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

Dear Sir or Madam:

PFSL Investments Canada Ltd. (“PFSL”) is once again pleased to submit comments regarding Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds (the “Framework”).

By way of background, PFSL is a unique participant in the mutual fund industry. Unlike many other investment and mutual fund dealers, PFSL focuses on serving middle-income investors: investors of more modest means and with smaller amounts at their disposal to

invest. Through a network of over 5,000 mutual fund licensed agents, PFSL provides personal, cost-effective service and access to a range of affordable mutual fund investment options. In our experience in servicing middle-income Canadian families for over 20 years, we have seen many examples of well-intentioned regulatory initiatives resulting in unintended obstacles to affordable financial options for modest investors.

From its initial release in June 2007, PFSL has supported the principle of providing timely, plain-language disclosure to assist investors in making informed decisions. However, we have actively participated in the Framework's development by voicing our concerns regarding aspects that may have negative repercussions for middle-income investors and firms attempting to tailor investment options to fit their particular needs. As a result of the dialogue between industry and the Joint Forum of Financial Market Regulators ("Joint Forum"), the October 24, 2008 release of the Framework contains a number of significant improvements. These improvements include a greater degree of flexibility in terms of the Fund Facts sheet's content, which will benefit its accuracy, as well as a greater degree of flexibility for its delivery. Other noteworthy improvements to the Framework include the distinction between "advisor-recommended" and "investor-initiated" transactions in addition to no longer requiring pre-sale delivery of the Fund Facts sheet for subsequent purchases of, or switches into, a fund currently held in the investor's account.

Nevertheless, despite these improvements, we remain concerned with a number of aspects of the Framework, which include certain fundamental issues as well as specifics regarding the content and delivery requirements. We also understand that we are not alone in being an interested party with outstanding concerns and we know that reaching an acceptable consensus on all of these issues could prove to be a lengthy process. As a result, PFSL supports the proposal that has been put forward by the Investment Funds Institute of Canada ("IFIC") in a submission dated November 24, 2008. This proposal advocates separating issues regarding the Fund Facts sheet's content from its delivery requirements in the consultation process and "fast tracking" the former in an effort to provide investors with the benefits of timely, plain language disclosure at a much earlier date than what is currently expected. We believe that this proposal enables investors to benefit from improved disclosure more quickly, while allowing sufficient time for the remaining delivery issues to be addressed.

PFSL remains concerned with regards to delivery requirements as currently contemplated by the Joint Forum and its broad range of implications including the impact of delivery requirements on affordable access to our products. While we have described these concerns in previous submissions, a summary of them is provided in the following sections. We also continue to be concerned with certain areas of the Fund Facts sheet's content, however we will address these concerns at a later date.

### **Delivery Requirements**

As mentioned above, PFSL is pleased to see that the Framework now allows for a greater degree of flexibility in terms of delivery. However, we are concerned that these allowances are simply amendments to a regulatory initiative that, from the outset,

prioritized the physical delivery of documents over the principle of providing *meaningful* and *effective* disclosure. In our previous submissions regarding the Framework, PFSL illustrated how the disclosure requirements would be cumbersome, costly, environmentally unsound, difficult to implement and inappropriate for many business models. We remain unconvinced that these issues have been fully resolved and believe that the emphasis of this initiative should be placed strictly on providing meaningful and effective disclosure to investors. We also believe that such an emphasis would prioritize principle-based regulation, resulting in the widely accepted benefits that this form of regulation entails such as increasing regulatory scope, adaptability, and predictability; reducing unnecessary regulatory duplication and redundancy; and increasing the potential for Canadian capital markets to retain their global competitiveness.

### **Costs**

Our previous submissions dedicated a significant amount of attention to the costs associated with the Framework's previously prescriptive paper-based delivery requirements. Although the new amendments leading to greater flexibility with delivery will likely alleviate some of these costs, we request that the Canadian Securities Administrators ("CSA") remain mindful of the considerable costs that will occur as a result of the Framework's implementation. It is PFSL's opinion that the new and innovative network of compliance mechanism that will have to be developed and implemented to ensure disclosure is occurring as prescribed by the Framework, will result in significant additional expense. In fact, the newly added provisions that have led to an increase in flexibility will also result in increased compliance-based costs. For example, allowing for electronic delivery of the Fund Facts sheet will result in a unique series of compliance implications, such as developing methods to ensure email addresses are valid and up to date as well as other mechanisms that can confirm delivery. In addition, unique methods for capturing those clients who have opted in for annual receipt of the Fund Facts sheet and confirming its delivery will have to be developed as well as those that can monitor and ensure compliance with the provisions regarding investors who have opted out of the disclosures for money market funds.

It should be noted that these increased costs will come at a financially challenging time for the securities industry and will add to the burden of other regulatory initiatives that are currently under consideration. Our request for the CSA to remain cognizant of these expenses is due to the fact that they are likely to ultimately impact investors through either a) reductions in service and access to mutual funds, especially for investors of more modest means, or b) increasing the cost borne by investors.

### **Reduced Access to Mutual Funds**

As costly and often cumbersome regulatory initiatives continue to mount, PFSL, like many others in the mutual fund industry, is concerned that the Framework could result in a reduction of investment options offered to consumers and/or a reduction in the competitiveness of mutual funds. It has been suggested that advisors may attempt to reduce the potential burdens of the Framework by limiting the number and variety of

funds that they offer. While fund recommendations would still be suitable, it is possible that advisors may offer fewer funds resulting in less tailored client portfolios.

As for reducing the competitiveness of mutual funds as an investment option, some have speculated that advisors may go even further and attempt to circumvent the potential costs and burdens associated with the Framework and direct their clients to investment vehicles that do not require similar pre-sale disclosures. Although our business model would prevent PFSL's agents from doing so, the potential for product arbitrage has been expressed by others in the mutual fund industry and has since become a concern of ours. It is reasonable to assume that the Framework could inadvertently disadvantage mutual funds and the competitiveness of the mutual fund industry, resulting in reduced investment options available to investors.

### **Conclusion**

With the objective of assisting in the of fast tracking of what we believe to be the focal point of the Framework, providing investors with disclosure, PFSL would like to reiterate our endorsement of the proposal put forth by IFIC. This proposal would allow more difficult issues, such as those involving delivery, to be addressed in due course without unnecessarily delaying the public's access to information regarding certain investment options. We would also like to reiterate our belief that investors would benefit from a more principles-based approach where *meaningful* and *effective* disclosures are emphasized, and that the Framework be modified accordingly. Such an approach would not only ensure that investors receive the information they need to make informed decisions, but also allow for progressive means of disclosure including "access equals delivery".

We appreciate your consideration of comments in regards to the Framework. We would be pleased to further discuss our concerns with you.

Yours Truly,

John A. Adams, CA  
Chief Executive Officer  
PFSL Investments Canada Ltd.  
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