

October 12, 2007

*BY E-MAIL: [jointforum@fsco.gov.on.ca](mailto:jointforum@fsco.gov.on.ca)*

Joint Forum Project Office  
5160 Yonge Street  
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Attention: Neil Mohindra, Acting Policy Manager

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

We are responding to the request for comments on Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds (the "Proposed Framework") published by the Joint Forum of Financial Market Regulators (the "Joint Forum"). We appreciate having the opportunity to provide comments on this proposed framework. RBC Asset Management Inc. is an indirect, wholly-owned subsidiary of the Royal Bank of Canada. It provides a broad range of investment products and services to investors through mutual funds, prospectus-qualified pooled funds and separately managed portfolios and currently has over \$83 billion in assets under management. Over 95 per cent of our funds are sold on a no-load basis.

RBC Asset Management ("RBC AM") supports the overall goal of this initiative, to provide more meaningful information to investors in making their decision to buy a fund. RBC AM also supports this initiative in terms of its stated goal of creating a level playing field for segregated funds and mutual funds. We commend the Joint Forum for its efforts in this regard and encourage continued collaboration among the regulators to provide a more consistent experience for investors in purchasing products which are generally viewed by the investing public as substitutes.

*Delivery of the Fund Facts*

We know that dealers have concerns about the proposed delivery model and that a number of those dealers will be providing comments and suggestions to the model. We have participated with our RBC affiliated distributors in the preparation of their comments to you. When considering changes to fund disclosure at the point of sale, it is important to acknowledge that there are three distinct types of investors - advisory, discretionary and self-directed. While we support and understand the application of the proposal for sales in advisory relationships, we

agree with our affiliated distributors that the application in self-directed and discretionary relationships is either unnecessary or inconsistent with current client expectations. Mandatory delivery at point of sale would have a significant detrimental effect on the sales process and client experience relating to order execution.

In addition, for investors who have chosen to work with a sales representative in an advisory capacity, we support our affiliated distributor's comments. For investors choosing to work in-branch with an advisor, the delivery of the *Fund Facts* prior to or at the point of sale for all new purchases, switches into funds not currently held and new pre-authorized contribution programs is reasonable. However, it would be necessary to vary disclosure delivery methods for other distribution channels such as telephone and distribution through mobile sales forces. In order to provide a consistent client experience and provide clients with choices, investors should be allowed the option to receive the disclosure document with their confirmation. With respect to subsequent purchases and switches into funds currently held, the *Fund Facts* should be delivered with the confirmation after the point of sale.

#### *Funds of Funds, Wrap Products, Asset Allocation Services*

The mutual fund industry offers a wide variety of funds of funds, wrap products and services which utilize multiple mutual funds as the underlying investments. We agree that for a fund of funds product that is itself an individual mutual fund, only one *Fund Facts* document should be delivered. For wrap products or asset allocation services, we suggest that the point of sale disclosure be aligned with the investor experience by permitting dealers to deliver to the investor a single consolidated document containing the *Fund Facts* for each of the funds held in the wrap program or asset allocation service. This would be consistent with the client experience in proprietary wrap programs today, when receiving a "Smart Prospectus", which consolidates and delivers the prospectus disclosure for each of the underlying Funds in the wrap.

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

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*. It appears that the investor's right to cancel a mutual fund purchase has no time limit. This would create an onerous burden on dealers to retain proof of receipt and/or delivery in a recoverable format indefinitely. One potential solution would be for dealers to deliver the *Fund Facts* document with trade confirmations regardless of the delivery model to ensure that clients receive the *Fund Facts*.

#### *Fund Facts – Advisor Compensation*

RBC AM strongly supports transparency in disclosing the cost of investing in a mutual fund. The fund manager is responsible for a fund's MER and sales charge options. However, how advisors are paid differs with each dealer and in some cases may be determined by the advisor and the client. Not all advisors are compensated based on a portion of sales charges or trailing commissions, many receive salaries and their compensation is not directly linked to sales or assets. Therefore, we encourage the Joint Forum to align the final *Fund Facts* disclosure requirements with the client relationship principles being established by the self-regulatory organizations in connection with registration reform. In keeping with the Joint Forum's principle of recognizing the role of the advisor in the sales process, we suggest that the *Fund Facts* should include a fund's MER and sales charge options but that specific disclosure about advisor compensation should rest outside the *Fund Facts* document, potentially within an account

opening agreement or another document summarizing the client – advisor relationship. We support the inclusion of a simple statement in the *Fund Facts* document directing investors to ask advisors how they are compensated.

In connection with the disclosure of costs, we note that a very large percentage of mutual funds are offered on a no-load basis. However, the sample *Fund Facts*, with its heading “How much does it cost to buy?” does not contemplate the availability of a no-load option. We suggest that including available purchase options within the *Fund Facts* will improve investor’s awareness and understanding of costs.

#### *Responses to specific questions*

***Q9. 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?***

The proposed framework contemplates publication and delivery of a separate *Fund Facts* for each series of a fund. Two issues arise from this requirement. First, an investor receiving a *Fund Facts* for a load series may not be aware that a no-load version is available. Secondly, the production of a separate *Fund Facts* for each series of a fund, two times per year, in two or more languages, will be administratively cumbersome and may be disruptive to the sales process. An advisor is also at risk of delivering the *Fund Facts* for the wrong series of a Fund, as the differences between *Fund Facts* will be limited.

We submit that allowing the publication of one *Fund Facts* document for each fund, which discloses the availability of all purchase options, will provide investors with more complete information that is useful and still easy to understand. Furthermore, by clearly stating which series are available through specific distribution channels, the document will help investors understand the different purchase options available and their costs. This is consistent with the current disclosure in Simplified Prospectus’. In order to keep the *Fund Facts* to two pages, we suggest that the document should report past performance of the most widely held series and direct investors to a website that provides performance information for other series.

***Q10. How often would you want to update the Fund Facts? If more or less frequently than quarterly, with what frequency and why?***

We submit that the *Fund Facts* document should be updated and filed twice each year, with a fund’s annual and interim continuous disclosure documents. The document would also be updated with any material changes. For many funds, much of the information contained in the *Fund Facts* will remain static throughout a calendar year. We believe that updating the information semi-annually will be sufficient to achieve the objective of providing investors with meaningful information that is easy to understand.

In closing, we support the overall goal of this initiative, to provide more meaningful information to investors in making their decision to buy a fund. However, we are concerned about the potential for the delivery requirements of the *Fund Facts* to delay or complicate the sales process for mutual funds, both for clients and advisors. Mutual funds are a highly regulated product, with disclosure requirements built on “after-the-fact” delivery. A change to “before or at” point of sale disclosure cannot be under-estimated. An actual or perceived imbalance in the

complexity of distributing different investment products could potentially lead to advisors focusing more dollars toward less regulated investment products, with less investor friendly disclosure requirements.

Thank you for the opportunity to submit our comments. We would be pleased to discuss with you any of the matters outlined in this letter.

Yours truly,

A handwritten signature in black ink that reads "Brenda Vince". The signature is written in a cursive, flowing style.

Brenda J. Vince  
President

c.c. George Lewis, Group Head, Wealth Management, RBC Financial Group  
Carol Sands, Chief Compliance Officer, RBC Asset Management Inc.