BY ELECTRONIC MAIL: jointforum@fsco.gov.on.ca

October 15, 2007

Mr. Neil Mohindra
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Dear Sir:

Re: Joint Forum Proposed Framework 81-406, Industrial Alliance Comments

We are writing to provide you with the comments of Industrial Alliance Insurance and Financial Services Inc., (Industrial Alliance) on the Joint Forum of Financial Market Regulators ("Joint Forum") *Proposed framework 81-406, Point of sale disclosure for mutual funds and segregated funds* ("Proposed Framework" or "Proposal") released for comment on June 15, 2007 Notice and Request for Comment dated February 27, 2007 ("the Notice"),

Industrial Alliance has a national footprint in the distribution of financial services in Canada. Through our three broker dealers; IA Securities Inc., a nationally registered securities dealer and IDA member as well as FundEX Investments Inc. and Investia Financial Services Inc., both of which are nationally registered mutual fund dealers and members of the MFDA, we currently represent over 2000 licensed advisors. We will limit our comments to those that we feel will specifically effect the way in which our advisors and our firm will be able to service our more than 300,000 clients.

1. Overview

At a high level Industrial Alliance is in complete support of regulatory proposals that provide consistent treatment of the consumer experience, greater clarity and consistency of rules, and efficiencies in process.

Furthermore we support the objectives of the Proposed Framework to develop more meaningful disclosure documents for the sale of mutual funds and segregated funds. It is imperative that the rules governing the distribution of financial products to retail investors in Canada be consistent to ensure that regulatory arbitrage cannot be allowed to favour one product over another. We appreciate the consultative process that the Joint Forum has undertaken with this initiative and the opportunity to provide comments.

As a general point, it is important that the Proposal be developed with full consideration of the highly regulated framework that presently exists for the sale of mutual funds. Mutual fund sales are subject to Know Your Client ("KYC") and suitability requirements; advisors and dealers are under a duty to sell a suitable product to the consumer; and dealers are required to review all trades for suitability. We are concerned that this Proposal, which would benefit greatly from full integration with other disclosure initiatives that are presently under consideration, such as the Client Relationship Model of Registration Reform, will only lead to confusion among retail investors if it continues to run in parallel with these other important initiatives.

In this submission we set out recommendations for modifying the Proposed Framework, which are aimed at improving the accuracy and clarity of the information provided and the timing of such delivery to best assist consumers to make well-informed decisions.

2. Recommendations for Improvement to the Proposed Framework

a) Account Opening – Connection between POS and CRM

The availability of accurate information at the appropriate time in the decision making process is fundamental to consumers making sound decisions on what investment products to buy or sell. This typically occurs during that critical time of account opening where properly defining the roles between the Dealer/Advisor/Client are necessary in providing a solid foundation to ensure that the client experience is as positive as possible. We have noted that as part of the Registration Reform Project, the SROs have been tasked with developing new rules and procedures on account opening, disclosure of costs and conflicts, and performance reporting. These activities are generally described as the Client Relationship Model (CRM). We suggest that these two projects, the POS project and the CRM initiative, be integrated in a significant way. CSA leaders have acknowledged during a number of discussions that these efforts had been quite independent of each other and that there needs to be more overlap. We believe that a concerted effort should be made to assess where these two initiatives intersect and co-ordinate solutions as this would not only enhance both projects but also provide consumers with superior level of information and clarity.

b) Subsequent Sales and Switches

Once an account has been opened the consumer and the advisor keep in touch and conduct transactions in various ways, not the least of which is through the internet and telephone. Our firm has committed significant resources in providing our advisors with the latest in voice recording technology to ensure that the highest level of timeliness and accuracy of trading in a client account be achieved. In our IDA firm the most common means of subsequent transaction is by telephone where the expectation of the client is that a discussion will lead to a transaction being done, often immediately or by the end of that day.

In the disclosure model we propose the consumer will have already received full information on pricing and compensation structure offered by a manager, and has received the abbreviated fund facts at or soon after account opening. The desired transactions for a subsequent sale or a switch can be agreed to and processed by the advisor immediately without any interruption.

