note the following examples:

- (a) Fund Reports will include a section in which an investment fund is required to insert a brief summary of the IFM's assessment of the investment fund's success in respect of achieving its investment objectives, and using its investment strategies to achieve those investment objectives, during the period covered by the report. We have included instructions that specifically assist investment funds that have environmental, social and governance (**ESG**)-related aspects to their investment objectives and/or investment strategies, in providing this disclosure. We are of the view this will enhance ESG-related continuous disclosure for investors;
- (b) Fund Reports will include disclosure regarding the liquidity profile of the investment portfolio of the investment fund. We are of the view that investors should have access to in-depth yet understandable disclosure regarding the liquidity of the investments held in the investment portfolio of their investment fund, and that this new disclosure will help achieve that.

¹² Please see our consultation question on this issue.

¹³ https://www.osc.ca/sites/default/files/2021-10/csa_20211007_41-101_reducing-regulatory-burden.pdf

Despite suggestions from some stakeholders to do so, we have not proposed to eliminate the requirement for a reporting issuer investment fund to prepare and file an MRFP, because we are of the view that investors would benefit from a periodic update on the status of their investment fund. Research commissioned by the Investment Funds Institute of Canada found that 66% of conventional mutual fund investors and 69% of ETF investors were either interested, or very interested, in receiving and reading the information in a “management report”.¹⁴ We also recognize that the MRFP provides a baseline level of information in a consistent and comparable format that investors can use to stay apprised of an investment fund’s status. This is particularly important given that not all investment funds voluntarily produce the suite of supplementary, non-regulatory disclosure available in respect of some investment funds. Finally, we are of the view that the account-level report on charges and other compensation required by section 14.17 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) or the investment performance report required by section 14.18 of NI 31-103 are not acceptable substitutes for more detailed information on the status of an individual investment fund that may be held within a client’s account.

Some stakeholders are of the view that the MRFP is of low value to investors, citing what they claim are low take-up rates by investors. To the extent that MRFP take-up rates by investors are indeed low, we note that this may in part be influenced by the mechanism through which investors access the document. As referenced earlier, a separate CSA policy project is examining matters related to the delivery of continuous disclosure documents. We are also engaging with the CSA Investor Education Committee to explore how we can ensure strong investor awareness and understanding of the Fund Report.

While some stakeholders have suggested reducing the frequency of preparation of the MRFP, the proposed Fund Report would maintain the annual and interim preparation requirements that are currently applicable for the MRFP. We are of the view that maintaining a twice-per-year filing requirement for reporting issuer investment funds that are not scholarship plans will keep Canadian investors current with the status of their investment funds, as compared to having only a once-per-year requirement (we are not proposing to modify the once-per year filing requirement of reporting issuer scholarship plans). It will also keep CSA requirements aligned with those of the following authorities which also require annual and semi-annual reports to be prepared by investment funds: the SEC;¹⁵ the Financial Conduct Authority (United Kingdom) (the **FCA**);¹⁶ the European Union;¹⁷ and the Australian Securities & Investments Commission.¹⁸

Behavioural Insights Research and Testing

We engaged the services of Behavioural Insights (Canada) Ltd. (the **Consultant**), a third-party consulting firm with expertise in behavioural insights, to assist in our redesign efforts. First, the Consultant prepared a literature review identifying (a) best practices regarding the presentation of MRFP (Fund Report) disclosure to retail investors, and (b) the challenges, needs, behaviours, understanding, and preferences of retail investors with respect to MRFP (Fund Report) disclosure (the **Literature Review**). Second, the Consultant surveyed 604 Canadian retail investors who currently own investment fund securities to determine their preferences with respect to MRFP (Fund Report) disclosure (the **Survey**), with 23% of participants completing the survey in French. Third, based on the Literature Review and the Survey, the Consultant identified behavioural barriers that might impede retail investors from using the MRFP, and suggested evidence-based interventions to address the barriers (the **Behavioural Barriers Report**). The Literature Review, the Survey and the Behavioural Barriers Report can be found in the Investment Fund Continuous Disclosure Modernization Final Report prepared by the Consultant and published September 19, 2024 (the **Investor Testing Report**) on the website of the CSA.

