



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

October 15, 2007

Mr. Neil Mohindra
Acting Policy Manager
Joint Forum Project Office
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Dear Mr. Mohindra:

Re: Proposed Framework 81-406: Point of sale disclosure for mutual funds and segregated funds

This submission is made by the Pension Investment Association of Canada (“PIAC”) in reply to the request for comments from the Joint Forum of Financial Market Regulators regarding the Proposed Framework 81-406, Point of Sale Disclosure for Mutual Funds and Segregated Funds, June 15, 2007.

PIAC is the representative association for pension funds in Canada in pension investment and related matters. The Member funds of PIAC collectively manage over \$910 billion in assets on behalf of millions of Canadians. We welcome the ability to comment to encourage best practices in the investment industry as we monitor changes that may ultimately influence the communications provided to members of capital accumulation and savings plans offered by our PIAC Members.

You will find below “Attachment A” detailing answers to the specific questions posed by the Joint Forum of the Proposed Framework 81-406, and “Attachment B” that provides additional comments regarding the proposed Fund Facts sheet.

Although we have specific comments in each area (detailed in the attachment), in general, PIAC would support the requirement to deliver the Fund Facts directly to the investor prior to purchase; we support the investors’ cooling-off rights; and, we believe the regulatory filing requirements generally appear reasonable.

PIAC is in support of clear, concise, plain language and easy-to-read communications giving investors a solid base of information necessary for them to understand and easily compare the risks, benefits and fees of various investment options. However, we have some concern that in the efforts to make this information concise and easy-to-read, some relevant information has been excluded.

In general, our concerns are in the following areas: Firstly, the Fund Facts lacks some basic performance and exposure measures required to make meaningful comparisons between funds. In particular, inclusion of an appropriate passive market index benchmark to evaluate performance and tables summarizing country, sector and/or credit weights of the fund versus the index provide valuable information regarding the mandate and the potential benefits and risks associated with a fund. In addition, the description should also confirm derivative exposures of the fund if permitted and any liquidity restrictions, if applicable. This is an industry standard that should be supported.

Secondly, the page on general fee information lacks clarity. To make it more meaningful the fee detail should clearly tie in with the MER disclosure on the first page. It should more concisely and precisely summarize who receives which fee for what service to highlight potential conflicts.

Thirdly, although the Fund Facts has basic information it is in no way a reasonable replacement for the simplified prospectus. As professionals in the investment arena, we have to support the goal of gradually increasing investor knowledge and challenge the industry to continue to deliver and improve upon the simplified prospectus and the development of a Consumers Guide. Though general educational material is available in the marketplace a Consumer Guide could provide an unbiased general reference guide that investors could rely on for definitions of technical terms and basic investment concepts. This could be provided with or at least referenced in the Fund Facts.

We appreciate the opportunity to respond to your request for comment and hope that you find our feedback relevant. Feel free to contact us if we can be of further assistance.

Respectfully submitted on behalf of the Members of the Pension Investment Association of Canada.

Yours truly,

Terri Troy
Chair

Attachment A: Responses to Specific Questions

Time of Delivery/ Subsequent Purchases

1. Waiving the requirement for the delivery of the Fund Facts for subsequent purchases of a fund you own would be reasonable, assuming #2 is in place.
2. It would be reasonable to receive the Fund Facts with the annual calendar year-end statement for all funds invested in.
3. Because you choose to receive this additional information, many (perhaps the vast majority of) people choose not to receive it. Those receiving the information may or may not read these lengthy documents. Those who rely on advisers are even less likely to read these documents. Relying on investors to find the information they require in the current documents, even if just for subsequent purchases, seems counter-intuitive with this exercise of creating a new framework.

Methods of Delivery/

It is agreed that oral delivery should not be a permissible delivery option; and that access does not equal delivery.