3. Assessment of Challenges Presented by the Proposed Framework

In this section we provide our comments on the negative impact your Proposed Framework will have on investors as well as the industry, if it is enacted in precisely the manner in which it has been presented. Our assessment is provided below in two principal areas: delivery issues and content issues.

a. Delivery Issues

The major challenge with the proposal arises from the inflexibility of the requirement to deliver the Fund Facts at or before the point of sale ("POS") for all transaction types and all clients without exception, and the disruption and inefficiencies this implies for certain transactions.

i. Interruption of Subsequent Sales and Switches

Sales and switches that occur in a client's account following the initial account opening stage ("Subsequent Sales") are sales for which there is an established client-advisor relationship and for which there is the greatest risk of trade interruptions caused by the overly specific delivery requirements of the Proposed Framework. Any disruption to the presently efficient processes for conducting these trades, which are most often conducted over the telephone or in the client's home, will lead to dissatisfied customers who will ask for, or be open to, investments with fewer pre-sale disclosure requirements. The risk is that this would result in less suitable investment solutions which would not be in the best interests of consumers. What follows is a more detailed description of the issues raised for telephone and in-home sales.

1) Telephone Sales

A large proportion of mutual fund sales are conducted over the telephone. The inflexibility of the delivery requirements under the Proposed Framework will cause significant disruption to these sales. Our IDA firm, IA Securities Inc., has indicated that as much as 90% of their mutual fund sales are conducted over the phone. These business models, and more importantly, the clients they serve, would be severely impacted by the delivery obligation for pre-sale delivery limited only to paper-based, faxed or e-mailed disclosure documents.

To illustrate the difficulty for the telephone channel, consider a typical transaction whereby a client calls the firm administering his/her account and is connected with his/her registered salesperson. The registrant reviews the client's account while on the line, and is expected by the client to immediately transact according to the instructions given, provided that they are consistent with the client's KYC.

Instead of transacting immediately in the chosen fund, as the client is accustomed to doing, he/she would be told that an up-to-date Fund Facts would be mailed/faxed/e-mailed (as currently provided for in the Proposed Framework), and requested to call back on receipt of the document to place the order. An e-mail response would not be acceptable at our firm due to an internal policy against accepting trade instructions by e-mail because of potential delays, miscommunication or safety reasons discussed further below. The undue delays created by the delivery requirement raise problems for any client wishing to conduct a time-sensitive transaction, such as an RRSP contribution on the last day of the RRSP season, or a transaction in a volatile market.

2) In Home Sales

A large proportion of mutual fund transactions conducted by our dealer firms, FundEX and Investia, occur in person at the client's residence or place of business. We believe that the Proposed Framework will limit the investment choice available to clients serviced by in-home sales. Typically, the sales representative will travel to the client, sometimes over long distances and often for small or mid-sized accounts, to conduct an in-person interview and transact for the client's account. In most cases the account opening process may require more than one meeting with the client, and in the case where the initial sales recommendation occurs during the initial meeting, the advisor is likely to recommend from a limited set of funds known in advance using a variety of marketing materials or informational tools on the funds being recommended.

Accordingly, for initial sales at account opening, delivering the Fund Facts at POS will create some logistical concerns. Subsequent in-home sales tend to be additional contributions by the client to existing funds and/or changes to the mix of funds in the client's existing portfolio to reflect market changes or changes in the client's circumstances. In some cases the face-to-face, in-home interview may produce a recommended solution for which the advisor is not carrying the required documents. This could come, for example, as a result of a change in the consumer’s profile or financial situation, or on occasion, from the consumer himself who might request to purchase units of a fund that he has heard about or researched separately.

A consumer working with an advisor who conducts extensive in-person, in-client-location business may be able to choose, for example, from as many as 1800 funds from 30 - 40 different companies. Under the Proposed Framework, and given the additional costs of fulfillment that the management of these multiple disclosure documents would imply, the advisor may be forced to restrict the number of investment options offered to clients, offer more single than multi-fund solutions, or focus more on pre-determined solutions than on needs-oriented discussions. Alternatively, other products not covered by the proposed POS rules will become much more attractive to buy or sell.

ii. Impact on Consumers

One of the weaknesses of the Proposed Framework is that it does not recognize that clients may fall within any one of three categories – discretionary, self-directed, and advisor-based, and their information needs and tolerance for transaction interruptions may vary radically from one group to the next and within each group.

1) Discretionary Clients

Overlooked by this Proposal is the category of clients known as discretionary clients who have delegated investment decisions and the management of their accounts to an investment counsel or portfolio manager. In these situations the investment manager would construct a portfolio using, in many cases, mutual funds as an important component of the portfolio. These clients would not receive disclosure materials, either before or after transactions in their accounts. This Proposal clearly does not take into account the requirements of these clients.

