CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

May 8th, 2014

Re: Share class categories

In March 2014, the Canadian Investment Funds Standards Committee (CIFSC) approved the adoption of a share class categorization schema. The purpose of the schema is to help users navigate the heterogeneous share class monikers. Investors can use the schema as a tool to determine which share class best suits their needs. Fund companies and researchers can use the schema to do a more rigorous analysis on funds. Appendix A outlines the framework for the schema.

The development of the share class categories has been a truly collaborative process during which feedback was received from numerous fund companies as well as the Investment Funds Institute of Canada. All comments were considered by the CIFSC and most were incorporated to develop the schema in its current form with two main guiding principles:

1) The data used to categorize share classes is largely self-reported by fund companies to the CIFSC member data providers. It is the CIFSC's view that fund companies are in the best position to determine share classes' target investors – a key input in the schema. The CIFSC will review classifications and contact the fund companies should there be questions about the categories chosen.
2) The CIFSC will review the schema at least annually in June to ensure it is current and incorporates any evolution in the investment industry. The CIFSC will provide a 30 day comment period for any proposed changes to the framework.

Over the next few weeks, the CIFSC will start collecting the necessary data. The initial data collection is going to be the most crucial and time consuming part of the process. The CIFSC will be reaching out to fund companies in order to collect the data in an efficient manner and share it amongst member data providers.

We will allow approximately four weeks for the initial data collection process before we begin reporting the data. At this time, the CIFSC will use a quantitative method to determine the share classes for funds from companies that have not reported the data to the CIFSC. Once the data is collected, CIFSC members will incorporate the information into their various products.

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Appendix A

The first filter requires fund companies to choose from one of the following distribution channels:

1) Commission based advice
2) Fee based advice
3) Do-It-Yourself
4) Institutional

The secondary filter would be set up as a yes or no tag. While the primary filter is set up to be mutually exclusive, the secondary filter is not.

1) Fixed distribution
2) High-net-worth

Definitions:

Commission based Advice: Funds are targeted to investors using the services of an advisor. In this definition, “advisor” includes, but is not limited to, investment advisors, financial planners, and branch advisors. Advisors are compensated with a load and/or embedded trailer.

Fee based Advice: Funds are targeted to investors using the services of an advisor. In this definition, “advisor” includes, but is not limited to, investment advisors, financial planners, and branch advisors. Under this option, investors must negotiate advisor compensation directly with their advisor. This includes but is not limited to F-class funds, which are generally used to identify share classes available through fee based advisors.

Do-It-Yourself: Funds are targeted to investors purchasing funds without the services of an advisor; this could be through a discount broker or directly from the fund company. There is either no advisor commission or a discounted commission embedded in the management fee.

Institutional: Funds are targeted to institutional investors or other investors at the discretion of the fund company. Investors negotiate management fees directly with the fund company. There is no stated management expense ratio for the fund. Returns for this share class are presented gross of fees.

Fixed distribution: Funds are targeted to investors who want to receive a fixed monthly cash flow. These include T series funds or other funds that may use return-of-capital as part of the distribution payout.

High-net-worth: Funds are targeted to investors meeting a fund company’s criteria for a high net worth client.