



January 24, 2012

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 – Scholarship Plan Prospectus Form – Changes to Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements* and Form 41-101F2 *Information Required in an Investment Fund Prospectus*, Proposed Form 41-101F3 *Information Required in a Scholarship Plan Prospectus* and Related Amendments (Second Publication) - Published for Comment on November 25, 2011

C.S.T. Consultants Inc. (CSTC) is pleased to provide the members of the Canadian Securities Administrators (CSA) with comments on the changes proposed to the Scholarship Plan Prospectus Form and related proposed amendments to National Instrument 41-101. We are pleased that the CSA have considered our comment letter of June 22, 2010 regarding the first publication for comment of the proposed prospectus disclosure rule and acknowledge the progress the CSA have made in re-drafting a simplified and more streamlined Scholarship Plan Prospectus Rule and Form.

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. Before providing detailed comments, we would like to acknowledge that the second draft of the rule and its form are an improvement over the first version as much of the duplicative, negatively biased and factually inaccurate disclosures have been eliminated and the amount of flexibility given to the individual group plan providers to accurately describe their respective plans has increased. We would also like to provide the CSA with some general comments on this new draft before proceeding with a detailed response to the specific proposals and amendments.

A. Complexity of the Prospectus

We strongly believe that in order for the Prospectus to provide meaningful information to a prospective investor, not only must it be written in plain language, it must also be structured in a way that is logical, simple for a potential investor to understand, and present only key information that is relevant to their investment decision. Despite the efforts of the CSA to simplify the disclosure requirements, there continue to be many requirements that we consider to be difficult for the average investor to read and understand and as a result, will be of little use to the reader.

B. Order of Items

We would like to propose that the order of items listed in the Plan Summary and Prospectus Form be re-organized to better reflect the life cycle of a plan. For instance, an accurate description of the plan, its features and enrolment should be discussed prior to advising clients of their contractual right to cancel the plan with a full refund within 60 days. We understand that the prominent disclosure of this right is important to investors and to the CSA and propose that it be placed in a section entitled *"How can I cancel my plan?"* at the end of the document and presented in a prominent fashion using bolded text.

C. Lack of Disclosure of Benefits

We continue to believe that the proposed requirements should be enhanced to provide full, plain and true disclosure that is accurate and factual in order for investors to make informed decisions. Group Scholarship Plans have unique benefits and features. A prospectus is intended to provide a prospective investor with all the 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 risks of the product as well as a clear understanding of the product features and benefits. Providing only one side of the picture will result in investors not receiving 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 benefits that participation in the group structure can produce for a student who goes on to post-secondary education including income from attrition, non-discretionary payments from the General Fund (the “group plan bonus”), discretionary donations, and the refund of enrolment fees which are not offered in other investment products
- The flexibility that exists in the plan to enable families to make changes to their plans 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.

D. 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 support the move to more prescribed language and disclosure. This approach provides greater clarity to issuers in terms of what is required in the Prospectus Form, and more comparability across the industry.

However, we continue to believe that 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, 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 that is full, true and plain disclosure. The language prescribed also implies an element of discretion which the Scholarship Plan Dealers do not have in administering the plans in accordance with the *Income Tax Act (Canada)*. Even though flexibility is granted to change the mandated disclosure using substantially similar wording, the Form does not allow for the inclusion of any additional information not specifically mentioned and is unclear as to the ability to exclude inaccurate text. To address this concern, we recommend that Scholarship Plan Dealers be allowed to both add information in areas of mandated disclosure to accurately reflect the product offering in the prospectus documents and remove disclosures that are inaccurate. We are supportive of the CSA’s desire for full, plain and true disclosure and believe that our recommendation is in line with this important objective.

In other instances, certain defined terms, such as contributions and accumulated income payments, do not conform to the definition requirements of the Registered Plan Directorate of the Canada Revenue Agency (CRA). As a result, we have provided comments to correct inaccuracies in the mandated language.

We also respectfully submit that the overall tone of the prescribed language reflects a negative bias against this product class. We have compared the mandated language from both the proposed Form and the Fund Facts document and noted several instances where the language required for scholarship plans is written in the negative as compared to the language required for mutual funds.

