



Advancing Standards™

September 16, 2015

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumers Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Office of the Superintendent of Securities, Prince Edward Island Nova Scotia Securities
Commission Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Office of the Superintendent of Securities, Nunavut

The Secretary Ontario Securities Commission
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comments@osc.gov.on.ca

-and-

Me Anne-Marie Beaudoin
Corporate Secretary Autorité des marchés financiers
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Re: CSA Notice and Request for Comment Mandating a Summary Disclosure Document for Exchange-Traded Mutual Funds (ETF) and it's Delivery

The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to participate in the consultation process regarding the summary disclosure document called "ETF Facts" and the content and delivery of ETF Facts to investors (the "Consultation").

PMAC commends the CSA's commitment to ensure that investors in all publicly offered investment funds have access to effective and meaningful disclosure through a largely harmonized summary disclosure document - Fund Facts documents for mutual funds and ETF Facts for ETFs. PMAC supports the ETF Facts document and believes that investors should have plain language transparency on the risks and costs of investing in ETFs. We

also support a consistent disclosure framework between conventional mutual funds and ETFs.

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. PMAC members manage investment portfolios for private individuals, foundations, universities and pension plans. PMAC was established in 1952 and currently represents over [200 investment management firms](#) that manage total assets in excess of \$1.4 trillion. Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

General Comments

PMAC is an advocate of investor transparency of investment products and services provided to investors, including ETF products and the associated risks and costs of investing in ETFs. As a general observation, we believe that for consistency and comparability purposes, the format of the ETF Facts should be consistent with the mutual fund facts document ("Fund Facts"). In this regard, we are pleased that the ETF Facts is substantially similar to the Fund Facts. As advocates of harmonized securities legislation, we believe it is important for investors to have an ETF Facts regime that is largely harmonized with the Fund Facts regime, include consistent risk methodology information once finalized by the CSA, and that cost and performance disclosure information included in the ETF Facts is also harmonized with CRM2 performance reporting disclosure so investors are not confused.

We note that a number of our Members who are ETF managers have identified significant concerns with the trading and pricing information proposed to be included in the ETF Facts. We understand these Members will be submitting detailed comment letters setting out the issues they've identified with some of the new information required in the ETF Facts. Our submission will provide a high level overview of some of these issues. While we support the objective of providing investors with ETF Facts, we recommend certain proposed information to be included in the ETF Facts document be reconsidered or removed. Alternatively, the addition of more detailed information and disclosure around some of the pricing information should be required so that investors will have a better understanding and more realistic picture of how ETFs work.

Trading and Pricing Information

The CSA has proposed additional content be included in the "ETF Facts" that speaks to trading and pricing characteristics of ETFs. Namely, the inclusion of information related to market price, bid-ask spread, as well as premium/discount of market price to net asset value. The CSA has also proposed the inclusion of content that explains some of the pricing issues to consider when trading ETFs. The rationale for including this additional information is because of the key difference between ETFs and conventional mutual funds - individual investors cannot subscribe for ETFs directly from the fund, and instead are bought and sold over an exchange. While we agree that there are differences between ETFs and mutual funds, we have identified concerns with the inclusion of this additional disclosure on ETF pricing information.

First, the data required to provide the compulsory information on trading and pricing will be dependent on third party sources/vendors. This will not only create additional costs to managers to source such data but will also create a reliability issue where managers will not be able to verify the information provided. There is also the concern about licensing issues around the data that will be included in this section of the ETF Facts.

Second, certain information proposed to be included will not provide a meaningful reflection of the cost and/or liquidity of an ETF investment. For instance, "number of days traded" may not

necessarily be a meaningful input regarding the liquidity of a fund given the unique ETF mechanism and how underwriters can create or redeem units to meet demand. In addition, a fund that traded one unit every trading day would appear to be more liquid based on this statistic than one that traded much heavier volume on fewer days. As a result, this data point may be incomplete and potentially misleading to investors who may not be knowledgeable in the nuances of ETF trading.

Similarly, the information proposed to be included under "average premium/discount to NAV" could be potentially misleading. For example, in some cases there could be viable reasons for discounts or premiums to NAV as the pricing is occurring in real-time. The inclusion of this information implies or suggests that anything above or below NAV is a negative outcome.

Finally, we question whether this data will be helpful to investors and the utility of including this information. We note that the Consultation Paper states that the research and testing conducted by the CSA indicated that investors found it hard to understand the concepts "bid-ask spread" and "premium and discount" in the "Trading ETFs" section and asked for examples. We recommend the CSA reconsider the utility of this information as currently proposed. We believe that it may be more misleading than helpful.

Delivery of ETF Facts for Managed Accounts

We would like to confirm our understanding that in the context of a discretionary managed account, the ETF Facts will be delivered to the portfolio manager as the "purchaser" as is the case with Fund Facts.

Investment Risk Classification Methodology

We understand the CSA expects to publish for comment by the end of the year a new risk classification methodology for mutual funds. We recommend the CSA align the implementation of final rules on risk classification methodology with the final rule on ETF Facts so that the first ETF Facts that are prepared and filed reflect the new methodology.

Transition Period

We support the transition period contemplated in the Consultation document.

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If you have any questions regarding this submission, please do not hesitate to contact Katie Walmsley ([kwalmsley@portfoliomanagement.org](mailto:kwalmsley@portfoliomanagement.org)) at (416) 504-7018.

Yours truly;

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA



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