Based on the information provided in the Literature Review, Survey, and Behavioural Barriers Report, as well as other sources of feedback on the MRFP (namely comments provided in response to the Project RID Publication for Comment, comments provided in response to OSC Staff Notice 11-784 and the recommendations of the Capital Markets Modernization Taskforce (Ontario)), the CSA developed three alternative designs for the MRFP, which will be referred to as Mock-Up 1, Mock-Up 2 and Mock-Up 3 (the **Mock-Ups**). The Consultant and the Ontario Securities Commission Investor Office also provided feedback on the effectiveness of the Mock-Ups at implementing the

¹⁴ See slides 74 and 75 of the Canadian Mutual Fund & Exchange-Traded Fund Investors Survey (2023) prepared by Pollara Strategic Insights for the Investment Funds Institute of Canada: https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=28669&lang=en_CA.

¹⁵ <https://www.sec.gov/files/33-11125-fact-sheet.pdf> at page 1

¹⁶ <https://www.fca.org.uk/publication/discussion/dp23-2.pdf> at page 39, paragraph 6.13 and also see the FCA Handbook (<https://www.handbook.fca.org.uk/handbook/COLLG/2A/1.html>) at COLLG 2A.1.5(4)

¹⁷ <https://www.esma.europa.eu/publications-and-data/interactive-single-rulebook/ucits>, see Articles 68 and 69 of the European Union’s UCITS Directive.

¹⁸ http://classic.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s292.html for annual reports and http://classic.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s302.html for the half-year requirement

behavioural science-based recommendations outlined in the Behavioural Barriers Report. The Consultant then carried out a randomized controlled trial (**RCT**) to test the effectiveness of each of the Mock-Ups against each other and against a control MRFP designed to replicate an existing MRFP available today (the **Control MRFP**). The RCT was carried out with 2820 Canadian retail investors. Participants were either current or past owners of investment fund securities and 25% of the participants completed the study in French. English and French versions of the Control MRFP and the Mock-Ups can be found in the Investor Testing Report.

The investor testing focused on seven different outcome measures. The primary outcome measure was a score generated based on correct responses to 13 wide-ranging questions on the content of the documents that were tested (described as the “Core Comprehension” measure in the Investor Testing Report). The results of the RCT indicated that each of the Mock-Ups outperformed the Control MRFP. They also indicated that Mock-Up 3 scored the best, as compared to the Control MRFP, on the primary outcome measure, and better than the other Mock-Ups on most of the other outcome measures that were used to assess the documents. A description of the outcome measures, a detailed review of how the testing was carried out, and the results of the RCT, are available in the Investor Testing Report.

Upon conclusion of the RCT and upon a detailed review the investor testing results, the CSA sought the Consultant’s advice on additional opportunities to further improve the investor experience with Mock-Up 3. It was suggested that further simplifying the content of Mock-Up 3 would be the best approach. The CSA further streamlined Mock-Up 3, which forms the basis of the revised Form 81-106F1 being published for comment as part of the Proposed Amendments (the **Proposed Form 81-106A**). Material post-testing revisions made to Mock-Up 3 are set out in Annex D – Material Modifications to Mock-Up 3 Following Completion of Investor Testing. A sample modified version of Mock-Up 3 is proposed to be added to 81-106CP and is published for comment in the Proposed Changes. Publication of a sample document follows the approach used for the Fund Facts and ETF Facts. The sample is for illustrative purposes only.

As substantiated by the investor testing carried out by the Consultant, we are of the view that, as compared to the MRFP, the proposed Fund Report is easier to read and understand, is more likely to be read, is easier to use in making decisions, is more likely to be seen as containing an appropriate amount of information, and is easier to navigate. We are also of the view that the streamlined document will be significantly less burdensome for IFMs to prepare.¹⁹

The Proposed Amendments related to Workstream One impact the following National Instruments: NI 41-101, NI 44-101, NI 81-101, NI 81-102, NI 81-106, and NI 81-107. MI 11-103 will also be impacted in jurisdictions where that instrument applies. The Proposed Changes related to Workstream One impact the following policies: NP 11-207, NP 12-202, NP 12-203, 41-101CP, 81-101CP, 81-102CP, and 81-106CP.