Some examples of wording from both documents are as follows:

In the Plan Summary, the following prescribed wording in the Risk Disclosure section reads: *“If you do not meet the terms of the plan, you could lose some or all of your investment. Your child may not receive all of their EAPs. You should be aware of five things that could result in a loss”*. The mandated language in Fund Facts identifies the risks and advises the investor to read the fund’s prospectus as follows: *“When you invest in a fund, the value of your investment can go down as well as up. XYZ Mutual Funds has rated this fund’s risk as medium. For a description of the specific risks of this fund, please see the fund’s simplified prospectus”*.

The over-emphasis on risk continues in the prescribed language with reference to the lack of guarantees. The Form sets out the following mandated language in the Plan Summary: *“We cannot tell you in advance if your child will qualify to receive any payments from the plan or how much your child will receive. We do not guarantee the amount of any payments or that the payments will cover the full cost of your child’s post-secondary education. Unlike bank accounts or GICs, investments in scholarship plans are not covered by the Canada Deposit Insurance Corporation (CDIC) or any other government deposit insurer.”* The language required in the Fund Facts for mutual funds which are also not covered by any insurer contains only factual statements with no reference to other investment products or insurance as noted: *“Like most mutual funds, this fund does not have any guarantees. You may not get back the amount of money you invest”*.

Specific Comments on the Proposals

Appendix D, Schedule 2 - General Instructions

General Comment

- 1. General Instructions - Item 4** states that the scholarship plan prospectus must only contain the information specifically mandated or permitted by the Form. We respectfully submit that there are several specific attributes of the Plan which are relevant to an investor and are not included in either the Plan Summary for a Scholarship Plan or the Prospectus Form. These comments were raised in our June 2010 letter; however, we still believe the Prospectus and Plan Summary are more focused on the risks and costs of the plan and do not provide the investor with a full overview of the plan. We propose information regarding the following should be included in the document:

- a. Key Product Benefits**

The proposed Plan Summary does not provide an opportunity for a potential investor to weigh the costs and risks 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 in a section we propose be

titled *“What are the Key Features and Benefits”*. In this section we would disclose benefits of investing in our 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 enrolment fees
- Prudent 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. As we discussed in our June 2010 submission, we continue to assert that, in the interests of full disclosure, 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 propose to include this section in the Plan Summary Document immediately following the section titled *“What are the Key Features and Benefits”*.

- 2. General Instructions - Item 18 (a) and (c)** indicate that the Plan Summary and Plan-Specific Information (Part C) must contain the information required under Parts A and C respectively of the Form about one scholarship plan. CSTC is under contract with the Canadian Scholarship Trust Foundation as both the investment fund manager and distributor of the Canadian Scholarship Trust Plans and currently distributes three plans: the Group Savings Plan 2001, the Family Savings Plan and the Individual Savings Plan.

The Individual Savings 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 (i.e. primarily the number of beneficiaries). We believe that given the significant similarity between the two plans, it should be unnecessary to deliver a separate Plan Summary and Plan-Specific Information document for

each plan type. We propose that a section entitled *“What is the difference between an Individual and Family Plan?”* be included in the Plan Summary after the *“Description of the Plan”* and before *“Other Material Information”* in the Part C document. This section would state that the primary difference is the number of beneficiaries named in the plan.

Appendix D, Schedule 2 Part A – Plan Summary for a Scholarship Plan

3. Item 2 – Withdrawal and Cancellation Rights

- a) The prescribed wording in the opening paragraph in this section advising investors to read the prospectus is inconsistent with the wording and tone used in the mutual fund Fund Facts document as noted below. The Form’s wording does not advise the investor that they will receive the prospectus in addition to the Plan Summary and other account opening documents.

Plan Summary:

“This summary tells you some key things about investing in the plan. It may not contain all the information you want. You should read the entire prospectus carefully before you decide to invest.”

Fund Facts:

“This document contains key information you should know about XYZ Mutual Funds. You can find more detailed information in the fund’s simplified prospectus. Ask your sales representative about the prospectus, contact XYZ Mutual Fund Dealer at [] or visit [website].”

We suggest that the wording be revised as follows:

“This summary contains key information you should know about XYZ Scholarship Plan. You can find more detailed information in the plan’s prospectus which must be given to you. Ask your sales representative for a copy, contact XYZ Scholarship Plan at [] or [] or visit [].”

