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Joint Forum Project Office  
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**VIA: FAX/COURIER/E-MAIL**

Attn: Mr. Neil Mohindra  
Acting Policy Manager

**Re: Joint Forum Proposed Framework 81-406**

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Dear Sir:

We are writing to provide our comments on the Joint Forum of Financial Market Regulators ("Joint Forum") *Proposed framework 81-406, Point of sale disclosure for mutual funds and segregated funds* ("Proposal").

Quadrus Investment Services Ltd. ("Quadrus") is one of the largest mutual fund dealers in Canada with more than 3,600 registered investment representatives. We are a member of the Great-West Lifeco group of companies, which includes The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company. We are also affiliated with Investors Group Inc. ("Investors Group") and its subsidiaries Mackenzie Financial Inc. ("Mackenzie") and Investors Planning Counsel Inc. ("IPC") through Power Financial Corporation.

Quadrus is regulated by the Mutual Fund Dealers Association of Canada ("MFDA") in addition to each of the provincial and territorial securities commissions in Canada. We are also a member of the Investment Funds Institute of Canada ("IFIC").

Quadrus administers some \$5.2 billion<sup>1\*</sup> in assets under administration, including over \$1.9 billion\* in our proprietary mutual fund family, Quadrus Group of Funds, managed by Mackenzie Financial Corporation.

We have had the opportunity to review the submissions made by IFIC, and we generally support them. The following comments reflect areas of specific concern to us.

Quadrus fully supports the development and provision of simple, accurate disclosure materials for consumers of mutual funds. We feel that the Proposal has many positive elements, including simplicity and usability. However, we are concerned that certain aspects of the Proposal have the capacity to generate significantly negative consequences that we believe are unintended. We are concerned that these unintended consequences flow from the treatment of all potential consumers of these products in the same way, ignoring material differences between the consumers themselves and the various ways in which they choose to deal with these products.

The following sections address our primary concerns in the following areas:

Content of Fund Fact Document  
Implications of Prior Delivery  
Implications of Cooling Off Period

For each issue we describe our concerns and set out proposed solutions.

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<sup>1</sup> \*as at Dec. 31, 2006

## **Content of Fund Fact Document:**

The Proposal requires that compensation and fees be disclosed in each Fund Fact document. We are concerned with placing this level of disclosure in a single Fund Fact document as it may be read to suggest that clients are required to pay certain fees (for example, when switching from one fund to another in the same fund family under a deferred sales charge (“DSC”) option) when they are not. Fees are generally set at the level of the prospectus covering all funds available under that prospectus, and not at each specific fund level. Clients should also be made aware of their investment options within the fund family as well, to avoid concerns that they may subsequently transfer outside a fund at a cost to them when they could have obtained a comparable fund within the family at no cost. We are concerned that the Proposal does not recognize the important concept of the “fund family”, potentially to the serious detriment and confusion of the consumer. We strongly support any initiative to ensure that this concept is maintained, as it provides significant benefits to the consumer.

We are also concerned about certain logistical issues involved in the Proposal. Our investment representatives can offer mutual funds from the vast majority of Canadian registered fund managers in addition to our proprietary family of funds. As noted in other submissions, the requirement to deliver a single Fund Fact document prior to sale will have a significant impact on any dealer that offers a full investment menu to its clients. Investment representatives will not be able to carry the amount of paper required to provide a full selection to clients, and we are concerned that the Proposal will serve to limit the number of investment choices that investment representatives are physically able to make available to their clients.

This approach may serve to limit the range of fund choices that remain viable. It may not be too much of an exaggeration to conceive of an evolution towards fewer funds, and perhaps even ending in asset allocation funds being the primary

choices available. We do not believe that limiting consumer choice, in an environment where diversification is a valid and appropriate investment risk management strategy, is a good outcome.

IFIC has suggested the creation of a document, comparable to the “Key Facts” document proposed for segregated funds, setting out the various funds, fees and access rights available to clients who invest in a mutual fund that is one of a family of funds. We support that position.

Additionally, compensation is often set between the client and the investment representative/dealer at the point of opening an account with the dealer, rather than when buying a fund. In this regard, we agree that any discussion of the disclosure of investment representative compensation should be integrated into the Client Relationship Model discussions within the current registration reform initiatives undertaken by the Canadian Securities Administrators. Doing otherwise runs significant risk that we will end up with incompatible or duplicate required disclosure materials. We are concerned that this could create confusion amongst clients, increase the paper load of clients, dealers and investment representatives without the intended benefit and increase audit and compliance requirements surrounding confirmation of delivery. We believe that the Client Relationship Model initiative is the right forum to discuss and determine issues of compensation disclosure.

**Prior Delivery Requirement Will Create Delays in Trading:**

One of the many benefits of mutual funds is their liquidity. Clients can easily and rapidly arrange to sell one fund at today’s price and buy another. Although generally designed as investments for long term investors, this flexibility allows clients to manage their portfolios through personal and market developments. Currently, the industry is structured to effectively and efficiently process clients

trading instructions. We believe that clients have come to expect rapid service when they have come to a decision regarding their portfolio.

We are very concerned that the Proposal has the potential to seriously impact our ability to provide this expected level of service to our current and future clients. Indeed, we are concerned that the Proposal could lead consumers away from mutual funds and towards less regulated, and potentially less appropriate, investment vehicles that are not subject to these requirements.

