BY ELECTRONIC MAIL: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

August 31, 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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West, 19th Floor, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs / Madames:

Re: Second Publication of the Proposed Amendments for Implementation of Stage 2 of Point of Sale Disclosure for Mutual Funds

We are writing to provide you with the comments on behalf of the Members of The Investment Funds Institute of Canada ("IFIC") with respect to the second publication of the proposed amendments for *Implementation of Stage 2 of Point of Sale Disclosure for Mutual Funds: Proposed Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, Form 81-101F3 and Companion Policy 81-101CP Mutual Fund Prospectus Disclosure And Consequential Amendments* (collectively the "Proposals"), published on June 21, 2012.

Our Members continue to support the general principles of the Proposals for delivering simplified and enhanced disclosure into the hands of investors. Comprehensive research conducted to date by the CSA as well as by industry participants and experts from various countries around the world all point to a preference for a short and simple point of sale disclosure document. When the CSA tested the Fund Facts with investors and sales representatives they described it as informative, relevant and easy to read and, in particular, liked its brevity.

The industry urges the CSA to continue to follow a well-informed research-based approach by taking the logical next step of gathering broad-based, real-world investor experience without making major amendments at this stage.

In considering the improvements that would best serve the investor interest, we have aggregated our comments into two general themes elaborated upon below:

I. Streamlining the presentation of the information and removing language that creates a negative bias towards the fund product

Prior to the publication of the Joint Forum of Financial Market Regulators ("Joint Forum") "*Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds*" in June 2007, the CSA had conducted its own research as well as a comprehensive review of a number of research studies and academic papers prepared by industry participants and experts from various countries around the world in order to gain a better understanding of how investors make investment decisions and the optimal amount of information investors need or wish to receive when considering the purchase of funds. From this research, the CSA determined that a short and simple point of sale disclosure document was the answer. In the fall of 2006, the CSA tested two versions of the Fund Facts with investors and sales representatives, one for mutual funds and one for segregated funds. The Fund Facts document was very well received by both investors and advisers; they described it as informative, relevant and easy to read and, in particular, liked its brevity.

In light of the strong preference for a short document, and the fact that investors and advisors have not yet worked with the existing Fund Facts long enough to have made any determinations as to the Fund Facts' effectiveness, there are a number of changes we propose for your consideration to maintain brevity and clarity.

Our proposals are presented section by section below:

a. *What does the fund invest in?* Remove the top ten investments and the pie chart, as the total mix of the portfolio provides the most complete picture of what the investor has purchased. The percentages for the top ten investments may change and the pie chart duplicates what is already provided in the total mix list. If the investor is interested in the top ten investments, this information can be found on the fund's website and obtained through the management report of fund performance ("MRFP") or quarterly portfolio disclosure ("QPD"), or they can ask their advisor.

b. *What are the risks of this fund?* Remove the list of specific risks as it provides incomplete information. A summarized narrative of the top risks may result in oversimplification and confusion as different companies may describe similar risks in different ways; without definitions, simply naming risks does not inform clients. There is concern also that, as an offering document, liability could attach from not naming all relevant risks. Furthermore, we understand that the Autorité des Marchés Financiers ("AMF") is conducting research and analysis regarding the means by which risks are communicated to investors. It would be prudent to have the benefit of these findings before introducing a more complex and confusing risk section. In the meantime, the volatility risk information, combined with the other narrative about the fund, including a direction to consult the prospectus for more information, informs the investor that risk is involved when purchasing a fund.

c. *How has the fund performed?* Several pieces of information should be removed from this section to ensure investors are not misled:

   i. *The inclusion of a Guaranteed Investment Certificate ("GIC") Benchmark*: All references to a GIC should be removed as a GIC is a deposit instrument and is not comparable to market products such as mutual funds. Furthermore, there is no corresponding disclosure for GICs that would allow the investor to compare the GIC to the mutual fund and consider which is more suited to his or her needs. On the broader question CSA asks as to what other benchmarks might be included - this information is available in the MRFP along with explanations to help the investor understand the relevance and comparability of the benchmark to fund performance. Pointing the investor to that information will be more helpful than adding a reference that is more likely to confuse than clarify.

