

C.S.T. Consultants Inc.



June 22, 2010

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

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Dear Sirs/Mesdames:

RE: CSA Notice and Request for Comments – Modernization of Scholarship Plan Regulation – Phase 1 - A New Prospectus Form for Scholarship Plans – Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements*, Form 41-101F2 and Proposed Form 41-101F3 and Related Amendments - Published for Comment on March 26, 2010

C.S.T. Consultants Inc. (CSTC) is pleased to provide the members of the Canadian Securities Administrators (CSA) with comments on the above-noted proposals. We fully support the overall aim of modernizing Scholarship Plan Regulation, specifically modernizing the point of sale disclosure of Scholarship Plans to provide more meaningful and relevant information to prospective investors to better enable them to make informed decisions. We also congratulate your achievement of this important milestone which we recognize as the culmination of a significant level of effort.

Background and Context

CSTC is the wholly-owned subsidiary of the Canadian Scholarship Trust Foundation (“CSTF” or the “Foundation”), sponsor of the Canadian Scholarship Trust Plans (the “Plans”). CSTC is under contract with CSTF as both distributor and administrator of the Plans. The Plans currently being distributed

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include the Group Savings Plan 2001, the Family Savings Plan and the Individual Savings Plan. The collective group of Plans sponsored by the Foundation represents \$3 billion in assets managed on behalf of approximately 250,000 Canadian families.

CSTC has operated continuously in all jurisdictions of Canada for more than 20 years. Today we have a sales force of approximately 700 sales representatives who meet with an estimated 25,000 potential investors each year across the country, opening over 30,000 new education savings plans for those families. We have a significant depth of understanding about how scholarship plans operate, and more importantly, we have extensive experience in helping investors make informed decisions about participation in savings programs for their children's post-secondary education.

CSTC is fully committed to the principles of full, true and plain disclosure through the prospectus regime. To that end, we are supportive of additional disclosure which will increase transparency, protect a client or help a potential investor make an informed decision about purchasing a plan. However we also believe it is important to consider the proposed amendments to the scholarship plan disclosure regime in context.

The Canadian Scholarship Trust Plan has been available to investors since March of 1961. Our investment objective has remained essentially the same for close to 50 years: we ensure that the money entrusted to us by families who are saving for their children's post-secondary education is invested safely so that they can rest assured that their principal will be available to them when their child is ready to go to school. We invest wisely to earn a stable, competitive investment return. Over our almost 50-year history we have returned roughly \$2.2 billion in savings to help hundreds of thousands of young Canadians attain their dream of higher education.

We also provide a valuable service to Canadians through creating awareness about the importance of saving for higher education, and of the availability of government programs to assist families in achieving this goal. Without our assistance many Canadian families would not know about the government grants or how to apply for them. CSTC is fully committed to training all of our Sales Representatives to assist Canadian families in understanding - and receiving - all of the government grants available to them. The service we provide to Canadians in creating awareness was affirmed in the August, 2008 report by Informetrica Limited which stated "group scholarship providers reach out to people who would otherwise not save for education and encourage many to save more than they otherwise would."

Overall Comments with respect to the Proposals

Before going through our numerous detailed comments on the proposals, we would like to focus on six themes that are woven through our more detailed comments on the document.

1. Length and Complexity of the Plan Summary and Prospectus

We strongly believe that in order for the prospectus to provide meaningful information to a prospective investor, it must be written in plain language, be structured in a way that is logical

and simple for a potential investor to understand, and present key information that is relevant to their investment decision. CSTC is supportive of having a separate, simplified point of sales disclosure document, and look forward to the opportunity to utilize the Plan Summary Document subject to our comments on the content of same.

We are of the view, however, that the proposed structure of Parts B and C are unnecessarily lengthy, complex and repetitive, which result in a document that will not invite a prospective investor to spend the time reading and understanding the proposed investment. We estimate that, in order to comply with the requirements, our prospectus document will be in excess of 100 pages in length. We believe that it is possible to significantly shorten and simplify Parts B and C by:

- eliminating information that is available to investors in other disclosure documents provided to investors, such as the information in the Management Report of Fund Performance mandated under National Instrument 81-106, or in the Relationship Disclosure Information (RDI) mandated under National Instrument 31-103. For example, within the RDI we will be disclosing the types of risks that an investor should consider, the costs to a client for the operation of an account, and a description of the compensation paid to the CSTC in relation to the Plan. We note that the disclosure regime for publicly offered mutual funds does not have the same level of duplication between the prospectus form and other regulatory disclosure instruments.
- eliminating the significant duplication and repetitive nature of the disclosure which adds minimal value, primarily the duplication of information between Part B and Part C of the proposed form. For example, we believe Items 13 through 18 of Part B are completely duplicative of information in Part C and will not enhance the disclosure.
- simplifying the disclosure by eliminating superfluous information which does not assist an investor in making an informed decision, such as the breakdown of data by beneficiary year.

2. Over-Emphasis on Risk

It is clear that the proposed prospectus has an excessive focus on risks associated with the plans which is unwarranted and suggests a fundamental misunderstanding of the nature of scholarship plans. An uninformed reader reviewing the prospectus as proposed would arrive at the false conclusion that scholarship plans are high risk products. This contradicts the simple reality that many hundreds of thousands of families have chosen to invest with scholarship plans, and have been served extremely well through their participation in these products.

The majority of families who start scholarship plans carry them through to completion, and the majority of beneficiaries receive most or all of the benefits they are entitled to under their plan. In fact, for our Group Savings Plan 2001, only 8.7% of plans were closed prior to the maturity date of the plan – meaning that 91.3% either carry their plan to maturity or transfer to one of our Individual or Family Plans. Additionally, when looking at the 2006 cohort for the original Group Savings Plan, 98% of students collected some or all of their EAPs.

It is our firm view that the proposed prospectus form will **not** serve the investing public well due to its lack of balance, and may lead Canadian families who otherwise would have saved for their child's education, to not do so.

There are effectively two forms of risk that exist within scholarship plans: investment risk and what we call program risk. Investment risk in a scholarship plan is extremely low as the plan's primary investment objective is preservation of capital and delivery of a stable rate of return using fixed income investments.

Program risk is real. There are risks that an investor could leave the program early and therefore lose fees paid and, potentially, income earned on their plan. There is also the risk that a beneficiary may not qualify for all the Education Assistance Payments in the plan. We fully agree that these risks should be disclosed, and disclosed in a manner that enables an investor to fully understand the risk. However they have to be disclosed in a balanced manner, recognizing that less than 9% of planholders leave the plan early and lose their fees, and close to 100% of beneficiaries go on to collect some or all of their Education Assistance Payments.

Over the years our plans have evolved to create opportunity for investors to minimize these program risks through exercising various options that are available to them. Failing to disclose these options in a balanced way leads to a prospectus document that does not meet the objective of delivering full, true and plain disclosure about the product. We strongly contend that a more balanced approach must be incorporated throughout the document.

3. **Lack of Disclosure of Benefits**

Scholarship plans have unique benefits and features. A prospectus is intended to provide a prospective investor with all the relevant information they need to make an informed decision about their participation in the plan. In order to achieve this, an investor must have a clear picture of the costs and risk of the product counterbalanced by a clear understanding of the product features and benefits. Providing only one side of the picture will result in investors who do not receive full disclosure on the product they are participating in.

For example, in reading the proposed disclosure, a potential investor will not readily understand:

- the advantages the plan provides through an investment strategy that delivers principal protection and professional money management
- the ability to enter into a plan with low required contributions, and the benefits of a disciplined savings regime for higher education
- the benefit that participation in the group structure can produce for a student who goes on to post-secondary education
- the flexibility that exists in the plan to enable families to adjust should their circumstances change at some point in the future.

Although the above information may be found in the prospectus document, it tends to be buried or significantly overshadowed by cautionary language. This does not allow a reader to arrive at an informed decision about the benefits of the product to consider in the context of the costs and risks associated with it.

4. Uneven playing field

One of the objectives of the CSA is to foster fair and efficient capital markets. Scholarship plans compete in the market to deliver an investment product to families who want to save for higher education. We compete against all other investment funds, primarily publicly offered mutual funds. In the interests of promoting capital markets which are fair, we assume that the intent of the CSA was not to create an uneven playing field as it relates to prospectus disclosure.

