



THE INVESTMENT FUNDS INSTITUTE OF CANADA  
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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August 31, 2009

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Superintendent of Securities, Yukon Territory  
Registrar of Securities, Nunavut

**Attention:** John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West, Suite 1903, Box 55  
Toronto, ON M5H 3S8

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

Dear Sir/Madame:

**Re: Preliminary Response To CSA Notice And Request For Comment On  
Implementation Of Point Of Sale Disclosure For Mutual Funds**

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We are writing to provide preliminary comments of The Investment Funds Institute of Canada (“IFIC”) with respect to the *Canadian Securities Administrators (“CSA”) Notice And Request For Comment On Implementation Of Point Of Sale Disclosure For Mutual Funds* (“the Rule”). A more lengthy set of comments addressing the specific questions posed by the CSA will be submitted by the October deadline.

IFIC is the national association of the Canadian investment funds industry. Our membership comprises mutual fund management companies, retail distributors and affiliates from the legal, accounting and other professions from across Canada.

### **Positive Observations**

We continue to support the plain-language Fund Facts disclosure document as a method of providing key information to investors in a simple, accessible and comparable format. We have maintained throughout our discussions with the CSA that investors and the industry will benefit from the availability of such a document.

We are pleased by the 120-day comment period provided by the CSA and their openness to detailed consultations on how the Rule will affect the experiences of many diverse investors in acquiring and holding mutual funds.

We are encouraged by a number of the provisions of the Rule. We support the proposed staged implementation which will get the Fund Facts out to investors with a minimum of delay. We recognize the importance of allowing investors and advisors to become comfortable with the new Fund Facts document as soon as possible, and not hold up its availability while some of the more complex aspects of the Rule, such as delivery requirements, are being developed.

We are also encouraged that the CSA has recognized that some investors will want their purchase completed immediately and have added provisions to the Rule that will allow for this. We will comment in more detail in our October letter on how these provisions could be made more efficient.

We support the broadening of the definition of electronic delivery and will have further specific comments in our October letter for enhancing this part of the Rule.

### **General Comments**

At this time, we want to outline areas where we feel the greatest attention should be given to clarifying parts of the Rule, and consider how investors will be best served. Major themes that will need attention before finalizing the Rule include: A) compliance issues; B) transition issues; and C) harmonization with segregated funds.

#### **A. Compliance Issues**

The Rule raises important compliance concerns that will need to be addressed. These concerns will impact fund managers, dealers, advisors and investors. All industry stakeholders will need to undergo many process changes to implement the Rule, and distribution (i.e. dealers and advisors) in particular will need to build new processes to assure and maintain evidence of compliance.

While the CSA indicates that technology solutions can be developed, based on discussions with technology solution providers we are concerned that there has been no costing estimates provided to understand the cost impact of this to managers and dealers and ultimately to investors. It also remains unclear that any solution will be comprehensive enough to cover all participants in the industry. We believe that the critical roles of the dealer and the advisor in this process have not been fully understood.

The CSA has indicated that it is not their intention for the Rule to impose new compliance procedures that are not already in place at dealer firms. Our preliminary analysis is that the Rule will clearly impose many new compliance procedures that do not exist today. In contrast to the current prospectus delivery approach, the Rule is significantly more complicated and reflects multiple decision points as highlighted below, each of which may result in its own set of subsequent procedural steps:

- Is the investor purchasing multiple funds or from multiple fund companies?
- Is the purchase initiated by the advisor or the investor?
- Is the purchase an initial or subsequent purchase?
- Is the fund a money market or non-money market fund?
- Has the client waived fund facts delivery?
- Has the client elected annual delivery of fund facts?
- Is the fund fact delivered at point of sale or with a trade confirm?
- Is delivery effected by electronic means?

These elements are not presently tracked and compliance procedures will need to be developed to monitor all of the various elements, provide a process feedback loop to compliance, and maintain records that delivery obligations to investors as contemplated by the Rule have been satisfied. These new compliance procedures will differ between nominee name and client name dealer environments. It is our belief that this additional compliance burden will substantially add to transaction steps and costs borne by the investor – additional steps and costs that will not be required for other competing investment products.

The concept of “bringing the fund facts to the attention of the investor” is introduced in many sections of the draft Rule. This concept has no precedent in the current disclosure regime and we are concerned that such precedent is being contemplated as a mandatory legal requirement, particularly given that dealers already have suitability obligations. Application of this concept will be very complicated to prove from a compliance perspective.