- b) Further to our June 2010 submission, we continue to assert that in order to provide the investor with the context of the investment, we believe that the plan features, benefits, risks and costs should be disclosed before the discussion of the contractual rights of the investor. As we acknowledge the importance of this investor right to the CSA, we propose that contractual rights be disclosed prominently within a section entitled *“How can I cancel my plan?”* at the end of the document. We also believe that the wording should more factually describe what happens at termination. In the first paragraph, we suggest that a sentence describing the return of government grants and incentives be added as follows:

“Any government incentives paid into your plan will be repaid to the government.”

In the second paragraph, we suggest that the word “much” be deleted from the last sentence as it is subjective and unnecessary.

4. Item 3 – Description of the Scholarship Plan

The prescribed wording in this item is very generic. The description should reference specifically to the plan being sold. As this is the first section the investor will read in the document, this section should be amended to include a brief description of the plan and its features, including the transferability to other product offerings of the dealer.

Additionally, the language in the first paragraph should be revised to more accurately reflect the purchase of an education savings plan which may be registered upon the submission of all required information. The sentences: *“A group scholarship plan is designed to help you save for a child’s education. The plan is registered as a Registered Education Savings Plan (RESP)”* should be replaced with:

“XYZ Scholarship Trust Plans (“the Plan(s)”) are education savings plans designed to help you save for the cost of a child’s post-secondary education. After you open a Plan with us, the ABC Scholarship Trust Foundation (“the Foundation”) will apply to the Canada Revenue Agency (“CRA”) to have your Plan registered as a Registered Education Savings Plan (“RESP”) under the Income Tax Act (the “Tax Act”).”

In the discussion of the exceptions, we suggest that the disclosure reflect the investor has the opportunity to avoid the exceptions. We therefore propose that in the interest of full disclosure, where a specific exception is identified there should be language describing the options that exist to avoid that exception. In this case, we propose amending the statement *“you will lose your earnings and grants if:”* to read *“you will lose your earnings and government incentives 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 the CST and some of the plans operate.

We also suggest that the wording *“If you leave the plan”* be revised to *“If you cancel your plan”* to more accurately reflect the termination of the education savings plan agreement (contract). The prescribed wording in this section does not allow for options that are available to the investor other than cancellation to be discussed in any manner. Specifically, the CST Plans allow a subscriber to transfer to an Individual and Family Savings plan and retain their contributions, interest earned on grants and grants less the enrolment fees paid to date. Flexibility should be provided to include what options are available to the subscriber in lieu of cancellation.

5. Item 4 – Suitability

As the Plan Summary relates to a specific plan, we provide the following suggested wording to more accurately reflect an investor’s suitability to the specific plan and not the category of scholarship plans.

- We recommend that the first sentence acknowledge the varying time horizons of an investor in a scholarship plan by amending the wording as follows: *“Agreeing to contribute to the Plan over time can be a long-term commitment”*.
- Additionally, given the time horizon of the investment, the wording should reflect the investor’s plan to save for their child’s post-secondary education as no one can be “fairly sure” a newborn will attend a school or a program that qualifies. We suggest the following wording replace the mandated disclosure: *“The Plan is for investors who plan to save for their child’s post-secondary education. Investors should be fairly sure that:”* (followed by the bullet points)
 - The wording *“They can make all their 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 down the road. We propose this be modified to read *“Who can commit to a regular savings program, and stay with that savings program until their child is ready for post-secondary education”*.
 - *“They will 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. An alternative would be to define the term maturity in the Glossary.
- Given the focus of the CSA members on suitability during regulatory audits, in our view, the points listed in Item 4(1) 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:
 - 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”*.
 - 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”*.
- The ability to transfer to another plan offered by the scholarship plan dealer should be factual and make reference to the specific information about that alternative plans. We propose the following wording: *“We also offer a [describe] Plan that has fewer conditions and may provide you with greater flexibility, although the benefits associated with this Plan are different. See pages [] for details.”*

6. Item 5 – The Plan’s Investments

Securities regulation specifies the type of investments that may be made by scholarship plans. As such, we believe that wording should be revised to reflect these restrictions. We recommend that the phrase *“As required by securities regulation, the plan invests...”* be incorporated into the wording.