   ii. *The addition of the worst three-month return*: The historical annual returns already provided in the chart give the investor the worst calendar year's return – this achieves the intended purpose of informing individuals about potential loss, and reminds them that market investments can behave in a volatile manner over time and should be considered long-term investments, not short-term ones. We consider the added disclosure of the worst three-month return unduly emphasizes short-term performance and encourages bad investment behaviour. Collecting the information also poses operational challenges; it may be difficult to obtain the required data for funds that are of a long duration, given that the data must be provided for the worst three-month period since the inception of the fund (with no ten-year cut-off). Additionally, this approach will be biased against funds with long histories relative to newly created funds because of the greater chance that those with long histories at some point experienced a significant down-turn situation. In short, showing the worst quarterly return for a fund since its start date is not

comparable across funds or series. Performance at or around a fund's inception date is arbitrary and has no bearing on its potential risk. For example: different series of the same fund, with different start dates, would show clients a different worst three-month return. Therefore the worst three-month return section should be removed to avoid inappropriately emphasizing short-term performance, misleading comparisons across funds, and promoting a form of performance disclosure that is not a standard measure of performance. From an operational perspective, data management issues involved in calculating this on an on-going basis will be significant.

d. *How much does it cost?* The added conflict of interest language should be removed as it is unduly prejudicial to funds. To our knowledge similar disclosure language is not required for other products that may be provided on a commission, ongoing service pricing basis, or other forms of distribution cost structures (e.g. GICs sold with distribution costs embedded in the interest rate spreads). The section on costs currently provides an unparalleled level of disclosure when compared to other products, and includes the clear statement that the dealer is paid out of management fees. Investors are also asked to seek more information from the representative receiving the compensation; investors are, therefore, adequately informed of a possible conflict of interest. Including language that could improperly bias the client's view of one product seems inappropriate in a regulatory document; particularly when to our knowledge, such language is not required for any other financial product. In addition the distribution of mutual fund products is subject to IIROC's and the MFDA's clear and well defined rules governing the management of conflicts of interest.

II. Confirming the importance of providing consistent disclosure across similar investment products Canadians are likely to own

A primary objective of Framework 81-406 of the Joint Forum was to achieve consistent and comparable disclosure across all market participants offering similar products. Almost five years after that objective was set, it is disappointing that no material progress has been made in this regard when all financial literacy research confirms that investors would greatly benefit from short, plain language disclosure for all of the financial products they own.

It is instructive to approach this question by considering what is contained in the household balance sheet of Canadians. The total financial assets owned by Canadians amounts to $2,988 billion[1]. Mutual

[1] Investor Economics. *Household Balance Sheet 2011.*

funds account for 25.5% of that amount, and the rest, 74.5%, is in deposit instruments, fixed income and equities and segregated funds[2]. This is illustrated in the following chart:

Household Balance Sheet – Breakdown of Financial Wealth		
	Assets ($bn)	As a % of Financial Wealth
Deposits and Cash Equivalents	1217	40.73%
Equities and Fixed Income	885	29.62%
Mutual funds	762	25.50%
Seg Funds	120	4.02%
Other financial assets	4	0.13%
Financial Wealth	2,988	100%

Source: Investor Economics, December 2011

Clearly, Canadians are choosing a range of products – having access to consistent disclosure materials for all of those products would provide them with the tools to make informed decisions about everything they own, not just the 25% that is invested in mutual funds.

While the CSA does not have jurisdiction over every product in the household balance sheet, it can collaborate with other regulators to create a more robust and consistent disclosure regime. If the CSA chooses to focus only on those products that it regulates, regulatory arbitrage may result. The CSA should also consider how some aspects of the disclosure required for funds may be misinterpreted against a disclosure vacuum for other products owned by Canadians. At a minimum, the CSA must work with insurance regulators to harmonize the disclosure for mutual funds and segregated funds.

