

October 15, 2007

Sent via E-Mail: jointforum@fsco.gov.on.ca

Joint Forum Project Office
Attn: Neil Mohindra, Acting Policy Manager
5160 Yonge Street
Box 85, 17th Floor
North York, Ontario M2N 6L9

Dear Mr. Mohindra:

Re: Point of sale disclosure for Mutual Funds and Segregated funds

I would like to start with a few general observations of the proposed framework for 81-406, then I will address each question that you have posed to dealers, insurers, and investors.

As a National Compliance Officer, President, and CEO of a medium sized mutual fund dealer (MFDA Member) I strongly endorse the implementation of the two page "Fund Facts" document. I feel that most, if not all, clients will review this document before or at the time of sale. As you have noted in your findings most clients find the eighty to ninety page "Simplified Prospectus" very overwhelming and full of legalese that discourages them from even starting to review the document. We have had many clients leave our meeting rooms with a bag full of prospectuses and semi-annual or annual documents only to leave them in the reception area (for re-use we imagine) or toss them into the nearest garbage can. While we have met our regulatory obligation to provide these disclosure documents to the clients before or at the time of sale, most clients can't be bothered to spend even ten minutes to review the pertinent sections regarding their purchase.

The proposal that Dealers and Insurers will be responsible for meeting the delivery obligations seems to be highly impractical. The responsibility for delivery should fall squarely on the shoulders of the salesperson in the field. It is he or she that sits before the client and explains the details of the mutual funds or segregated funds to be purchased. The only way that I can see for the dealer and insurer to show proper delivery is to mail the appropriate Fund Facts to the client via Canada Post, a wholly inefficient process when clients may not have enough knowledge to narrow down their choices (additional, unneeded Fund Facts delivery takes us back to the volume of a simplified prospectus). Further, there will be or could be delays in trade date processing which is in direct conflict with NI 81-102. Dealers and registered branches are required to process client trade instructions on the day of receipt (if communicated during market hours). It is very likely that trades will be delayed until it can be verified that the Fund Facts were delivered before the sale. If the mutual fund's net asset value were to go up in the next

one or two days you can be sure that those clients will be demanding those profits retroactively.

Since this proposed framework appears to have originated with the well intentioned “fair dealing model” I think it is appropriate to re-visit the notion of a self managed account which I believe was very well received by the industry. There should be allowances made for the do it yourself investor who does his or her own research, visits mutual fund company websites to review the pertinent Fund Facts documents, and chooses to execute the trade the following business day. Dealers, insurers, and salespeople should be held to a lower standard for self managed accounts for point of sale delivery requirements. Typically, these self managed accounts will have a Limited Trading Authorization on file with the dealer for the sole purpose of being able to email or telephone trade instructions to their licensed advisor. It is unfair to our industry as a whole that these self managed accounts be serviced exclusively by the discount broker in the IDA channel (a channel that now has minimum annual fees and or minimum account sizes that preclude many thousands of Canadians from participation in).

The two day cooling-off period makes sense for initial purchases but it makes no sense for subsequent purchases of the identical fund within a short period of time. Fund Facts will change very little over time. Regulators acknowledge that investors appear overwhelmed by the volume of paper received from the mutual fund industry. Multiple deliveries of Fund Fact documents would appear to exacerbate this problem.

As an alternative may I suggest that the mutual fund managers post a list of all of their Fund Facts with the latest publication date so that if a subsequent purchase is made for a fund that has not published a newer version of the Fund Facts the requirement for delivery be waived.

Finally, the delivery requirement for Fund Facts should be waived for clients who want to switch immediately into money market funds or insured high interest accounts at the same fund company, in a quickly falling equity or bond market. It is not practical to delay a “flight to safety” trade for a worried client, and we envision a huge increase in the number of complaints regarding trade delays to the MFDA, Ombudsman, and Securities Commissions if this exception is not permitted.

Questions from Point of Sale Disclosure Proposed Framework

1. Waive the requirement to deliver the Fund Facts for all subsequent purchases of a fund, unless there is a significant change in the investment policy of the fund. Fund companies are already required to notify investors of such changes, so it would not pose a burden for fund companies to enclose the two page Fund Facts in the same package.
2. Send updated Fund Facts with the annual investment statement.
3. Fund annual reports do provide enough information to make a subsequent purchase decision.

4. Yes, however, unexpected sales in the rural market should allow for the investment advisor to take a post dated order, pending receipt by fax, ect. and approval by the investor.
5. No other options come to mind.
6. No significant changes are anticipated for this mutual fund dealer. The investment advisor will likely appreciate the flexibility of carrying Fund Facts for his preferred list of funds instead of the forty or fifty fund documents.
7. I don't see this as a big problem. It would be very unlikely that a knowledgeable investor would buy a GIC instead of waiting a couple of days to buy a mutual fund or segregated fund- except on the last day of RRSP season.
8. None come to mind.
9. Multiple classes or series of mutual funds should be on the same document because there would only be changes to MERs and trailer fees. Segregated funds with very different guarantee options could be on one document as long as the options are clearly laid out for the investor.
10. Semi annual updates of the Fund Facts should be sufficient and would be consistent with existing regulatory requirements. Most mutual funds do not change significantly from quarter to quarter. Current changes could be listed on fund company websites at the discretion of the mutual fund manager.
11. As an investor I would be satisfied with semi annual updates.
12. None come to mind.

Thank you for providing us with the opportunity to comment on this important initiative. If you require any other information or clarification of the above statements please contact me at (403) 252-5222 or by email to: markkent@portfoliostrategies.ca.

Sincerely,

Mark S. Kent, CFA
President and CEO