(b) Workstream Two – Conflicts Reports: Exemption from Select Conflict of Interest Reporting Requirements in Securities Legislation Where Other Similar Reporting Requirements are Met

We are proposing amendments to provide exemptions from certain statutory requirements in a number of jurisdictions that impose an obligation on IFMs to file reports with respect to specified types of related party transactions. In some instances, the types of related party transactions that are subject to reporting requirements are already subject to substantially similar reporting requirements in NI 81-107. The types of related party transactions in focus are the following:

- (a) a purchase or sale of securities between an investment fund and any related person or company;
- (b) a purchase or sale effected by an investment fund through a related person or company with respect to which the related person or company received a fee from the investment fund, the other party to the transaction, or both;
- (c) a transaction in which the investment fund is a joint participant with at least one related person or company, excluding arrangements relating to insider trading in portfolio securities.

¹⁹ We note, for example, that the English-language Control MRFP was 12 pages in length (13 in French) whereas the English-language Mock-Up 3 was 6 pages in length (7 in French). We also note that the Control MRFP was prepared in respect of an investment fund with 8 series, and that the size of the page reduction would have been less significant if it had fewer series, but even more significant if it had more series.

The statutory requirements at issue are identified in proposed Appendix E to NI 81-102. Provisions have not been identified for Manitoba, Quebec, or Prince Edward Island, as those jurisdictions do not possess equivalent reporting requirements in their respective securities acts.

We note the following subsections of NI 81-107:

- (a) subsection 6.2(1), which concerns an investment fund making or holding an investment in the security of an issuer related to it, to its manager, or to an entity related to its manager;
- (b) subsection 6.3(1), which concerns an investment fund making an investment in the secondary market in a non-exchange traded debt security of an issuer related to it, to its manager, or to an entity related to the manager, and where the investment fund continues to hold the debt security;
- (c) subsection 6.4(1), which concerns an investment fund making an investment in a long-term debt security of an issuer related to it, to its manager, or to an entity related to the manager, if the investment is made under a distribution of the long-term debt security of that issuer, and where the investment fund continues to hold the debt security.

Transactions carried out in accordance with subsections 6.2(1), 6.3(1) and 6.4(1) of NI 81-107 are subject to their own, existing annual filing requirements which are set out in subsections 6.2(2), 6.3(3) and 6.4(2) of NI 81-107. Accordingly, the proposed exemptions from the overlapping statutory reporting requirements in the applicable securities acts are intended to provide greater clarity around reporting obligations by standardizing information requirements and removing unnecessary duplication.

In this context, we are proposing the creation of a new, standardized form to be used for the filing of related party transaction reports under subsections 6.2(2), 6.3(3) and 6.4(2) of NI 81-107 (the **Proposed Form 81-107A**). The new, standardized form will require the disclosure of key details regarding related party transactions. We propose that when the form is filed, the statutory reporting requirements in proposed Appendix E to NI 81-102 will not apply.

The details required pursuant to the Proposed Form 81-107A do not generally include all of the disclosure elements required by the statutory requirements identified in proposed Appendix E to NI 81-102. Additionally, the reports required pursuant to subsections 6.2(2), 6.3(3) and 6.4(2) of NI 81-107 must be filed annually while reports filed pursuant to the statutory requirements identified in proposed Appendix E to NI 81-102 are required to be filed more frequently, for example within 30 days after the end of the month in which the transaction occurs. We are of the view that the streamlining of information reporting requirements and the reduced frequency of filing associated with the proposed exemption will not harm investor protection or efficiency of the markets. Our proposals in this area will ensure clear, standardized disclosure of information relevant to select related party transactions.

The Proposed Amendments related to Workstream Two impact the following National Instruments: NI 81-102 and NI 81-107. The Proposed Changes related to Workstream Two impact 81-107CP.

