

Canadian Securities Administrators

Implementation of Stage 1 of Point of Sale Disclosure for Mutual Funds

Notice of Amendments

Regulation to amend Regulation 81-101 respecting Mutual Fund Prospectus Disclosure

Amendments to Policy Statement to Regulation 81-101 respecting Mutual Fund Prospectus Disclosure

Related Amendments

Introduction

We, the Canadian Securities Administrators (the CSA or we), are making amendments to *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure* (the Regulation), including Forms 81-101F1 *Contents of Simplified Prospectus* and 81-101F2 *Contents of Annual Information Form* (the Forms), and *Policy Statement to Regulation 81-101 Mutual Fund Prospectus Disclosure* (the Policy Statement). New Form 81-101F3 *Contents of Fund Facts Document* is part of the Regulation. We refer to the amendments to the Regulation, the Forms and Policy Statement together as the Regulation. We expect that the Regulation and related amendments will come into force on January 1, 2011.

Adopting the Regulation and related amendments is the first step in the implementation by the CSA of the point of sale disclosure framework published by the CSA and the Canadian Council of Insurance Regulators, as members of the Joint Forum of Financial Market Regulators (the Joint Forum)¹ on October 24, 2008 (the Framework). The Framework represents the shared vision of securities and insurance regulators to provide investors with more meaningful information about a mutual fund or segregated fund at a time that is relevant to their investment decision.²

Central to the Regulation is the new summary disclosure document called “Fund Facts”. It highlights key information that is important to investors, in language they can easily understand, and will be no more than two pages, double-sided, in length.

The CSA is implementing the point of sale disclosure framework in three stages, as set out in CSA Staff Notice 81-319 *Status Report on the Implementation of Point of Sale Disclosure for Mutual Funds* published on June 18, 2010 (the Staff Notice). The Regulation completes the first stage of the implementation.

The Regulation mandates the production of the Fund Facts document and the requirement for it to be made available on a mutual fund’s or mutual fund manager’s website. The Fund Facts must also be delivered or sent to investors free of charge upon request. As described in the Staff Notice, the project has two other stages. These are:

- Stage 2: publishing for comment a proposal to allow delivery of the Fund Facts document to satisfy the current prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund; and
- Stage 3: once the CSA has completed its review and consideration of the issues related to point of sale delivery, publishing for further comment any proposed

¹ The goal of the Joint Forum is to continuously improve the financial services regulatory system through greater harmonization, simplification and co-ordination of regulatory activities.

² You can find background information and other Joint Forum publications on the topic of point of sale disclosure for mutual funds and segregated funds on the Joint Forum website at www.jointforum.ca and on the websites of members of the CSA.

requirements that would implement point of sale delivery for mutual funds. We will also be considering point of sale delivery for other types of publicly offered investment funds.

After we complete all of the stages of implementation, we intend to review the overall disclosure regime for mutual funds to reduce any unnecessary duplication.

The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged implementation allows us to make the Fund Facts document available to investors and market participants sooner, while we continue to consult with stakeholders and consider the issues a large number of commenters have raised related to point of sale delivery for mutual funds and the applicability of the point of sale regime to other types of publicly offered investment funds.

The text of the amendments follows this Notice and can be obtained on the websites of members of the CSA. We are also making consequential amendments to:

- *Regulation 81-102 respecting Mutual Funds and Policy Statement to Regulation 81-102 respecting Mutual Funds;*
- *Regulation 81-106 respecting Investment Fund Continuous Disclosure and Policy Statement to Regulation 81-106 respecting Investment Fund Continuous Disclosure;* and
- *Regulation 13-101 respecting the System for Electronic Document Analysis and Retrieval (SEDAR).*

We expect the Regulation and related amendments to be adopted in each jurisdiction of Canada.

Substance and Purpose of the Regulation

We know that many investors do not use the information in the simplified prospectus because they have trouble finding and understanding the information they need. Research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates investors prefer to be offered a concise summary of key information.³ Financial literacy research further reinforces the need for clear and simple disclosure.

The CSA designed the Fund Facts to make it easier for investors to find and use key information. The format provides investors with basic information about the mutual fund, followed by a concise explanation of mutual fund expenses and fees, adviser compensation and the investor's cancellation rights. An introductory heading specifies that more detailed information about the mutual fund is available in the simplified prospectus.

The Regulation and related amendments should enhance investor protection by providing investors with the opportunity to access disclosure that gives them a basic understanding of the potential benefits, risks and costs of investing in a mutual fund, and allows them the opportunity to meaningfully compare one fund to another. We think the Fund Facts will not only provide investors with the opportunity to make more informed investment decisions, but will also assist investors in their discussions with advisers and highlight for investors who may want more detail where they can find further information about the fund.

³ You can find a list of the research, studies and other sources that the Joint Forum reviewed and relied on in developing the point of sale disclosure framework in Appendix 4 to the proposed framework (the proposed Framework) published in June 2007 on the Joint Forum website and on the websites of members of the CSA. The *Fund Facts Document Research Report* prepared by Research Strategy Group can be found in Appendix 5 to the proposed Framework.

The Regulation and related amendments should also contribute to more efficient Canadian capital markets by harmonizing the disclosure regimes for mutual funds and segregated funds. These similar products are often sold by a dually licensed dealer. The Regulation and related amendments are not intended to detract from a dealer's existing obligation to 'know your client' and determine suitability of all purchases of mutual funds. Rather, we anticipate that dealers will use the Fund Facts as a tool in making investment recommendations.

As the CSA's implementation of the point of sale disclosure framework progresses, we should achieve the Joint Forum's vision for the point of sale disclosure regime described in the Framework. This vision focuses on three principles:

- providing investors with key information about a fund;
 - providing the information in a simple, accessible and comparable format;
- and
- providing the information before investors make their decision to buy.

These principles keep pace with developing global standards on point of sale disclosure and delivery, which we consider essential to the continued success of the Canadian mutual fund industry.

Feedback on the 2009 Proposal

Concurrently with the publication of the Framework in 2008, we published CSA Notice 81-318 *Request for Comment Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds* seeking feedback from all stakeholders on issues related to implementation of the Framework and its principles. The CSA considered these comments in developing the proposed changes to existing securities legislation. You can find a summary of the comments we received on the Framework and our responses in Appendix A to the notice to the 2009 Proposal.

On June 19, 2009, we published proposed amendments to the Regulation, the Forms and the Policy Statement (the 2009 Proposal) aimed at implementing all of the elements of the point of sale disclosure regime set out in the Framework. This included the new Fund Facts document, pre-sale delivery options, investor rights and the regulatory requirements for preparing, filing and delivering the Fund Facts document. We received 54 comment letters on the 2009 Proposal. We thank everyone who provided comments. Copies of the comment letters have been posted on the Ontario Securities Commission website at www.osc.gov.on.ca. Copies are also available from any CSA member.

The comments show that stakeholders generally agree with the benefits of providing investors with a more meaningful and simplified form of disclosure, and support the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration. However, we received significant comments related to operational and compliance concerns with point of sale delivery for mutual funds. A large number of commenters also asked the CSA to implement a point of sale disclosure regime for other types of publicly offered investment funds and other securities at the same time.

You can find a summary of the comments we received on the 2009 Proposal, together with our responses, in Appendix B to this Notice.

Changes to the 2009 Proposal

We have considered all comments received on the 2009 Proposal. As set out in the Staff Notice, the CSA agrees with the feedback that further review and consideration of the issues related to point of sale delivery for mutual funds is necessary. However, we also

think it would be beneficial for the Fund Facts document to be made available to investors and market participants as soon as possible.

Accordingly, the Regulation only finalizes those aspects of the 2009 Proposal consistent with the first stage of the staged approach to implementation described in the Staff Notice. Specifically, the Regulation sets out requirements for the production of the Fund Facts document and the requirement for it to be made available on a mutual fund's or mutual fund manager's website, as well as for it to be delivered or sent free of charge upon request.

A description of the key changes we made to the 2009 Proposal is set out in Appendix A to this Notice.

Summary of the Regulation

Application

The Regulation and related amendments apply only to mutual funds subject to *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure*.

Fund Facts

The Fund Facts document set out in new Form 81-101F3 *Contents of Fund Facts Document* is central to the Regulation and largely follows the 2009 Proposal.

It will be in plain language, no more than two pages double-sided and will highlight key information that is important to investors, including past performance, risks and the costs of investing in a mutual fund. It is designed using a question-and-answer format that makes it easy for investors to find information. It also contains a number of statements that help investors understand the risks of investing in a mutual fund.

A separate Fund Facts document is required for each class or series of a mutual fund.

Filing Requirements

As under the 2009 Proposal, the Regulation requires the Fund Facts document to be filed concurrently with the mutual fund's simplified prospectus and annual information form. The certificate for the mutual fund, which verifies the disclosure in the simplified prospectus and annual information form, applies to the Fund Facts just as it applies to all documents incorporated by reference into the simplified prospectus.

If a material change to the mutual fund relates to a matter that requires a change to the disclosure in the Fund Facts, an amendment to the Fund Facts must be filed. If managers want to provide more current information in the Fund Facts, they may choose to amend the Fund Facts at any time. In all instances, an amendment to a mutual fund's Fund Facts must be accompanied by an amendment to the mutual fund's annual information form.

Any Fund Facts document filed after the date of the simplified prospectus is intended to supersede the Fund Facts previously filed. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

Investor Right for Misrepresentation

Once the Fund Facts document is filed with the mutual fund's simplified prospectus and annual information form, it will be incorporated by reference into the simplified prospectus. This means that the existing statutory rights of investors that apply for misrepresentations in a prospectus will apply to misrepresentations in the Fund Facts.

An initial Fund Facts document filed separately on SEDAR during the transition period will not be incorporated by reference into the simplified prospectus. However, the disclosure must comply with the requirements of the Regulation and securities legislation.

Transition

The requirements in the Regulation and related amendments to produce and file the Fund Facts document and to post it to the mutual fund's or mutual fund manager's website, take effect three months after the Regulation and related amendments come into force. This means, from the time of publication of this Notice, a mutual fund will have at least six months to make any changes to compliance and operational systems that are necessary to produce, file and post the Fund Facts to a website.

On the date the Regulation comes into force, a mutual fund may choose to file a Fund Facts for each class or series of the mutual fund. This may happen either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

As of the effective date, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts for each class or series of the mutual fund offered under the simplified prospectus and post the Fund Facts to the mutual fund's or mutual fund manager's website.

To implement the Regulation within a reasonable time period, the Regulation and related amendments require that a mutual fund must, if it has not already done so, file a Fund Facts document for each class or series of the mutual fund within six months of the Regulation and related amendments coming into force. Again, this may occur either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR.

A Fund Facts initially filed separately on SEDAR will be superseded by the Fund Facts that is subsequently filed concurrently with the mutual fund's pro forma simplified prospectus and annual information form.

Questions

Please refer your questions to any of the following CSA staff:

Éric Lapierre
Manager, Investment Funds
Autorité des marchés financiers
Phone: 514-395-0337 ext. 4471
E-mail: eric.lapierre@lautorite.qc.ca

Noreen Bent
Manager and Senior Legal Counsel
Legal Services, Corporate Finance
British Columbia Securities Commission
Phone: 604-899-6741
E-mail: nbent@bcsc.bc.ca

Christopher Birchall
Senior Securities Analyst
Corporate Finance
British Columbia Securities Commission
Phone: 604-899-6722
E-mail: cbirchall@bcsc.bc.ca

Bob Bouchard
Director and Chief Administrative Officer
Manitoba Securities Commission
Phone: 204-945-2555
E-mail: Bob.Bouchard@gov.mb.ca

Daniela Follegot
Legal Counsel, Investment Funds Branch
Ontario Securities Commission
Phone: 416-593-8129
Email: dfollegot@osc.gov.on.ca

Rhonda Goldberg
Deputy Director, Investment Funds Branch
Ontario Securities Commission
Phone: 416-593-3682
E-mail: rgoldberg@osc.gov.on.ca

Ian Kerr
Senior Legal Counsel, Corporate Finance
Alberta Securities Commission
Phone: 403-297-4225
E-mail: Ian.Kerr@asc.ca

Stephen Paglia
Legal Counsel, Investment Funds Branch
Ontario Securities Commission
Phone: 416-593-2393
E-mail: spaglia@osc.gov.on.ca

Sue Swayze
Senior Editorial Advisor
Ontario Securities Commission
Phone: 416-593-2338
E-mail: sswayze@osc.gov.on.ca

The text of the Regulation and Related Consequential Amendments follows or can be found elsewhere on a CSA member website.

Appendix A

Summary of Changes to the 2009 Proposal

This appendix describes the key changes we made to the 2009 Proposal. Most of these changes reflect the CSA's decision to proceed with a staged implementation of the POS initiative. The Regulation only finalizes those parts of the 2009 Proposal that are necessary to proceed with the first stage of the staged implementation described in the Staff Notice.

The first stage mandates the production of the Fund Facts document and requires it to be made available on a mutual fund's or mutual fund manager's website. The Fund Facts must also be delivered free of charge to an investor upon request.

As the CSA's implementation of the point of sale disclosure framework progresses, we expect to publish for further comment requirements related to the other aspects of the 2009 Proposal.

Fund Facts

Content

We have made a number of revisions to the content of the Fund Facts document. We sought specific feedback on some of these changes in the 2009 Proposal. Many of the changes respond to investor advocate comments to provide greater detail or clarity to the disclosure. The changes include the following:

- We added an introductory heading to the Fund Facts to give greater emphasis that the Fund Facts may not contain all the information an investor wants, and that more detailed information is available in the simplified prospectus. Some of this wording was located under the section 'For more information' in the 2009 Proposal.
- We have added a cross-reference in the section of the Fund Facts called 'How risky is it?' to refer to the simplified prospectus. This highlights for investors that they can find more detailed information about the mutual fund's specific risks in the fund's simplified prospectus.
- We created a new section in the Fund Facts called 'A word about tax' to provide investors with some general information on the impact of income tax on their mutual fund investments.
- We added the requirement to disclose the trading expense ratio (TER) under 'Ongoing Fund expenses' (renamed 'Fund expenses') to give a more complete picture of the costs associated with an investment in a mutual fund. As a result of the inclusion of the TER, to maintain simplicity and accessibility, we removed the requirement to show the components of the management expense ratio (MER) in addition to the MER.
- For greater clarity, we added the requirement in the section 'Ongoing fund expenses' (renamed 'Fund expenses') to disclose the combined total of MER and TER costs as a percentage of the mutual fund's value. We have named this combined total 'Fund expenses'.
- We added dollars and cents illustrations of the sales charges, fund expenses and trailing commissions in the Fund Facts to better convey to investors the impact of the costs of investing in a mutual fund.
- We amended the disclosure in the Fund Facts in the section called 'What if I change my mind?' to reflect the current withdrawal and rescission rights under securities legislation.

Flesch-Kincaid grade level

We have not carried forward the requirement that the Fund Facts be written at a grade level of 6.0 or less on the Flesch-Kincaid grade level scale because we were told there is no French language equivalent to the scale. However, the Fund Facts is still required to be prepared using plain language and in a format that assists in readability and comprehension.