We recognize that scholarship plans are unique, and therefore will require tailored disclosure rules. However there are aspects of the proposed prospectus form for scholarship plans which are not essential to deliver full, true and plain disclosure to a prospective investor, and which elevate the level of disclosure required to exceed that required of mutual funds.

For example:

- The disclosure required of scholarship plans related to the risks of the product is significantly greater than that required for mutual funds (see our comment 2 above). This would lead an investor to believe that scholarship plans are somehow more risky than mutual funds, a conclusion that would be, by and large, false.
- The mandate to deliver a prospectus document at the Grade 6 reading level according to the Flesch-Kincaid system is impractical and not currently imposed on mutual funds. We believe a more balanced approach would be to mandate plain language disclosure and provide some guidance.
- The illustrations required of an investor's "share" of fees for a \$2,500 investment is not only unwieldy and potentially misleading, it is a level of disclosure not required of mutual funds.
- The requirement to disclose details of compensation to the sales representative and executive officers of the administrator exceeds the level of disclosure required of mutual funds with comparable structures.
- The requirement that scholarship plan providers only use government issued information with respect to the government grant programs available for education savings. To our knowledge, no similar restriction exists for other financial products which are used for education savings plans.

It is our view that where disclosure requirements of scholarship plans are proposed to exceed those imposed on mutual funds, that additional level of disclosure must be warranted by the nature of the scholarship plan. As illustrated above, this is not always the case.

5. Prescriptive Nature of the Language

We believe that there is an advantage to investors in having comparability across the scholarship plan industry. To that end we applaud the move to more prescribed language and disclosure. This approach also provides greater clarity to issuers in terms of what is required in the prospectus form along with more comparability across the industry.

However the prescriptive nature of the language also creates certain challenges, specifically in areas where industry participants have product features or structures which do not fit within the prescribed language. For example, CSTC has chosen to display the Ongoing Plan Fees as an “All-Inclusive Management Fee” which we believe provides simpler disclosure to a prospective investor of the ongoing costs. However we recognize that not all industry participants may wish to adopt this methodology and therefore suggest there is a need for some ability of issuers to tailor their disclosure to their specific product. Similarly, product features across the industry can vary, and overly prescriptive language will not be possible in every case to deliver appropriate disclosure of the plan.

To address this, we propose greater flexibility be introduced in areas where highly prescribed language is mandated to ensure issuers have the opportunity to accurately reflect their product offering in the prospectus documents.

6. Issues unaddressed

While we respect the fact that the proposal is phase one of three phases that the CSA is undertaking as it relates to scholarship plans, we note that, through this proposal, disclosure is being mandated without addressing fundamental issues which will dilute the effectiveness of the disclosure. For example:

- Although there is a requirement to disclose annual investment returns, the underlying methodology of calculating those returns is not specified. The information will therefore be presented in a comparable fashion in the prospectus documents, however the methodology of calculating the information may be different, meaning the objective of comparability across the industry is compromised. We believe that scholarship plan dealers should adopt AIMR Performance Presentation Standards (AIMR PPS) within the overall Global Industry Performance Standards (GIPS) as well as related advertising guidelines.
- Although there is a requirement to disclose certain limited information about the sustainability of enhancements to EAPs in the future, there is no defined methodology to support the assessment of that sustainability, nor is there a need to disclose or support through third-party certification the ability of a scholarship plan to deliver against fundamental product promises, such as the refund of sales and distribution charges. We believe that where a promise is made, such as with respect to a refund of sales and distribution charges, that promise should be backed up with certification by an independent actuary to validate that it can be fulfilled.

Response to Specific Questions Asked

Following are the three specific questions posed by the CSA and our response to those questions.

- 1. We are considering requiring the detailed disclosure set out in the prospectus form under Part C – Plan Specific Information for unregistered education savings accounts. These accounts currently have various names, such as escrow accounts or advance deposit accounts. In our view, these accounts appear to be securities because they evidence the investment contract.**

Do you agree with this approach? If not, how should these accounts be disclosed and why?

When a prospective investor does not yet have a Social insurance Number (SIN) for their beneficiary, they are still able to purchase a scholarship plan using an Escrow mechanism whereby their contributions are held by the Foundation in escrow pending receipt of the SIN. This is a service provided to investors which provides those investors with specific benefits that are outlined in the current prospectus of the Plans. These are **not** separate accounts, but rather accounts which by definition are transitional until a specific requirement has been fulfilled (in this case provision of the beneficiary SIN). To provide some context, of the plans opened in 2008 using the escrow arrangement, 96.5% of plans were registered within the following 12 months when the beneficiary SIN was provided to us.

Requiring these arrangements to be separated as a specific security would not be appropriate given the nature of the arrangement, and would result in additional complexity in the disclosure, a significantly increased probability of confusion on the part of investors, with no added value for investors.

It is our view that the prospectuses should continue to disclose these arrangements in a similar fashion to that which is used today.

- 2. To make the prospectus document shorter and more accessible for investors, we are considering allowing Part D – Information about the Organization of the Prospectus Form to be made available on request. This is similar to the Annual Information Form for conventional mutual funds. Do you agree or disagree with this approach? Why?**

We agree with the proposal to make the prospectus document shorter by allowing Part D to be made available on request.

- 3. We are considering requiring additional disclosure in the Prospectus Form about the trustee of the scholarship plan, including information about the trustee's policies on business practices and conflicts of interest, proxy voting and particulars of existing or potential conflicts of interest relates to the scholarship plan. Do you agree or disagree with this approach? Why?**

For clarification, there is fundamentally no difference between the role a trustee plays for a scholarship plan versus the role they play for a mutual fund. All of the operational administration and governance of the scholarship plans is undertaken by the Foundation or by

CSTC. Given the nature of the role a trustee plays for scholarship plans, we do not see how inclusion of this additional information would be meaningful to a prospective investor. Additionally, information on proxy voting and conflicts of interest are addressed in other disclosure documents as well as the prospectus form. We therefore disagree with this approach as it would add unnecessary complexity to the prospectus without providing a potential investor with meaningful information to aid them in making an informed investment decision.

Specific Comments on the Proposals

Appendix B, Schedule 1

- 1. Item 3A.3 (2)** indicates that a Plan Summary Document must not be attached to any other document or material. The Canadian Scholarship Trust Group Savings Plan 2001 has a feature whereby the Plan may be transferred into an Individual or Family Savings Plan by the Subscriber or, under certain conditions, by the Foundation. Given that this option exists, we believe it would be inappropriate to provide information on the Group Savings Plan without also providing information on the Individual and Family Savings Plans. To ensure this occurs, we propose that the rule permit a plan summary document to be bound to another plan summary document if this is beneficial to the investor, as in the case described above.

Additionally, the Individual Plan and the Family Savings Plan are very similar in features and benefits, with the only differences between the two plans being the differences required by federal statute between an individual RESP and a family RESP. We believe that given the significant similarity between the two plans, it should be unnecessary to deliver a separate Plan Summary Document for each plan type.

Appendix B, Schedule 2, Part A

- 2. Item 1.1** mandates presentation of information at a grade level of 6.0 on the Flesch-Kincaid grade level scale or equivalent in French. While we are supportive of plain language disclosure, we are not confident that the concepts that are being disclosed, even within the Plan Summary Document, can be delivered at a grade 6 reading level. We also note that, to our knowledge, there is no equivalent rating system to the Flesch-Kincaid scale in French and therefore respectfully submit that it will not be possible to comply with this requirement. We recommend that Item 1.1 be amended to confirm the requirement to prepare the prospectus using plain language and in a format that assists in readability and comprehension.
- 3. Item 1.2, Instruction (4)** indicates that a Plan Summary Document must only contain information mandated or permitted by this Form. There are, however, several specific attributes of the Plan which are relevant to an investor and which are not included in the Plan Summary Document. These include:

- a. Key Product Benefits**

The proposed Plan Summary Document does not provide an opportunity for a potential investor to weigh the costs and risk of the product against the benefits of the product because the prescribed form does not include disclosure of key product benefits. There are several key benefits that should be disclosed in the Plan Summary Document in a section we propose be titled “What are the Key Features and Benefits”. In this section we would disclose benefits of investing in a scholarship plan including:

- Low barriers of entry with minimum contributions of as little as \$9.50 per month
- Disciplined savings program, designed with multiple contribution frequencies to match any family’s budget
- Refund of a minimum of 50% of the sales and distribution charges
- Conservative investment approach to safeguard an investor’s principal while delivering a stable rate of return
- Ability to change the beneficiary to another child within the family up to age 21
- Potential to receive enhanced payments in addition to investment yield as a result of attrition
- Access to all available government incentives for post-secondary education savings

We propose to include this section in the Plan Summary Document immediately following the section titled “What is a group scholarship plan”.

b. Transferability to the Individual or Family Savings Plan

One of the key product features in the CST Group Savings Plan 2001 is an ability to transfer from the Group Savings Plan into an Individual or Family Savings Plan at any time after a subscriber has been in the Group Savings Plan for 3 years and up until the date of maturity of the Plan. This feature allows investors in our Group Plan to have access to all the flexibility permitted under federal statutes related to RESPs should they, at some future time, determine that the Group Plan structure is no longer suitable for them based on their changing circumstances. In the interests of full disclosure, we believe that it is critical that this feature be described in a section in the Plan Summary Document entitled “Can I move out of the Group Plan in the future if my circumstances change”.

