

October 12, 2007

Neil Mohindra  
Acting Policy Manager  
Joint Forum Project Office  
5160 Yonge St.  
Box 85, 17th floor  
North York, ON  
M2N 6L9

Dear Mr. Mohindra,

**Re: Proposed Framework 81-406 - Point of Sale Disclosure for Mutual Funds and Segregated Funds**

We appreciate the opportunity to provide our comments to the Joint Forum of Financial Market Regulators (the "Joint Forum") on Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds (the "Proposed Framework").

This letter is submitted on behalf of the following dealer distribution entities within RBC: RBC Dominion Securities Inc., RBC DS Financial Services Inc., RBC Direct Investing Inc. and Royal Mutual Funds Inc.<sup>1</sup> Unless otherwise specified, this letter is addressing the provision of the Fund Facts Sheet in relation to mutual fund transactions.

We commend the Joint Forum for its efforts in the area of disclosure for mutual fund and segregated funds. We strongly support this initiative in terms of both its stated goal of creating a level playing field as between segregated funds and mutual funds but also in terms of providing more meaningful disclosure for investors generally. In our view, investors can certainly benefit from efforts to create a short and simple disclosure document.

We are concerned with the impact some of the proposals in the Proposed Framework would have on investors and fund distributors, and urge that the delivery requirements be carefully considered from all perspectives to ensure a workable regime. We also encourage the Joint Forum to work together with the relevant Self-Regulatory Organizations ("SROs") to ensure that the requirements are applied evenly by different regulatory bodies involved in the implementation of this important initiative and are integrated with proposals coming from the Registration Reform Project and its Client Relationship Model.

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<sup>1</sup> RBC Direct Investing Inc., RBC Dominion Securities Inc. and Royal Mutual Funds Inc. distribute mutual funds. RBC DS Financial Services Inc. distributes segregated funds.

## **I. KEY POINT SUMMARY**

While we are fully supportive of the Fund Fact Sheet and the principles behind the simplified disclosure, we feel that greater consideration needs be given to the practical application and execution of the disclosure requirements. The following are the general key points we wish to make with respect to the Proposed Framework:

- When considering changes to fund disclosure at the point of sale, it is important to segment investment delivery into three very distinct and different models: Advisory, Discretionary and Self-directed. Within the Advisory delivery model, clear distinction should be made around investment delivery through different distribution channels: in-branch, call centre/telephone and mobile.
- For investors who have chosen to work in-branch with a sales representative in an advisory capacity, we support the delivery of the Fund Facts Sheet prior to or at the point of sale for all new purchases, switches into funds not currently held and new pre-authorized contribution programs. However, to fully realize efficiencies and meet the differing needs and expectations of investors, it would be necessary to vary disclosure delivery methods for other distribution channels, such as telephone and distribution through mobile sales forces. That being said, we propose that all investors be provided with the option to receive the Fund Facts Sheet before or at the point of sale. Further, in order to ensure that all investors receive the Fund Facts Sheet, we propose that all investors receive it with the trade confirmation, even if the investor received the Fund Facts Sheet before or at the point of sale.
- The provision of the Fund Facts Sheet with the trade confirmation would not only allow an auditable delivery trail but also serve as a foundation of the investors' cooling-off right which we propose commence upon deemed receipt of the Fund Facts Sheet. Further, we believe that investors should not have the right to cancel the transaction indefinitely if the Fund Facts Sheet is delivered with the trade confirmation.
- With respect to subsequent purchases and switches into funds currently held, investors working with an advisor should receive a Fund Facts Sheet (if it has been revised or updated since their last transaction) but to satisfy client expectations and fully realize efficiencies, the Fund Facts Sheet should be delivered with the trade confirmation after the point of sale.
- Within the Discretionary model, clients generally do not receive disclosure documents in relation to trades through their discretionary accounts, such as prospectuses, and should be exempted from the disclosure at the point of sale.
- Within the Self-directed model, the dealer is acting as an order-taker for clients who have already completed any research they feel is required and wish to execute trades without a recommendation. In our view, there should be an exemption for mutual fund purchases made through discount brokerage accounts.