We have added guidance in the Companion Policy that the CSA will generally consider a grade level of 6.0 or less on the Flesch-Kincaid grade level scale to demonstrate that the Fund Facts is written in plain language.

Length

In light of the changes we have made to the Fund Facts, we amended the requirement that the Fund Facts not exceed three pages in length, to allow the Fund Facts to be four pages in length if the required information in each section of the Fund Facts causes the disclosure to extend to two pages, double-sided.

Filing Requirements***Voluntary Updating of Fund Facts***

We removed the section in the Regulation that permitted a mutual fund to file on SEDAR an updated Fund Facts at regular intervals of either six or three months. If a material change to the mutual fund relates to a matter that requires a change to the disclosure in the Fund Facts, an amendment to the Fund Facts must be filed. If managers want to provide more current information in the Fund Facts, they may choose to file an amended Fund Facts at any time.

Websites

We revised the Regulation to clarify that the Fund Facts can be posted to either the website of the mutual fund, the mutual fund's family, or the website of the manager of the mutual fund.

Binding

We revised the Regulation to limit the requirements on binding of the Fund Facts with other Fund Facts and with other documents to website postings, SEDAR filings and instances where the Fund Facts is delivered with the simplified prospectus. We further clarified that if the Fund Facts is bound with a single or multiple simplified prospectus for delivery, the Fund Facts must be the first document in the package.

Delivery

We removed the requirements in the Regulation that were related to point of sale delivery options and the regulatory requirements for point of sale delivery of the Fund Facts. These aspects of the 2009 Proposal will be considered further as the CSA's implementation of the point of sale disclosure framework progresses.

Investor rights

At this time, we are not proceeding with replacing the current withdrawal and rescission rights under securities legislation with a single, harmonized two-day cooling-off right for investors. This aspect of the 2009 Proposal may be considered further as the CSA's implementation of the point of sale disclosure framework progresses.

The Regulation contemplates that a Fund Facts, once filed with the mutual fund's simplified prospectus and annual information form, will be incorporated by reference into the simplified prospectus. This means that existing statutory rights for misrepresentations in a prospectus will apply to misrepresentations in the Fund Facts.

Transition

We have removed the transition provisions in the Regulation that were related to point of sale delivery of the Fund Facts.

We amended the Regulation to provide a three month transition period following the Regulation coming into force. At the end of the three month transition period, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts for each class or series of the mutual fund offered under the simplified prospectus and post the Fund Facts to the mutual fund's or mutual fund manager's website.

To implement the Regulation within a reasonable time period, we further amended the Regulation to require that a mutual fund must, if it has not already done so, file a Fund Facts within six months of the Regulation coming into force. This may occur either as part of the mutual fund's simplified prospectus and annual information form filing, or by the mutual fund initially filing a Fund Facts separately on SEDAR.

A mutual fund that chooses to file a Fund Facts for the mutual fund following the Regulation coming into force may do so either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

**SUMMARY OF PUBLIC COMMENTS ON
IMPLEMENTATION OF POINT OF SALE (POS) DISCLOSURE FOR MUTUAL FUNDS**

Table of Contents	
PART	TITLE
Part 1	Background
Part 2	Comments on issues for comment I) Comments on Issues for comment in the Notice and Request for Comment II) Comments on the issues for comment on the Regulation III) Comments on the issues for comment on Form 81-101F3
Part 3	Comments on the Fund Facts
Part 4	Investor rights comments
Part 5	Comments on the Regulation
Part 6	List of commenters

Part 1 – Background

Summary of Comments

On June 19, 2009, the Canadian Securities Administrators (CSA) published a notice entitled *Implementation of Point of Sale (POS) Disclosure for Mutual Funds*, which proposed Form 81-101F3 (the Fund Facts Form) and amendments to *Regulation 81-101 respecting Mutual Fund Prospectus Disclosure* (Regulation 81-101), Forms 81-101F1 and 81-101F2 (the Forms) and Policy Statement 81-101 (the Policy Statement) (Regulation 81-101, the Forms and the Policy Statement, collectively, the Regulation). The comment period expired on October 17, 2009. We received submissions from 54 commenters, which are listed in Part 6 of this document.

We thank everyone who took the time to prepare and submit comment letters. This document contains a summary of the comments and the CSA's responses relating to the parts of the Regulation that we are proceeding with in this stage of implementation. We continue to consider all comments received. For each stage of implementation, we will publish a summary of comments relating to that stage.

Part 2 - Comments on issues for comment	
I) Comments on Issues for comment in the Notice and Request for Comment	
1. We seek feedback on whether you agree or disagree with our perspective on the benefits of the Regulation. We particularly seek feedback from investors.	
Comments	Responses
<p>Support for the benefits of the POS proposals</p> <p>Investor advocate commenters told us they strongly support the goal of the CSA to provide investors with clear, meaningful and simplified information when the investor needs it most: before or at the time they make their decision to invest their savings in a mutual fund or segregated fund.</p> <p>While only a few industry commenters agreed with the benefit of investors obtaining information about a prospective investment prior to making an investment decision, most agreed with the benefits of providing investors with a more meaningful and simplified form of disclosure, and supported the Fund Facts, as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.</p> <p>In fact, we were told by a scholarship plan dealers association that a similar regulatory regime should be contemplated for scholarship plans, and we were given a number of submissions to this end.</p> <p>There was also general agreement that the prospectus does not meet its objective to disclose relevant information to investors.</p> <p>Some industry commenters also agreed that substitution of the Fund Facts for the delivery of the simplified prospectus (SP) will reduce certain printing and mailing</p>	<p>We recognize the significant comments related to operational and compliance concerns with point of sale delivery for mutual funds, as well as requests to level the playing field by implementing a point of sale regime for other types of publicly offered investment funds and other securities at the same time.</p> <p>While the CSA agrees that further review and consideration of issues related to point of sale delivery for mutual funds are necessary, we also think that it would be beneficial for the Fund Facts to be made available to investors and market participants as soon as possible. This would provide investors with the opportunity to have access to key information about a mutual fund sooner. It would also allow investors and dealers to become familiar with the document and start using the Fund Facts in the decision-making process. Accordingly, the CSA has concluded to proceed with a staged implementation of the project, which is described in CSA Staff Notice 81-319 <i>Status Report on Point of Sale Disclosure for Mutual Funds</i> published on June 16, 2010 (Notice 81-319).</p> <p>The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged implementation of the project will allow us the opportunity to continue to consult with stakeholders and to consider the applicability of the point of sale regime for mutual funds to other types of publicly offered investment funds, with the possible outcome of implementing a point of sale delivery requirement at the</p>

costs for the industry.

And, we received support for the benefit of a harmonized disclosure regime for mutual funds and segregated funds, so investors purchasing similar investments have comparable disclosure and protection.

To further benefit investors, an investor advocate commenter encouraged the CSA to implement web-based 'tagging' technology such as XBRL, as a way to further allow investors to compare different mutual funds.

Finally, to ensure the benefits for investors are as anticipated, investor advocate commenters urged us to pro-actively seek out retail investor comment, with one commenter suggesting the CSA host a forum, inviting retail investors, investor advocates, software suppliers, academia, consumer associations and seniors and pension groups to discuss the POS proposals face to face, preferably before the deadline for submissions.

These commenters all told us that the current notice and public comment procedures are not adequate for meaningful public consultation.

Disagreement with benefits of POS

We were told a staged implementation of the rule would be the best way for investors to get the benefit of the Fund Facts with a minimum of delay, while other aspects of the rule such as delivery, are being developed.

One industry commenter added that the benefits of the Fund Facts come only with flexibility around when and how information is provided to investors.

Other industry commenters stated that because there is not a rationalization of other disclosure obligations, such as the SP, annual information form (AIF) and management report of fund performance (MRFP), they didn't see a benefit to investors through cost

same time for all comparable investment fund products.

While we welcome investor feedback, we do not anticipate hosting an investor forum at this time. In developing the Regulation, we consulted broadly with investor advocates, industry representatives, self-regulatory organizations and service providers. We have also considered the comments provided on Framework 81-406 *Point of sale disclosure for mutual funds and segregated funds* (the Framework) published on October 24, 2008 by the Joint Forum of Financial Market Regulators (Joint Forum). All of this feedback is reflected in the Regulation. As noted above, we will continue to publish for comment further amendments and consult with stakeholders on all future stages of the POS project.

On the issue of rationalizing the current disclosure obligations that exist for mutual funds, it is our intention to review these obligations once implementation of the POS project is complete.

The implementation of tagging technology, such as XBRL, is outside the scope of the POS project. The CSA is currently exploring requirements related to XBRL. If a decision is made to require disclosure documents to be filed in XBRL format, we will consider extending this requirement to the Fund Facts.

reduction. Rather, compliance will increase the costs to investors.

This was echoed by an independent review committee, which remarked that there already exists many types of documents produced by the mutual fund industry and third parties that provide information to investors and questioned the need for the Fund Facts.

A few of these commenters urged the regulators to streamline the existing disclosure regime for mutual funds concurrently with implementation of the Fund Facts legislation.

One industry commenter disagreed with the CSA that investor protection would be furthered through the Regulation for 3 reasons:

- the disclosure regime already provides investors with an abundant amount of information, including fund fact like documents, without fundamentally altering the manner in which mutual funds are sold;
- investors rely on expert advisers to explain the benefits and risks associated with investment purchases, yet the role of advisers has been completely ignored by the CSA proposals; and
- the marginal benefit, if any, of an investor being able to review a one page document before purchase is greatly outweighed by the costly and disruptive changes the proposals will force upon the mutual fund industry.

One of these commenters stated that the POS initiative reinforces the popular, but unfounded, belief that investors actively review and make decisions on their own based solely or even primarily on the written disclosure they receive about a fund. We were told the anticipated benefits are somewhat *ideal* benefits, but ones that may not be achievable or supported by actual investor behaviour.

Yet, an investor advocate commenter cited different research studies, which indicates investors will respond positively to summary data presented on a single page.

We also heard that the Regulation will put significant administrative pressure on the

client/adviser relationship and make it more cumbersome for investors in a business that is already administratively burdened.

A number of industry commenters noted that the Regulation should not create unintended frustrations for investors and their advisers by establishing barriers to easily transact or by reducing available choices of mutual funds. This level of frustration, indicated some commenters, may significantly defeat the intended benefits from the perspective of the investor.

To this end, it was recommended that the CSA conduct additional investor research in assessing the benefits and any aggravations experienced by investors due to this regulatory initiative.

One mutual fund company, that has had research conducted independently on its behalf remarked that the benefits to investors needs to be better measured and understood.

We were further asked by an industry commenter to carefully consider the substantial costs, the likelihood of unnecessary duplication of existing disclosure and the use of potentially stale dated information versus the benefits of the provision of the Fund Facts.

Still other industry commenters remarked that the creation of yet another disclosure document, providing some but not all of the information contained in both the Part B of the SP and the MRFP, coupled with the complexity of the POS proposals about what types of trades need to get pre-sale information, at what stage during the sales process, and what time periods the information is designed to cover, will not be beneficial to investors but rather, investors will be confused and overwhelmed by the process.

Other industry commenters questioned whether there are other measures that the CSA can take at this time to improve the mutual fund disclosure regime while reducing the cost burden.

<p>Many commenters urged us to consider POS for riskier parts of the financial services business, as well as additional disclosure in advertising, rather than focussing on the mutual fund industry, which is a comparatively safe and regulated business.</p> <p>One of these commenters stated that it is paradoxical that the CSA is seeking to make the disclosure system for mutual funds more onerous while keeping the status quo for higher risk investments.</p> <p>An independent review committee of a mutual fund agreed, asking why the disclosure regime proposed is considered beneficial for mutual funds, while other like products can be sold to investors without the requirement to deliver any disclosure document.</p> <p>An alternative, equally effective regulatory approach, suggested one commenter, to achieve the benefits perceived by the POS proposals would be to revert strictly back to the original and stated principles behind the SP system set out in Regulation 81-101.</p>	
<p>2. We seek feedback on whether you agree or disagree with our perspective on the cost burden of the Regulation. Specifically, we request specific data from the mutual fund industry and service providers on the anticipated costs and savings of complying with the Regulation for the mutual fund industry.</p>	
<i>Comments</i>	<i>Responses</i>
<p><i>Disagreement with stated cost burden</i></p> <p>We were told by a number of industry commenters that many aspects of the Regulation need to be clarified before reliable cost estimates can be determined.</p> <p>One commenter stated that there are several variables that make a cost analysis very difficult at this time. For example, will the CSA allow multiple series in one Fund Facts, which will reduce costs? The mutual fund industry has not concluded on the best way to interface with the dealers and advisers operationally and this will have significant costs. In addition, there currently is not an automated solution for delivery</p>	<p>Although we received some general comments on the cost burden of the Regulation, we received limited data from the mutual fund industry and service providers on the anticipated costs and savings of complying with the Regulation for the mutual fund industry. In addition, most of these comments related to delivery aspects of the Regulation. As the CSA moves forward with implementation of the POS project, we will further consult on the costs of the Regulation, particularly as they relate to the operational and compliance concerns of point of sale delivery.</p> <p>It is not intended that the production, filing and posting of the Fund Facts to the</p>

of the Fund Facts, which again will impact the cost analysis.

Many industry commenters told us that although unable to provide detailed information about likely costs at this time, they think that the CSA has underestimated the systems infrastructure, development costs and administrative process that will be involved in preparing, posting and arranging for delivery of Fund Facts through multiple channels, as well as moving to the new pre-sale delivery requirement.

Some of these commenters remarked that requiring the Fund Facts to be delivered contemporaneously with the sale of mutual funds and segregated funds, rather than post sale, fundamentally alters the way in which these products are sold and will require the creation of an independent system of document delivery and auditing that will vastly increase the costs and administrative burdens associated with selling mutual funds.

We also heard that collecting investors' opt-in or opt-out preferences for the annual option in the Regulation to receive all Fund Facts held will create fairly significant additional procedural complexities for dealers, who currently have no mechanism in place to comply with this type of requirement, particularly smaller independent mutual fund dealers.

A few commenters went on to say that any minimal benefit that the provision of a Fund Facts at point of sale would provide is eclipsed by the costly overhaul of the sale process that would be required.

One industry commenter remarked they didn't think the CSA has conducted a meaningful cost benefit analysis.

In fact, some industry commenters recommended undertaking a final review prior to publication after all policy directions are determined to assess their implications from a cost and compliance standpoint for all stakeholders.

mutual fund's or mutual fund manager's website be more onerous than a mutual fund or mutual fund manager's existing mechanisms for producing and maintaining required disclosure. We have allowed for a three-month transition period following the in-force date of the Regulation. This is to provide sufficient time for implementation of compliance and operational systems.

One commenter stated that there must be focused cost-benefit analysis and additional research into the actual system of delivery and use of the Fund Facts. The practicalities of the proposed disclosure system need additional exploration and various alternatives, including technological solutions, need to be considered further before a formal rule can be developed to replace existing regulation.

It was also suggested that the CSA seek cost data from mutual fund companies and dealers on a confidential basis and to release the aggregate results, as this information, when available, is proprietary in nature.