4. The various delivery options appear to be complete and should allow for timely decision-making and execution. Active trading of mutual funds is generally not a recommended strategy so the definition of ‘timely’ is not as tight. In this context, a person (possibly living in a remote location) without any internet or fax machine who may not receive a couriered or mailed Fund Facts for a couple days may still be considered to have received the information on timely basis. All these factors lead us to believe that the various options are sufficient for timely purchases.
5. Written documents are required and, as such, this seems to cover all reasonable methods of delivery. It is suggested that in the delivery, the Fund Facts be clearly noted as recommended reading. This is consistent with the obligation for dealers to bring the Fund Facts to the attention of the investor as described in the Regulatory Requirements of the Proposed Framework.
6. No comment.
7. Firstly, the circumstances where the adviser would not have the Fund Facts available are not immediately apparent: Secondly, the adviser should be discussing the potential fund purchase with the Fund Facts in front of the client to encourage appropriate exchange of information about the investment. Thirdly, waiting would not discourage investors from investing in mutual funds or segregated funds as these are often the most suitable investment in any case; but rather waiting for the Fund Facts may/should prompt a review of the adviser by the client.

Exercising the Cooling-off Right

The cooling-off right should return the full market value of the Fund as of the date notice is given. The asymmetry of the current formula may discourage investors from exercising their cooling-off rights and may result in the investor holding onto an inappropriate investment.

Contacting the fund company should be an option for the investor also. The option to contact the fund company directly should be available in case the investor is not comfortable contacting their advisor.

Returning the proceeds and fees to the investor should be required to be made within a reasonable timeframe, with delivery occurring perhaps within the three day settlement period.

If the Fund Facts is Not Delivered

Allowing investors to cancel their purchase at any time would be contentious. It is assumed that the dealers would pay the difference between the original investment and the current market value less fees. This would require the proof as described in the response to question 5 above: The investor should initial the Fund Facts was received and the adviser should initial or retain proof that the Fund Facts was delivered. No initial by the investor would be the only 'proof' that the Fund Facts was not received.

Preparing the Fund Facts

9. At minimum, it should be noted that various classes, series or guarantee options are available and specifically suggest that the investor discuss the difference with their advisor. Adding an additional fund family document would be very useful for investors to make informed decisions and properly weigh the pros and cons in a transparent fashion with investors. This family document would address many of the issues highlighted in our review of the Fund Facts template specifically as it relates to description of the investment organization, process and personnel.

Filing Requirements

10. Fund Facts should be updated at least semi-annually but not more frequently than quarterly. It is preferred that the Fund Facts become incorporated into the entire filing process and is not viewed by fund managers and insurers as yet another separate regulatory requirement. This will help with consistency between documents.
11. The preparation of semi-annual documents seems reasonable. Annual document updates is not frequent enough. The dates should be set at June 30th and December 31st for consistency and comparability, which is believed to be consistent with the comment in question 10 above.
Performance returns should be presented on a calendar year basis, with a year-to-date figure for the most current year, as well as on an annualized basis.

Changes to the Current Delivery Requirements

We disagree that the Fund Facts should replace the Simplified Prospectus. At a minimum, it must be readily available for investors to read and delivery should not be dependent on an investor's request.

Proving Receipt of the Fund Facts

An investor's acknowledgement of receipt would appear sufficient to protect the dealers and advisors from investors wanting to abuse the system by requesting cancellation of fund purchases in adverse market conditions. It makes sense to mandate this requirement to protect the industry from abuse.

Attachment B: Review of Fund Facts Document

General

The following items should be included in the Fund Facts:

- Relevant Index Benchmark
- Indication of Active or Passive investment approach
- Asset classes allowable for investment by the fund
- Restrictions on liquidity of fund units
- Sector allocation using standard GICs sector classification vs index
- Use of derivatives and degree of leverage, as applicable
- Description of the investment organization, process and investment personnel

More specific comments on each of the sections of the Fund Facts document follows.

Quick Facts

- Where applicable reference to total assets managed under a similar mandate should be disclosed along with size of fund in question.

What does the fund invest in?

- Does the fund invest in equity instruments (common shares, preferred shares, index derivatives, etc) or debt of Canadian companies? In the effort of using simple language important information is being skipped. The name of the fund does not always address this important aspect.
- Top Ten Investments: Including the percentage of the portfolio held in each of the securities would provide an indication of the amount of security specific risk the manager is willing to take. Providing the total percentage in the top ten stocks and the number of total securities is useful concentration and risk data.
- Investment mix:
 - Adding the benchmark comparison allocations would provide an indication of the amount of active risk within the asset class that the fund may be taking
 - Single market equities: Sector allocations using industry standard GICs classification system will ensure and enhance comparability between funds.
 - Multiple market equities: Sector allocation would be useful across the total portfolio. Country or at least regional allocations would provide useful information.
 - Balanced funds: What is the asset allocation and the allocation relative to its benchmark?
 - Fixed income: Industry sector concentration, mix between credit sectors
 - Hedge Funds or Alternatives: Strategies used across the portfolio should be listed, e.g. convertible arbitrage, long/short.
 - Use of derivatives and leverage levels should also be identified.