We would propose to include this section in the Plan Summary Document immediately following the section titled “What are the Key Features and Benefits”.

4. **Item 1.3 (2)** uses the language “state using substantially the following wording”. This phrase is repeated in numerous places throughout the proposed form where prescribed language is included. As will be noted in numerous subsequent comments, some of the prescribed language does not apply to our specific products, or fails to provide full disclosure of certain features and benefits of our products. This will require CSTC to amend the prescribed language to ensure full and true disclosure of the attributes of the product the prospectus is describing. We are therefore seeking clarification that the term “substantially” will be interpreted to permit

sufficient flexibility in the prescribed language to enable us to provide full and true disclosure about our product.

5. **Item 1.3 (2)** includes a section titled “If you change your mind”. Inclusion of this section at this point in the Form seems illogical given that the document has not yet described the nature of the product or the fees. Aspects of the prescribed language (such as references to your grants) will not make sense to a reader absent the context provided in the balance of the document. We suggest that this disclosure is more appropriately placed immediately following the section titled “How do I make contributions”.

Additionally, Item 1.3 (2) includes prescribed language, not all of which is accurate or balanced. Specifically:

- a. The statement “You will lose your earnings” is misleading as within the Group Savings Plan 2001 there is an option to transfer to an Individual or Family Savings Plan where the Subscriber has access to his or her earnings. To ensure full disclosure, we propose for the Group Savings Plan 2001 to state “You could lose your earnings unless you exercise your option to transfer to an Individual or Family Savings Plan.” Additionally, this disclosure is not applicable to the Individual or Family Savings Plan and therefore we propose to delete this phrase in the Plan Summary Document for these plans.
 - b. Item 13.1, Instruction (3) indicates that references to the Grants should not be included in the prospectus, yet in the Plan Summary you included a statement “Your grants will be returned to the government”. This statement should be removed to be consistent with this instruction. If the statement is going to be included in the disclosure, it is misleading as currently constructed as it implies that this loss of grant applies to termination of this specific Plan type when in fact it applies universally to all RESPs. As such, the language should be modified to read “As with all RESPs, your grants will be returned to the government.”
6. **Item 1.3(3)** requires the following statement “A scholarship plan is one of many ways to save for a child’s education.” With all due respect, we believe this statement is not appropriate in the context of a prospectus document as it educational in nature versus disclosure. We propose that this statement be amended to state “A scholarship plan is a savings plan designed to help you save for a child’s post-secondary education”.

Additionally, item 1.3(3) describes two “exceptions”, however for each exception, there are also opportunities that a Subscriber has to avoid those exceptions. We therefore propose that in the interest of full disclosure, where a specific exception is identified there should be balanced language describing the options that exist to avoid that exception. In this case, we would propose amending the statement “you will lose your earnings and grants if:” to read “you will lose your earnings and grants if you do not exercise your option to move to the Individual or Family Savings Plan and if:”. This amendment would then accurately describe the way our plans operate.

7. **Item 1.3 (4)** describes who this plan is for and starts by noting “this is a long-term investment plan”. Long-term is not defined, and is open to interpretation by the reader. The Group Savings Plan 2001 could have a duration as short as 5 years, one that we submit most would agree is not long-term. We recommend modifying this language to read “This is a savings plan designed to be maintained until your child is ready to pursue post-secondary education.”

Additionally, Item 1.3 (4) lists several points which, in our view, do not fully describe who should be investing in a scholarship Plan. Following are specific concerns with the proposed language, or attributes of potential investors that should be included:

- a. We note there is no reference to the suitability of this plan for those who have a low tolerance to investment risk. We propose to include “Who do not want to expose their education savings plans to investments with a high degree of risk”.
 - b. We note there is no reference to the suitability of this plan for those who do not wish to actively manage their own investments. We propose to include “Who don’t want to have to make their own investment decisions and are comfortable with other professionals making the decisions about how to invest their funds”
 - c. “Who can make all the scheduled contributions on time” is not an accurate reflection of the flexibility that exists in the plan, both in terms of the choice of contribution schedules and ability to change schedules at a future date. We propose this be modified to read “Who can commit to a regular savings program, and stay with that savings program until your child is ready for post-secondary education”
 - d. “Who can stay in the plan until it matures” is effectively a restatement of the point above, and also includes a term (“matures”) which will not have any meaning for the reader. The modified language proposed above would mean this point could be eliminated.
 - e. “Whose child will attend a qualifying school and program”. With all due respect, no investor has certainty at any time that their child *will* attend a qualifying school and program. Including this statement as a descriptor of who the plan is for is, in our opinion, misleading since it suggests that the only person the plan is for is one who has absolute certainty that their child will attend post-secondary studies. We propose modifying the language to indicate “Who is planning for their child to attend a qualifying post-secondary school and program” as this more accurately describes the type of investor the plan is for.
8. **Item 1.3 (5)** uses the following proposed wording: “Like other investments, the plan’s investments have some risk.” While this is a factual statement, it is not a statement that is helpful to a potential investor as the word “some” is not indicative of the level of risk. We note that the proposed Fund Facts document for mutual funds provides an opportunity for a fund to identify the level of risk on a scale ranging from low to high. We believe that a similar scale should be introduced in the Plan Summary Document to enable a prospective investor to quickly

understand the investment risk. Alternatively, given the nature of the investments, we believe it is appropriate to add to the proposed sentence “however, given the nature of the investments the risk level is low.”

9. **Item 1.3(6)** proposes language which includes the statement “A fee applies” for changing contribution schedules. As CSTC does not charge a fee to change contribution schedules, we propose that the introductory statement “Modify as required for an individual or family plan” in this section should read “Modify as required” to enable us to modify the language in this section to be specific to our Product.
10. **Item 1.3 (7)** describes how payments are made from the Plan, and in describing the refund of contributions includes the statement “This money is not taxed”. As technically the money was taxed prior to contributing it into the RESP, a more accurate statement would be “This money is not taxed when it is withdrawn from the Plan.” We propose that the prescribed language be modified accordingly.
11. **Item 1.3 (8)** describes the risks associated with the Plan. In the introduction to this section, the prescribed language employs dire wording such as “If you do not meet the terms of the plan, you could lose...all of your investment.” In looking at the Plan, there is a relatively small probability of losing “all of your investment”. In fact, a very small percentage of investors lose “all of their investment”, and if they do, it is in a situation where they are making a decision to cancel their plan and are made aware of the consequences of that decision in advance.

Additionally in the introduction to this section is the statement “Your child’s education could be affected.” With all due respect, this statement is not one which we agree with and believe we should be obligated to state in a prospectus document. We propose that this statement be removed.

Item 1.3 (8) describes the risks associated with the Plan. In the interest of full disclosure, we believe it is important that the risks associated with the Plan also be disclosed alongside the options that exist in the plan to mitigate those risks. Failing to provide the options available to planholders is misleading in that it can lead an investor to conclude that the risks identified will automatically result in the implications articulated there. Additionally, some of the language proposed in this section could be considered misleading. We therefore make the following comments or proposed amendments to the language utilized in this section:

- a. In the section “You drop out of the plan before the maturity date”:
 - i. included is the statement “Most often, it’s because their financial situation changes due to job loss, divorce or other life events”. Unless you have empirical evidence to support the statement that these are the most common reasons why families drop out of the plan, we believe this statement is speculative and therefore should be deleted from the prescribed language.