The costs associated with implementing the Regulation were identified by one commenter as largely breaking down into Fund Facts production (creation, update, filing, and management of Fund Facts) and Fund Facts delivery (eligibility workflow, receipting, and dealer compliance).

Finally, a number of industry commenters reminded the CSA that the incremental costs of implementing the Regulation will eventually be borne to the investing public.

Agree with stated cost burden

One service provider remarked that production of the Fund Facts may represent an opportunity for manufacturers to gain some efficiency in the manner with which they update and inform customers through the replacement of the SP and potentially more automated production and authorization protocols towards producing and filing Fund Facts for investors.

This commenter stated that orienting manufacturers towards digital production as a more expeditious means of delivery may reduce print, distribution and environmental costs over the longer term.

This same service provider also suggested compliance costs could be contained through outsourcing of the delivery obligation outside existing dealer systems and the

minimization of integration into back office protocols for the purposes of compliance.

Another industry service provider told us it expects to leverage its existing fulfilment infrastructure to have Fund Facts available for distribution to investors by e-mail, download, fax or print and mail on a timely basis and that its automated system ensures that only the current document is distributed.

Still, this commenter noted that while increasingly advanced technology will be of tremendous assistance in meeting the new requirements, including the restrictions on bundling and the differentiations in the delivery requirements, the Regulation still adds to the compliance burden and costs incurred in the industry.

In addition, continued this commenter, there will be significant ongoing costs related to the collection and maintenance of various investor preferences, adviser training and support, and infrastructure maintenance.

Specific data

Based on the proposed Regulation, one industry commenter, a mutual fund manufacturer and dealer, gave the following rough estimates:

- the initial costs for the preparation of approximately 800 Fund Facts for five fund families (which costs include the design and layout, staffing, legal counsel, French translation, website development, Fund Facts fulfillment and printing) would be approximately \$2,000,000 in the first two years, with ongoing costs decreasing to approximately \$1,500,000 per year;
- distribution costs to develop or enhance the information delivery systems would be \$1,800,000. The ongoing costs to maintain the new system would cost approximately \$200,000 per year;
- filing approximately 800 Fund Facts for five fund families would take 4 to 5 business days to complete with a cost of approximately \$13,000 per year for investors; and
- compliance/staff costs in overseeing and maintaining the delivery regime could initially cost our related dealers \$500,000. Ongoing compliance costs would include increased staffing and expenses required to manage the new systems and would cost

<p>such dealers approximately \$150,000 per year.</p> <p>Still another industry commenter told us that the potential cost savings of replacing the prospectus with the Fund Facts will be marginal, since the largest portion of delivery cost of either a Fund Facts or a prospectus is postage, which will remain unchanged and represents 65% of the total production costs.</p>	
II. – Comments on issues for comment on the Regulation	
1. We are considering allowing fund managers greater flexibility to provide more current information to investors, by not restricting how frequently a fund manager may file an updated fund facts document. What are your views? How would this impact compliance with the requirement to deliver the most recently filed fund facts document?	
Comments	Responses
<p><i>In favour of greater flexibility to file Fund Facts</i></p> <p>A few commenters had no objection to our extending this flexibility, and remarked there may be some merit to more frequent updating of Fund Facts. One of these commenters stated that fund managers should not have restrictions placed on updating the Fund Facts more frequently than once annually if they so desire. However, these commenters remarked that increased frequency of updating and filing the Fund Facts could result in increased costs to investors.</p> <p>One commenter stated that since much of the disclosure contained in the Fund Facts would not change with a more frequent updating schedule, its value to investors would be outweighed by the increased costs that would be borne by them. An alternative, stated this commenter, would be to direct investors to the MRFP and quarterly portfolio summaries.</p> <p>Another noted that fund companies would have a tendency, however, to update the Fund Facts only when markets are rising or alternatively, when the performance calculation eliminates a period of poor performance that occurred essentially 10 years ago.</p>	<p>We have considered the comments and acknowledge the concerns about the potential issues related to the frequency of updating the Fund Facts. As a result, we will only require mutual funds to file a Fund Facts annually, or if a material change occurs that relates to the information contained in the Fund Facts. The Regulation, however, does allow a fund manager the flexibility to file an amended Fund Facts more frequently if they choose.</p>

Opposed to greater flexibility to file Fund Facts

Most industry commenters were against the CSA proposal to allow fund managers greater flexibility to file updated Fund Facts or told us they would not use it.

Suggested that we limit the frequency of filings

A number of industry commenters recommended that the Regulation be amended to limit the number of times the Fund Facts must be reproduced.

It was suggested by these commenters that the requirement to file a Fund Facts be limited to an annual basis, or more frequently if there is a material change, be retained.

Requiring an amended Fund Facts upon the occurrence of a material change, stated one of these commenters, renders more frequent filings unnecessary and confusing.

Still another commenter remarked that very up-to-date information is readily available from data vendors, and other than the Top 10 and the investment mix charts, they do not anticipate that there would be significant changes in the Fund Facts content from quarter to quarter. Any benefit to be gained by more frequent production, stated this commenter, is unlikely to outweigh the cost.

Frequent filings of Fund Facts will cause dealer confusion and increase cost and complexity of compliance

Most of these commenters remarked that without restrictions on filing updated Fund Facts, inconsistent practices could develop among fund managers in the frequency of updating, which could lead to increased confusion for dealers in referencing the most recently filed Fund Facts and could potentially lead to errors in delivering the correct Fund Facts to an investor.

One commenter stated that greater frequency in filing will require dealers to constantly monitor when a Fund Facts has been updated for a particular mutual fund or series. The complexities, stated this commenter, simply are not justified. Added

another of these commenters, it would be a monumental task for dealers to devise appropriate systems to ensure that the mutual fund's most recently filed Fund Facts is sent to investors, when the requisite document potentially changes every three months.

Still another commenter noted that just as amendments to the SP are often confusing for advisers, so too will amendments to the Fund Facts. Adding flexibility will just increase the already existing confusion.

We also heard from industry commenters that the amount of time, effort and resources engaged by fund managers in the compiling, editing, translation and approval of the Fund Facts would be a huge and onerous undertaking.

Frequent filings of Fund Facts will cause investor confusion

A number of commenters also told us that this option may lead to more difficulty, confusion and frustration for investors in comparing Fund Facts, and could undermine comparability for investors.

One commenter told us that allowing for discretionary timing of filing updates or failing to harmonize the time frames mandated for particular data elements would make it difficult for investors to know that they are comparing apples to apples and make it difficult for them to know that they are looking at the most up-to-date information.

We were referred to the SEC's explanation as to why it did not require more frequent updates be made to each mutual fund's Summary Prospectus. Namely, that quarterly updating of performance information could confuse investors and would discourage mutual funds from using the Summary Prospectus.

Frequent filings will cause competitive disadvantage

One commenter, a national dealer association, further stated that that this option could create a competitive disadvantage for fund managers that choose not to update the Fund Facts at regular intervals, since once one major fund company starts preparing and filing

Fund Facts more frequently, all of their competitors would be required to fall in line due to demand from advisers.	
5. In response to comments, we are proposing some limited binding of fund facts documents. In section 4.1.5 of the Policy Statement we have provided guidance on this provision. Is this guidance sufficient? Do you agree with this approach?	
<i>Comments</i>	<i>Responses</i>
<p>While some industry commenters told us the Regulation's flexibility to allow some binding of the Fund Facts is laudable, all industry commenters told us that the suggested limitations on binding set out in the Policy Statement are arbitrary and too prescriptive, and encouraged the CSA to provide a high degree of flexibility in the number of Fund Facts that are permitted to be bound together.</p> <p>This is particularly true, we were told, when the Fund Facts is permitted to be delivered with the trade confirmation, since the number of Fund Facts is determined by the number of executed purchases providing information about that purchase trade.</p> <p>A few commenters further questioned the need for the "principled-based" test in section 5.4 stating that it appears impossible to be able to say with any degree of certainty, whether or not it has been met.</p> <p>A number of commenters stated that there may be cases where the provision of information about more than 10 mutual funds of a single fund family, or the comparison of more than 10 mutual funds of a similar type from different families would not compromise the principles of simplicity, accessibility and comparability.</p> <p>We were given examples where bundling of more than 10 Fund Facts may be desirable from the investor's perspective, such as:</p> <ul style="list-style-type: none"> • for the top and underlying funds of a fund of funds structure, or • funds of an asset class, or by country, or across a group of assets with like risks. 	<p>For the purposes of posting to a website, each Fund Facts must be posted as a separate document. Posting a single document per fund should help investors more easily find and access information about the particular mutual fund. For SEDAR filing purposes, the Regulation allows the Fund Facts of all the mutual funds contained in a multiple SP to be bound together.</p>

Added a service provider commenter, implementing technologies to comply with the restrictions as described in the Policy Statement would add significant costs to the implementation as well as ongoing production and postage costs associated with the potential mailing of a number of separate packages to an investor.

This commenter went on to say that receiving multiple packages in the mail would be more confusing to investors and be less likely to encourage them to read the material than if they receive one consolidated, bound booklet personalized to their interests with a clear index that informs them on what they are reviewing.

It was therefore recommended that the limit of 10 Fund Facts be omitted from the Policy Statement or expressed in softer language, so that the Regulation is flexible on bundling of Fund Facts, both electronically and in paper form, and that the decision on whether or not to bind be left to the discretion of the manufacturer and/or dealer, provided the bundling adheres to the principles of simplicity, accessibility and comparability.

We were also told by a number of industry commenters that section 5.4(2) of the Regulation should be amended to allow for electronic delivery of multiple Fund Facts that are bound together in a PDF document, consistent with delivery in paper format.

These commenters disagreed that multiple Fund Facts could constrain an investor's ability to download the file, find and print the specific Fund Facts, remarking that it would not be difficult for investors to download a document of approximately 20-30 pages, representing 10 Fund Facts, investors would prefer receiving one e-mail and it would be more efficient for dealers and ensure stronger compliance with the Regulation.

7. Depending on the comments we receive, we may decide to proceed with finalizing some parts of the Regulation while continuing to consult on other parts. For example, we may be able to move forward sooner with the requirement to prepare and file a fund facts document and have it posted to the website. If this were to occur, we would provide a reasonable transition period before anyone has to comply with the fund facts document requirements and we would consider a shorter transitional period for delivery.

What are your views on this approach? What period would be appropriate?

<i>Comments</i>	<i>Responses</i>
<p>While a few industry commenters recommended removing the requirement for pre-sale delivery, most industry commenters simply reiterated their support for a staged implementation, with the first stage consisting of the production of the Fund Facts. POS delivery would be deferred to allow for a longer consultative process until there are clear, practical and workable solutions developed to the operational and compliance concerns related to delivery.</p> <p>One investor advocate commenter also expressed support for the CSA to move forward sooner with certain requirements (such as the requirement to prepare and file a Fund Facts and have it posted to the website), and to continue to consult on other parts of the Regulation.</p> <p>One service provider stated, at a minimum, the transition period will need to address the likelihood that during this period, a dealer will need to be able to deliver a combination of SPs and Fund Facts.</p> <p>We were encouraged to allow the voluntary use of the Fund Facts before any delivery requirements are mandated.</p> <p>However, even with a deferred implementation of delivery, we were told by some industry commenters that a two-year transition period for delivery would still be appropriate and should not be shortened. Others, however, remarked they were uncertain whether a two-year transition to delivery will be sufficient to resolve pre-trade delivery</p>	<p>For the reasons indicated above, the CSA has concluded to move forward with a staged implementation of the project.</p> <p>While the staged implementation may differ from the implementation schedule contemplated by the CCIR, the Fund Facts is harmonized with the CCIR approach.</p> <p>As the CSA moves forward with the remaining stages of implementation set out in Notice 81-319, we will continue our consultations with stakeholders.</p> <p>We do not think that the CSA's approach to implementation will cause confusion for investors. The Funds Facts published by the CSA is consistent with the Fund Facts to be finalized by the CCIR. We note that the CSA and CCIR currently have different delivery requirements for disclosure documents. The CSA remains committed to proceeding with POS delivery.</p>

problems including the operational interface to facilitate delivery.

In addition, a number of industry commenters additionally expressed support for a transition period that provides for the earlier dissemination of Fund Facts to investors, telling us it will allow users of the Fund Facts to gain valuable experience with the document and enable them to determine its utility. They agreed with allowing funds to make use of the Fund Facts during the transition period under the current delivery requirements.

One industry commenter stated that once the Fund Facts is filed, the disclosure regime contemplated under the Regulation should become effective, with only the point of sale or timing of the delivery phased in.

Another commenter remarked that before delivery of the Fund Facts comes into effect, the CSA must ensure that appropriate modifications to applicable legislation are in place.

Yet, we also heard from an association that represents both insurance and mutual fund professionals that while a two-step approach to implementation has some merit, this approach differs from the implementation schedule contemplated by the Joint Forum and the Canadian Counsel of Insurance Regulators (CCIR). We were told it makes little sense to proceed with full implementation for segregated funds and a staged implementation for mutual funds because it would create confusion for investors and advisers. Implementation for both products, indicated this commenter, should be the same.

III) Issues for Comment on Form 81-101F3 *Contents of Fund Facts Document*

1. In response to comments, we have provided some flexibility in the proposed amendments to *Regulation 81- 101 respecting Mutual Fund Prospectus Disclosure* for a fund facts document to be attached to, or bound with, one or more fund facts documents of other mutual funds. To date, however, we have not seen a sample fund facts document that contains multiple class or series disclosure that meets the principle of providing investors with information in a simple, accessible and comparable format as set out in *Framework 81-406: Point of Sale Disclosure for Mutual Funds and Segregated Funds* (Framework).

For us to consider allowing flexibility to permit a single fund facts document per mutual fund, we request sample fund facts documents that demonstrate multiple class or series information presented in a manner consistent with the principles of the Framework.

<i>Comments</i>	<i>Responses</i>
<p>In response to the CSA's request, four industry commenters prepared and submitted sample multi-series Fund Facts, including the Investment Funds Institute of Canada, a national trade association for the investment funds industry. We also received an alternative POS template from an individual commenter.</p> <p>An independent review committee commented that the content of a single series or class Fund Facts will not allow an investor to understand his or her investment options.</p> <p>The majority of industry commenters stated that a multi-series Fund Facts can meet the principles of simplicity, accessibility and comparability, if the series' are predominately the same (with no material difference). An example is retail series that are the same but for different distribution amounts.</p> <p>A number of industry commenters remarked that although Fund Facts can be bundled and read together, if the differences between series and classes are minimal, comprehension for both investors and financial advisers is simplified by integrating the multiple series disclosure into one document. They said this would provide a more complete picture of the investment options available for each mutual fund. In particular, noted a commenter, investors would have access to consolidated fees and expenses information for each series of a mutual fund.</p> <p>The addition of an extra page or two to a Fund Facts to accommodate a multi-series document on this basis would not, indicated one commenter, undermine the principle of readability, which is central to the CSA's proposals.</p> <p>A number of industry commenters did acknowledge, however, that including dissimilar</p>	<p>We do not propose to make any change at this time. The CSA will continue to consider this issue as we move toward implementation of POS delivery.</p>

series in a single Fund Facts risks presenting information that is not fully explained or easily comparable. Noted one commenter, flexibility should be extended only when the series⁷ are substantially comparable and are all available to the investor through the dealer that is delivering the Fund Facts.