## **II. ADVISORY MODEL**

Generally, we are very much in favour of the simpler, more meaningful disclosure to investors, particularly as it increases transparency regarding fees. The proposed Fund Fact Sheet is a clear, comprehensive and well-designed document that describes key features of mutual funds

and segregated funds. However, some of the proposals in the Proposed Framework may have significant impact on investors and fund distributors, and as a result, we feel it is critical that the delivery requirements be carefully considered to ensure a workable regime. Outlined below are our comments and suggestions for more effective delivery of the proposed Fund Facts Sheet in an Advisory model.

## **1. New Purchases and Switches**

### **(a) Our Comments**

Clients typically have three channel delivery options when dealing with a sales representative: in-branch, telephone and mobile sales force.

#### **I. In-branch Transactions**

For in-branch transactions, we support the proposed timing of delivery prior to or at the point of sale for:

- New purchases;
- Switches into funds not currently held by an investor; and
- New pre-authorized contribution programs.

An investor who is dealing with a salesperson in-branch when purchasing a fund not currently held should have the choice of receiving the Fund Facts Sheet prior to or at the point of sale. This will alter the current investment sales process but should be manageable within a branch environment. This is assuming that there is a cost-effective way to source up-to-date Fund Facts Sheets electronically (i.e. industry central repository). However, for consistency of client experience and to accommodate varying needs, all investors should have the option to choose whether they want to receive the disclosure document before or at the point of sale, in addition to receiving the disclosure with the trade confirmation.

#### **II. Call Centres and Telephone Transactions**

Servicing clients by phone is a popular and efficient delivery channel. About 85-90% of broker mutual fund transactions and about 10-15% of mutual fund dealer transactions are completed by phone.

The Proposed Framework provides that if a transaction is carried out over the phone, the Fund Facts Sheet can be provided at the point of sale either by fax or electronically (e-mail). There will be a substantial impact to clients and the firms that deal with clients who choose to transact by phone. A two-step sales process is implied by the proposal, whereby the investor first speaks to a salesperson by phone, then obtains the Fund Facts Sheet and finally calls the salesperson a second time to complete the transaction. This will increase delivery costs and could significantly alter the economics of the sales delivery model.

There will be situations where the investor does not have easy access to a fax or e-mail and will not be able to complete the transaction until the Fund Facts Sheet is received. In situations where the transaction is time-sensitive (i.e. at the end of the day or the last day of RRSP season) the investor may not be able to execute their purchase by the close of the business day and therefore be exposed to market risk of the client having to purchase the fund at a higher price should the price of the fund increase the following day. Further, a two-step process is incompatible with the expectations of experienced investors who expect to have their order carried out immediately when providing instructions over the phone.

### III. Mobile Sales Forces

Servicing clients through a mobile salesperson who will travel to the client's home or place of business has become an important delivery option for investors. Mobile sales forces work outside of regular business hours and outside the traditional "bricks and mortar" branch network and will also be impacted by the new delivery requirements.

Mobile salespeople use laptops and generally do not have printers, and as a result would not be able to provide Fund Facts Sheets at the point of sale for all funds offered by the dealer. It would not be possible for salespeople to carry with them Fund Facts Sheets for every mutual fund available to investors. However, carrying Fund Facts Sheets for only a select number of mutual funds could create an apparent or real conflict with a salesperson's primary obligation to act in the best interests of investors and to recommend investments that are most suitable to the customer's investment needs and objectives. Further, there will be situations where a mobile salesperson will not be able to complete a transaction for the client until the Fund Facts Sheet has been delivered to the client. This will increase delivery costs and will create dissatisfaction for investors who are more knowledgeable.

#### **(b) Our Recommendations**

Our recommendation is that all clients be able choose to receive the Fund Facts Sheet before or at the point of sale and to provide all clients with the Fund Facts Sheet with the trade confirmation, even if the investor received the Fund Facts Sheet before or at the point of sale. As a supplement to this option, fund distributors could make available Fund Facts Sheets on their public websites or provide links to a client-friendly central repository, for the purpose of facilitating clients' research. We believe that the ability of a client to choose to receive the disclosure before the point of sale, or after the point of sale with the trade confirmation, would offer significant benefits to clients who would have access to information concerning the fund at any point before the transaction, and in all cases, after the transaction.