The Proposal requires that Fund Fact documents be delivered to the client prior to any trade taking place. The Proposal also states that failure to deliver the Fund Fact document allows the client to get out of the fund at any time and receive their initial investment amount back, free of fees. The combination of these requirements means that dealers will have to develop rigorous compliance and oversight structures to ensure that they have evidence that the client received the Fund Fact document. The cost of complying with this will be significant and we believe it will exceed any cost reductions/savings (prospectus printing and mailing for example). The majority of our initial account opening business is transacted face to face, which would allow for hand delivery of the document and sign off by the client indicating receipt. However, the majority of our subsequent transactions take place over the phone: clients contact or are contacted by their investment representative, who is authorized to take instructions by telephone and process the trade. In such situations, the only way that the dealer can be certain that the client receives the document in advance is to deliver it to the client and receive confirmation of delivery from the client.

As noted by IFIC and others, the current state of security for internet communications is not generally considered satisfactory for the communication of confidential information. We are concerned that building a compliance structure around the delivery of investment instructions by insecure email could create potential liability for the dealer if that information is intercepted by someone other than the recipient. Similarly, we are concerned that the institutionalized faxing of

confidential information could lead to that information being intercepted, leading to reputational damage to the dealer and potential liability.

Although future developments may make the concept of “push” electronic delivery of investment information viable, at the present time, we are not satisfied that current security controls are sufficient for either email or fax delivery to avoid these significant potential pitfalls. We do not believe that a disclosure structure designed to serve clients should be limited to communication channels that remain subject to such significant concerns.

Given the foregoing concerns, we believe that anything short of a signed receipt from the client is not likely to satisfy the audit trail required to ensure compliance with the prior delivery requirement.

For telephone transactions, this would mean significant delays for clients. Clients would have to be told that we would send them the materials in the mail, that they should execute the appropriate form and return it to us in the postage paid envelope and we would process their trade request on and as of the date the dealer receives it. This would severely restrict the usefulness of mutual funds as an investment vehicle for clients, and could result in the movement of clients into less restrictive products, including principal protected notes, exchange traded funds, stocks and bonds or GIC's. We believe that the diversification and expense sharing features of mutual funds make them excellent investment vehicles for the Canadian public, and any initiative that is likely to make such vehicles less attractive requires extraordinary justification. We suggest that many consumers of mutual funds in Canada, if made aware of the implications of this Proposal to their trading rights, would choose to forgo prior receipt of the materials.

With that in mind, we note that the Proposal specifically forbids the client from making any decision regarding receipt of the materials: there is no choice in the

matter. This appears to us to be a significant and valuable right of the client that is being removed – the right to choose how they deal with their investments. We do not support any disclosure regime that, despite its good intentions, results in the loss of a significant client right (to trade immediately) without giving the client any choice in the matter.

In keeping with the understanding that all consumers are not alike and that consumers should not have their rights interfered with and the principle that consumers should have the ability to make decisions as to how they wish to deal with their investments, we propose that clients should retain the ability to make an informed choice as to how they will receive Fund Fact information on subsequent transactions.

We propose that clients be given the option, at the point of account opening and purchase of mutual funds within a fund family, as to whether:

- they receive Fund Facts documents prior to subsequent switches within the family, clearly accepting the delays that may result, or
- receive them with the confirm following the processing of the requested transaction.

In addition, the client will be advised that they can at any time request Fund Fact sheets for any investment option available within the fund family, either from their investment representative or dealer or they can obtain them directly online.

Clients would be reminded from time to time that they have the right to change this delivery option by contacting the dealer or their investment representative and requesting a change.

**Implications of the Cooling Off Period:**

The Proposal suggests that clients should have a 48 hour “cooling off period” following any purchase of a mutual fund. This would apply to almost all forms of

purchases, including switches within a family of funds. The concept of a “cooling off period” already exists – it was designed to compensate for the fact that the prospectus can currently be delivered after the trade occurs. The current process accommodates clients needs for rapid trade capability, while also providing them with the information they need and a right to escape the purchase once they have read over the material. Given that the Proposal intends to require prior delivery of this information, the rationale for a “cooling off period” no longer would apply, and we do not understand why it is included. The clients would already have had the opportunity to make their informed decision, so there would be no need for a “cooling off” period.

Even if this “cooling off” right applies, we are concerned that applying it to switches amongst fund families would not be appropriate where the fund family already allows for fee free switches. This issue should be linked to the concept of a “fund family” disclosure document covering client rights within the family, discussed earlier. It must be made clear to clients that the “cooling off period” has potential negative implications for them (they receive the lesser of their initial investment or current market values), while a free switch within the family of funds does not have the same negative implications. We are concerned that not providing this comparative information to clients could be against the clients’ best interest, and we could not support that.

**Conclusion:**

We strongly support the Joint Forum in its effort to develop point of sale disclosure materials that are useful to investors. However, we believe that any such initiative should not be done at the expense of client rights or client choice, and should not inadvertently contain the potential to mislead clients as to their rights.



We would be pleased to work together with our regulators to develop a practical, useful and helpful tool for our clients. If we can be of any immediate assistance, please contact me directly.

Yours truly,



Rick Rausch

President, Quadrus