To assist an investor in conducting a meaningful comparison of investment products, we recommend that the level of risk scale be consistent with that used for other investment products. We note that the 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 to enable a prospective investor to quickly understand the investment risk. We would also recommend that the statement “*The plan’s investments have some risk*” be revised to reflect the wording used by mutual funds on the Fund Facts to assess the risk of their fund. 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.*”

7. Item 8 – Risks

You miss contributions

We have no empirical evidence to support the statement “*This could be costly*” in reference to the payment of the income that would have been earned on missed contributions. Unless the CSA has evidence to support this statement, we suggest that it be removed.

The mandated disclosure suggests the option of transferring to another RESP. The Plan Summary and Prospectus are in reference to the security being distributed and should not be promoting other products. CST does not cancel plans with paid enrolment fees. An option exists with the Group Savings Plan 2001 to transfer the contributions net of fees, income and all grants into an Individual or Family Savings Plan. As such, we propose that the listing of options be more specific with respect to the “transfer to another RESP” and that “*transfer to the Individual or Family Savings Plan*” be allowed.

Your child doesn’t go to a qualifying school or program

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. Other options such as an Accumulated Income Payment or transfer to a RRSP may be more appropriate.

Plans that did not reach Maturity

Subscribers’ CST Plans do not mature on the same date and as such, the use of the term “*same maturity date*” is not accurate. We propose the wording be amended to “*same maturity year*” as this reflects the population of a particular beneficiary year more accurately.

Investors in the Group Savings Plan 2001 have the option to transfer to the Individual or Family Savings Plan. The calculations of plans that did not reach maturity should exclude these internal transfers as the plans remain in good standing.

8. Costs – Item 9

CST currently uses the term “*enrolment fee*” instead of the proposed “*sales charge*”. We assert that the term *enrolment fee* is a more accurate description of the fee which is used to pay the commissions to the dealer and sales representative as well as marketing and distribution expenses, including in the case of Group Savings Plan 2001, the amount set aside for the funding for the enrolment fee refund. The current fee is easily understood by the investor. We propose to enhance the language in the “*What the fee is for*” to include reference to the other types of expenses that are paid for by this fee. Therefore, in the interest of full disclosure, we would 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.”

Currently, CSTC uses the term “*account maintenance fee*” to describe fees related to the ongoing administration of an investor’s account. The term “*processing fee*” is not an accurate reflection of the nature of the fee as it is not solely for the purpose of processing contributions. In addition, we believe it is important to disclose that this fee is subject to applicable taxes. We recommend that the description of the fee be modified to reflect the true nature of the service provided and that the fee is subject to applicable taxes.

We also propose that the refund of the enrolment fee and optional insurance be referenced here.

9. Item 10 – Guarantees

The mandated text inappropriately compares an investment in a group scholarship plan which is defined as a security and not a deposit to a deposit by a deposit-taking institution. As the Plan Summary document is specific to our plan, we do not believe that we should be referencing other products in our document. The prescribed wording also varies significantly from that required for mutual fund Fund Facts documents, as discussed in Paragraph D of our letter. As such, we propose that the references to “*bank accounts and GICs*” be removed and the document simply state that “*Investments in scholarship plans are not covered by the CDIC or any other government insurer*”.

We also ask that the first sentence “*we cannot tell you in advance if your child will qualify to receive any payments in the plan*” be modified to reflect that EAPs will be made if your beneficiary meets to the conditions set out in this plan. We 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*”.

Appendix D, Schedule 2 Part B – General Disclosure

10. Missing items

We noted there is no disclosure or mention of the following items in either Parts B or C that we feel are important to include:

- Enrolment fee refund
- Ability to make additional contributions or purchase additional units
- CRA restrictions on the amount of EAPs that can be paid out
- Optional insurance

We propose that this information be provided in Part B where it is common to all plans and in Part C if it is plan specific.