2) Self-Directed Clients

The Proposal does not take into account the needs and expectations of self-directed clients. These clients may, for example, have signed Limited Trade Authorizations with their advisors to enable them to trade on instructions without a follow-up signature. These clients are unlikely to want additional printed disclosure mandated for pre-sale delivery if it would mean an interruption or loss of convenience in the conduct of their trades.

The Proposal does not include the possibility that these clients might prefer to access the information themselves at their time of choosing prior to the sale. The approach does not, for example, recognize the utilization of internet technology for the transmission of regulatory disclosure, an approach that is increasingly being adopted in other jurisdictions. Typically, self-directed clients are frequent users of the internet for these purposes.

3) Advisor-based

Research conducted by IFIC this year suggests that similar preferences exist for large segments of the advisor-based investing public. A quantitative national study of 2,508 clients conducted in May and June, showed that 83% of mutual fund clients continue to rely on advisors and 65% believe that reading detailed printed information about a mutual fund should not be a requirement for purchase. In qualitative testing of clients and advisors held in Toronto, Montreal and Vancouver in August, they found that while clients generally reacted positively to the contents of Fund Facts, their reactions varied widely as to mandated delivery and the possible consequences for the interruption of trades. Their reactions to the latter varied by their level of investment knowledge and sophistication. Sophisticated clients showed less tolerance than less knowledgeable clients of trade interruptions, and some viewed mandatory delivery of Fund Facts as an approach as too patronizing or bureaucratic.

b. <u>Content Issues</u>

We agree that standardization of Fund Facts is desirable for ease of reading and fund comparisons, and support prescribing certain elements, their order, and some of the section headings and language. We are concerned, however, that some of the prescribed language of Fund Facts is misplaced or misleading, and in some cases misses important relevant information. We have concerns with respect to i) Cost and Compensation sections of Page 2 of Fund Facts, ii) Deferred Service Charges ("DSC"), iii) the Prescribed Content of Page 1 of Fund Facts, and iv) other missing information that we believe is relevant to a consumer making an investment decision. It is our view that the proposed disclosure on these items should be corrected, enhanced and, where indicated, directed to occur at a time when it would have most relevance to the consumer – at account opening.

i. Costs and Compensation

Under the "How much does it cost?" section of Page 2 of Fund Facts, it is proposed that the consumer be informed of a number of options regarding the payment of sales charges. The client is informed that they would have the option of choosing from among a list of possible sales charge models, and, if initial sales charges are chosen, the option of a negotiated rate. This proposed language is very misleading in several ways. The sales charge options operate at the fund family level and not at the fund level; different sales charge options available to be sold by an advisor are determined at the dealer level and are best disclosed to the client at account opening. These are not options that can be decided on or negotiated on a transaction by transaction basis. While we agree with a disclosure document that clarifies the many ways that a fund can be purchased in the market, we do not support a document that misleads by suggesting to the consumer that choices exist where they do not.

Under the "How does my advisor get paid?" section of Page 2 of Fund Facts, a number of features relating to commissions and commission rates are listed. This is by no means a complete listing of all compensation arrangements that are available in the industry. Some advisors work under a fee-based arrangement. In the case of a bank branch retailing their own proprietary funds, advisors are salaried with various bonus arrangements.

We support enhanced disclosure on pricing and compensation arrangements but believe this is best discussed in a thorough way at account opening, the point in time when that information is most useful to the consumer. For this reason we have recommended to the Joint Forum that the present POS initiative be considered in the context of, and aligned with, the Client Relationship Model of the Registration Reform Project. These two initiatives share similar objectives with respect to improving the understanding of clients regarding fees and the service levels they can expect from the relationship. In our view, continuing to consider the two initiatives separately risks introducing serious duplication, administrative complexity and consumer confusion.

ii. Deferred Sales Charges

An additional problem in the prescribed language is in regard to Deferred Sales Charge (DSC) units. DSC redemption fees, for example, almost always apply at the fund family level. For a switch between funds within the same fund family the DSC fee schedule is not re-set for the purchased fund, it is carried forward unchanged from the original purchase. In addition, clients of DSC funds are often allowed up to 10% redemptions within any year without incurring a deferred charge on such redemptions. These benefits are absent from the descriptions provided in the proposed document. Comparing two DSC funds in different fund families by only looking at their respective Fund Facts sheets would not tell the complete story. A single fund focus in this case understates the benefits available to one fund over another for cost-effective rebalancing down the road.