Another commenter added that if new mutual fund series for each province/territory is created due to HST, mutual fund manufacturers could only realistically combine the series related to one province/territory into one document.

We were told that grouping similar series in a single Fund Facts would reduce the number of Fund Facts for a particular mutual fund down to 3 or 4 from an expected 10 or more and, in aggregate, by approximately two-thirds. This would significantly reduce costs to create, design, review, post online, print and deliver Fund Facts. One commenter added that this grouping would also assist similarly qualified investors in understanding the different purchase options available to them.

Added another industry commenter, the sample template submitted by IFIC could be further simplified by consolidating the graphs for different series showing the year-by-year returns in the “How has the fund performed section” into one graph with different bars representing different series in the same graph. In this way, it would be possible to combine different series into one Fund Facts without unduly lengthening it and without confusing investors.

Still, other industry commenters told us fund managers should have the flexibility to choose whether to combine any series into the same Fund Facts if, stated one of these commenters, the Fund Facts does not exceed 4 pages.

Another commenter, a mutual fund dealer, stated that multiple series Fund Facts could be problematic, since not all mutual fund dealers necessarily sell all the series of each mutual fund. Including more than one series in a Fund Facts, stated this commenter, could therefore create confusion between advisers and investors and detract from the objective of providing streamlined and simple disclosure. A possible

<p>exception to this would be where the series are substantially the same so that the differences between the information for each series are minimal.</p> <p>Finally, if a Fund Facts includes multiple series or classes, an investor advocate commenter remarked that the CSA should require the inclusion of comparative information (particularly with respect to fees) between the different series or classes of mutual funds.</p>	
<p>2. We are considering whether it is more appropriate to require disclosure of the MER without any waivers or absorptions, since there is no guarantee such waivers or absorptions will continue. Do you agree with this approach?</p>	
<p><i>Comments</i></p>	<p><i>Responses</i></p>
<p>While some investor advocate commenters supported presenting the MER without any waivers and absorptions, industry commenters who responded disagreed, and told us the “actual” MER (i.e. the MER after waivers and absorptions) should be presented.</p> <p>We were told that presenting the MER after waivers and absorptions will match the performance information contained in the Fund Facts and is the most consistent with the objectives of the Fund Facts.</p> <p>A number of industry commenters further remarked that presenting only the MER before waivers and absorptions could be confusing or misleading for investors since it would not represent what investors would experience as mutual fund holders.</p> <p>One of these commenters stated that all numerical data in disclosure documents is, of necessity, backward-looking and intended to give investors a good sense, not a guarantee, of what they will experience as owners of the investment product.</p> <p>However, some industry commenters did acknowledge the importance of disclosing that the MER may reflect waivers and absorptions. A few commenters suggested the Fund Facts follow the current practice in the SP of stating that waivers apply to the MER,</p>	<p>We think that requiring the disclosure of MER after waivers and absorptions is consistent with industry practice and avoids confusion for investors. The MER will be taken from the most recently filed MRFP for the mutual fund.</p> <p>In our view, providing two different MERs in the Fund Facts would be confusing to readers. Therefore, where the MER reflects waivers and absorptions, we require disclosure in the Fund Facts to that effect. As a result, the MER disclosed in “Quick Facts” and the MER in “Fund Expenses” are the same.</p>

<p>which may change from year to year.</p> <p>Another commenter told us to consider providing a cross-reference to more detailed disclosure on this issue, given its importance to an investor.</p> <p>Still another industry commenter suggested that the Quick Facts section could disclose the actual MER, while the Ongoing Fund Expenses section could disclose both the actual MER and the MER before waivers and absorptions. However, a different commenter stated that disclosing both net and gross MER might confuse the investor and complicate the Fund Facts.</p> <p>Finally, if the CSA is concerned that mutual fund managers might decide not to waive or absorb fees in a particular year after the investor has made a purchase, one industry commenter suggested this could be addressed by requiring policies and procedures around waivers and absorptions and having them explained in the SP or AIF.</p>	
<p>3. In response to comments, including concerns raised by investors and the Investment Funds Institute of Canada (IFIC) of the use of its risk scale, we are proposing for the manager to identify the mutual fund's risk level on a prescribed scale set out in the fund facts document, based upon the risk classification methodology adopted by the manager.</p> <p>We request comment on whether this approach achieves our objective to provide investors with a simple and comparable presentation of the level of investment risk associated with the mutual fund. Are there alternatives to achieve this objective?</p>	
<i>Comments</i>	<i>Responses</i>
<p>A number of industry commenters and an investor advocate commenter agreed with the CSA proposed approach to require that the methodology used to disclose risk in the Fund Facts be consistent with that used by the fund manager in the SP. They supported providing investors with a simple and comparable presentation of the level of investment risk.</p>	<p>We have decided to allow the fund manager to identify the mutual fund's risk level based on the investment risk classification methodology adopted by the fund manager.</p> <p>The Fund Facts Form requires the fund manager of the mutual fund to provide a risk rating for the mutual fund based on the risk classification methodology adopted by</p>

One of these commenters stated that, the flexible approach to the risk classification methodology is appropriate, but did note that for comparability, one methodology for every fund manager would be preferable.

However, other industry commenters as well as the investor advocates who commented, remarked that the objective of comparability could only be achieved by adopting a common risk scale or a common methodology to determine the risk level. These commenters suggested that the CSA either adopt the IFIC Fund Risk Classification methodology or create its own prescribed risk scale or methodology.

Added one of the investor advocate commenters, if this approach is taken, there should be a requirement for prospectus disclosure of the methodology used.

We were also told that the risk classification methodology will vary from fund manager to fund manager and will unavoidably contain some elements of judgement and subjectivity.

One commenter also remarked that while a widely accepted risk measurement formula does work well in the long-run, it is misleading to suggest to investors that a bond fund has a lower risk than an emerging market equity fund. It is possible for interest rates to rise dramatically in the short run and the value of a bond fund can drop as if it were a high-risk emerging market fund.

Other industry commenters told us that any disclosure of a risk measure for a mutual fund is confusing and could be misinterpreted or misused by investors and advisers.

Some of these commenters noted that there are limits to the usefulness of rating the risk of particular funds in isolation, separately from an investor's overall portfolio, circumstances, risk profile and investment objectives. It was also expressed that fund risk was never intended to be used by dealers, advisers or investors as a proxy for suitability.

the fund manager. The fund manager must then identify the mutual fund's risk level on a scale prescribed in the Fund Facts Form made up of five categories ranging from low to high.

It is our view that the use of a prescribed scale will promote comparability of risk across mutual funds. We received positive feedback from investors and advisers on the risk scale when we tested the Fund Facts document. See the *Fund Facts Document Research Report* (the Research Report) prepared by Research Strategy Group in Appendix 5 to Proposed Framework 81-406 *Point of Sale Disclosure for Mutual Funds and Segregated Funds* published by the Joint Forum on June 15, 2007 (the Initial Framework) on the OSC website.

The consequential amendments require a description in the SP of the methodology used by the fund manager in arriving at its determination of the mutual fund's investment risk level.

*Alternatives suggested****Worst 12-month return***

Investor advocate commenters suggested that the Fund Facts disclose the worst 12-month return for the fund. These commenters indicated that the information would equip investors with a greater understanding of the risks they might need to bear if a similar 12-month return period were to recur.

Past performance

We were told that although past performance is not an accurate indicator of future returns, investors frequently do not fully understand the risks associated with mutual fund investments. Clearly showing investors a “worst-case scenario”, we were told, can drive home the message that investing in a mutual fund can be risky, with the potential to result in a loss of the investment.

Refer investors to SP

A few industry commenters remarked that a risk scale may not be necessary at all, since the SP already contains extensive risk disclosure, as well as comments on suitability. Instead, it was suggested the Fund Facts refer the investor to the SP for risk disclosure.

Proposed risk scale

Finally, if the CSA decides to proceed with the proposed risk scale, a number of industry commenters asked that a statement be included to clarify that the risk measure is the fund manager’s reasonable assessment of the fund’s historical volatility risk and not the investor’s risk tolerance, and that the investor should consider the investment in the context of his or her entire portfolio rather than in isolation.

Worst 12-month return

We have not made any changes. We think that isolating a mutual fund’s worst 12-month return could be potentially misleading to investors. The mandated disclosure will show graphically the performance of the mutual fund. We also note that “Year-by-Year Returns” must indicate the number of years in which the value of the mutual fund dropped.

Past performance

We propose no change. Consistent with the existing prospectus disclosure and continuous disclosure regimes, the Fund Facts Form requires performance be disclosed annually.

Refer investors to SP

We disagree with the comment that a risk scale is not necessary, however, we agree with the suggestion of adding a cross-reference to the SP. The Fund Facts Form now requires a cross-reference to the risk disclosure contained in a mutual fund’s SP.

Proposed risk scale

In response to comments, we have added qualifying language to “Who is this fund for?” to alert investors that before investing in any mutual fund, they should consider how it would work with their other investments and their own risk tolerance. We think that this qualifying language will encourage investors to seek out more information.

4. We would like feedback on whether the band we've prescribed for the scale is appropriate. Are there better ways to describe the range of investment risk for a mutual fund?

<i>Comments</i>	<i>Responses</i>
<p>While some industry commenters and an investor advocate told us they agree with the scale the CSA has prescribed for identifying a mutual fund's risk level, other industry commenters stated that the concepts of fund volatility risk and overall investor risk tolerance are commonly confused by investors. The scale may exacerbate the confusion, leading to improper investment decisions that may increase the risks associated with the investor's overall portfolio.</p> <p>Added an investor advocate commenter, permitting fund companies to rate the relative riskiness of their mutual funds on a sliding scale will leave investors in the dark about the mutual fund's true risks.</p> <p>Better ways to describe risk</p> <p><i>Highlight investor risk tolerance</i> As previously noted, a number of industry commenters told us the risk scale should be removed or, if retained, that the Fund Facts clarify that the disclosure shows the fund manager's assessment of the fund's historic volatility risk and not investor risk tolerance and that the investor should consider the investment in the context of their entire portfolio, rather than in isolation.</p> <p><i>Change nomenclature</i> Industry commenters also recommended that, to minimize the confusion between fund volatility risk and investor risk tolerance, the CSA should consider changing the nomenclature of the risk bands, using the term "average" in place of terms often used to denote client risk tolerance such as "moderate" or "medium".</p> <p>It was also suggested that the Fund Facts refer to the fund's "volatility" rather than its</p>	<p>We have not made any changes to the bands we've prescribed for the scale. In response to comments, we now require a cross-reference to the SP for a description of mutual fund-specific risks.</p> <p>Better ways to describe risk</p> <p><i>Highlight investor risk tolerance</i> We have not removed the risk scale, however, we have added a sentence to "Who is this fund for?" which alerts investors to consider how the investment fits with their risk tolerance and with their portfolio.</p>

“risk” consistent with the year-by-year performance data which illustrates volatility.

Increase number of risk ‘clusters’ on band

A number of industry commenters told us that the band has too few categories, resulting in each risk band being too large in size. They recommended that expanding the band to include “very low” volatility, commensurate with IFIC’s revised risk classification methodology which recognizes six clusters of fund standard deviations.

Highlight worst twelve-month returns

As previously noted, investor advocate commenters suggested that the Fund Facts disclose the worst 12-month return for the mutual fund as a way to better illustrate the risks an investor might need to bear.

Include risk/reward numerics

Finally, we heard from another commenter who recommended that instead of the risk scale, the following 15 risk/reward numerics should be provided to investors prior to purchasing a mutual fund as a way to better describe the range of investment risk:

1. Alpha, 2. Beta, 3. Correlation Benchmark, 4. Downside Risk, 5. Downside Frequency, 6. Downside Magnitude, 7. Jensen’s Measure, 8. Morningstar Rating, 9. Mean, 10. R-Squared, 11. Sharpe Ratio, 12. Skewness 13. Sortino Ratio, 14. Standard Deviation 15. Treynor’s Measure.

Increase number of risk ‘clusters’ on band

We propose no change. As noted above, we think the risk scale appropriately gives readers a snapshot of the risk level of the mutual fund.

Highlight worst twelve-month returns

We propose no change. As noted previously, the Fund Facts Form requires disclosure of a mutual fund’s performance over a 10-year period. We think the 10-year time horizon will provide investors with an illustration of the best and the worst performance of the fund.

Include risk/reward numerics

We disagree with this comment. We do not consider the 15 risk/reward numerics described to be written in a way that is consistent with plain language principles. Our research identified the following facts about the Canadian population: our population is aging, about one-fifth of Canadians have a language other than French or English as their mother tongue, about one-half of adult Canadians have serious problems dealing with printed materials or can deal only with simple reading tasks, and a large majority of investors lack basic investment knowledge. Consistent with our research, we have decided to present the information in a simple and accessible format. To achieve this goal, we have designed the Fund Facts in a short, informative, investor-friendly and plain language format.

5. We recognize that managers with similar type mutual funds may adopt different methodologies to identify the mutual fund's risk level on the scale prescribed. We would like your view on whether this will detract from our objective to provide a simple and comparable presentation of the level of investment risk. Should we consider requiring a particular type of risk classification methodology be used? If so, what methodology would be appropriate?

<i>Comments</i>	<i>Responses</i>
<p>Only one investor advocate commenter suggested an alternative risk methodology, asking us to consider including beta as a risk measure.</p> <p>A few industry commenters endorsed mandating the use of IFIC's Fund Risk Classification Model, saying that risk classification cannot be compared between Fund Facts prepared using different methodology. However, most industry commenters, including IFIC, remarked that the use of the IFIC Fund Risk Classification methodology, while useful to help ensure comparability, should not be prescribed.</p> <p>IFIC remarked that its risk classification methodology is only a guideline and not mandatory.</p> <p>A number of industry commenters further recommended against adopting alternative risk methodologies, which we were told could have the potential for bias or substantial annual variation, and thereby have serious impacts on investors.</p>	<p>After much consideration, we have decided not to prescribe the use of a particular type of risk classification methodology. The fund manager must choose the most applicable risk methodology and describe the methodology used in the mutual fund's prospectus. The fund manager must certify the risk methodology selected by the mutual fund in the AIF.</p>

6. In response to comments, we are considering allowing the disclosure in this section to be supplemented with a brief description of the key risks associated with an investment in the mutual fund. We request feedback on this approach. Should we limit this risk disclosure? If so, how?

<i>Comments</i>	<i>Responses</i>
<p><i>Agree with allowing a description of key risks</i></p> <p>Investor advocate commenters and an SRO commenter generally supported the CSA proposal to allow a brief description of the key risks associated with the mutual fund,</p>	<p>We propose no change. In response to comments, we are requiring a cross-reference to the risk disclosure found in the SP so that investors are aware that there are more specific descriptions of a mutual fund's risk and know how to obtain more</p>

although they differed on what risks they thought should be included.

