

October 15, 2007

Alberta Securities Commission  
British Columbia Securities Commission  
Manitoba Securities Commission  
New Brunswick Securities Commission  
Nova Scotia Securities Commission  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Nunavut  
Registrar of Securities, Yukon Territory  
Saskatchewan Financial Services Commission  
Securities Commission of Newfoundland and Labrador  
Securities Office, Prince Edward Island

c/o Neil Mohindra  
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Joint Forum Project Office  
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**Subject: Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds**

Mr. Mohindra:

The Canadian Advocacy Council of CFA Institute Canadian Societies (CAC)<sup>1</sup> is pleased to respond to the Request for Comments dated June 15, 2007, where The Joint Forum of Financial Market Regulators invited interested parties to submit comments on the Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds.

Our comments are formatted in general terms and then by addressing the specific questions outlined in the Request for Comments.

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<sup>1</sup> The CAC represents the 12 Canadian member societies of the CFA Institute constituting over 11,000 members who are active in Canada's capital markets. Members of the CAC consist of portfolio managers, investment analysts, corporate finance professionals, and other capital markets participants. The CAC's has been charged by Canada's CFA Institute member societies to review Canadian regulatory, legislative and standard setting activities.

### ***General Comments***

We are in favour of full disclosure and clarity for all investors. There is always a danger that too much information may be ignored and too little is not meaningful. Individual investors range from novice with no knowledge to very sophisticated and their use and understanding of information provided may have different impacts on their investment decisions.

We are also pleased at the spirit of harmonization and co-operation with which the members of the Joint Forum have put forward in this instrument for comment. We welcome the opportunity to provide future input on further harmonized documents in the future.

Investors who deal with advisors generally do so for a multitude of reasons but ultimately for investment recommendations and executions. In these situations the advisor should have determined the appropriate asset class and risk level for their client, so that the recommendations fall within the investor's suitability range. In these circumstances, we are concerned that the lost investment opportunity costs, reduced investor convenience and practical implementation costs that will be imposed by the proposed changes far outweigh the benefits that may result. Requiring the delivery of a Fund Facts document for each fund at or before the time of the investment decision will add little value to a Canadian investor with an established investment advisor relationship. As has been shown through a variety of SRO and common law rulings, these same investment advisors (and their firms) have a fiduciary duty to their client investors regardless of whether or not they receiving the appropriate investment documentation.

Further, companies selling mutual funds without the same financial resources as their larger competitors may be at a cost disadvantage in order to comply with the proposed regulations. For example if the Fund Facts from a fund family are included in the prospectus (at or near the beginning of the investment relationship, which many investors read first) there would not be any need to provide a new Fund Facts document for each additional switch or purchase of a fund in the same fund family. An annual report including the Fund Facts disclosure would also provide the investor with an annual update.

## Questions Posed by The Joint Forum of Financial Market Regulators

### Questions about subsequent purchases

1. Investors: If you make a subsequent purchase in a fund you own, we recognize you will already have received the Fund Facts. Should we consider waiving the requirement to deliver the Fund Facts for all subsequent purchases of a fund that you own or only for a certain period after the last purchase? If only for a certain period, what is a reasonable amount of time?

***If there has not been any material change in the Fund Facts there is no need to provide additional copies for future purchases. If there has been a material change in the management or structure of the fund, then the investor may choose to switch from the fund. An annual Fund Facts sheet should be delivered to each investor at least alongside the fund annual reports or other material sent to investors. (see # 3 below)***

2. Investors: If you are buying a fund under a pre-authorized payment plan, you will only receive the Fund Facts for the first purchase. However, information in the Fund Facts will change over time, which could influence your decision to continue buying the fund. Would you want to receive an updated Fund Facts? If so, how frequently would you want to receive the updated document?

***As noted in # 1 if there has been a material change in the management of the fund or the Fund Facts report then the investor must be notified in a timely manner, otherwise a Fund Facts should be delivered at least annually. (see # 3 below)***

3. Investors: Does the other disclosure information that you can choose to receive, such as fund annual reports, provide you with enough information to make a subsequent purchase decision?

***Given that many investors may not have opted to receive or do not read their annual reports, an updated Fund Facts sheet should be made available to all fund holders at least annually. This could accompany the annual reports, an annual client account statement or any other material that is sent annually to fund holders. This is in keeping with providing easily understood communications.***

### Questions about delivery

4. Do the delivery methods described above give investors and industry enough flexibility to make and execute investment decisions in a timely manner?