Conclusion:

We are confident that our suggestions will lead to a Fund Facts document that provides fund investors with the key information required to inform them of the nature of their investment. It will also enhance the critical dialogue between the investor and their advisor, while lessening the costs of production.

We encourage the CSA to take a leadership role with other regulators to create consistent disclosure across all financial products Canadians own in their household balance sheets – only then will investors be able to assess the relative suitability of the various financial services and products available to them.

---

[2] *Ibid.*

In addition to the above, we have other comments regarding the proposed changes to the Fund Facts document and the Point of Sale Disclosure Framework, which are captured in Appendix A and B attached hereto. CSA will be familiar with certain of these comments as they are consistent with our previous submissions.

*****

Thank you for providing our Members with an opportunity to comment. We would be pleased to discuss our input in greater detail with you. Should you have any questions or wish to discuss these comments, please contact me directly by phone at 416-309-2300 or by email at jdelaurentiis@ific.ca or Elizabeth Saati, Senior Policy Advisor by telephone at 416-309-2325 or by email at esaati@ific.ca.

Yours truly,
THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Joanne De Laurentiis
President & CEO

Appendix A
Additional comments regarding the Fund Facts document

Reference/Topic		CSA proposed requirement/template	Comments /Recommendations
General Comments			
1.	**Fund Code**	Permitting all recognized and publicly available identification codes for the class or series of the mutual fund securities to be disclosed on the top of the first page.	We believe the addition of the Fund Codes to the Fund Facts document to be a positive development for the investor and the advisor. Since the presentation of the fund's full legal name varies across dealer and vendor platforms and statements, the Fund Code(s) provide a unique identifier to avoid any confusion about an investor's holdings. Further, as Fund Facts may play an important role in advisor/client discussions both before the sale and during ongoing portfolio reviews, we believe the advisor can only benefit by having the recognized trading code(s) readily available on the document.
2.	**Disclosure of Material Changes**	Allowing greater flexibility to include disclosure of a material or proposed fundamental change to the mutual fund.	Permitting the inclusion of material change information is good, but the requirement is a challenge in a template environment. We believe it would be better if the CSA permitted an option to put the disclosure in a separate prominent location anywhere in the document (this way "natural" white space can be used and you would not be bound by the standard length of the relevant templated section). We can't design a template with enough space to allow for the possibility that a material change disclosure could be added to any or all sections.
3.	**Extension of the time-frame for information to be disclosed**	Extending the time-frame for certain information disclosed in the Fund Facts from 30 days to 45 days to allow greater flexibility in complying with disclosure requirements.	We agree that 45 days is better than 30 days, but we suggest that 60 days is better than 45 days, as it is consistent with interim MRFP and financial statements, and quarterly summaries of investment portfolios. This would also improve control over the premature dissemination of portfolio information. Additionally, non-month ends are more complicated from a data gathering/validation perspective.
4.	**Transition period**	Proposing a six-month transition period to allow mutual funds a reasonable amount of time for the implementation of systems to facilitate the delivery of Fund Facts, including relevant changes to their Fund Fact disclosure templates.	We believe that the proposed transition period for the implementation of new Funds Facts within six months of the instrument coming into effect is insufficient given the number and scope of the proposed changes. The requirements as currently proposed will encompass very significant data requirements that may not exist in a number of firms. Notwithstanding the data concerns at a fund manager level, there is significant effort involved in developing and testing the systems interface between the source data files and the Fund Facts document creation technology with external vendors. Many of the development costs and processes involved in Stage I of the Point of Sale initiative will have to be repeated. We recommend an implementation period of twelve months from the effective date of the Rule.