Investor advocate commenters suggested we require mutual funds with significant exposure to currency fluctuations to state their hedging policy.

One of these commenters stated that, some narrative should be permitted even if an additional page is required, since the communication of risk and suitability is at the heart of POS disclosure.

Another commenter also told us that investors should be made aware of the general risks of investing in a mutual fund (price fluctuation risk, investment is not guaranteed risk, and redemptions may be suspended risk) as well as the specific risks of investing in a mutual fund (including: concentration risk, credit risk, currency risk, derivative risks, equity risk, foreign investment risk, interest rate risk, large transaction risk, liquidity risk, repayment risk, replication management risk, repurchase and reverse repurchase transactions and securities lending risk).

Added this commenter, there should also be transparency of the mutual fund's statement of investment policy, since the investment ranges that the fund manager must adhere to per asset category within the mutual fund is a key risk/reward identifier.

We also heard from one industry commenter who suggested that the CSA mandate a delineation between primary and additional risks in the SP, and then require fund managers to briefly address only the primary risks in the Fund Facts.

Disagree with allowing a description of key risks

Most industry commenters, however, disagreed with supplementing the risk section with a description of key risks.

Some of these commenters told us they did not see how detailed descriptions would fit within the two-to-three page format of the Fund Facts, nor did they think that additional

information.

<p>narrative would facilitate the goal of concise disclosure and comparability between mutual funds.</p> <p>Others remarked that listing the key risks by title would be of little use to those not familiar with the particular risk factors named.</p> <p>Still other commenters told us it would be difficult to prioritize which risks should be disclosed in that limited space and the exercise of selectively choosing some risks and excluding others could result in incomplete or misleading disclosure. One of these commenters stated that certain risks may seem very remote or improbable, but can have an extremely significant and adverse impact if they were to manifest.</p> <p>Instead, most industry commenters recommended including a clear and specific reference to the SP for investors who would like more information regarding key risks, together with a statement that the Fund Facts does not address all of the risks of investing in the mutual fund.</p>	
<p>7. To better convey the impact on the investor of sales charges and ongoing fund expenses, we are considering requiring an illustration of the amounts payable in dollars and cents. What are your views?</p>	
<p>Comments</p>	<p>Responses</p>
<p>Support for an illustration of sales charges and ongoing mutual fund expenses in dollars and cents was divided almost unanimously between industry and investor advocate commenters. Investor advocates supported the illustration.</p> <p><i>In favour of dollar and cent illustrations of expenses</i></p> <p>Investor advocate commenters and an SRO commenter strongly supported this approach, telling us a simple metric like the dollars and cents fees enable investors to gain a clearer understanding of the impact of those fees and expenses on potential returns.</p> <p>One investor advocate stated that information on fees and expenses is critically</p>	<p>The comments made by investor advocates resonated with us. We think that a simple presentation of costs in dollars and cents will help investors understand the impact of fees and expenses on their potential returns. As shown in the Fund Facts template, these illustrations do not require much additional space.</p>

important for investors.

Added a service provider of plain language communications, clarity about the costs of buying and owning a mutual fund would be significantly improved by including an example showing dollar values for each cost component.

This commenter further suggested that it would help investors stay the course and avoid unnecessary losses if the dollar and cents example of costs showed a 1-, 5- and 10-year timeframe.

Against dollar and cent illustrations of expenses

Industry commenters, however, recommended against a dollars and cents illustration. We were told it would not add to the utility or ease of comprehension of the Fund Facts, since the existing information is sufficient to give potential investors a good sense of what they will experience as an investor, the percentage amount is easily understood, and an investor could easily derive the dollar amount from it.

We were also told that including both percentage and dollar amounts would use up valuable space and add unnecessarily to the length of the Fund Facts.

Added one industry commenter, they were not aware of any investor concerns in this regard and told us that if dollar amounts were used in lieu of percentages, this could be very confusing for investors, given purchases and redemptions are made in other than \$100 or \$1000 increments.

It is more important, indicated one industry commenter, for the disclosure to refer to fee-based dealer fees and transactional fees for competing products, which are often negotiated with the investor to ensure that a fair comparison is made with series that charge lesser management fees.

8. We are also considering whether to require disclosure in the fund facts document of the trading expense ratio (TER), to provide investors with a more complete picture of the costs associated with an investment in a mutual fund. We request feedback on this proposal.

<i>Comments</i>	<i>Responses</i>
<p><i>Support for the TER</i> Investor advocate commenters unanimously supported the inclusion of the TER in the Fund Facts.</p> <p>Two of these commenters remarked that trading expenses can be a key component of mutual fund costs. Disclosing the TER together with the MER would give investors a clear picture of the total costs that have impacted a mutual fund's performance.</p> <p>Added one of the investor advocate commenters, the CSA may want to further analyze the point at which disclosure of the TER of a mutual fund would be material to an investor, and add relevant guidance to the Policy Statement regarding the inclusion of disclosure of the TER in the Fund Facts where appropriate (i.e., where it exceeds a minimum threshold that would be considered material).</p> <p>These remarks were echoed by an industry commenter, a mutual fund manufacturer, who similarly supported including the TER in the Fund Facts. This commenter noted, however, that the TER can fluctuate and, at certain points in time, could be inflated due to atypical activities. Therefore, the commenter recommended that the CSA allow for a brief notation as to the potential variability of the TER similar to that of the MER.</p> <p><i>Against inclusion of the TER in the Fund Facts</i> Most industry commenters told us that the TER will be a difficult concept to explain in simple language in the space available, and investors were unlikely to derive any meaningful information to base an investment decision from the inclusion of the TER.</p> <p>We were told the concept of the TER may be difficult for investors to understand and confusing, as it is not a well understood metric.</p> <p>Some commenters suggested identifying trading expenses be identified as an additional cost and that the Fund Facts refer investors to the MRFP which already sufficiently</p>	<p>We agree with the commenters who supported the inclusion of the TER. Accordingly, the Fund Facts Form now requires the mutual fund's TER, in addition to the MER, to provide investors a more complete picture of the costs associated with an investment in a mutual fund.</p> <p>We disagree that the TER will be a difficult concept to explain. The TER is a key ratio disclosed in a mutual fund's MRFP. We think that advisers will be able to explain and respond to investor questions about the TER.</p>

captures disclosure of the TER.			
Part 3 – Comments on the Fund Facts			
Issue	Sub-Issue	Comments	Responses
General comments on the fund facts	Support for the fund facts	<p>As previously noted, investor advocate commenters strongly support the goal of the CSA to provide investors with clear, meaningful and simplified information, as did most industry commenters.</p> <p>All of these commenters indicated their general support of the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.</p> <p>Remarkd one industry commenter, the Fund Facts is well thought-out and will provide investors with a substantial amount of information in a consistent format.</p> <p>Still, a few commenters told us that the Fund Facts may actually mislead or misinform potential investors because its content is overly simplistic.</p> <p>For further general comments on the Fund Facts, see: Part 2, I) Issues for comment in the Notice and Request for Comment.</p>	<p>The CSA appreciates the general support for the Fund Facts.</p> <p>We think the disclosure in the Fund Facts will provide investors with key information in language they can easily understand. For investors seeking more detailed disclosure, the existing prospectus and continuous disclosure materials will continue to be made available.</p>
Part 1 of Fund Facts			
Quick facts	Quick facts categories	Non-applicable categories We were asked by one industrv commenter to clarify	Non-applicable categories The Fund Facts Form states that if information is not

		<p>whether a fund manager should label and mark a field “N/A” or omit the label entirely if one or more Quick facts fields are not relevant to a particular mutual fund or series, for example, a mutual fund whose distributions are not a fundamental feature.</p> <p>Additional categories It was also suggested by both an industry and investor advocate commenter that the mutual fund’s category classification (e.g. Canadian Equity) be added to Quick facts.</p>	<p>available because a mutual fund is newly established, the applicable field in “Quick Facts” should state so. Similarly, the Fund Facts Form states that distributions only have to be disclosed if they are a fundamental feature of the mutual fund.</p> <p>Additional categories We do not propose to add any categories to Quick facts. We think the section “What does the fund invest in?” adequately identifies the type of mutual fund.</p>
	Total value	<p>One commenter suggested we further clarify that the requirement is to provide the total value of the entire mutual fund and not simply the series covered by the Fund Facts.</p> <p>Another industry commenter further recommended that we specify that daily NAV be used to calculate total value since the current term used, “net assets”, is a term specific to the financial statements and MRFP and is not regularly available and for consistency with the disclosure of the percentage of NAV of the mutual fund represented by its top ten positions.</p>	<p>We have made it clear in the Fund Facts Form that total value is the value of the entire mutual fund.</p> <p>We have further clarified in the Fund Facts Form that the total value is based on the net asset value as at a date within 30 days before the date of the Fund Facts.</p>
	MER	<p>One industry commenter reiterated their earlier suggestion that MER should be defined on the first page of the Fund Facts, or at a minimum, there should be a cross-reference on the first page to the definition on the second page.</p> <p>Another commenter remarked that the MER should come from the year-end financials (not the most recently filed MRFP) and should not be required to be updated.</p>	<p>We propose no change. We are satisfied that MER is a generally recognizable term and the description in the Fund Facts Form provides sufficient information.</p> <p>We disagree with the comment. We want to provide investors with the most up-to-date information available without being burdensome on the fund industry. There is</p>

			no specific requirement to update the MER unless there has been a material change.
What does the fund invest in?	<i>What does the fund invest in?</i>	<p>Several commenters again expressed their view that this section should include a meaningful description of the fundamental investment objective of the particular mutual fund, as well as its key investment strategies.</p> <p>One of these commenters stated it would be difficult for investors to judge the performance of a mutual fund without measuring it against its stated objective.</p> <p>Another of these commenters noted that investors are required to approve any change in investment objective and questioned how they could be expected to do so if they are never given this information.</p> <p>Still, we heard from one investor advocate commenter that the description of a mutual fund's investment objectives should be limited to information that is both meaningful and material.</p>	<p>We do not agree that it is necessary to disclose verbatim in the Fund Facts the investment objectives and strategies set out in the mutual fund's SP.</p> <p>The Fund Facts Form requires the disclosure under "What Does The Fund Invest In?" to be a brief description of the fundamental investment objectives and strategies of the mutual fund. In this regard, the instructions to the Fund Facts Form mirror Item 6 of Form 81-101F1, Part B. While the Fund Facts Form does not specifically preclude repeating the investment objectives and strategies set out in the SP, the instructions to the Fund Facts Form specifically require information to be presented concisely and in plain language.</p>
	<i>Top 10 investments, Total investments & Investment mix</i>	<p>Several industry commenters questioned the relevance of the Top 10 investments and Investment mix, telling us it will always be out of date for most mutual funds and could therefore be misleading to investors. They reminded us that it was initially contemplated under Regulation 81-106 for MRFPs but was subsequently removed by the CSA.</p> <p>Noted a service provider of plain language communications, detail about the "current" asset mix and top holdings is irrelevant because, by owning a mutual</p>	<p>We propose no change. We are satisfied that the disclosure in this section meets its purpose of providing a snapshot of the composition of a mutual fund's investment portfolio. The Fund Facts Form requires a statement indicating that the information is subject to change. We think this sufficiently alerts investors that a mutual fund's holdings are not static.</p>

		<p>fund, you are agreeing to have the fund manager make these decisions on your behalf.</p> <p>One of these industry commenters referred us to the SEC's decision not to require similar disclosure in its Summary Prospectus, noting its limited utility and that it may not accurately represent a fund's overall holdings because the information may become stale.</p> <p>If required, this same commenter suggested that the information be taken from the mutual fund's most recently filed MRFP or quarterly portfolio disclosure (rather than at a date within 30 days of the date of the Fund Facts), and that corresponding MRFP and quarterly portfolio disclosure requirements be eliminated.</p> <p>We were reminded that during discussions with the CSA prior to finalizing Regulation 81-106, the industry expressed concern about having to provide quarterly portfolio disclosure reports and the CSA had agreed that it would not be necessary for mutual funds to report their holdings earlier than 60 days from any quarter-end.</p> <p>Yet, we an industry commenter and investor advocate commenter both remarked that the Top 10 investments would be more meaningful if percentages of NAV accompanied each holding, since this would give investors a much better understanding of concentration risk.</p>	
How has the fund performed?	<i>Content</i>	<p>One commenter questioned the need for the Fund Facts to contain performance disclosure, given the wide availability of this information in other sources, including</p>	<p>We have included performance disclosure in the Fund Facts in response to research that indicates investors want this information for decision-making purposes.</p>

		<p>MRFPs and in reports readily available to dealers and sales representatives, such as Morningstar. Other industry commenters recommended modifications to the wording in the Fund Facts.</p> <p>One commenter suggested changing the phrase “Returns are after MER has been deducted” to “Returns are after all expenses have been deducted”, since returns are net of both MER and trading expenses and the concept of “all expenses” would be easier for a typical investor to understand than “MER”. It was also suggested, however, that this statement be removed, as it’s duplicative of wording under Ongoing fund expenses.</p> <p>Another commenter suggested the phrase “your actual return will depend on your personal tax situation” be replaced with “your after tax return”.</p>	<p>In response to a commenter, we have changed the Fund Facts Form requirements to refer to returns after expenses have been deducted.</p> <p>We have also included a reference to after-tax return.</p>
	<i>Date of information</i>	<p>One industry commenter found the dating of the “average return” section to be somewhat confusing since it does not correspond to the “year-by-year” data, which is presented on a calendar year basis. If, for example, the Fund Facts is dated June 30 and the “Average return” data must be for the 10 year period ending May 31 of that year, there should be some clarification regarding the exact time period covered by the “Average return” data. For example, the wording could be “This section tells you how the mutual fund has performed over the past 10 years ending May 31, 2010”.</p>	<p>The wording in the Fund Facts template is for illustrative purposes only. The Fund Facts Form does not mandate any specific language for the disclosure of the “Average return” information. Accordingly, we think the Fund Facts Form is sufficiently flexible to accommodate differently dated Fund Facts.</p>
	<i>Inclusion of a</i>	<p>Investor advocate commenters stressed the importance of performance comparisons to index benchmarks as</p>	<p>After much consideration, we have concluded not to include a benchmark comparison under “How has the fund</p>