- ii. the proposed language fails to point out that with the Group Savings Plan 2001, once a Planholder has been in the Plan for 3 years they have the option to transfer their Contributions net of fees, income and all grants into an Individual or Family Savings Plan. We believe that for any Group Plan where this feature is available, it should be disclosed in the context of dropping out of the Plan.
 - iii. makes reference to the loss of “government grants contribution room.” As noted previously, Item 13.1, Instruction (3) indicates that references to the Grants should not be included in the prospectus. If the Prospectus is going to make references to grants, it should also provide additional disclosure on the grant programs. This statement, however, is misleading as currently constructed as it implies that this loss of grant applies to termination of this specific plan type when in fact it applies universally to all RESPs. Given the context (the Plan Summary Document), we suggest deleting reference to government grant contribution room from this statement. If it is maintained, it should be modified to note that this is not a requirement of the scholarship plan, rather a requirement under federal statute.
- b. In the section “You miss a contribution” you have included the statement “This can be costly”. This statement is vague and therefore misleading. Reading this literally, a reader could arrive at the conclusion that there is a significant cost to them for simply missing a single contribution in their contribution schedule. This is simply not true. In fact, there are a number of options available to investors in the Group Savings Plan 2001 designed specifically to assist investors who are unable to continue making their contributions. For example, at **no cost**, many investors can simply defer making their contributions by adding missed contributions onto the end of the contribution schedule. Other investors can change contribution schedules. We also will work with individual investors based on their changing needs to adjust their contribution schedule. We therefore believe that this statement should be removed.
- c. In the section “You or your child misses a deadline”:
- i. The language indicates that missing a deadline can mean “You could...lose the earnings on your investment”. The simple act of missing a deadline will not cause investors in the plan to lose the earnings on their investments and therefore this statement should be removed.
 - ii. Under the bullet “**Maturity date for making changes**” the prescribed language does not accurately describe the way the Group Savings Plan 2001 operates as it is possible to change the beneficiary after the maturity date, and fees do not apply to any of the changes included in this section.
 - iii. Under the bullet “[**Insert date**] for EAPs” the prescribed language indicates that a student must apply by a specified date in a specific year, failing which they

“may lose this money”. This is not true for the Group Savings Plan 2001. Failing to meet this deadline will result in a fee being applied to the EAP when it is approved, however it will not result in a loss of this money. We will need to modify this disclosure in order to provide accurate information about our plan.

- d. In the section “Your child doesn’t go to a qualifying school or program”, there are a series of options including “transfer your plan to another RESP” and “cancel your plan”. These are not options we would ever recommend to an investor. In our view, promoting them in the Plan Summary Document would, in fact, be harmful to the investor and should not be included in this section. More appropriately it should note the option an investor has to move to an Individual or Family Savings Plan prior to the maturity date if they anticipate their child will not go to a qualifying school or program. Additionally, we are unclear as to what options “will result in a loss of earnings and grants” and, subject to clarification as to what this refers, suggest that this statement be removed.
 - e. In the section “Your child doesn’t complete their program” the prescribed language either does not apply to the way the Group Savings Plan 2001 operates, or would require additional information to provide balanced disclosure. Reading this statement could lead an investor to assume that it is at our discretion as to whether a child can take a year off, which is not correct. Additionally, it could mislead an investor to assume that if a child takes more than one year off, they could lose some or all of their EAPs. This section needs to be rewritten to accurately disclose the risk.
- 12. Item 1.3 (9)** requires disclosure of the “Drop-out rate”. We believe that what the proposal is attempting to highlight here is, in fact, the cancellation rate and therefore would propose that the title “Drop-out rate” be modified to “Cancellation rate” to ensure clarity.

We also note that, for the first time, you are mandating disclosure based on the percentage of subscribers who cancel their plan as opposed to the percentage of plans cancelled, or the percentage of units within cancelled plans. As the impact on the future EAP values is based on the number of units cancelled, we submit that the more meaningful measure will be the percentage of units cancelled as opposed the percentage of subscribers who cancel their plan.

Additionally, we note there are no instructions on the methodology for calculation of the cancellation rate. Recognizing the intent to create comparability across the industry (which we support), we believe it is important that methodology for calculating the cancellation rate be specified to ensure comparability exists. We would propose that the cancellation rate:

- include only plans cancelled **more than** 60 days after enrolling in the plan (to recognize the existence of the 60 day cooling off period); and
- exclude plans where the Subscriber elected the option to transfer to another scholarship plan with the same issuer (as in the Individual or Family Savings Plan for

CSTC). We believe this is appropriate as these families are not cancelling their plan, but exercising an option to transfer the assets in their Plan into an alternate product.

We also note that the prescribed language projects the future cancellation rates based on historical numbers. We do not believe a projection of this nature is appropriate as past cancellation rates do not necessarily predict the future. Additionally it is unclear how we are to calculate the “typical length” of an investment in this plan.

Based on the above, we propose the disclosure in this section be modified as follows:

“Cancellation rate

Over the past 10 years, an average of 1 % of units have been cancelled in the plan each year.”

13. Item 1.3 (10) mandates disclosure of the percentage of plans “matured and closed” where beneficiaries did not collect all their EAPs. It is not possible to calculate this number in a meaningful way until a given beneficiary cohort is closed – which we define as having reached the end of the benefit period within which a beneficiary can apply for an EAP. We interpret the term “matured and closed” to represent the total population of plans where the plan has reached maturity, and where there remains no additional opportunity for the beneficiary to collect their EAPs (that is until December 31st in the year where all the beneficiaries in the cohort have reached the age of 26), or where a beneficiary has collected all EAPs to which they are entitled. Calculating this number based on any other population will be misleading as beneficiaries in the cohort will continue to be eligible to collect additional education assistance payments. Please confirm that our understanding is correct.

14. Item 1.3 (11) proposes to rename the current “Enrolment Fee” a “Sales Charge”. As this fee covers the costs of distribution more generally than just the sales transaction, we believe it should be more appropriately called a “Sales and Distribution Charge”. Additionally, in the column headed “What the fee is for” the mandated language states “This is a commission for selling you the plan. It is paid to your sales representative and the company they work for.” As noted above, this fee not only covers the commission for the sales representative, it also covers other costs of distribution and, in the case of CSTC, a portion of it is set aside for the future refund of the enrolment fee. Therefore, in the interest of full disclosure, we propose that this language be modified to read “This is to cover the costs of selling you the plan. It is paid to *[insert name of dealer]* and a portion of it is paid to your sales representative as a commission. *[Insert if applicable]* In addition, some of the sales and distribution charge is set aside in a fund which is used to refund some of this charge when your child goes to post-secondary education.”

Item 1.3 (11) also proposes to rename the Depository Charge a “Processing fee”. We believe this name does not accurately reflect what this fee represents, and propose a more appropriate name is an “Account Maintenance Fee”. Additionally, it is not solely for the purpose of “Processing a contribution” as noted in the column headed “What the fee is for”. To ensure true disclosure, we propose to modify the description under this column to read “This is an annual fee for account maintenance. The amount deducted is based on your Contribution

schedule”. In addition, we believe it is important to disclose that this fee is subject to applicable taxes (GST or HST as applicable).

Item 1.3 (11) also provides a list of “Ongoing Plan Fees”. While some dealers may wish to continue to express their ongoing fees utilizing a list as proposed, in the interest of providing an easier to understand fee structure, CSTC has moved to an “All Inclusive Management Fee” which represents a total of the fees currently included in the list capped at 0.65% for the Group Savings Plan 2001. We therefore request that this item be modified to enable us to continue to use this simplified method of reporting fees to prospective investors.

Additionally:

- The table proposes to show the fee as a dollar amount, when they can only be expressed meaningfully as a percentage of assets
- You do not disclose that these fees are subject to applicable taxes (GST or HST as applicable). We believe this disclosure should be added.
- You propose we provide a calculation of what a client’s ongoing share of these fees in the prior year would have been for an annual investment amount that would maximize the grant. We are seeking clarification on the intent of this and the method of calculation. If we were to simply multiply the current annual amount to maximize the grant (\$2,500) by the ongoing fee amount we would not be presenting an accurate picture of the actual fees charged since that does not reflect the total assets in the plan against which the fee is charged (contributions net of fees, grants received and any income earned). However to accurately calculate this amount, we would need to provide significant additional assumptions around interest rates, grant rates, contribution frequency, and stage in the plan life cycle to accurately calculate the impact of these fees on a contribution. We are uncomfortable with a simplistic calculation which will understate the impact of the fees, and believe that providing all the necessary assumptions to support an accurate calculation will result in an overly complex description that will not achieve the objective of this disclosure. We also note that similar disclosure is not required of mutual funds under National Instrument 81-101.