4. Impact of Proposal

In addition to the impact of the rigid delivery requirements and potentially misleading content, the Proposal will have severe implications with regard to arbitrage of product, compliance and audit issues, and fairness in the marketplace.

a. Reduced Access to Mutual Funds by Canadians

The very prescriptive approach to the delivery of the Fund Facts to the consumer at or immediately before point of sale does not accommodate the many ways that consumers prefer to inform themselves about the investments they buy. This will disadvantage the sales processes by which the vast majority of mutual fund sales are done. We believe this will have long term negative implications for consumer choice if firms shorten their product shelves due to logistical and fulfillment costs associated with the Proposal or if clients seek out other products as the ease of transacting shifts in favour of these other less regulated products.

Disclosure requirements and sales practice rules applicable to mutual funds and segregated funds would under the Proposed Framework become more onerous than for virtually all other retail financial products in Canada. This is of concern to us because more than half of all mutual funds sold in Canada today are sold outside of the MFDA channel, where the sales representatives are licensed to sell, in addition to mutual funds, other retail financial products that may have much greater risks but little or no point of sales disclosure requirements. Further, in the IDA channel, investors and their advisors expect to transact in very efficient means: electronically and instantly. We anticipate that there will be a meaningful reduction in mutual fund sales in the IDA channel through any adaptation of the Proposed Framework, but that a full and literal application of the Proposed Framework will lead to a virtual cutoff of mutual fund sales in this channel.

The importance of the IDA channel for the distribution of mutual funds has particular significance when considering the variety of other retail products which are also available for sale in this channel which have little or no point of sale disclosure requirements. For example, Exchange Traded Funds ("ETFs") and their distributors are not required to provide a disclosure document to consumers who purchase ETF shares or units in the secondary market. Similarly, Canadian producers of separately managed accounts and wrap accounts are not required to produce or provide clients with any disclosure with respect to the operation of the account or service. For Principal Protected Notes there are no specific disclosure requirements currently.

The unlevel playing field that currently exists in Canada will be further tilted against mutual funds if the Proposed Framework is implemented.

b. Operational Issues

The Proposal carries with it higher costs of fulfillment due to a substantial increase in the number of regulatory disclosure documents, as well as new or upgraded internet systems, a significant technology build that could require years to develop.

The Proposed Framework would require our dealers to manage large additional volumes of paper related to funds carried. It would not be unusual, for example, for an Approved Person at either of our MFDA firms to carry funds from 20 different fund companies. Currently there would be a single Simplified Prospectus to deliver for each fund family – 20 documents in this case. If each fund family had 50 funds, each with 3 series or more, the number of regulatory documents required to be kept on hand at the dealership, or managed by a fund company fulfillment service, would rise from 20 to at least 3,000. Many large fund companies have more than 50 funds with more than 3 series for each. While the example is illustrative only, the implication is that there would be significant added burden on dealer back offices and fund company fulfillment groups due to the additional volumes of separate disclosure documents. This reality will not only lead to higher costs, which the consumer will ultimately bear, but restrict access to funds as dealers and advisors will tend to narrow the number of fund families and specific funds offered to handle the sheer logistic complexity of the paperwork involved.

c. Compliance Issues

The difficulty of tracking compliance for delivery of required disclosure at or before point of sale would be significant.

With this much additional paper disclosure documents in the system, thus raising the risk of non-delivery due to the wrong document being provided, and no existing processes available for tracking compliance with delivery "at or before sale", the difficulties of providing an accurate trail for audit purposes will be enormous. Furthermore, by not being able to establish proof of delivery, the withdrawal right provided to the client in the case of non-delivery is unlimited. This additional and significant operational risk to our dealers will ultimately have further adverse effect on shelf space - our dealers may want to keep costs down (and reduce the potential for error) by further limiting the number of fund families, the number of funds or series of funds. This would disadvantage consumers as it would reduce choice, and promote a greater reliance on packaged rather than needs-oriented solutions for clients.

Ultimately, the inability to track compliance would result in ineffective enforcement, thus undermining the securities regulatory framework as a whole.

Although we appreciate the spirit of the POS disclosure framework, as we have outlined here, there are numerous logistical and practical shortcomings that will materially impact all stakeholders. We strongly encourage you to consider our arguments within the context of our sincere interest to improve the consumers' understanding and awareness of the mutual fund transaction process.

We thank you for providing us with the opportunity to comment on the Proposal. Please do not hesitate to call us directly should you have any questions or wish to discuss our remarks.

Yours truly,

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