(c) Workstream Three – Financial Statements: Elimination of Certain Class or Series-Level Disclosures from the Investment Fund Financial Statement Reporting Requirements

We are proposing amendments to remove the requirement to prepare certain class- or series-level disclosures that are not required by IFRS, in the Statement of Comprehensive Income, the Statement of Changes in Financial Position, and the notes to the financial statements. In particular, we are proposing all of the following amendments:

- (a) delete the requirement in items 18 and 19 of section 3.2 of NI 81-106 to provide class or series-level disclosure of the increase or decrease in total equity from operations or net assets attributable to securityholders from operations, in total and on a per security basis, in the Statement of Comprehensive Income;
- (b) delete the requirement in section 3.3 of NI 81-106 to provide a breakdown of each line item in the Statement of Changes in Financial Position, by each class or series;
- (c) delete the requirement in paragraph (c) of item 2 of subsection 3.6(1) of NI 81-106 to provide disclosure in the notes to the financial statements identifying the differences between classes or series, including differences in sales charges and management fees.

We are of the view that for investment funds with multiple classes or series, the disclosures identified in paragraphs (a) and (b) above, can become excessively lengthy and complex. This makes it difficult for investors to read and

understand the information presented in the financial statements. Given the minimal utility of the disclosure for investors (as it does not assist the typical investor in making decisions regarding their investment fund holdings), the required class or series-level disclosure is unduly burdensome for investment funds to prepare. Regarding the disclosure identified in paragraph (c) above, we note that class- or series-level disclosure regarding sales charges and management fees is available in other regulatory documents, such as the prospectus,²⁰ Fund Facts²¹ and ETF Facts²².

We note that the Proposed Amendments will not impact investors' ability to access certain important class- or series-level disclosure in the financial statements. In particular, the total equity or net assets attributable to securityholders for each class or series, and per security of each class or series, will continue to be required in the Statement of Financial Position pursuant to items 14 and 15 of section 3.1 (Statement of Financial Position) of NI 81-106.

We have not proposed to eliminate the requirement for an investment fund to prepare an annual and interim Statement of Investment Portfolio as part of its annual financial statements and interim financial report. The Statement of Investment Portfolio provides comprehensive information about the investment portfolio of an investment fund that is not disclosed in other regulatory documents. The information can be used to provide investors with information to determine whether the holdings of their investment fund overlap with those of other investments they already hold, as well as provide transparency to investors seeking to understand the fair value assigned to the holdings of their investment fund. We also note that the SEC requires that investment funds prepare a Schedule of Investments,²³ and that the FCA requires that a list of a fund's investments be prepared as part of the authorized fund manager's report in both the annual and half yearly reports.²⁴

We also have not proposed to relocate the Statement of Investment Portfolio to a location outside of the annual financial statements and interim financial report of an investment fund (e.g., as a new separate filing requirement or as a requirement for posting to the designated website of an investment fund). We are of the view that the Statement of Investment Portfolio is an important component of the annual financial statements and interim financial report, and should be presented alongside the other required documents within them. We are also of the view that the Statement of Investment Portfolio should remain subject to a filing requirement.

The Proposed Amendments related to Workstream Three impact NI 81-106. There are no Proposed Changes related to Workstream Three.

(d) Additional Initiative - Implementation of Fund Expense Ratio into Fund Facts and ETF Facts

We are proposing amendments to implement the FER Revisions. The FER was implemented into some regulatory documents as part of the *Total Cost Reporting (TCR) for Investment Funds and Segregated Funds* joint publication of the CSA and Canadian Council of Insurance Regulators publication, dated April 20, 2023 (the **TCR Amendments**).²⁵ We are proposing to replace the following references in the Fund Facts and ETF Facts:

- (a) in the "Quick facts" section, replace the reference to "Management expense ratio (MER)" with a reference to FER;
- (b) in the "How much does it cost?" section, replace the reference to "Fund expenses" in the "Fund/ETF expenses" table, with a reference to FER.

These revisions are intended to create alignment between the use of the FER in the proposed Fund Report, as well as the use of FER that will, pursuant to the TCR Amendments, be required in the annual report on charges and other compensation prepared under section 14.17 of NI 31-103.