Appendix B, Schedule 2, Part B

15. Item 2.3 (1) prescribes language stating “we cannot tell you in advance if your child will qualify to receive any payments from the plan”. We believe this is misleading as it is not specific in pointing out that the only payments from a plan that have a qualification requirement attached to them are payments of income from the plan. We would propose this language be amended to state “we cannot tell you in advance if your child will qualify to receive any education assistance payments from the plan”

16. Item 2.3 (2) prescribes language stating that “The amount of payments will depend on...the number of beneficiaries in the group who qualify for payments, the number of beneficiaries who do not qualify for payments”. As noted above, we believe it is important to qualify that in this context payments are referring to education assistance payments. Additionally, we believe that the phrase “the number of beneficiaries who do not qualify for payments” is redundant and could be deleted in the interest of plain disclosure. Furthermore, it is technically more correct to indicate it is the “percentage” of beneficiaries in the group who qualify for payments that acts as a determinant of the education assistance payment amount as opposed to the “number” of beneficiaries.

17. Item 2.3 (3) provides mandatory disclosure accompanying a list of discretionary payments. In the interest of full disclosure, we believe that a list of discretionary payments must also include information such as the source of funds for those discretionary payments, and historical information on discretionary payments the organization has made. This is relevant to a potential investor as it will provide information in terms of the nature and magnitude of discretionary payments made in the past.

Item 2.3 (3) also provides prescribed language with respect to discretionary payments with the statement “You must not count on receiving a discretionary payment.” With all due respect, we find the use of the imperative “must” an overly strong expression in this disclaimer, in particular in the context of our organization which has made discretionary payments every year since 1987, and whose own asset/liability modeling indicates that we will be able to continue to make discretionary payments into the future. While we believe this statement could be removed without impacting the level of disclosure, at a minimum we believe that this statement should be modified to read “You should not count on receiving a discretionary payment.” Additionally, the disclaimer mandates that we state “you may get less” both than what has been paid in the past and than what is paid to other groups. In the interest of full disclosure, we believe this statement should, in both instances, indicate “you may get more or less than...”

18. Item 2.4 includes prescribed language, not all of which is accurate or balanced. Specifically:

- a. The statement “You will lose your earnings” is misleading as within the Group Savings Plan 2001 there is an option to transfer to an Individual or Family Savings Plan where the Subscriber has access to their earnings. To ensure full disclosure, we propose for the Group Savings Plan 2001 to state “You could lose your earnings unless you exercise your option to transfer to an Individual or Family Savings Plan.” Additionally, this disclosure is not applicable to the Individual or Family Savings Plan and therefore we propose to delete this phrase in the prospectus for these plans.
- b. Item 13.1, Instruction (3) indicates that references to the Grants should not be included in the prospectus, yet the prescribed language requires the statement “Your grants will be returned to the government”. This statement should be removed to be consistent with this Item. If the statement is going to included in the disclosure, it is misleading as

currently constructed as it implies that this loss of grant applies to termination of this specific Plan type when in fact it applies universally to all RESPs. As such, the language should be modified to read “As with all RESPs, your grants will be returned to the government.”

- 19. Item 4.1 (1)** proposes prescribed language that indicates that the prospectus “describes the plans...including the fees you pay, the risks of investing in a plan and how to make changes to your plan.” We believe it is appropriate to include in the prescribed language that the prospectus also contains information on the benefits of the plan, and therefore propose to modify the above language to read: “describes the plans...including the benefits of the plans, the fees you pay...”
- 20. Item 4.2 (1)** introduces a glossary of terms. We are comfortable with the notion of standardizing terms across the industry, however have concerns with the overly prescriptive nature of the definitions, in particular where the prescribed language is inaccurate, or extends beyond a simple definition of a term to include disclosure. This makes the definitions more unwieldy, and contributes to the complexity and repetitive nature of the document overall. Following are specific comments related to some of the defined terms:
- a. **Contribution.** The definition of a contribution is that it is “the amount you pay into a plan.” Extending the definition beyond this is not necessary, nor desirable. However the proposed language includes a reference to the Canada Education Savings Grant (which we note is inconsistent with Item 13.1, Instruction (3)). We do not object to referencing this grant however for full disclosure it should also reference the Quebec Education Savings Incentive (as applicable). You then note that sales charges and other fees are deducted from the contributions. This is unnecessarily confusing disclosure in the context of this definition. More appropriately, we propose including a separate definition of “Principal” which can be defined as “Contributions less sales and distribution charges and other fees.”
 - b. **Discretionary payment.** It is important to note that the decision on discretionary payments is made by the Foundation, not the investment fund manager. We propose modifying the definition of a discretionary payment as “a payment that beneficiaries in a group plan may receive in addition to the EAPs, paid at the discretion of the Foundation.”
 - c. **Discretionary payment account.** The prescribed language defining the “discretionary payment account”, in the case of the Group Savings Plan 2001, refers to funds currently held in the General Fund of the Plan. Payments from our General Fund are not discretionary payment. In order to provide true disclosure, we would be unable to describe the sources of funds listed in this definition as part of a “discretionary payment account”.

- d. **Educational assistance payment (EAP).** The prescribed language notes that EAPs do not include any discretionary payments. This is not an accurate statement as, in the case of EAPs paid to students in the Group Savings Plan 2001, discretionary payments are included as part of the EAP.
 - e. **Grant contribution room:** this introduces a term that is specific to the grant programs and will not make sense in the context of the document without some additional information on the grant programs themselves.
 - f. **Unit:** the definition of a unit notes that “you are assigned units when you purchase a plan”. It is technically more correct to state that “you purchase units when you open a plan”
21. **Item 5.1** refers to the plan as being “set up as a [describe legal structure].” We are unclear as to what we would state here.
22. **Item 7.1 (5)** requires inclusion of a discussion of 11 “subscriber-specific risks” in addition to “all other applicable risks.” We absolutely agree with the importance of disclosing the risks associated with our products. However, the disclosure must be commensurate with the actual risk to the investor that could arise as a result of participating in the specific investment. With all due respect, the list of 11 risks identified is excessive, and profiles “risks” that are so broad and general in nature that they could apply to almost any saving or investment product and should not be singled out as risks associated with scholarship plans.

Specifically, the following “risks” should be deleted from the list in their entirety as they are not truly risks of participation in the Plans:

- a. **Contributions over the CESG contribution room.** There are implications of contributing in excess of the CESG contribution room which should be disclosed, however there are also sound reasons why an investor may choose to contribute in excess of the CESG contribution room. This is not a “risk” to a subscriber. Also, it is important to note that this is an issue that relates to the rules of the grant programs which, as per Item 13.1, Instruction (3), should not be included in the prospectus document.
- b. **Failure to apply for an EAP.** This is akin to stating that your investment in a GIC is at risk if you fail to redeem it. This is not a true risk to a subscriber.
- c. **Loss of unclaimed contribution.** As noted above, any investment where an investor never claims their funds results in a loss to the investor. This is not a risk associated with a scholarship plan and should not be included in this context.
- d. **Withdrawal of contributions before your beneficiary begins eligible post-secondary education.** This is not a risk of scholarship plans. There are implications if funds are withdrawn from any RESP before the beneficiary begins eligible post-secondary education which should be disclosed, but not as a risk associated with scholarship plans.

Also, it is important to note that this is an issue that relates to the rules of the grant programs which, as per Item 13.1, Instruction (3), should not be included in the prospectus document.

- e. **Whether the plan will meet the education costs of the beneficiary** . This would only be applicable as a true risk if the plan was promising to meet the future costs of the beneficiary. As we do not hold out such a promise, it is not a true risk to the subscriber.

Additionally, there is a requirement to discuss “All other applicable risks”. The nature of this language implies we should be identifying in this section any other possible risk, regardless of the magnitude or probability of that risk. At a minimum, this language should be modified to read “All other material risks.”