11. Item 2.2 – No Social Insurance Number

This section contains several inaccuracies which we recommend be corrected:

- The mandated wording in the second paragraph is inaccurate as we cannot accept a contract if the subscriber does not provide his/her SIN. The prescribed wording implies that we will accept the contract without both the subscriber and beneficiary's SINS.
- The mandated disclosure does not indicate that the investments in these unregistered education savings plans are managed in the same way as the CST Group Savings Plan. The contributions are invested and earn income. The current disclosures imply the funds are simply deposited into an account and fees are deducted which is not the case.
- The last sentence should be modified to what we believe would more accurately reflect the plan's features. For example, the CST Group Savings Plan will return all contributions made less enrolment fees, account maintenance fees, and insurance premiums, if applicable. Any income earned on the contributions made is paid to the subscriber and is taxable in his/her hands.
- We believe it would be more appropriate to phrase the last paragraph in this section as follows: *"If you don't get the social insurance number within XXXX months of your application date, then at the end of XXX months you will receive your contributions back less any fees and insurance premiums if applicable and any income earned on your contributions. This may be less than what you have put in".*

12. Item 2.3 - Payments Not Guaranteed

We submit that this title seems to indicate that the plan investments are not guaranteed and that the investments themselves are far riskier than other products available to the consumer. The plan assets will be available at maturity; however the income is made available only to those that qualify to collect under the plan's terms. We recommend that this section be re-titled to *"You must meet the plan's requirements to collect EAPs"*. This would more accurately reflect what the CSA are trying to achieve with the prescribed wording in this section as the title.

Payments from a group plan depend on several factors as outlined in the prescribed language. Group Savings Plan 2001 has a participation rate in excess of 90%. As more students are collecting EAPs, attrition is becoming less of an influence on the values of these payments. We submit that the tone of the statement is negative and that it could be reworded in a more neutral, factual fashion to reflect the current reality as follows:

“The amount of EAPs from a group plan will depend upon how much the plan earned and the number of beneficiaries within the group who qualify for payments.”

Lastly, in the risk section, we are unclear as to why we need to reiterate the risks again. This is in contrast to Fund Facts document which prompt the investor to read the entire Prospectus for more information. We propose to amend the wording as follows:

“If you withdraw your contributions early or do not meet the terms of the plan, you will likely lose some or all of your money. Make sure you understand the risks before you invest. Carefully read the Plan Summary and the Prospectus.”

13. Item 4.2 – Terms Used in the Prospectus

The Rule requires that all Scholarship Plan Dealers use exactly the same terms and definitions. We are comfortable with the notion of standardizing terms across the industry; however, we 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 items. While we support the concept of a list of defined terms, we are concerned that certain of the definitions do not reflect our product design and/or would not meet the approval of CRA, who under the terms of the RESP Promoter Agreement must review the prospectus to ensure that certain product features and terms conform to *the Income Tax Act*. Following are specific comments related to some of the defined terms:

- a. **Accumulated Income Payment (AIP):** The definition of an AIP is overly simplistic and would not meet the requirements of CRA. The definition approved for use by CRA during CST’s most recent prospectus filing was as follows: **Accumulated Income Payment** means an amount paid out of income earned in an RESP which is not (a) an Education Assistance Payment or (b) certain other payments not required by the Tax Act (or the Quebec Tax Act) to be included in a recipient’s taxable income.
- b. **Contribution:** The definition of a contribution in the Glossary reads it is “the amount you pay into a plan.” This definition of the amount paid does not contain all of the information required by CRA. The definition approved by CRA during CST’s most recent prospectus filing is as follows: **Contribution** means a payment by a Contributor or public primary caregiver to an Education Savings Plan, excluding any optional group insurance premiums and amounts paid under or because of CESA, Provincial Grant programs, or any third party payment funded directly or indirectly by a province.

The prescribed definition also notes 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 the inclusion of a separate definition of “*Principal*” which can be defined as “*Contributions less sales and distribution charges and other fees.*” in the Glossary.

- c. **Educational assistance payment (EAP):** The prescribed language in the Glossary describes an EAP as “your beneficiary’s share of the EAP account”. For Group Savings Plan 2001, this is not an accurate statement. The only funds in the EAP account are the income earned on contributions of subscribers which are transferred to the EAP account at maturity or earlier closure of a plan. The product design of this plan has an EAP paid to students comprised of the income earned on the contributor’s principal, income from attrition and a payment of a Group Plan Bonus from the General Fund. Each year, CST allocates the available balance of the General Fund as a group plan bonus to the eligible students collecting EAP payments that year. The Group Plan Bonus is a **non-discretionary** payment. We request that the definition be broadened to include any non-discretionary payment to accommodate our product design.
- d. **Eligible Studies:** The definition should also reference that the requirements are defined by both the terms of the Plan and the *Income Tax Act* requirements.
- e. **Grants:** The more correct term for the federal and provincial monies available for investment in an RESP is “government incentives”. The federal and Alberta governments’ programs offer grants. Other provincial programs are offered as incentives through their designated provincial programs. We recommend the use of the term “*government incentives*” to refer to both types of programs.
- f. **Grant contribution room:** There is no mention of this defined term in the Form.
- g. **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*”.
- h. **Year of Maturity:** The reference to the year of eligibility being after the maturity date in other types of plans is not correct. The Individual and Family Savings Plans do not have a maturity date. The Year of Eligibility would be the year the beneficiary begins their post-secondary education. We request flexibility to amend the definition to properly describe the term in the context of our plans.