***Not all client meetings take place in person at the advisor's office; they are also conducted off site, over the phone or the internet for those with on line accounts.***

***It is questionable whether an investor would be able to receive the required Fund Facts document in a timely manner and that execution of their transaction would be delayed while they waited to receive this document. Delivery with the post sale mailing of the prospectus would be more efficient and as timely. The benefits of the proposed point of sale delivery are unlikely to outweigh the costs imposed by the change.***

5. Are there other delivery methods or options that we should consider that are consistent with our objective of providing investors with disclosure before or at the point of sale?

***Electronic delivery, for those who have it, is an option. This could be made more efficient if the CSA electronic delivery rules were updated to allow dealers and advisers to use electronic delivery unless the client objected, rather than requiring positive consent.***

6. Dealers and insurers: What changes would you need to make to your existing processes to comply with our proposed delivery requirements? How long would it take to make these changes? What costs would be involved? Approximately how much would these costs be?

***The CAC 's main concern is that the extra costs involved with upgrading delivery and compliance systems for most registrants may be significant. In particular, small investment advisory firms may not be able to afford the additional costs of delivering a Fund Facts for any of the over 5,000 mutual and segregated funds to an individual client before the actual transaction occurs. In order to comply with these rules and still serve their clients, these same firms would have to reduce their mutual fund advisory services and offerings - either by not providing sales or limiting fund family choices to their clients. The loss of diversification and specialization opportunities to Canadian investors resulting from this choice benefits no one.***

7. Investors: If your adviser did not have the Fund Facts immediately available, would you be willing to wait until you receive it to make your purchase? If you had to wait, would you be likely to choose an investment other than a mutual fund or segregated fund?

***The CAC is concerned that some investors may choose an alternate investment that is less appropriate for their circumstances simply because the Fund Facts document was not available to be delivered at the point of sale.***

### **Question about misrepresentation in Fund Facts for segregated funds**

8. Are there other ways to ensure investors have a meaningful remedy for any misrepresentation in the Fund Facts document for segregated funds?

***Regulations should provide for similar investor protection regimes for investors, whether they buy mutual funds or segregated funds.***

### **Question about funds with multiple classes, series or guarantee options**

9. We recognize that there could be many versions of the Fund Facts for a fund that has more than one class, series or guarantee option with a separate MER. We also recognize that an investor may receive only one version of the Fund Facts for the fund, based on their adviser's discretion. As a result, the investor might only be made aware of one option for them to purchase the fund. Advisers should tell investors about all the options that might be suitable.

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10. Are there other ways of disclosing the information in the Fund Facts for a fund with multiple classes, series or guarantee options that are consistent with our objective of providing investors with a two-page document that is easy to understand?

***Space limitations would not allow all of the information to be listed. A bolded note that other classes, series or guarantee options are available could be added as part of the fee summary. These are common items that are compiled by mutual fund companies and dealers on a frequent basis, and a fund family sheet with these options should be made available to the investor.***

### **Questions about updating the Fund Facts**

The proposed framework allows fund managers and insurers to update the Fund Facts no more frequently than quarterly. Although we want to give industry the ability to disclose reasonably current investment and performance information by allowing quarterly updates, we also want to ensure that investors can easily compare funds. A comparison might be difficult if information in one Fund Facts document is more current than information in another Fund Facts document.

11. Fund managers and insurers: How often would you want to update the Fund Facts? If more or less frequently than quarterly, with what frequency and why?

***The CAC is concerned that too many investors focus on short term results, while investing should have a long term time horizon. Therefore if Fund Facts are updated too frequently there may be undue consideration of the short term results. Therefore we are of the view that a quarterly update is sufficient for regulatory purposes. However, if there is a material change in the management, fees, structure or governance of the fund then the Fund Facts should be updated immediately.***

12. Investors: How current do you want the Fund Facts to be? Would a document that contains investment and performance information that is no more than 6 months old meet your information needs?

***The CAC believes in timely disclosure and information. Mutual Funds should be purchased as long term investments and selection is frequently made based on the manager's past performance. At a minimum, quarterly information should be available on the Fund Company's website.***

### **Summary**

We thank you for the opportunity to provide the foregoing comments, we welcome any questions you may have and we appreciate the time you are taking to consider our point of view. Please feel welcome to contact us at [chair@cfaadvocacy.ca](mailto:chair@cfaadvocacy.ca).

Regards,

Blair Carey, CFA

Chair.