	<i>benchmark comparison</i>	<p>fundamental to protecting investors, detecting “closet indexing” and reducing information asymmetry.</p> <p>One of these commenters suggested that the CSA review this issue with a view to formulating a proposal for public comment to require performance comparisons to appropriate index benchmarks by June 2010.</p> <p>An industry commenter echoed this, reiterating its earlier comment that a table showing compounded annual returns for the previous 1-, 3-, 5- and 10-year periods versus the mutual fund's benchmark is more meaningful information to the investor, and suggested that this information be added to the Fund Facts.</p>	<p>performed?”. We are concerned that this would undermine our goal of a simple and concise summary of key information. The bar graph is intended to highlight potential volatility and variability in the returns of the mutual fund. The Fund Facts Form further requires a general statement on price volatility and guarantees. Comparative information to a benchmark is available in a mutual fund's MRFP.</p>
	<i>Inclusion of disclosure of after-tax returns</i>	<p>Investor advocate commenters strongly recommended that the CSA require disclosure of after-tax returns in the Fund Facts. It also recommended that mutual funds be required to disclose the percentage, on an after-inflation basis, that is consumed by various fees and charges. They suggested that this disclosure could be provided on a before-tax basis. These inclusions we were told will help investors understand the impact of taxes and inflation on their investments.</p> <p>At a minimum, one of these investor advocates indicated that the Fund Facts should address tax issues head on and make the issue highly visible and apparent for the taxable investor.</p>	<p>We propose no change. However, in response to comments, the CSA has added a new section to the Fund Facts Form on the tax consequences of investing in a mutual fund called “A Word about Tax”.</p>
	<i>Average return - Content</i>	<p>One industry commenter reiterated its support for the re-introduction of the “Average Return” information,</p>	<p>We propose no change to this disclosure. It is outside the scope of this project to reconsider MRFP disclosure.</p>

		<p>which was dropped from the SP with the introduction of the MRFP. The commenter recommended that the information be shown in the form of a graph that shows not only the end amount after 10 years, but also the path followed to arrive at the end result. This commenter again suggested that this information be re-introduced in the MRFP.</p> <p>This same commenter also noted that the phrase “A person who invested \$1,000 in the fund 10 years ago now has \$2,705”, will be incorrect in a great many instances as it assumes that the investor has reinvested all distributions in the mutual fund.</p>	
	<i>Year-by-year returns - Content</i>	<p>One industry commenter pointed out that the requirement in Part 1, item 4, instruction (4) for the x and y axes to intersect at ‘0’ conflicts with the sample Fund Facts chart which, it felt, more sensibly shows the x and y axes intersecting at a value lower than the lowest of the negative annual returns. This commenter recommended that the fund manager be given discretion with respect to this requirement.</p> <p>Another industry commenter recommended including a statement about the number of years the mutual fund made money.</p> <p>Finally, we were reminded by one commenter that past performance is no guarantee of future performance.</p>	<p>We propose no change. The Fund Facts Form clarifies that the statement under “Year-by-year returns” must indicate the number of years in which the value of the mutual fund dropped.</p> <p>We disagree with the comment to include a statement about the number of years the mutual fund made money. The bar graph clearly indicates the years in which a mutual fund has had positive performance. In requiring disclosure of negative performance, we are seeking to highlight volatility and risks to investors. We expect a mutual fund’s positive performance to be presented.</p>
How risky is it?		For comments on the Risk section, see Part 2, III) Issues for comment on Form 81-101F3 – questions 3, 4,	

		5 & 6.	
Who is this fund for?	Content	<p>We were told by one industry commenter that the instructions to the Fund Facts Form should not focus the disclosure on who the mutual fund is not suitable for, as this is negative. Instead, we were asked to conform the requirement with that required by segregated funds, which focuses on the type of investor the mutual fund is suitable for.</p> <p>Another industry commenter remarked on the wording in the sample Fund Facts that the mutual fund is suitable for investors who can handle ups and downs of the stock market. This statement, stated the commenter, goes to investor psychology rather than to the mutual fund itself and should not be included here.</p>	<p>We disagree with these comments. The content in this section is consistent with the disclosure currently required in a mutual fund's SP. The instructions to the Fund Facts Form mirror Item 10 of Form 81-101F1, Part B.</p>
Part 2 of Fund Facts			
Sales charges	Initial sales charge	<p>An individual commenter recommended that for greater clarity, we change the disclosure from "Up to 4% of the amount you buy" to "Fully negotiable from 0% to 4%".</p> <p>Still other commenters suggested the disclosure identify that no sales charge is a real option, recommending the disclosure say "From 0 to x%".</p>	<p>We have revised the instructions to the Fund Facts Form under the Initial Sales Charge option to refer to a range that can be charged.</p>
	Deferred sales charges	<p>A few commenters suggested we add disclosure for low load and no load options.</p> <p>One of these commenters recommended adding text indicating that with the DSC or low load option, your entire</p>	<p>The presentation in the Fund Facts is for illustrative purposes only. The instructions to the Fund Facts Form require a mutual fund to disclose all sales charge options that apply to the class or series described in the Fund Facts. If a mutual fund does not have any sales charges, the instructions to the</p>

		<p>amount is invested immediately.</p> <p>The other commenter recommended that for no load funds, text should be added to clarify there are no sales or redemption charges for these mutual funds.</p>	<p>Fund Facts Form require the mutual fund to replace the introductory statement and the sales charge table with a general statement that no sales charges apply.</p>
Ongoing fund expenses	<i>Content</i>	<p>One industry commenter told us we should eliminate the breakdown between “management fee” and “operating expenses”, since some fund companies include many operating expenses such as custodian fees, registration fees, audit fees, etc. in their calculation of management fee, while others separate them out as operating expenses. This commenter suggested alternative wording, which included listing the specific costs that make up the MER.</p> <p>Another industry commenter remarked that the sentence immediately under the title Operating fund expenses “You don’t pay these expenses directly. They affect you because they reduce the return you get on your investment”, is not similarly mandated for the segregated fund version of the Fund Facts. For competitive reasons, these words should be deleted from the Fund Facts.</p>	<p>We have removed the reference to “operating expenses” in the Fund Facts Form. Upon review, we determined that the presentation of MER and TER with explanations of what these ratios capture is sufficient. We think that specific ratios, rather than a breakdown of expenses, are simpler for investors to understand and address the ongoing costs of holding a mutual fund.</p>
	<i>Management Fee</i>	<p>We heard from some industry commenters that the instructions to the Fund Facts Form should not require the management fee percentage to correspond to the fee table in the SP, since this will be misleading for fund managers who show in the SP the maximum annual management fee, but in fact charge a lower amount.</p>	<p>We propose no change to the disclosure in this section. The content in this section is consistent with the disclosure currently required in the mutual fund’s SP. The instructions to the Fund Facts Form mirror Item 8 of Form 81-101F1, Part A.</p>
	<i>Operating expenses</i>	<p>One industry commenter suggested we change the phrase “You don’t pay these expenses directly” to “These fees are</p>	<p>As noted above, we have decided to remove the reference to “operating expenses” in the Fund Facts Form. We do</p>

		<p>deducted from the Fund”.</p> <p>A number of commenters, both industry and investor advocates, recommended that the Fund Facts specifically reference the GST and Ontario’s proposed HST. Noted one of these commenters, taxes (particularly the GST and the proposed HST) make up an increasingly significant component of a mutual fund’s MER.</p> <p>Among the suggestions from these commenters were:</p> <ul style="list-style-type: none"> • set out the specific costs, for possible rebating, • change the wording under Operating expenses to read “These are the costs of the fund, <u>including taxes such as GST/HST, but</u> other than trading costs”, and • consider adding a third separate item after Management Fee and Operating expenses for taxes, which all equal the MER. <p>Still other industry commenters told us that that the fund manager should have the discretion to break down the different types of operating expenses as line items in the Fund Facts.</p>	<p>not propose to include disclosure regarding GST/HST because it is one of many expenses captured in the MER and additional disclosure would add complexity. Furthermore, disclosure regarding the HST may be included in the SP.</p>
	Management Expense Ratio	<p>We were told by an investor advocate commenter that given high Canadian MERs, these fees need to be highlighted and clearly exposed not just in percentage terms but also in dollars and cents.</p> <p>Several industry commenters further remarked that the</p>	<p>We have considered the comments and decided not to proceed with a breakdown of the components of MER. We think that disclosing certain components of MER in a manner that suggests MER is the total of these components is potentially misleading and inaccurate because the fund manager may waive management fees or</p>

		<p>Fund Facts Form should provide more flexibility to present a more meaningful breakdown of the mutual fund's MER, given that many fund managers now charge a fixed administration.</p> <p>Still another industry commenter told us that it is inaccurate and potentially misleading to arrive at the Operating expenses by subtracting the Management fee from the MER, particularly where the fund manager is waiving management fees or absorbing operating expenses. This commenter told us that the Management fee, Operating expenses, and MER should each be calculated discretely and accompanied by a footnote that the MER may not equal the sum of the management fee and the operating expenses because of waived fees and absorbed expenses.</p>	<p>absorb operating expenses. Therefore, we have moved away from the "plug-in" approach to disclosing the different elements of MER and focused on the actual final calculation. We think that this is a more technically accurate and consistent method of disclosing MER to investors. We also think that specific ratios are simpler for investors to understand and address the ongoing costs of holding a mutual fund.</p> <p>We note that a more detailed explanation of the operating expenses of the mutual fund is available in other disclosure documents, such as the annual financial statements.</p>
	<i>Trailing commission</i>	<p>An investor advocate commenter suggested the word "Ongoing" should be added to the heading "Trailing commission" to stress that sales commissions are not one-time payments and to combat the misconception of many retail investors that advice is free and free of any conflict-of-interest.</p>	<p>We propose no change. We are satisfied that the statement in the Fund Facts Form that the trailing commission is paid for as long as the investor owns the mutual fund sufficiently conveys it is not a one-time payment.</p>
For more information	<i>Strengthening Cautionary Language</i>	<p>We also were told by a number of commenters to strengthen the cautionary language contained in this section, to make it clear that the Fund Facts does not have all information.</p> <p>A few industry commenters, including a national trade association, recommended replacing the existing wording "This Fund Facts may not have all the information you want" with "Much more information is available to you and you</p>	<p>In response to this comment, we have moved some of the information previously found under "For More Information" to an introductory header that emphasizes that the Fund Facts may not contain all of the information an investor may want and that investors can find more information in the SP. We are satisfied that the language of the header appropriately highlights that the Fund Facts contains key information and the availability of more</p>

		<p>will be deemed to have read that information even if you choose not to do so.”</p> <p>One of these commenters suggested that the section should refer to the availability of the other documents, in addition to the SP, and should refer the reader to the website where this information is posted.</p> <p>Investor advocate commenters told us the existing wording does not properly suggest significant details have been left out, particularly concerning the risks associated with the mutual fund. One commenter recommended replacing it with “This document is an abbreviated summary of important information. You can ask for a copy of the mutual fund’s SP which provides more details on risks, sales commissions and other factors”.</p> <p>These investor advocates recommended moving the cautionary language to the beginning of the Fund Facts.</p>	detailed information.
	<i>Adding Dealer Contact Info</i>	<p>One industry commenter noted that this section only includes contact information for the mutual fund company. Given that it is the responsibility of the dealer to provide the Fund Facts to the investor, this commenter suggested including a reference to the fact that the investor can get more information about the mutual fund through their dealer.</p>	<p>We expect that apart from the mutual fund, an investor’s key contact will be their adviser. To add dealer information may add complexity.</p>
Other fund facts comments			
Overall content of fund facts	<i>Risk of stale information</i>	<p>A few industry commenters remarked that we may be creating new risks with the Fund Facts because, for portions</p>	<p>The data contained in the Fund Facts Form is intended to be a snapshot at a specific point in time. Investors will</p>

		<p>of a year, certain disclosure may become outdated. We were reminded that the intent of Regulation 81-106 was to provide investors with more timely and meaningful ongoing financial and non-financial information about a mutual fund.</p> <p>One commenter suggested that disclosure that is subject to constant change should be minimized, to minimize the need to update the Fund Facts.</p>	<p>always have the option of referring to continuous disclosure documents mandated by Regulation 81-106, which provide more current and detailed data. We think that annual updates to the Fund Facts meet the policy goals of the POS initiative.</p>
	<i>Order of information</i>	<p>While a number of industry commenters agreed that comparability between mutual funds would be facilitated by the requirement the Fund Facts contain only information that is specifically mandated or permitted, some suggested that the items in the Fund Facts be arranged in a manner that consolidates information common to all series of the same mutual fund in one place (some stated preferably on the first page) and all information that is variable or specific to a certain series separately (some stated preferably on the second and third pages).</p> <p>These commenters noted that this would assist with developing a common template that fund managers could use for each mutual fund regardless of the number of series offered by the mutual fund.</p> <p>Investor advocate commenters told us that research has shown that the number one piece of information investors want is fees and expenses and that they continue to use performance as the dominant or sole decision element. Added one of these commenters, the fact that studies find investor bias overemphasizes past performance versus expense information is all the more reason not to present</p>	<p>The instructions to the Fund Facts Form allow a degree of flexibility to enable mutual funds to customize the format of the disclosure, but we do not agree that the order of the information should be rearranged. The order of the items is intended to assist investors in understanding the information and to help ensure comparability between mutual funds.</p> <p>The instructions to the Fund Facts Form require disclosure to be presented in a format that assists in readability and comprehension. The actual formatting is not mandated by the Fund Facts Form.</p>

		<p>returns data ahead of fees and expenses.</p> <p>Still other industry commenters recommended that fund managers have the ability to organize the information required by the Fund Facts Form in a fashion that they determine is most functional and user friendly.</p>	
	<i>Emphasis should be on investment management</i>	<p>One industry commenter told us that choosing a mutual fund is purchasing portfolio management, and the facts that are critical to choosing a mutual fund relate primarily to assessing the investment management behind the mutual fund, rather than the securities the mutual fund invests in.</p>	<p>We propose no change. The Fund Facts Form requires disclosure of the name of the portfolio manager. The mutual fund manager can choose to include the names of specific individuals responsible for portfolio selection.</p>
	<i>Re-evaluate content following implementation</i>	<p>Finally, an investor advocate commenter told us that the CSA should carefully review Fund Facts upon implementation of the POS initiative, with a view to ensuring that the disclosure provided to investors is further improved and clarified.</p>	<p>While we are satisfied that the Fund Facts meets our policy objectives, we expect that the disclosure will evolve over time.</p>
Recommendations for additional content	<i>Emphasize tax consequences</i>	<p>As previously noted, investor advocate commenters strongly urged the CSA to include additional tax information in the Fund Facts, since a substantial portion of mutual fund holdings are not held in tax-sheltered vehicles such as RRSPs.</p> <p>These commenters recommended disclosing after-tax returns under the heading How has the fund performed. At a minimum, we were told the Fund Facts should address tax issues head on and make the issue highly visible.</p> <p>A few industry commenters agreed with emphasizing tax</p>	<p>In response to comments, we have added a section on tax to highlight the potential tax consequences of investing in a mutual fund. The disclosure is general in nature because each person's tax situation will be different. Please see "A Word About Tax" in the revised Fund Facts Form.</p> <p>We do not propose any specific disclosure of the impact of sales taxes. This disclosure can be included in the SP in the context of discussing the components of all expenses charged to the mutual fund.</p>

		costs, recommending that the GST and Ontario's proposed HST be specifically referenced under Ongoing fund expenses, as taxes make up an increasingly significant component of a mutual fund's MER.	
	<i>Need for abbreviated index disclaimer</i>	One industry commenter noted index providers generally require a lengthy disclaimer to be included in the SP relating to the use of the index and suggested the CSA mandate the shorter version is of this disclaimer, currently used in marketing materials. Noted this commenter, if index providers do not agree to the use of the shorter disclaimer in the Fund Facts, the page length restriction cannot be met.	We propose no change. As the Fund Facts is incorporated by reference into the SP, it is not yet clear to us whether the index disclaimer will be necessary in the Fund Facts if it remains in the SP. We will consider the issue on a case-by-case basis.
	<i>Hedging policy</i>	As previously noted, investor advocate commenters told us that mutual funds with significant exposure to currency fluctuations should be required to state their hedging policy.	We propose no change. We have, however, included in "How Risky Is It?" a cross-reference to the mutual fund's SP if investors want information about the specific risks of investing in the mutual fund.
Companion Guide for Fund Facts		<p>We were told by investor advocate commenters that the CSA should prepare a Companion Guide to explain the Fund Facts and key terms, similar to the online guide prepared by the U.S. Securities and Exchange Commission.</p> <p>One of these commenters stated that the Fund Facts should refer to the guide, which should be available free online and in hard copy upon request. Simultaneously, the CSA should develop a communication program to educate investors about the Fund Facts, dealer and adviser obligations as well as cancellation rights.</p>	As we stated in the Joint Forum's Initial Framework published on June 15, 2007, while we agree that investor education is a key aspect of investor protection, we do not think it is necessary to create a consumers' guide as part of this project. After testing the Fund Facts, the Joint Forum decided not to create a consumer guide as part of the POS project because investors indicated in the Research Report that they would go elsewhere if they wanted more information. It was also concluded there are already many excellent sources of general educational material in the marketplace about mutual funds. For example, you can find investor brochures on the OSC website.