We recommend that the inclusion of plan-specific definitions be allowed in the Glossary to provide the investor with a clear understanding of the terminology used and to eliminate unnecessary descriptions in the body of the Form. For the Group Savings Plan 2001, one such term that should be included is “*benefit period*”. The Group Savings Plan 2001 allows eligible students to collect their four EAPs over a period of, on average, seven years. Qualified students are eligible for all four payments provided they have enrolled in qualified programs. Given the

time period for collection, certain information requested in the Form cannot be provided until this benefit period is expired.

14. Item 5.2 – Description of Scholarship Plans

Key Product Benefits

As previously stated, the proposed Form does not provide an opportunity for a potential investor to weigh the costs and risks of the product against the benefits of the product because the prescribed language does not include disclosure of key product benefits. There are several key benefits that should be disclosed and we propose that a sub-section be titled *“What are the Key Features and Benefits?”*. Alternatively, the prescribed wording in the plan description should be changed to reflect these unique benefits not found in mutual funds or other pooled funds. In this section we would disclose benefits of investing in a Scholarship Plan including:

- Refund of a minimum of 50% of the sales and distribution charges
- Ability to change the beneficiary to another child within the family up to age 21
- Ability to transfer to other plans and back to the Group Plan (and include a disclosure of the costs of doing so)
- Potential to receive enhanced payments in addition to investment yield as a result of attrition
- Group Plan Bonus (non-discretionary payment)
- Donation by the foundation (discretionary payment)
- Access to all available government incentives for post-secondary education savings

We propose to include this section in both the Plan Summary Document and the Prospectus Form immediately following the section titled *“What is a group scholarship plan?”* and *“Description of Scholarship Plans”*, respectively. The prescribed wording in the Prospectus Form for items such as attrition and discretionary donations has a negative connotation without describing that these are actual benefits to the prospective investor who stays with the plan to maturity.

Transferability to/from 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 entitled *“Can I move out of the Group Plan in the future if my circumstances change?”* We propose to include this section in the Plan Summary immediately following the section titled *“What are the Key Features and Benefits?”* and include the costs of doing so.

15. Item 6.9 – Payments from the Scholarship Plan

The mandated language for EAPs states that “*The amount of each payment depends on the type of plan, how much you contributed to it...*”. This statement is not accurate as the EAP amount is based on the number of units held in Group Savings Plan 2001. Furthermore, the mandated language excludes from its description of an EAP’s components, the potential benefit of a discretionary top-up payment (or donation) – another benefit of the Group Savings Plan 2001.

There is no reference to the return of enrolment fees as a payment from the plan. Group Savings Plan 2001 offers a refund of at least 50% of the enrolment fees paid and contributors are eligible for a potential additional amount depending upon the amount of any surplus in the enrolment fee refund account. We would like to propose that the following description of this payment be included as this is a significant benefit of the group plans:

“You are eligible for a refund of X% of the enrolment fees paid for all units if you make all required Contributions and your Beneficiary qualifies for and receives all four EAPs. [If payment is less than 100% but with the potential for an additional amount, add the following statement.] You are also eligible for a potential additional amount which can increase your refund up to 100% of your enrolment fee depending on the amount of surplus (if any) in the Enrolment Fee Refund Account.

We pay enrolment fee refunds in four installments coinciding with EAPs. However, you cannot collect a greater number of enrolment fee refund installments than the number of EAPs your Beneficiary receives. You will receive at least X% of the enrolment fees paid per unit as a refund with each EAP your Beneficiary receives. If your Beneficiary does not qualify to receive an EAP, you will not receive an enrolment fee refund.