23. Item 7.1 (6) requires inclusion of a discussion of 6 “plan-specific risks” in addition to “all other applicable risks.” Again, the list of 6 risks is excessive, and profiles “risks” that are so broad and general in nature that they could apply to almost any saving or investment product. Specifically, the following “risks” should be deleted from the list in their entirety as they are not truly risks of participation in the Plans:

- a. **The risk that the types of investments the scholarship plans invest in may not provide a sufficient return for future education costs.** As noted above, if the plan was characterized as a defined benefit plan with a promise to meet the future education costs, it may be reasonable to include discussion of this risk. However the plan is a defined contribution plan, with no specific promise that your savings will cover future education costs. It is inappropriate to require a discussion on this as a risk in the context of our plan.
- b. **The risk of changes in government policy.** This is not a risk attributed to a scholarship plan; it is a risk associated with living in Canada. Changes in government policy can affect Canadians at any time in respect to any aspect of their lives. It is unreasonable to suggest that this should be profiled as a risk attributable to participation in a scholarship plan.

Again, there is a requirement to discuss “All other applicable risks”. As noted above, we propose that, at a minimum, this language should be modified to read “All other material risks.”

24. Item 7.1 (8) prescribes language that, in effect, requires us to compare our product against other products (specifically bank accounts or guaranteed investment certificates). In our view we should not be required to provide this form of comparison against other products in the prospectus, and would propose that the phrase “Unlike bank accounts or guaranteed investment certificates” be deleted from the prescribed language.

- 25. Item 7, Instruction (3)** advises that a risk factor cannot be de-emphasized by excessive caveats or conditions. We are seeking clarification as to what would be deemed excessive caveats or conditions. This is particularly important as, in the interest of full disclosure, a discussion of risks that can be mitigated through action on the part of the investor should also include the steps that an investor can take to mitigate those risks. For example, with the Group Savings Plan 2001, many of the risks associated with participation in the group plan can be mitigated if the investor elects at some future date to transfer into an Individual or Family Savings Plan.
- 26. Item 8.1, Instruction (3)** advises that a risk factor cannot be de-emphasized by excessive caveats or conditions. Again, we are seeking clarification as to what would be deemed to be excessive caveats or conditions. It is our view that practices related to investment management that mitigate a particular risk (such as caps on the amount invested in a particular asset class) are relevant to a prospective investor, and that a balanced discussion on risks should also include information on how those risks are managed.
- 27. Item 11.1, Instruction** indicates that insurance is not considered to be a material fact and therefore do not expect disclosure on insurance products. We are seeking clarification that, while not expected, we are permitted to include disclosure on the insurance products which are intricately linked with the scholarship plan itself.
- 28. Item 12.1** proposes prescribed language which indicates that the 60-day withdrawal right is a right under securities legislation in several jurisdictions. As there is no securities rule that we are aware of that mandates the 60-day right, we suggest that this language be modified to simply note that the “Plan” gives investors the right to withdraw from it within the 60-day cooling-off period.
- 29. Item 13.1 (1)** makes reference to all available “purchase options”. We understand this to mean available “contribution frequencies” however would suggest clarification to ensure that this is clearly understood. Additionally, we are unclear as to the relevance of the cross-reference to Item 15 in Part C of the Form.
- 30. Item 13.1, Instruction (3)** states that additional information on government programs must be provided in separate documents, and that these documents must be government produced documents. While we recognize the desire to separate government information applicable to all RESPs from the prospectus for a specific product, it is important to also recognize that an intrinsic part of a scholarship plan is that it will be registered as an RESP, and will qualify for government incentives. This becomes evident by the numerous references to the grants throughout the proposed Form which runs contrary to the intent of this instruction. We note that Part C, Item 13.1 (3) permits a table briefly describing the Government Grants. However this table is embedded in a section dealing with Contributions (which is inappropriate given that not all Government Grants are based on Contributions).

We propose that a relatively brief section be permitted in the prospectus form which provides an overview of the key features of both RESPs and all government incentives. We propose that

this section be inserted in section B of the prospectus, immediately following Item 5. Absent this information, references to available grants through the document lack context and can lead to confusion.

Additionally we believe it is inappropriate to require disclosure of government grant information only in government produced documents. This is not a requirement of the Promoter Agreements in place with the Governments of Canada, Alberta and Quebec, and we note is not mandated for other providers of RESPs. While we are quite willing to use government produced documents that meet our needs, this restriction is unnecessary and will not serve the interests of investors.

- 31. Item 14.1** prescribes language that indicates that payments to the beneficiary consist of “income earned on your contributions, any grants and any income earned on the grants.” In the interest of full disclosure, this should also include income that arises from pre- and post-maturity attrition, and discretionary payments.

Item 14.1 also notes that the amount of each payment depends on “the plan you have, how much you have contributed to it, the grants in your plan and the performance of the plan’s investments.” This statement is not an accurate description of the factors that impact on the payment amounts. A more accurate description would be that each payment depends on “the plan you have, the number of units you have purchased, the percentage of students in the beneficiary group who qualify for a payment, the performance of the plan’s investments, the availability of any discretionary payments and the grants you have in the plan.”

- 32. Item 18.1 (1) and (3)** describes cancellations and includes required discussion on the effect of a cancellation on a subscriber’s RESP contribution room and on government grants. The effects on both are dictated by federal statute and are not unique to scholarship plans. While we do not object to providing this disclosure, we note that it is inconsistent with the direction in Instruction (3) of Item 13.1. Additionally, in the interest of true disclosure it should be disclosed as applicable to all RESPs, not just Scholarship Plans.

Appendix B, Schedule 2, Part C

- 33. Item 4.1. (1) (c)** requires disclosure as to the legal nature of the securities offered by the prospectus. It is unclear to us what is contemplated under this requirement.
- 34. Item 4.1. (1) (d)** requires a statement as to whether the plan is eligible as an investment for RESPs. This statement is very confusing given that the fundamental nature of a scholarship plan is that it will be registered to become an RESP. Moreover, the plan itself is not an investment.
- 35. Item 5.1** describes various disclosures respecting “Beneficiary Groups”. The requirements of this section underscore a misunderstanding of the nature of the beneficiary groups. Various beneficiary groups are not “available under the prospectus” and there is no unique “connection between the group scholarship plan and each beneficiary group”. We believe this section is

important to describe how maturity dates and year of eligibility are determined, and what options exist to change both the maturity dates and year of eligibility. However an investor does not select a beneficiary group, they are assigned a beneficiary group based primarily on the age of the beneficiary. On this basis, we believe that most of the disclosure included in Item 5.1 is entirely irrelevant to a potential investor and should be removed as it increases complexity without providing an investor with meaningful information.

- 36. Item 7.1 (2)** requires inclusion of a table that describes the programs that are eligible for EAPs under this plan. Although the intent of the table is laudable, the table poses two concerns. First, this requirement creates a level of disclosure that exceeds that required of other investment products used for Registered Education Savings Plans, and yet these products are required to meet the same requirements imposed by federal statute. Second, the table cannot actually be completed meaningfully as laid out. For example, the definition of a qualifying post-secondary institution for the Group Savings Plan 2001 aligns with the definition of a qualifying post-secondary institution in the Income Tax Act. It is not possible to make a blanket statement that, for example, University will universally qualify. The reason for this is that not all schools which call themselves a “University” qualify under the terms of the Income Tax Act, in particular those outside of Canada. Similarly, the term “Occupational Training” and “Apprenticeship” are so broad that it will be impossible to state conclusively whether a program will or will not qualify. In our view this table should be removed and replaced with an explanation of what determines if a program or post-secondary school is eligible and provide examples of programs that will qualify, and examples of those that will not.
- 37. Item 8.1** prescribes language that indicates that missing a deadline could result in losing the earnings in the investment. It is our view that missing a deadline will not result in a loss of income in the Group Savings Plan 2001. Missing a deadline may limit future flexibility, or could result in the payment of a late penalty on a subsequent EAP, however the blanket statement that missing a deadline can cause a loss of income is, in our view, misleading.
- 38. Item 9.1 (3)** provides guidance in the event a scholarship plan issuer intends to “guarantee or ensure protection of all or some of the principal amount of an investment in the scholarship plan.” While we understand (and agree with) the enhanced disclosure where there is a guarantee of the principal, the inclusion of the phrase “ensure protection” is of some concern for us. We take steps through our investment strategy to ensure that the principal in an investor’s plan is protected, however this does not require the presence of a guarantor or underlying insurance. This approach has proven successful as we have a track record of close to 50 years where we have always returned the principal to our investors. We believe that extending the requirement to provide this level of disclosure simply to support the statement that we “ensure protection” of principal is not warranted and propose deleting this phrase from this item.
- 39. Items 12.1 and 12.2** duplicate Items 7 and 8 of Part B of the form. While we understand the instructions provide the opportunity to avoid duplication between the two sections, given the

nature of scholarship plans we believe that the discussion of the risks should occur only in Part C of the Form for simplicity, and in the interest of clear disclosure.