How has the fund performed?

- All returns provided for the fund should be accompanied by the most appropriate index benchmark to facilitate evaluation of the fund's performance and the

amount of active risk the manager is taking. Investors can then assess whether to invest in a passive fund at a lower cost. Providing the value added versus the benchmark return should highlight why investors pay a higher MER for active management.

- The fund and benchmark returns must be total returns. The index benchmark must be clearly defined.
- Annualized returns for 3, 5 and 10 years, if available, should be provided.
- Calendar-year returns, including a year-to-date return, should be provided to show the absolute volatility of the fund's returns which is useful to understanding the risk of the fund. How the fund performed relative to its market benchmark provides additional insight into the asset class volatility the fund invests in and is an indication of the potential degree of future volatility. A chart rather than a diagram of returns could provide this information in a clean, concise manner. A sample chart ('Calendar Year Performance Relative to the Market') is shown below:

Calendar Year Performance Relative to the Market

% Return	YTD June 2007	2006	2005	2004	2003	2002	5 year average/yr
Fund Return	10.0	10.0	20.0	20.0	10.0	20.0	-15.0
Benchmark Return	10.1	10.5	10.0	25.0	14.0	10.0	-15.2
Difference	-0.1	-0.5	10.0	-5.0	-4.0	10.0	-0.2

How risky is it?

- This very general assessment of risk gives an investor an idea of absolute risk, defined as volatility of returns.
- However is the scale of volatility based on inter-asset class volatility or intra-asset class volatility? This scale may provide useful information when an investor is comparing different asset classes. Canadian equity funds may be 'moderately' volatile compared to money market (usually 'low') and to emerging market equity ('high'). There is some value in this scale. However, it could be easily argued that an investor considering particular funds would be comparing different funds within the same asset class. In this case, comparing the relative asset class volatility (inter-asset class) is not useful and an intra-asset class comparison is really needed. For example, an index fund might be classified as 'low to moderate' and a concentrated, 20 stock resource-based fund might be classified as 'high'. This would be useful for an investor choosing between funds within a chosen asset class.

In any case, it is not clear what risk information this is giving the investor.

Are there any guarantees?

Although there are no guarantees, perhaps there could be a reference about industry coverage in the case of fraud or willful misconduct.

Who is this fund for?

- This section provided useful information. This is the first reference to the stock market.
- Rewording this standard statement would provide more useful, simple and straight forward information. For example it could simply say what the fund is: “This fund does not regularly payout income to you” or “does not provide a steady source of income from your investment” or “you will need to sell units in order to receive income from this fund”

How much does it cost to buy? and How does my advisor get paid?

- Overall, this page on fees is very educational but too general. This section should really be customized for the particular fund in question. If it is to remain general in nature, then it really provides no useful information to investors. This space would be better allocated to providing more customized investment information.
 - It is this type of general information which should really be included in the Consumer Guide originally contemplated in the mandate of the Joint Forum.
- In general, this would open up discussion and help focus the investor on important fee-related questions to ask. The fear is that the advisor would not have this information readily available and would ‘get back to the investor’ on the details. This would defeat the purpose. The answers should be on these two Fund Facts pages. In this case, ‘recognizing the role of the adviser in the sales process’ is not appropriate because compensation is one clear area where the adviser has actual, potential and/or perceived conflicts of interest that must be specifically addressed.
- Unfortunately, after reading this entire page, the key question of ‘who gets what and how much do I ultimately have to pay’ never gets answered.
 - Who receives the fees referred to in this section: the advisor or the fund company?
 - How do these fees tie-in with the MER?
 - Do funds have the same deal with all advisors?

What if I change my mind?

- Good information
- As noted in early comments, the investor should have the possibility of canceling the purchase by notifying the fund company or the advisor.

For more information

- Good information
- Reference the simplified prospectus

Key Facts

- Key Facts seemed to be informative.
- Comments are limited at this time.
- Care should be taken around the wording of the guarantee: “initial investment” or “percentage of the amount paid in” is protected if the markets go down.