The Proposed Amendments related to this Additional Initiative impact NI 41-101 and NI 81-101. There are no Proposed Changes related to this Additional Initiative.

²⁰ See, for example, Item 9 (Fees and Expenses) of Part A of Form 81-101F1 *Content of Simplified Prospectus* and Item 3.6 (Fees, Expenses and Returns) of Form 41-101F2 *Information Required in an Investment Fund Prospectus*.

²¹ See Item 1 (Costs of Buying, Owning and Selling the Fund) of Part II of Form 81-101F3 *Contents of Fund Facts Document*.

²² See Item 1 (Costs of Buying, Owning and Selling the ETF) of Part II of Form 41-101F4 *Information Required in an ETF Facts Document*.

²³ See section 30(e) of the *Investment Company Act of 1940* and § 210.6-10 of Regulation S-X.

²⁴ See subsection (7A) of COLL 4.5.9R of the FCA Handbook (<https://www.handbook.fca.org.uk/handbook/COLL/4/5.html>) and section 3.13 of the Statement of Recommended Practice for financial statements of *authorised funds* issued by the Investment Management Association in May 2014 (<https://www.theia.org/sites/default/files/2019-05/20140513-SORP2014.pdf>).

²⁵ https://www.osc.ca/sites/default/files/2023-04/csa_20220420_31-103_nop-total-cost-reporting.pdf

(e) Additional Initiative - Minor Revisions Related to the Version of Form 81-101F1 *Contents of Simplified Prospectus* that Came into Force on January 6, 2022

We are proposing several amendments of an editorial nature to the version of Form 81-101F1 that came into force on January 6, 2022. We are also proposing several minor amendments to Form 81-101F1 to address feedback received following its in-force date. These amendments aim to:

- (a) provide an option for a mutual fund with multiple, separately bound Part B sections in its multiple simplified prospectus, to prepare a Part B Introduction at the end of the Part A section of its multiple simplified prospectus. This will permit a reader to more easily navigate that type of document;
- (b) for a multiple simplified prospectus with separately bound Part A and Part B sections, eliminate the requirement to list the mutual funds to which the multiple simplified prospectus pertains, after the table of contents. This is on the basis that the front cover must contain such a listing. The requirement to identify where each Part B section can be found will be maintained;
- (c) more clearly mandate disclosure of a mutual fund's start date in Part B of its simplified prospectus.

The Proposed Amendments related to this Additional Initiative impact NI 81-101. There are no Proposed Changes related to this Additional Initiative.

Transition/Effective Date

Subject to the nature of comments we receive, as well as any applicable regulatory requirements, we are proposing that, if approved, the Proposed Amendments will become effective approximately 3 months after the final publication date. However, we are also proposing to provide an exemption from compliance in respect of each Workstream and the FER Revisions, for approximately a 9-month period following the effective date. Please see Annex A – Specific Questions for Comment Relating to the Proposed Amendments and Proposed Changes for a consultation question regarding the effective date of the final amendments and final changes, as well as the contemplated exemptions.

Request for Comments

Please submit your comments on the Proposed Amendments, the Proposed Changes, and the consultation questions in this Notice (see Annex A – Specific Questions for Comment Relating to the Proposed Amendments and Proposed Changes). We cannot keep submissions confidential because securities legislation requires publication of a summary of written comments received during the comment period. All comments received will be posted on the website of each of the Alberta Securities Commission at www.asc.ca, the Ontario Securities Commission at www.osc.ca and the Autorité des marchés financiers at www.lautorite.qc.ca. Therefore, you should not include personal information directly in comments to be published. It is important you state on whose behalf you are making the submissions.

Deadline for Comments

Please submit your comments in writing, by email, on or before **January 17, 2025**.

Where to Send Your Comments

Address your submission to the CSA as follows:

Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
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

Deliver your comments only to the addresses below. Your comments will be distributed to the other participating CSA jurisdictions.