Appendix A
Additional comments regarding the Fund Facts document

Reference/Topic		CSA proposed requirement/template	Comments /Recommendations
5.	**Use of Fund Manager name**	Extensive repetition of fund manager name.	We noticed that throughout the Fund Facts document that there is an extensive repetition of the fund manager name (i.e. note that the name of the fund manager appears at the top of the document in "Quick Facts"). This is problematic as it might be the wrong entity in some cases (e.g. relationship to dealer representative or Consultant). We therefore suggest minimizing the repetition of the fund manager name and making the naming generic so that using the name of a wrong entity is avoided. We also request this flexibility as it will aid in investor understanding and avoid misrepresentations.
Specific Comments			
1.	**Quick facts: Series & Fund start dates**	Adding a series start date and including a fund start *date if different* from series start date.	We agree with the inclusion of a series and fund start date, as there must be a standard template/format for comparability. This would also minimize the cost of the production process as multiple versions can be avoided.
2.	**Quick facts: Value of series assets**	Adding the value of series assets in addition to fund assets.	We suggest removing the value of the series assets, as investments are at the fund level and a series is really just a pricing structure. Adding the size of the series may be confusing to investors, and does not offer additional information that is relevant to an investment decision.
3.	**CSA brochure/ website**	Adding a cross-reference to the brochure "Understanding Mutual Funds" which is available on the CSA website.	We believe the inclusion of a cross-reference to the CSA's brochure *Understanding Mutual Funds* in the Fund Facts document may be of assistance to some investors who need more educational and background information than can be provided in the Fund Facts.

Appendix B
Concerns with the Point of Sale Disclosure Framework

Reference/Topic		CSA's responses to IFIC's November 1, 2011 submission	Comments /Recommendations
Specific Comments			
1.	**Rescission and Withdrawal Rights**	The CSA have concluded not to proceed with a harmonized rescission and withdrawal right at this time.	In Appendix C of the Notice, the CSA determined not to harmonize rescission and withdrawal rights in respect of mutual funds in each of the Canadian jurisdictions. There is ambiguity in the sections of provincial legislation dealing with withdrawal rights as well as confusion as to why there exists a second right, one of rescission (from the time of receipt of the confirm) which applies to mutual fund products and not to other competing products. We believe that changes to the provisions setting out the statutory rights should be addressed concurrently with the changes contemplated in the Proposals so that all necessary legislative changes dealing with prospectus delivery are dealt with in an efficient and comprehensive manner. We therefore reiterate our recommendation that the provisions of securities legislation relating to withdrawal and rescission rights be clarified and harmonized across Canada.
2.	**Incorporation by Reference of the Fund Facts into the Simplified Prospectus**	The CSA proposes no change at this time. The Fund Facts is incorporated by reference into the simplified prospectus and, together with the fund's disclosure documents, comprise a mutual fund's disclosure documents.	In Appendix C of the Notice, the CSA determined that the Fund Facts document will continue to be deemed to be incorporated by reference into the simplified prospectus. In this regard, we respectfully re-submit our recommendation that the more effective and logical approach would be to make the Fund Facts 'a prospectus' for purposes of securities legislation and deem the simplified prospectus to be incorporated by reference into the Fund Facts. This approach represents a more logical approach given that in most instances the Fund Facts will be the actual disclosure document reviewed by the investor, and it would not be unlike the approach followed by the CSA in the 1980s with the simplified prospectus when the AIF was incorporated by reference into the more concise disclosure document delivered to purchasers.
3.	**Exceptions for Individual Jurisdictions**	The CSA has worked to ensure the results of their amendments achieve a harmonized outcome. However, this common outcome has been reached working with different legislative approaches or wording, which results in differences in the drafting of NI 81-101.	In Appendix C of the Notice, the CSA determined not to eliminate provincial differences in the drafting of NI 81-101. We understand the challenges inherent in ensuring uniformity from a government legislative framework perspective given the different provincial governments. We would urge the CSA to avoid making any changes to the Fund Facts (or any form that is intended for use in all regions of Canada) that would apply in some, but not all, jurisdictions. We believe the application of different form requirements across jurisdictions will only serve to introduce ambiguity and confusion to parties trying to interpret the form requirements, which may well result in conflicting interpretations purely based upon the jurisdictions to which Fund Facts are being distributed.