[Disclaimer regarding potential amount] We are not obliged to return more than X% of the enrolment fees unless there is a surplus in the EFR Account. There is no assurance there will be a surplus in the EFR Account or that a surplus will be available for distribution in the particular year in which you are entitled to an enrolment fee refund installment. Any surplus in the EFR Account will be allocated at our discretion to Contributors with Beneficiaries eligible to receive an EAP.”

This information should also be included in either Part B or C as appropriate.

16. Item 8.1 – Investment Strategies

We are unclear as to the definition of a temporary strategy or a departure from the fundamental objectives and seek clarification from the CSA as to the intention of this section.

17. Item 10.1 – Risks of Investing in a Scholarship Plan

As discussed in Paragraph 9, we propose that the CSA remove the references to Banks and GICs and include the wording as presented above.

Appendix D, Schedule 2 Part C – Plan-Specific Information

18. Organization of Section

To better inform the investors of the various stages in the plan’s lifecycle, we recommend the flow of this section follow the lifecycle pattern. The items contained in this section should be arranged in chronological order of the events in the lifecycle, beginning with enrolment, contributions, changes to the plan, maturity, collection of EAPs and then other information such as fees and expenses, investment strategies etc.

19. Item 3.1 – Plan Description

Plan description requires disclosure as to the legal nature of the securities offered by the Prospectus. It is unclear what is contemplated here as scholarship plans are considered to be issuers of securities.

20. Item 5.1 – Beneficiary Group

As submitted in our letter of June 2010, we reiterate that investors are not able to select a beneficiary group. Beneficiary groups are assigned based on the age of the beneficiary at the time of enrolment. We believe that in this section, it 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. The requirements of this section underscore the misunderstanding of the nature of the beneficiary groups. Furthermore, the table required by the Form would become obsolete prior to the lapse date of the Prospectus. 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.

21. Item 6.3 – Description of Ineligible Programs

The prescribed language states that *“If you are interested in a program that doesn’t qualify for EAPs ..., you should consider another type of plan.”* At the time of enrolment, an investor will not know what program their child is interested in pursuing. The disclosure should be amended to focus on the option the investor has to transfer to the Individual or Family Savings Plan which has fewer restrictions on the types of programs which qualify, albeit limited by the *Income Tax Act*.

22. Item 11.1 – Annual Returns

We suggest that given the long-term nature of investment in our plan, better disclosure would be provided by the inclusion of the 1, 3, 5 and 10-year compound annual rates of return. However, we note that there is no consistent methodology for the calculation of rates of return employed within the Scholarship Plan Industry and we recommend that the CSA mandate the industry to adopt the performance reporting standards prescribed in NI 81-102.

23. Item 12.2 – Missing Contributions

The requirement includes a calculation involving the disclosure of the interest rate charged to determine the amount of interest that would have been earned. Although we can define the calculation, we are not able to pre-determine the interest rate. We ask that either this requirement be removed or a statement be included that the interest rate charge cannot be predicted in advance as the contribution schedule selected and amount of missed payments is unique to each individual. The investor would need to contact the CSTC to confirm the amount owing.

24. Item 19.2 – Payments to Beneficiaries

Although Group Savings Plan 2001 does not offer EAP options tailored to programs of shorter duration, the plan 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 within the benefit period. The instruction requires that we state that beneficiaries enrolling into ineligible studies of a shorter duration will not qualify for the maximum number of EAPs. Utilizing this type of language would result in disclosure that is inaccurate. We propose greater flexibility in the disclosure to enable us to fully describe how a beneficiary may collect all of their EAPs by pursuing a series of shorter duration programs.

25. Item 19.3 – Amount of EAPs

The requirement in this section to list the components of an EAP and describe how they are allocated excludes an important feature of the Group Savings Plan 2001. The definition of EAP in the Form is inconsistent with the Group Savings Plan 2001 product design and omits a component of its EAP. The Group Plan Bonus is a non-discretionary amount paid from the General Fund which is included in the EAP amount. Please see our discussion in Paragraph 13.