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: (416) 593-2318
Email: comments@osc.gov.on.ca

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal
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Email: consultation-en-cours@lautorite.qc.ca

Contents of Annexes

The text of the Proposed Amendments and Proposed Changes is contained in the following annexes to this Notice, and is available on CSA member websites:

- Annex A: Specific Questions for Comment Relating to the Proposed Amendments and Proposed Changes
- Annex B-1: Proposed Amendment to Multilateral Instrument 11-103 *Failure-To-File Cease Trade Orders in Multiple Jurisdictions*
- Annex B-2: Proposed Changes to National Policy 11-207 *Failure-to-File Cease Trade Orders and Revocations in Multiple Jurisdictions*
- Annex B-3: Proposed Changes to National Policy 12-202 *Revocation of Certain Cease Trade Orders*
- Annex B-4: Proposed Change to National Policy 12-203 *Management Cease Trade Orders*
- Annex B-5: Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements*
- Annex B-6: Proposed Change to Companion Policy 41-101 *General Prospectus Requirements*
- Annex B-7: Proposed Amendment to National Instrument 44-101 *Short Form Prospectus Distributions*
- Annex B-8: Proposed Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*
- Annex B-9: Proposed Changes to Companion Policy 81-101 *Mutual Fund Prospectus Disclosure*
- Annex B-10: Proposed Amendments to National Instrument 81-102 *Investment Funds*
- Annex B-11: Proposed Changes to Companion Policy 81-102 *Investment Funds*
- Annex B-12: Proposed Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*

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| Annex B-13: | Proposed Changes to Companion Policy 81-106 <i>Investment Fund Continuous Disclosure</i> |
| Annex B-14: | Proposed Amendments to National Instrument 81-107 <i>Independent Review Committee for Investment Funds</i> |
| Annex B-15: | Proposed Change to the Commentary in National Instrument 81-107 <i>Independent Review Committee for Investment Funds</i> |
| Annex C-1 | Blackline Illustrating Proposed Amendments to National Instrument 41-101 <i>General Prospectus Requirements</i> |
| Annex C-2 | Blackline Illustrating Proposed Change to Companion Policy 41-101 <i>General Prospectus Requirements</i> |
| Annex C-3 | Blackline Illustrating Proposed Amendments to Form 41-101F2 <i>Information Required in an Investment Fund Prospectus</i> |
| Annex C-4 | Blackline Illustrating Proposed Amendments to Form 41-101F3 <i>Information Required in a Scholarship Plan Prospectus</i> |
| Annex C-5 | Blackline Illustrating Proposed Amendments to Form 41-101F4 <i>Information Required in an ETF Facts Document</i> |
| Annex C-6: | Blackline Illustrating Proposed Amendments to National Instrument 81-101 <i>Mutual Fund Prospectus Disclosure</i> |
| Annex C-7: | Blackline Illustrating Proposed Amendments to Form 81-101F1 <i>Contents of Simplified Prospectus</i> |
| Annex C-8: | Blackline Illustrating Proposed Amendments to Form 81-101F2 <i>Contents of Annual Information Form</i> |
| Annex C-9: | Blackline Illustrating Proposed Amendments to Form 81-101F3 <i>Contents of Fund Facts Document</i> |
| Annex C-10: | Blackline Illustrating Proposed Changes to Companion Policy 81-101 <i>Mutual Fund Prospectus Disclosure</i> |
| Annex C-11: | Blackline Illustrating Proposed Amendments to National Instrument 81-102 <i>Investment Funds</i> |
| Annex C-12: | Blackline Illustrating Proposed Changes to Companion Policy 81-102 <i>Investment Funds</i> |
| Annex C-13: | Blackline Illustrating Proposed Amendments to National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> (Note: A blackline to the Current Form 81-106F1 has not been provided given the form is being repealed and substituted with significant revisions.) |
| Annex C-14: | Blackline Illustrating Proposed Changes to Companion Policy 81-106 <i>Investment Fund Continuous Disclosure</i> |
| Annex C-15: | Blackline Illustrating Proposed Amendments to, and Change to the Commentary in, National Instrument 81-107 <i>Independent Review Committee for Investment Funds</i> |
| Annex D: | Material Modifications Made to Mock-Up 3 Following Completion of Investor Testing |
| Annex E: | Local Matters |

Questions

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

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