<p>Preparation of fund facts</p>	<p><i>Variety of dates prescribed for presenting information</i></p>	<p>A number of industry commenters told us that there are too many different dates prescribed for presenting information in the Fund Facts, creating unnecessary complexity and confusion.</p> <p>To improve the consistency of information contained in the Fund Facts and in other disclosure documents, these commenters recommended extracting information from and using the same “as at” date of the most recently filed MRFP. They said that this would also help avoid the requirement that data be generated “off-cycle”.</p> <p>Still another industry commenter suggested that the Fund Facts should have a harmonized presentation date (e.g., December 31), except when there is a material change.</p> <p>One commenter highlighted that as currently drafted, with the Fund Facts requiring performance information for calendar years whereas the MRFPs require the similar performance information for financial years, it is possible for the performance data in a Fund Facts filed later in the year for a mutual fund with, for example, a March 31 fiscal year end, to pre-date the similar performance information in the MRFP for the mutual fund.</p> <p>At a minimum, indicated another commenter, the CSA should not require disclosure of the Top 10 Holdings in as little time as 30 days before the date of the Fund Facts. The commenter suggested that disclosure within the previous quarter would be more in keeping with investor protection standards on portfolio disclosures.</p>	<p>To the extent possible, we have sought to mandate information already contained in a mutual fund’s SP, AIF and continuous disclosure documents. In some cases, information is required as of a date within 30 days of the Fund Facts to minimize the staleness of the information. We have also revised the instructions to the Fund Facts Form to allow, for example, the “as of” date of the MER.</p>
---	--	---	--

	<i>Time allotted for preparation of fund facts</i>	<p>A number of industry commenters remarked that, especially given the number of Fund Facts that a large complex would have to prepare, the requirement to present much of the content of the Fund Facts (top 10 investments, investment mix, performance data and total net assets) within 30 days of the document date is too short of a period to permit the compilation, translation, review and approval procedures necessary for producing an offering document. In some cases, noted one commenter, 30 days may be a shorter period than currently permitted under a mutual fund's portfolio dissemination policy.</p> <p>Commenters told us that the preparation of the Fund Facts and the information to be included in it should be aligned with the processes, procedures and approvals of the existing MRFP and SP.</p> <p>Some industry commenters recommended that information in the Fund Facts not be prescribed within any period less than 60 days, in order to provide sufficient time for the necessary compilation and approvals. Another commenter suggested a requirement 45 days from the end of the period, which would be consistent with the requirements for performance data in sales communications.</p>	<p>We have considered this comment and have included a transition period in the Regulation before the effective date to allow mutual funds time to implement systems to capture the necessary data to complete the Fund Facts. We note that the 30-day period is consistent with the requirement that existed in Form 81-101F1 when top 10 information and performance data were included in the SP. We are aware that many fund companies already provide similar information on a monthly basis in fact sheets posted on their web sites. As a result, we propose no change.</p>
	<i>Level of prescription</i>	<p>We were told by one commenter that fund managers must have some flexibility to prepare the Fund Facts in ways that make sense for their mutual funds. This commenter was of the view that excessive prescription would run the risk of making all Fund Facts appear the same (which would not help inspire investors to read them, since their</p>	<p>We are satisfied that the Fund Facts Form and its instructions strike the right balance of flexibility and prescription, to allow investors to easily compare mutual funds and to allow fund managers to describe their mutual funds accurately.</p>

		importance would be muted and could conceivably easily confuse readers) and of requiring a fund manager to include disclosure about a mutual fund that it thinks is inappropriate or misleading.	
	Readability of fund facts	<p>Mandated Flesch-Kincaid (FK) grade level</p> <p>While many industry commenters told us they were in favour of jargon-free plain language, a number of them expressed concerns with applying the FK metric of a grade level of 6 or less which, we were told, was much too prescriptive.</p> <p>Among the concerns identified with applying the FK metric of a grade level of 6 or less were:</p> <ul style="list-style-type: none"> • a grade 6 level may not be appropriate for Canadian investors the vast majority of whom are adult and literate, • a grade 6 level may be too low a level for accurate description of some of the financial concepts requiring disclosure, • it will not be conducive to shorter explanations, which will make adherence to the length restrictions more difficult, • there is considerable uncertainty around the standard, • different versions of Microsoft Word and non-Microsoft Word programs display different FK levels for the same document, • the FK grade level tests are not available for languages other than English, • a FK requirement will double the work effort since it will be necessary to maintain the content of the Fund Facts in Microsoft Word as well as in “design format”, 	<p>Mandated FK grade level</p> <p>While the Fund Facts is still required to be written in plain language, as a result of some of the concerns expressed by commenters (particularly the lack of a French language equivalent), we are no longer mandating the use of the FK scale. Instead, we have included guidance in the Policy Statement that we will generally consider a grade level of 6.0 or less on the FK grade level scale to indicate that a Fund Facts is written in plain language.</p>

		<p>and</p> <ul style="list-style-type: none"> • it is problematic for translated documents, as the English version of a translated document typically registers at a lower FK level than its corresponding French version. <p>One commenter also expressed a concern that the names of the sector categories and individual security names may bump up the grade level, forcing it to simplify the rest of the language even more, and asked that the CSA confirm sector categories and individual security names could be excluded from the FK metric.</p> <p>Still another industry commenter stated that complying with the FK requirement would pose a unique problem for index mutual funds, since index providers generally require a lengthy disclaimer to be included in the SP relating to the use of the index.</p> <p>We were also told by commenters who remarked on the FK metric as too prescriptive that the metric was arbitrary and goes far beyond any previous guidance regarding transaction-related disclosure documents.</p> <p>These industry commenters recommended changing the Regulation so that the Fund Facts would be drafted in plain language, consistent with the existing disclosure regimes in place for other transaction-related documents, and that the Policy Statement specify that the fund manager will, on a best efforts basis, achieve a standard of readability equivalent to a 6.0 grade level subject to any mandated constraints such as required sections and wording.</p> <p>One commenter stated that the Policy Statement could</p>	
--	--	---	--

		<p>further state that fund managers will be expected to implement systems that test for compliance with plain language requirements and the FK metric could be used as one example for fund managers to consider, among others.</p> <p>Font Size To assist the readability of the document for seniors, two commenters, an investor advocate and an SRO, suggested mandating a minimum font size of 10 for the Fund Facts.</p> <p>Reader-Friendly Conversion to PDF A commenter remarked that when the Fund Facts is converted to PDF, care should be taken to ensure that it is still reader-friendly.</p>	<p>Font Size The instructions to the Fund Facts Form do not mandate a specific font size. Rather, the instructions require that the font size be legible. We think this is sufficient.</p> <p>Reader-Friendly Conversion to PDF We have included instructions in the Fund Facts Form to require information to be presented in a way that can be printed in a readable format. We think this is sufficient.</p>
	Filing requirements	<p>One industry commenter remarked that currently multi-fund prospectuses are filed under the same SEDAR project identification number. For a large mutual fund complex, if a single identification number is contemplated, <u>each</u> SEDAR profile would show multiple (possibly hundreds) of line items for that Fund Facts filing. However, if separate identification numbers are contemplated, it would take much longer to complete the filings. This commenter asked the CSA for clarification.</p>	<p>We think that Fund Facts should be filed under the same SEDAR profile for all mutual funds in the prospectus. While we appreciate that this will create multiple entries, it is consistent with the practice of filing documents related to the applicable prospectus under the same SEDAR profile. We note, however, that for filing purposes, the Regulation permits a single document containing all relevant Fund Facts to be filed.</p>
	Length of document	<p>A few industry commenters remarked that the lengthy disclaimer that index providers require to be included in index fund prospectuses could severely affect a fund manager's ability to meet maximum length restrictions. They recommended that these disclaimers be exempt from the 3-page limit and plain language requirements for the Fund Facts.</p>	<p>As noted above, the Fund Facts Form does not contemplate the inclusion of any disclaimer language for index funds.</p>

Creating a new class or series of a mutual fund		<p><i>Filing preliminary Fund Facts</i> One industry commenter recommended that the creation of a new class or series of securities should not require the filing of a preliminary Fund Facts since this would require a full comment and clearance process with the CSA, thereby significantly adding to the time and effort to launch. Instead, this commenter suggested that an amended Fund Facts could be filed along with the amended SP and AIF.</p> <p>Noted another industry commenter, notwithstanding the prescribed currency dates for Fund Facts in the Fund Facts Form, in the case of a new series added by amendment to an SP, the mutual fund issuer should be permitted to use the information contained in the other Fund Facts of the mutual fund (such as total assets, MER, top holdings) for the Fund Facts of the new series. This would lessen potential confusion arising from having multiple official documents in circulation with different data points.</p>	<p><i>Filing preliminary Fund Facts</i> We disagree with the comment that the creation of a new class or series of securities should not require the filing of a preliminary Fund Facts. The Fund Facts will be reviewed under existing timelines for an amended SP. We are satisfied this review will occur in a timely way consistent with any amendment.</p> <p>We propose no change. For the purposes of this stage of the initiative, we continue to think that one Fund Facts for each class or series is appropriate.</p>
Guidance on what constitutes a material change		We were asked by one investor advocate commenter to provide further guidance on what would constitute a material change to the information contained in the Fund Facts.	We think that the guidance in the Policy Statement to the Regulation provides sufficient detail on what would constitute a material change to the disclosure in the Fund Facts.
Liability for incomplete or inaccurate information		One commenter reiterated their earlier remarks that the theory behind giving investors a simple two-page document should be that the document is deemed to incorporate by reference all of the other permanent disclosure documents, so that, in effect, investors are deemed to receive the other documents when they receive the Fund Facts. As a result, this commenter recommended	We have added a cross-reference in the Fund Facts to the SP. The Fund Facts also refers to other disclosure documents which together with the Fund Facts comprise a mutual fund's disclosure documents. We propose no further changes at this time.

		that the SP, AIF and other continuous disclosure documents be incorporated by reference into the Fund Facts, and that a statement of this incorporation be included in the Fund Facts, notwithstanding that some may find this statement too legalistic.	
Rationalization of disclosure requirements		<p>As previously noted, while industry commenters told us they were pleased that the CSA is planning to review the overall disclosure regime for mutual funds to reduce unnecessary duplication, many of these commenters told us that without a simultaneous review of the existing disclosure regime (including the elimination of redundant disclosure requirements), there will be an enormous strain on the time, effort and resources of firms for the compilation, editing, translation and approval of Fund Facts.</p> <p>We were told to not simply layer the Fund Facts on top of the existing disclosure regime for mutual funds, and were urged not to implement the Regulation before the overall disclosure regime is reviewed in its entirety.</p> <p>One commenter stated that adding the Fund Facts to the existing disclosure regime will create a very document intensive, duplicative and potentially very confusing disclosure framework. This commenter told us that, under the Proposed Regulation, it expects that it will have to prepare and maintain approximately 1,000 separate English-language Fund Facts alone.</p> <p>Some industry commenters suggested a rationalization of the existing disclosure regime could include:</p> <ul style="list-style-type: none"> • rationalizing the MRFPs so that their content would be 	<p>As stated in the June 2009 publication of the Regulation, as a second phase of the CSA's implementation, we intend to review the overall disclosure regime for mutual funds to reduce unnecessary duplication. In particular, we intend to explore the development of a single foundation document to replace the current SP and AIF.</p>

		<p>divided between the prospectus and Fund Facts to be updated annually, and</p> <ul style="list-style-type: none"> rationalizing the non-POS non-financial disclosure documents (the current SP and AIF) into a base document (similar to the foundation document for a mutual fund described in the CSA's consultation paper released in 2003), and similarly rationalizing the existing financial disclosure documents (financial statements and the MRFP) into a separate base document, for use primarily by regulators, analysts, advisers and sophisticated investors. 	
Scope of Regulation	<i>Application to accredited investors, institutional investors and discretionary managed accounts</i>	A few industry commenters reiterated their view that the Regulation should exclude securities of mutual funds not available through a retail investment fund dealer (such as securities of funds that are only available for purchase by other mutual funds through a fund-of-funds structure, by insurance companies for use as the underlying investment in a segregated fund product, registered pension funds or other qualified institutional investors).	A reconsideration of the current prospectus filing requirements under securities legislation is outside the scope of this initiative. Where an obligation to file a mutual fund's SP exists, the amendments to the Regulation require a mutual fund to prepare and file a Fund Facts and make it available on the mutual fund's or mutual fund manager's website.
One fund facts per series/class	<i>Cost and logistical implications</i>	<p>As previously noted, most industry commenters reiterated that logistical and cost implications remain for a fund manager in having to prepare a Fund Facts for each series or class of units of a mutual fund at least once a year in English and also in French (if the mutual funds are sold in Quebec).</p> <p>Remarkd one commenter, the sheer volume of documents produced would lead to administrative difficulties at the fund manager level.</p>	<p>While we asked for submissions of sample Fund Facts that demonstrate multiple series or class information presented in a manner consistent with the Framework principles, we do not propose to make any change at this time to the Fund Facts Form. As we move forward toward implementing POS delivery we will continue to consider this issue.</p> <p>We think the transition period set out in the Regulation should provide sufficient time to make any changes to compliance and operational systems that are necessary to produce, file and post the Fund Facts to a website.</p>