26. Item 19.4 – Payments from the EAP Account

a) Past breakdown of Income in the EAP Account

The first table described in this section requires a table showing the breakdown of income in the EAP Account for the most recent 5 years. As discussed above, the non-discretionary payment of income from the General Fund is excluded. The amount of the payment from the General Fund allocated to EAPs in any given year is dependent on the income earned on the funds in the EAP Fund during the year. As the amount is not allocated to the beneficiary groups until the time of payment, we would not be able to provide a percentage for the amount out of the total EAP Account for this component. In addition, we do not currently calculate the information required and to do so, would require an investment in the back office systems; however, all of the required information is available by year of payment as is the current requirement.

b) Past payments from an EAP account

We are currently unable to supply the information proposed as our back office systems currently generate only the sum of the non-discretionary and discretionary payments and do not calculate these amounts separately on either a per unit or beneficiary group basis; however, all of the required information is available in aggregate by year of payment as is the current requirement.

27. Item 21.2 – Historical Amount of Discretionary Payments

The requirement includes a disclosure of the discretionary payment by year of eligibility for the beneficiary group. In the case of Canadian Scholarship Trust Foundation (CSTF), donations are made to the plan each year; however, they are not tracked by beneficiary group or by units per beneficiary group. It will therefore not be possible to disclose this by beneficiary group; however, disclosure by payments made in aggregate in a specific year is possible and more practical.

28. Item 22.2 – Pre-Maturity Attrition

The prescribed language in Item (1) with respect to the funds received on cancellation of your plan is inaccurate. In addition to the contributions less fees, the investor will receive the earnings on government incentives which are taxable in the hands of the subscriber. We propose the sentence *“If you leave the plan before it matures, you will get back your contributions less fees. You will not get back any earnings”* be revised as follows: *“If you leave the plan before it matures, you will get back your contributions less fees and the earnings on your government incentives. You will not get back the earnings on your contributions”*.

We are uncertain as to the relevance of the information in this table to the average investor. Until the plans in a beneficiary year mature, the amount will vary annually due to new terminations and reinstatements of previously terminated plans. Internal transfers will also impact this table. In addition, we do not currently calculate the information required by this Income from cancelled units table and to do so, would require an investment in the back office systems.

29. Item 22.3 – Post-Maturity Attrition

For Group Savings Plan 2001, the information required for this section for the most recent five years would be incomplete. Beneficiaries have until the currently defined benefit period expires (on average 7 years) to collect their EAPs. 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. Calculating this number based on any other population will be misleading as beneficiaries in the cohort will continue to be eligible to collect additional EAPs. Please confirm that our understanding is correct. For the percentage to be useful as an indicator of attrition, we would need to wait until the benefit period is closed for each beneficiary group year. In the interest of meaningful

disclosure, we are requesting the instruction be modified to require information for the five most recent years in where the beneficiaries have been fully paid out or are no longer eligible to collect EAPs due to a time limitation.

Appendix D, Schedule 2, Part D – Information About the Organization

30. Item 1.1 Legal Structure

Section 2 requires the names of the scholarship plans' directors, officers, trustees, partners and shareholders. The plans are legal trusts established under the *Income Tax Act* and do not have "directors, officers, partners or shareholders". Similar to mutual fund trusts, the plans have a trustee which is disclosed. We would like clarification as to the requirement of this section.

31. Item 2.3 – The Foundation

Investors are entitled to know the recourse and appeals mechanism available to them if they require consideration of circumstances not contemplated by the education savings plan agreement. We recommend that the instruction allow for the provision to include any committees that play a relevant role in the operation of the plans and foundation in this regard; as an example CST has the "CST Committee". This is an arms-length committee, chaired by the trustee, which has certain powers arising from the contractual agreements with investors. We believe that there should be provision to permit us to disclose information on this Committee and the role they play which includes policy making and acting as an independent appeal committee for investors.

32. Item 2.8 – Dealer Compensation

The requirements of this section do not reflect CST's distribution model or that of most of the other Scholarship Plan Dealers in that the RESPs are distributed through only the affiliated dealer. Sales commissions, marketing costs and distribution expenses are paid from the enrolment fees charged to the contributors. In addition, the administration fee received by the Foundation is included in the All-Inclusive Management Fee which is disclosed in the Prospectus. The calculation contemplated in this section is overly complex and the information is currently provided in our prospectus based upon the cash flows received.

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. 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,

A handwritten signature in black ink, appearing to read "P Lewis". The signature is written in a cursive, flowing style.

Peter Lewis
Vice President, Regulatory and Corporate Affairs