Many major industry players have worked in partnership with Broadridge Financial Solutions to implement a technology called Smart Prospectus. This technology may be able to be leveraged to implement the delivery of Fund Facts Sheets with the trade confirmation. It may also serve as the centralized database for the industry. The cost of mailing a two-page Fund Facts Sheet compared to a prospectus document should be much more cost-effective. There would be an initial investment required to develop changes to the technology but after completion, significant cost savings could be realized by the industry.

In light of the many ways transactions with retail customers are conducted, we suggest that the Joint Forum further revise the proposal to indicate that any licensed salesperson may bring the Fund Facts Sheet to the attention of the investor, and not necessarily the salesperson who originally proposed the fund purchase.

## **2. Subsequent Purchases and Switches (Mutual Funds and Segregated Funds)**

#### **(a) Our Comments**

We support the proposal from the Joint Forum to provide a Fund Facts Sheet to investors who are purchasing more units of a fund or switching into a fund that they currently own when the Fund Fact Sheet has been revised or updated. However, the delivery of the Fund Facts Sheet should be with the trade confirmation, after the point of sale, as investors will have already

received disclosure documents in the past for these funds. This would greatly facilitate a fairly large number of transactions which result from subsequent purchases and switches. The Fund Facts Sheet would be available to investors at or before the point of sale upon request if investors preferred to review the fund details again before purchase.

On the other hand, we do not support delivery of another Fund Facts Sheet if there have been no changes since the last purchase of the fund. From our experience, investors are presented with a significant number of documents in relation to their investment accounts and often complain about the amount of paper that they receive. Currently, investors do not receive another prospectus or information folder when they make a subsequent purchase or switch with respect to a mutual fund or segregated fund if there has been no change to the documents. We do not feel that providing the Fund Facts Sheet for subsequent purchases or switches when there have not been any changes to the document provides the investor with any added value.

#### **(b) Our Recommendations**

We strongly urge the Joint Forum to require that the Fund Facts Sheet be provided with the trade confirmation, after the point of sale, for subsequent purchases and switches into funds already held by investors. Delivery of another Fund Facts Sheet with the trade confirmation should not be required if there have been no changes to the Fund Facts Sheet since the last purchase of the fund.

### **3. Pre-authorized Contributions and Re-balancing**

#### **(a) Our Comments**

We support the proposal from the Joint Forum that the Fund Facts Sheet would not be required for pre-authorized payment plans after the initial purchase and for asset allocation re-balancing.

### **4. Cooling Off Right**

#### **(a) Our Comments**

We note that the cooling off right set out in the Proposed Framework, as currently drafted, would not be consistent with the approach we are recommending, that is, to deliver the Fund Facts Sheet with the trade confirmation for all transactions.

#### **(b) Our Recommendations**

We propose that the cooling off period commence upon deemed receipt of the Fund Facts Sheet which we recommend be delivered with the trade confirmation for all transactions, even when the Fund Facts Sheet has been delivered before or at the point of sale. We feel that this would be a much simpler method compared to attempting to monitor receipt of the Fund Facts Sheet before or at the point of sale for some transactions and after the point of sale for others.

### **5. Investor's Right to Cancel**

#### **(a) Our Comments**

The Proposed Framework provides that, with respect to mutual funds, investors will be able to cancel their purchase at any time if they do not receive the Fund Facts Sheet. Therefore, it appears that the investor's right to cancel a mutual fund purchase has no time limit, which would enable investors claiming that they have not received the Fund Facts Sheet to be able to cancel

their purchase at any point in the future. This would create an onerous burden on dealers to retain proof of receipt and/or delivery in a recoverable format indefinitely.

**(b) Our Recommendations**

We do not support the proposed investor's right to cancel a mutual fund purchase that has no time limit. If the Fund Facts Sheet is provided with the trade confirmation, as we have recommended above, we feel that this would eliminate the need for the indefinite right to cancel as dealers would have a system in place to ensure that all investors receive the Fund Facts Sheet.

**6. Wrap Products and Services**

**(a) Our Comments**

For investment products and services sold as portfolio solutions where a number of different prospectus qualified funds are offered within a single wrap program, delivering individual Fund Fact Sheets would be cumbersome and inefficient. Dealers should be able to deliver to the investor a single consolidated document regarding the applicable funds built into the product. This will provide a better result for the client and will be more cost effective for dealers.