- 40. **Item 13.1 (2)** duplicates Item 13.1 (1) of Part B. We believe this information is more appropriately included in Part C as opposed to Part B and therefore would propose removing it from Part B. Additionally we are unclear of the relevance of the cross-reference to Item 1.3(11) of Part A of the form.
- 41. **Item 13.1 (3)** is extremely confusing. Not only do we not know what we are being asked to describe here, we are not clear on the relevance to an investor. Additionally, the requirement to disclose whether the value of a unit is “comparable to units of other scholarship plans offered under the prospectus, by...other scholarship plan issuers” is not only inappropriate, it is not possible without access to information that is proprietary to the other issuers.
- 42. **Item 13.1 (5)** prescribes language that refers to the “costs to buy a unit” and the “price you pay”. This is misleading as the table is, in fact, referencing not the costs or the price, but rather the total contributions required under the contribution schedule. It also references single contributions and monthly contributions, but does not refer to annual contribution schedules. Additionally, all of the information included in the table is available in the contribution schedule. We suggest either eliminating this table (given it is duplicating information available elsewhere), or at a minimum simplifying the table as illustrated below:

Age of Beneficiary	Total Required Contributions per Unit		
	If you make a lump sum contribution	If you make monthly contributions	If you make annual contributions
Under One	\$□	\$□ (\$□per month x □ [number of months to pay] months	\$□ (\$□per year x □ [number of years to pay] years
Five	\$□	\$□ (\$□per month x □ [number of months to pay] months	\$□ (\$□per year x □ [number of years to pay] years
Ten	\$□	\$□ (\$□per month x □ [number of months to pay] months	\$□ (\$□per year x □ [number of years to pay] years

- 43. **Item 13.1 (6)** requires disclosure of the “price per unit (less sales charges, fees and any insurance)”. As noted above, the table is not actually disclosing a “price per unit”, rather the total contributions required per unit. However the requirement to disclose this net of fees based on the typical age of a beneficiary at time of purchase is overly complex and will not present meaningful information to a prospective purchaser. In fact, this approach will be

misleading unless an investor is, in fact, purchasing the units at the “typical age” used to undertake the calculations.

44. **Item 13.2 (1)** prescribes language which states “Missing a contribution can be costly.” As has been noted previously, this statement is overly negative, and is misleading without proper qualification. It leaves a reader to assume that the simple act of missing one contribution will result in a cost to them. They then have to read further to understand that this is not actually the case. Our organization works diligently with families who need to make changes to their contribution schedule. Yet the disclosure in this section would lead a reader to assume the contrary. We urge a more balanced approach in discussing both the implications of missed contributions, and the flexibility afforded to investors to adjust their contribution schedule.
45. **Item 14.1 (2)** presents a table describing fees an investor pays. Please see our comments with respect to Part A, Item 1.3 (11) which apply also to this item. In addition, we believe that the table in this section of the prospectus should be amended to include a column disclosing who the fee is paid to.
46. **Item 14.1 (3)** requires a footnote disclosing how the sales charge is allocated between the sales representative, principal distributor and any other party. It is our firm view that this information should not be required in a prospectus designed to disclose details of the product. If this information was to be presented to an investor, it would more logically fit within the Relationship Disclosure Information mandated under National Instrument 31-103. We also note that information of this nature is not a requirement imposed on mutual funds where the dealer is integrated with the fund manager. It is our view that imposing this higher standard of disclosure on scholarship plans is unnecessary and unwarranted and should be removed.
47. **Item 14.1 (4)** is somewhat unclear as to precisely what is being requested, however we would propose to include this information in the table required under Item 14.1 (2).
48. **Item 14.2 (2)** prescribes language starting with the header “Higher fees in the early years”. We believe this header is unduly negative and potentially misleading as the fees are, in fact, the same throughout the duration of the plan, however sales and distribution charges are deducted in the early years. We believe that this header should be simply “Fees in the early years”. Additionally the prescribed language requires us to disclose the approximate number of years it will require to pay off the sales and distribution charges. This can only be expressed as a range, as the actual time it will take depends on the age of the child and the contribution frequency selected. Providing an “approximate” number could be misleading to a potential investor.
49. **Item 14.3 (1)** prescribes language indicating that the fees listed in the table in this section will be “deducted from your contributions”. This is not accurate for all fees (such as the NSF payment or the late application for EAPs). Therefore we propose that the language be modified to read “The following fees will be charged for the following transactions”. We also propose adding a column to the table to indicate the source of the payment. The proposal should also clarify that

fees that are not applicable to a particular plan can be eliminated from the table of transaction fees.

- 50. Item 14.4** requires us to provide a calculation of what a client’s ongoing share of these fees in the prior year would have been for a contribution of \$2,500. We are seeking clarification on the intent of this and the method of calculation. If we were to simply multiply \$2,500 by the ongoing fee amount we would not be presenting an accurate picture of the actual fees charged since that does not reflect the total assets in the plan against which the fee is charged (contributions net of fees, grants received and any income earned). To accurately calculate this amount, we would need to provide significant additional assumptions around interest rates, grant rates, contribution frequency, and stage in the plan life cycle to accurately calculate the impact of these fees on a contribution. We are uncomfortable with a simplistic calculation which will understate the impact of the fees, however believe that providing all the necessary assumptions to support an accurate calculation will result in an overly complex description that will not achieve the objective of this disclosure. We also note that similar disclosure is not required of mutual funds under National Instrument 81-101.
- 51. Item 15.1** requires us to “disclose details of all arrangements that may result directly or indirectly in one subscriber of a scholarship plan paying a fee that differs from a fee payable by another subscriber for the same service or benefit.” As this is under the sub-heading “Refund of sales charges and other fees”, we assume this statement is referencing the arrangement whereby subscribers, under certain conditions, may receive a refund of sales charges. However this is not clearly stated. We would find some guidance on specific examples of what is contemplated under this provision helpful.

Additionally, Instruction (2) requires us to include information on:

- a. **(e) What percentage of subscribers have received the full refund historically.** For clarity, we can only describe this as a percentage of subscribers whose plans have matured and closed and who have received the full refund historically. Reporting this information on plans that have not yet been closed will result in the number being understated and therefore misleading.
- b. **(f) How the scholarship plan organization intends to fund the refund.** It is our view that, in addition to disclosing how they intend to fund the refund, an organization should be required to provide an actuarial certification validating that they have the ability to provide for this future refund of fees. It is not enough to simply state the source of funds, there must also be some form of external validation that the source of funds is sufficient to meet the future obligation.
- c. **(g) How other subscribers are affected by this refund.** Other subscribers are not affected by this refund, and we are uncertain as to what is intended in this section.
- d. In addition to the 9 points required under Instruction (2), we believe the requirements should be expanded to provide disclosure of the funded status of any sales charge

refund account (and the source of funding for that account), the frequency that actuarial validation of sales charge refund assets are performed, any sales charge deficit funding schedules that are in place, and what strategies are in place by the plan sponsor to increase funding as needed .

- 52.** We note that there is no specific item dealing with disclosure related to what happens when a Group Savings Plan reaches maturity. This is a critical point in time when the subscriber must make key decisions. We believe that a separate section dealing with what happens at the maturity of the plan should be inserted immediately prior to the information required under Item 17.
- 53. Item 17.2 (4)** prescribes language which is unduly negative, and would need to be modified to provide true disclosure for the Group Savings Plan 2001. For example, the sentence “Also, you will not receive the full benefit...if the program your beneficiary enrolls in is less than 1 years in duration.” There is no way we can complete the missing data point in this sentence and accurately describe our plan which permits a student to, for example, complete four short programs that meet the minimum requirements under the Income Tax Act and receive the full benefit. Utilizing the prescribed language would therefore result in disclosure that is inaccurate.

Additionally, we do not understand the suggestion that if your child doesn’t go to a qualifying school or program, there is an option to cancel your plan or transfer your RESP to another provider. These are not options we would ever encourage an investor to pursue as they would be harmful to the investor. We do not understand why we would suggest that these are viable options to an investor facing this situation.