		<p>If the Fund Facts is required, industry commenters remarked that the 3 templates for multi-series Fund Facts submitted by industry commenters would be preferable to having separate Fund Facts for each class.</p> <p>For further comments on multi-series Fund Facts, see: Part 2, III) Issues for comment on Form 81-101F3.</p>	
Part 4 – Investor rights comments			
<u>Issue</u>	<u>Sub-Issue</u>	<u>Comments</u>	<u>Responses</u>
Investor rights	<i>Harmonized cancellation right</i>	<p>Investor advocate commenters were unanimous in their recommendation to maintain the status quo and to retain the existing withdrawal rights where investors can cancel the contract and receive the return of their investment. In the alternative, we were told, any new cooling off/cancellation right should allow an investor to obtain the benefit of the upside if they are exposed to downside risk.</p> <p>Remarkd one investor advocate, “we have spoken with IFIC and some leading mutual fund companies and have been advised that (i) they have not lobbied to change the existing withdrawal rights and (ii) the existing withdrawal rights have not been abused. Therefore, it appears that the CSA is reducing investor rights to address a problem that does not exist”.</p> <p>These investor advocates noted that under the proposed cancellation right, an investor is left with less than their original investment when exercising the right in a case</p>	<p>We have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further.</p>

		<p>where the value of the mutual fund investment has fallen. In the reverse situation of an increase in the value of the investment, however, the consumer is not permitted to share in the upside. Investors, we were told, should not be penalized for cancelling a purchase.</p> <p>An industry commenter further added that the new cancellation right leaves considerable uncertainty for the fund industry and investors alike. Noted this commenter, the Regulation does not specifically address liability for failure to provide a Fund Facts.</p> <p>Another industry commenter remarked that it would be appropriate to have harmonized investor rights across Canada.</p> <p>Still another commenter remarked the CSA should ensure there are harmonized investor rights that cover all of the following areas:</p> <ul style="list-style-type: none"> • damages for misrepresentations in the primary disclosure documents (which include the continuous disclosure documents incorporated by reference) • rights of investors to rescind or cancel their purchase based on net asset value at the time the right is exercised, and • rights of investors when a disclosure document is not delivered when it is required to be. <p>This commenter added the rights should clearly delineate which entity is responsible to the investors and in what circumstances and suggested that a detailed discussion paper on these issues be prepared for comment once the</p>	
--	--	---	--

		various rights are decided upon by the members of the CSA and the ability of the CSA to vary securities legislation is determined.	
Part 5 – Comments on the Regulation			
<u>Issue</u>	<u>Sub-Issue</u>	<u>Comments</u>	<u>Responses</u>
Comments on Regulation 81-101 Part 2 Disclosure Documents	<i>Paragraph 2.1(1)(d) - Filing of disclosure documents</i>	Some commenters told us not to require a preliminary Fund Facts when a mutual fund is adding a new class or series by way of amendment. One of these commenters noted that some of the information in the Fund Facts for the new series will not be new and therefore the same level of review for a preliminary Fund Facts of a new mutual fund is not needed. Others remarked that having to create a preliminary Fund Facts would add significant additional work when launching a new series across several funds.	If a mutual fund files a new class or series, we expect that the mutual fund will file an amendment to the SP and file a new Fund Facts for each class or series. The CSA will review the Fund Facts under the same timelines as those today for the SP. In such instances, we will focus our review on areas of the Fund Facts that are different from existing classes or series.
	<i>Paragraph 2.2.1 Amendments to a Preliminary Simplified Prospectus</i>	One commenter suggested that additional guidance would be advisable on the notion of “material adverse change”, since it is different from the “material change” notion found at paragraph 2.2.3.	We have decided not to proceed at this time with this and other amendments that relate to pre-sale delivery of the Fund Facts. We continue to specify that amendments will be required based on a “material change”, which mirrors the requirement in paragraph 11.2(1)(d) of Regulation 81-106. As we move forward with implementation of POS delivery, we will consider this issue further.
	<i>Section 2.3 - Amendments to</i>	<i>Requiring a letter specifying FK level</i> A number of industry commenters told us that requiring the certification of the FK grade level for every Fund Facts filed	<i>Requiring a letter specifying FK level</i> As previously indicated, we are no longer mandating a FK grade level. Accordingly, the requirement to file a

	disclosure documents	<p>would be onerous and could delay the timely updating of Fund Facts. These commenters recommended dropping the certification requirement.</p> <p>An alternative, indicated one commenter, is to ask industry to confirm the FK level as part of the renewal or filing process.</p> <p>We were told that as long as there is a statutory requirement that the Fund Facts be provided in plain language, fund managers will have to comply with that requirement and a certification should not be necessary.</p> <p>Requiring the Fund Facts to be black-lined Some industry commenters also remarked that requiring the Fund Facts when filed to be blacklined against the most recently filed version is inconsistent with the requirement to file a final SP and AIF blacklined against the preliminary or pro forma version.</p>	<p>letter certifying the FK level has been removed from the Regulation.</p> <p>Requiring the Fund Facts to be black-lined We propose no change. Consistent with the filing requirements for <i>pro forma</i> SPs and AIFs, we think a blacklined <i>pro forma</i> FF will assist the CSA in our review.</p>
	Section 2.3.1 - Voluntary updating of Fund Facts	<p>We were asked to clarify whether this subsection applies to updating pro forma Fund Facts.</p> <p>Another commenter asked whether the fund manager could choose to update a Fund Facts on an ad hoc basis and at irregular intervals.</p>	<p>The Regulation only requires mutual funds to file a Fund Facts annually, or if a material change occurs that relates to the information contained in the Fund Facts. The Regulation, however, does allow a fund manager the flexibility to file an amended Fund Facts more frequently if they choose.</p>
	Section 2.3.2 - Websites	<p>A few industry commenters suggested that the requirement to post the Fund Facts to the website should be amended to require posting as soon as reasonably practicable following the issuance of a receipt for the related SP. These</p>	<p>In response to comments, the Regulation has been revised to specify that the Fund Facts must be posted to the website as soon as practicable, but in any event within 10 days after the document is filed. It is intended</p>

		<p>commenters told us that for a large fund complex with hundreds if not thousands of Fund Facts, it may not be possible to post each Fund Facts on the same day without undertaking a significant technological investment.</p> <p>We were also told the section must be clarified to indicate that it is the final Fund Facts that required to be filed.</p> <p>Posting the final Fund Facts to a website before it is receipted, stated a number of industry commenters, would (i) expose fund managers to liability since advisers could send the posted version to an investor before the regulator requests changes, and (ii) be inconsistent with the requirements for the SP and AIF.</p>	that only the receipted Fund Facts will be posted to the website.
	Section 2.9 – Cancellation Right	<p>One industry commenter expressed concern with the lack of uniformity among provinces arising from the exceptions in section 2.9. Although the differences are minor, this commenter stated that they will cause an ongoing compliance headache.</p> <p>We also heard from an investor advocate commenter who asked us to clarify who gets the benefit from the “upside” if the value of the investment has increased from the original investment.</p>	As indicated above, we have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further.
Part 5 – Packaging	Section 5.1 – Combinations of documents	<p>A number of industry commenters asked for clarification on how sections 5.1(3) – documents that may be attached to a SP – interacts with 5.4(4) – documents attached to the Fund Facts.</p> <p>We were told that as drafted, these sections both seem to require either the SP or the Fund Facts to be the first document</p>	<p>For this stage of implementation, we have dealt with binding as follows:</p> <ul style="list-style-type: none"> • for posting a Fund Facts to a website, each class or series of a mutual fund must be separately posted; • for SEDAR filings, a mutual fund must file all Fund Facts related to the SP or multiple SP as one filing;

		<p>in any packaging. Suggested one commenter, we insert “Notwithstanding any other section or subsection of this Regulation,” at the beginning of subsection 5.4(4), to specify that when a Fund Facts is bound with other documents, it always is the first document.</p> <p>Another commenter, a service provider of fulfillment services to industry, provided us with a number of comments related to the combination and ordering of documents in a package. These included:</p> <ul style="list-style-type: none"> • clarification on section 5.1(1) that SPs must not be consolidated unless “substantially similar”; • the suggestion to permit the binding of a Fund Facts in another language with the Fund Facts in English and French for the purpose of delivery to investors; and • clarification on the binding restrictions in section 5.4 (2) for electronic delivery of Fund Facts. 	<p>and</p> <ul style="list-style-type: none"> • if a Fund Facts is bound with the SP for delivery to an investor, the Fund Facts must be the first document in the package. <p>We expect to further consider the packaging of documents as we move forward with implementation of POS delivery.</p>
	Section 5.4 – Combinations of Fund Facts	<p>An industry commenter asked if the trade confirmation may precede the Fund Facts when they are bound together under subsection 5.4(4).</p> <p>A SRO commenter submitted that no bundling should be allowed as it would deter from the intention to provide clear information to investors. If any bundling is to occur, the commenter suggested that the maximum of 10 documents should be integrated in this section, not in the Policy Statement.</p> <p>Finally, industry commenters asked us to confirm that subsection 5.4(5) permits all of the Fund Facts for all series contained in the same SP to be filed in a single document on</p>	<p>As noted above, the Regulation now requires the Fund Facts to be the first document when bound with other documents for the purposes of delivery.</p>

		SEDAR.	
Part 6 Exemption	<i>Section 6.2 – Evidence of Exemption by Securities Regulatory Authority</i>	One industry commenter remarked that they think relief from the Regulation should be by approval letter on SEDAR, rather than by evidence of receipt of the SP, to avoid any doubt as to whether an exemption has been granted.	<p>We propose no change. The process of evidencing relief by way of issuance of a receipt is consistent with the requirements today for form and content relief for the SP and AIF.</p> <p>As this process is not a change, we have concluded to remove this section from the Regulation. The issue of transparency for form and content relief from the disclosure forms for investment funds and corporate issuers is outside the scope of this initiative. The CSA continues to consider how best to address this issue.</p>
Part 7 Effective Date and Transition	<i>Section 7.2 & 7.3 Transition and Transitional delivery of the Fund Facts</i>	<p>A few industry commenters requested a further one year transition period be added for the production and filing of Fund Facts.</p> <p>We were also asked by a couple of commenters for greater clarity of:</p> <ul style="list-style-type: none"> • when a mutual fund not in distribution on the effective date is required to file a Fund Facts with its preliminary disclosure documents; • the first date by which any renewal filings for mutual funds already in distribution would have to be accompanied by the corresponding Fund Facts; and • the date on which the current withdrawal and rescission rights are replaced with the harmonized cancellation right for mutual funds already in distribution. <p>Still another commenter suggested it would be helpful if the transition section were broken out into (i) effective date of</p>	<p>There are three key points in the implementation schedule (i) the publication date, (ii) the in-force date, and (iii) the effective date. We are of the view that the implementation schedule in the Regulation will allow mutual funds sufficient time to ensure compliance with the rule.</p> <p>We confirm that a mutual fund that is not in distribution on the effective date of the Regulation is not required to file a Fund Facts with its preliminary disclosure documents.</p>

		<p>the Regulation, (ii) mutual fund compliance date (the date by which any pro forma renewal filings would have to be accompanied by the Fund Facts) and (iii) dealer compliance date (the date by which dealers would be required to comply with delivery).</p> <p>This commenter suggested that the Regulation could provide that any mutual fund not in distribution on the effective date is required to file a Fund Facts along with its preliminary disclosure documents and any mutual funds wishing to early adopt could file a Fund Facts after the effective date.</p> <p>A further suggestion made by this commenter was that the withdrawal and rescission rights could be replaced following the implementation of delivery.</p>	
<p>Comments on Policy Statement 81-101 to Regulation 81-101</p> <p>Part 2 Purpose and general approach of the Regulation</p>	<p><i>Section 2.1 – Purpose of the Regulation</i></p>	<p>One industry commenter remarked we should replace the word “permits” in paragraph 2.1(3)3 of the Policy Statement with the word “requires”, since “permit” is a permissive word which is inappropriate for a mandatory requirement.</p>	<p>We will address this comment when preparing amendments to the Regulation to implement delivery of the Fund Facts.</p>
	<p><i>Section 2.7 – Amendments</i></p>	<p>We were told by an industry commenter that the use of the word “generally” in subsection 2.7(2) in describing scenarios that will not trigger a material change to the content of the Fund Facts implies that there are instances where changes to those items would be considered material changes. We were told to remove the word “generally” and provide further guidance.</p>	<p>We do not propose any change. The Policy Statement is intended to be guidance. We note that the determination of a material change rests with a mutual fund.</p>

		One SRO commenter suggested that the content of the Fund Facts should be updated to allow investors to have all necessary information available to them when making an investment decision.	We propose no change to require more frequent updating of the Fund Facts through amendments, beyond a material change. The Regulation allows a fund manager the flexibility to file an amended Fund Facts more frequently if they choose. We will monitor the development of the Fund Facts to determine whether additional information is necessary.
Part 3 Plain Language and Presentation	Section 3.2 – Presentation	An SRO commenter suggested that a minimal font size should be imposed, the proposed minimal size should be 10 points Bookman Old Style.	We propose no change. The instructions to the Fund Facts Form require that the font size be legible. We think that this is sufficient guidance.
Part 10 Cancellation Rights	Section 10.2 – Cancellation Right	We were told by an SRO commenter that disclosure in the Fund Facts should include wording that replicates part of paragraph 2 concerning the absence of charges or fees (such as sales charges or redemption fees) when exercising the cancellation right.	As indicated above, we have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further.
Part 6 – List of commenters			
<ul style="list-style-type: none"> • Advocis • AGF Management Limited • Anderson, James • Banque Nationale Groupe Financier • BMO (Guardian Group of Funds Ltd.) • BMO Investments Inc. • Board of Governors for CI Investments Inc. and United Financial Corporation • Borden Lardner Gervais LLP • Brandes Investment Partners • Broadridge Investor Communication Solutions, Canada 			

- Canadian Bankers Association
- Canadian Foundation for Advancement of Investor Rights
- Capital International Asset Management (Canada), Inc.
- Chambre de la sécurité financière
- CI Financial Group
- CIBC
- Durnin, James S.
- Fédération des caisses du Québec - Desjardins
- Fidelity Investments Canada ULC
- Franklin Templeton Investments Corp
- Gauthier, Jean-Francois
- Harvey, Ronald P.
- Horan, Chris
- Independent Financial Brokers
- Independent Planning Group Inc.
- Invesco Trimark Ltd.
- Investment Funds Institute of Canada
- Investment Industry Association of Canada
- Investment Planning Counsel, IPC Investment Corporation, IPC Securities Corporation
- Investors Group Inc.
- Keybase Financial Group Inc.
- Killoran, Joe (investorism.com)
- Mackenzie Financial Corporation
- Manulife Securities, Manulife Investments Mutual Funds
- MGI Financial Inc.
- MGI Funds Inc.
- MGI Securities Inc.
- Miller Thomson LLP
- Mouvement d'éducation et de défense des actionnaires
- PFSL Investments Canada Ltd.

- Qtrade Financial Group
- Quirt Brown, Jeanie
- RBC Asset Management Inc., Phillips, Hager & North Investment Management Ltd.
- RBC Dominion Securities Inc. Royal Mutual Funds Inc, Philips, Hager & North Investment Funds Ltd.
- RESP Dealers Association of Canada
- RocheBanyan
- Rogers Group Financial
- Scotia Securities Inc.
- Simplified Communications Group Inc
- Small Investor Protection Association
- TD Bank Financial Group
- Tradex
- VAULT Solutions Inc.
- Williams, Bill