**(b) Our Recommendations**

We urge the Joint Forum to consider allowing distributors the flexibility to deliver a single document containing the required disclosure for each fund built into a wrap program or service, requiring a new or revised Fund Facts Sheet to be delivered only when a new underlying fund is added to such product or service.

**7. Content of the Fund Facts Sheet**

**(a) Our Comments**

The second page of the Fund Facts Sheet describes how salespeople get paid. Compensation differs by dealer and even in many cases by individual salesperson/client relationship. Some salespeople are paid a commission, while others earn a salary as well as bonus. Often compensation is agreed to after discussions between the salesperson and client. Details about compensation should be included in the Client Relationship Model work being undertaken by the SROs as part of the Registration Reform Project.

Also the "Cost to Buy" section on page two makes no reference to "no load" as a sales charge option. We would refer you to the comments made on these points by RBC Asset Management Inc. in their submission to the Joint Forum.

**(b) Our Recommendations**

We strongly support increased transparency regarding fees and recommend that compensation details be included in documentation between the dealer and client. Regulatory guidance for dealer compensation disclosure should come from the SROs in their proposals from the Client Relationship Model of the Registration Reform Project. A simple statement should be included in the Fund Facts Sheet directing investors to confirm with their salesperson the options available to them and the details regarding compensation of their advisor.

### **III. DISCRETIONARY MODEL**

#### **(a) Our Comments**

Given the nature of discretionary accounts, investors holding such accounts generally do not receive certain documents, such as prospectuses. We believe that it would be contrary to the nature of a discretionary account for dealers to be required to provide the Fund Facts Sheet to clients before, at the point of sale or subsequent to the sale.

#### **(b) Our Recommendations**

We propose that dealers should not be required to provide the Fund Facts Sheet to investors who hold discretionary accounts where mutual funds are purchased in the account.

### **IV. SELF-DIRECTED MODEL**

#### **(a) Our Comments**

It is our view that the needs of discount brokerage clients and the discount brokerage industry as a whole should be carefully examined. Discount brokers do not offer advice, nor solicit any orders and are exempt from general suitability requirements. Because of this, at the point of sale these "self-directed" discount brokerage clients have already completed any research into their purchase that they feel is required. Further, the Proposed Framework suggests that the current regime does not provide investors with meaningful information when they most need it, that is, before they make their decision to buy a fund. It may be reasonable to require that the Fund Facts Sheet be made available through the websites of discount brokerages, for the purpose of facilitating investors' research. However, again, we feel it is worthwhile to point out that, when dealing with discount brokers, the decision to buy has already been made by the investor and therefore, requiring delivery of the Fund Facts Sheet to the client seems to us to be a redundant exercise.

Finally, we would like to emphasize that any move towards a mandatory delivery at the point of sale would have a significant detrimental effect on the discount brokers business model, which is based on call centre and online trading.

#### **(b) Our Recommendations**

For the reasons outlined above, we believe that an exemption for discount brokerage clients to accommodate the realities of the discount brokerage industry is essential.

### **V. CONCLUDING REMARKS**

Although we believe that the Proposed Framework represents a significant step forward in providing more meaningful disclosure to investors, we urge the Joint Forum to carefully consider the practical implications of the delivery requirements outlined in this letter to ensure that they meet the needs of all investors. When considering revisions to the proposals, the Joint Forum should consider amendments which will encourage dealers to embrace the proposals. If the practical application of this initiative significantly compromises mutual fund delivery fundamentals, we would have to reconsider our position.

We would welcome the opportunity to discuss the foregoing with you in further detail. If you have any questions or require further information, please do not hesitate to contact us.

Yours sincerely,



David Agnew  
National Director  
RBC Dominion Securities Inc.



Doug Coulter  
President  
RBC Direct Investing Inc.



Anne Lockie  
President  
Royal Mutual Funds Inc.

- c.c. George Lewis, Group Head, Wealth Management, RBC Financial Group  
David McKay, Executive Vice-President, Personal Banking, RBC Royal Bank  
Russell Purre, Chief Compliance Officer, RBC Dominion Securities Inc.  
Julie Cagnin, Chief Compliance Officer, RBC DS Financial Services Inc  
Bryan Moffitt, Chief Compliance Officer, RBC Direct Investing Inc.  
Ann David, Chief Compliance Officer, Royal Mutual Funds Inc.