- 54. Item 17.4 (1)** mandates a table breaking down the composition of EAPs, which is then totaled with the heading “Total EAPs”. If this table is intended to provide a breakdown of EAPs and total EAPs it must include all the component parts of the EAPs. As noted previously, within the Group Savings Plan 2001 our EAPs include allocations from the Plan’s General Fund and Discretionary Payments from the Foundation. What this table represents is, in fact, a subset of the total EAPs representing just the income earned on contributions and income arising from cancelled plans. The table should be modified to either reflect the true nature of the information (i.e. a subset of EAPs paid), or modified to include the full spectrum of sources of funds for EAPs.

Additionally, the introductory language refers to payments over the past five years, yet the table refers to the “Year of eligibility for the beneficiary group”. These are two different things and one has to be modified to make the table disclosure consistent with the introductory language. Please note this comment also applies to the table mandated in Item 17.4 (2) and Item 18.2 (2).

- 55. Item 17.4, Instruction (1)** indicates that we should not include in the table any amount attributable to any discretionary payments. This table is intended to provide a historical perspective on the unit value of EAPs made to beneficiaries in the past five years. Included in an EAP paid under the Group Savings Plan 2001 are discretionary payments. We respectfully submit that requiring us to remove the discretionary payment amount from the EAP value per unit would be misleading in that we would no longer be providing the actual EAP value paid from the plan to beneficiaries in the previous five years.

- 56. Item 18.1 (7)** requires disclosure as to whether the current level of discretionary payments are sustainable, but does not describe on what basis this is to be determined. We believe that if disclosure with respect to the sustainability of a future payment stream is required, some form of third party certification as to that sustainability should also be required.
- 57. Item 18.2** requires disclosure of the discretionary payment by year of eligibility for the beneficiary group. In the case of CSTF, although donations are made to the plan each year, they are not tracked by beneficiary group. It will therefore not be possible to disclose this by beneficiary group; disclosure of payments in a specific period is available.
- 58. Item 22.1 (2)** prescribes language purporting to indicate how attrition affects contributions. Attrition does not actually affect contributions: under all circumstances an investor will receive back their contributions, less fees. We believe this should be replaced with a brief description of what contributes to attrition both before maturity and after maturity, and what the implications are to the investor.
- 59. Item 22.2 (3)** requires a statement of the impact of fees on cancellation. This disclosure, however, is embedded in a section dealing with attrition which is fundamentally about income that is shared amongst beneficiaries in a beneficiary group. We believe that this information has been adequately disclosed in various other parts of the form, and does not need to be repeated here where it serves simply to make the document longer without adding any meaningful disclosure. We therefore propose that this section be deleted. Additionally, the final sentence of the prescribed language is highly inflammatory and should be deleted.
- 60. Item 22.2 (5)** requires disclosure of the “Drop-out rate”. As noted previously, we believe that the title “Drop-out rate” should be modified to “Cancellation rate” to ensure clarity.

We also note that the proposal requests disclosure of the average annual cancellation rate since plan inception. This is inconsistent with the Plan Summary Document which requires the average for the prior 10 years. We believe that the table in this Item should be modified to also require the average for the previous 10 years.

Additionally, you have included “Subscriber reduced units” under the heading of “Reason for leaving the plan”. As a reduction of units does not result in a Subscriber leaving the plan this row should be deleted from this table.

- 61. Item 22.3 (2)** this table, as presented, is overly complex, and does not always provide meaningful information to a prospective investor. It is our view that presenting information on the percentage of students who received 1, 2, 3 or 4 EAPs from their Plan is only relevant once the plan has been closed – that is once we are past the benefit period within which a beneficiary can still collect their EAPs from the Plan (age 26 in the case of the Group Savings Plan 2001). Up until that point in time, the numbers presented in this table will generally under-estimate the actual percentage of students who have received some or all of their EAPs. Additionally, we are unclear on what is intended by the category “Deferred and unclaimed plans”. We propose modifying this to only include beneficiary groups which are closed. We also believe the more meaningful disclosure is based on the number of units where an EAP is collected, as opposed to number of beneficiaries, and therefore propose to disclose the information as follows:

	[Most recent Year of Eligibility that is closed]		[Most recent Year of Eligibility that is closed] – 1		[Most recent Year of Eligibility that is closed] - 2		[Most recent Year of Eligibility that is closed] – 3		[Most recent Year of Eligibility that is closed] - 4	
	#	%	#	%	#	%	#	%	#	%
Units in plans that reached maturity										
Units whose beneficiary received all [3 or 4] EAPs [as applicable]										
Units whose beneficiary received 3 out of [3 or 4] EAPs [as applicable]										
Units whose beneficiary received 2 out of [3 or 4] EAPs [as applicable]										
Units whose beneficiary received 1 out of [3 or 4] EAPs [as applicable]										
Units whose beneficiary received 0 out of [3 or 4] EAPs [as applicable]										

62. **Item 23.1 (2)** mandates a table which discloses the gross returns, less fees to arrive at a net annual return number. We note that this is inconsistent with the continuous disclosure requirements of National Instrument 81-106 which prescribe provision of net return information only. We believe consistency between the two rules would be in the best interests of investors.

Additionally, Item 23.1, the Instruction refers to calculating performance data in accordance with a National Instrument that does not exist. We believe that this is a priority area for the CSA, and would urge the CSA to address this promptly to ensure a standard methodology for calculation of performance data across the scholarship plan industry. As noted previously, we believe that scholarship plan dealers should adopt AIMR Performance Presentation Standards (AIMR PPS) within the overall Global Industry Performance Standards (GIPS) as well as related advertising guidelines.

63. **Item 24.1** requires us to include significant portions of the information required under Form 81-106F1. This appears to be contradictory to the ability to incorporate the Management Report of Fund Performance into the prospectus by reference, and we contend will contribute to a longer document without adding meaningful new disclosure for a prospective investor.

Appendix B, Schedule 2, Part D

64. We note that there is no provision for the inclusion of the “C.S.T. Committee”. This is an arms-length committee, chaired by the trustee, that has certain powers arising from the contractual

agreements with investors. We believe that there should be a provision in the Form to permit us to disclose information on this Committee and the important role they play, which includes acting as an arms-length appeal committee for investors.

- 65. Item 6.1 (1)**, as clarified in the Instruction, is a higher standard of disclosure than is required for other investment funds such as mutual funds. We are unclear as to why scholarship plans are being singled out for this higher standard of disclosure, in particular when the additional disclosure is not relevant to a prospective investor. The investors pay fees to the fund manager (as disclosed in the prospectus), the fund manager is then responsible for the operation of the plan. The plans do not pay the salaries of the employees of the fund manager. We believe this Item should be deleted.
- 66. Item 17.1 (1) (a)** lists the Subscribers' sales agreement or contract as a material contract, which, item 17.1 (3) requires us to describe particulars including date of, parties to, consideration paid, termination provisions of, etc. Given that the prospectus document describes these particulars, and given that the date of the contract is the date any given Subscriber enters into the agreement, we believe it is impractical and unnecessary to include this item as a material contract.
- 67. Item 19** provides the requirements for the Contribution Schedule. We note that this is in Section D of the prospectus which is proposed to be made available on request. As this is relevant information for all potential investors at the point of sale, we propose that this be included as an appendix at the back of Section C.
- 68. Item 19.1 (3)** indicates that there should be a separate table for each beneficiary group. We do not see any value in constructing a contribution table for each beneficiary group. The structure used currently, which uses one table to disclose each schedule for children of all ages provides all the information an investor needs in a simple to understand table. Breaking this out into multiple tables will add significantly to the length and complexity of the prospectus, and will not add meaningful information for a prospective investor.

Conclusion

We applaud the work that the CSA has undertaken to date in developing a prospectus form tailored to the scholarship plan industry and thank you for providing us with the opportunity to provide our comments. Given the number and scope of our comments, we would welcome the opportunity to meet with representatives of the CSA who are working on this important initiative to discuss our comments in further detail. If you wish to discuss our comments further, please contact the undersigned at (416) 391-6900 or by e-mail at peter.lewis@cst.org.

We believe that through a collaborative effort we can achieve our shared objective of ensuring full, true and plain disclosure of all material facts to a prospective investor prior to their decision to participate in a scholarship plan.

Yours very truly,



Peter Lewis

Vice-President, Regulatory & Corporate Affairs