As a further example, in some cases the concept of allowing the investor to “waive” their right to a Fund Facts document may seem logical on the surface, but allowing such waivers at the express discretion of the investor on each transaction

rather than through standing instructions or defined by the objective circumstances of the trade, adds a significant level of data gathering, data recording and compliance monitoring which in total is well beyond the scope of any similar activity in the current compliance regime.

These additional regulatory steps and related compliance activities will add complexity and cost to the distribution process, but also in a disproportionate manner across the various distribution models serving Canadians. We will be documenting a number of examples to illustrate some of the varying impacts on investor experience based on the Rule for discussion with the CSA and the Self Regulatory Organizations (“SROs”).

We further note the importance of the CSA working closely with the SROs on compliance aspects of the Rule. Input from the SROs will be vital to development of the Rule, and we urge the CSA to consult with them and the industry jointly regarding necessary compliance structures prior to finalizing requirements for delivery.

## **B. Transition Issues**

As noted, the industry supports the proposed two-stage implementation process, and will provide a recommended transition schedule for production, approval and website availability of the Fund Facts as part of our October submission.

At this stage it is premature to determine the appropriate time line for implementation of all the required delivery and related documentation and compliance issues. Once the CSA and the SROs have had a chance to consider all the ramifications of the Rule based on submissions received in October and dialogue with stakeholders, we believe a number of suitable adjustments to the Rule will be made (to deal with practical considerations as opposed to fundamental principles). At that point, we will be in a better position to predict the appropriate period to allow for implementation of all the delivery requirements, likely as part of the response to the next draft Rule and associated comment period.

## **C. Harmonization with Segregated Funds**

It is important that the CSA and CCIR look at each of their respective rules to ensure that there is harmonization of both rules and application. In addition to the rules themselves, which we have observed to be different in some respects, it will be necessary to look at the issues that arise for compliance in the two industries. For example, while the CSA Rule includes a Companion Policy that describes a compliance regime for delivery of the Fund Facts document, there does not appear to be equivalent guidance or requirements in the CCIR release.

There is no equivalent body in the insurance world to the SROs of the securities industry who audit their members to high levels of specific and prescriptive compliance requirements. Rules in the two regulatory frameworks, even if identical, can have very different levels of application and resulting investor experience.

### **Additional Perspectives on the Importance of Mutual Funds to Canadians**

Mutual funds are of vital importance to Canadian retail investors across a wide range of income levels. Chart 1 for example demonstrates that Canadians invest in mutual funds consistent with their proportions by income level for medium to high income brackets. In addition, the key features of mutual funds and segregated funds such as professional management, diversification and periodic investment plans have made them the predominant financial product for Canadians of all income brackets for their retirement savings.

Chart 2 shows the overwhelming importance of mutual funds and segregated funds in RRSP accounts, particularly over the last decade. There is also considerable evidence that the performance of mutual funds has stood up well in comparison with the performance of other retirement vehicles in the current downturn – which further confirms to investors that their confidence in these products has been well placed. However there is still a sizeable portion of RRSPs invested outside of mutual funds and segregated funds which emphasizes how important it is for investors to feel their access to mutual funds continues to be easy to transact and that any approach provided to required regulatory information not impose barriers by way of the process compared to other investments.

### **Investor Confidence in Current Information**

IFIC publishes annually its study on Canadian investors' perceptions of mutual funds and the mutual fund industry ("Pollara Survey"). In July, 2009 the Joint Standing Committee on Retail Investor Issues ("JSC Survey") also released its Report on Retail Investor Information Survey.

Both research reports provide helpful input for the current initiative particularly on the key questions of: quantity and quality of information provided by advisors (73% of investors according to the JSC Survey say they receive the right amount of information); and satisfaction with the quality of information provided (84% of the JSC Survey said they had been provided the right information to make their investment decisions, and only 5% said they did not). These results correspond well to the results of the Pollara Survey. We strongly urge the CSA to consider these perspectives as you further develop and refine the Rule.

### **Conclusion**

CSA  
Re: Point of Sale Request for Comments  
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We have ample evidence to support our view that investors are being well served by the information and services they receive from their advisors in the purchase of mutual fund products today.

We believe that this process can be further enhanced by making available to investors a plain-language disclosure document such as the proposed Fund Facts. We are committed to working in earnest with regulators in the period ahead to make this a reality as soon as it is practically possible.

However, we do not want the potential benefits of this improved disclosure approach eroded through unintended, but real, obstacles that may well emerge based on specific delivery requirements, which is why we will continue to work with the CSA and the SROs to develop an efficient set of delivery solutions.

We are encouraged by the detailed discussions that are now emerging with the CSA and the SROs that are directed to ensuring the investor experience is, in fact, improved.

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Thank you for providing us with an opportunity to express our preliminary comments on the Rule. If you have any questions regarding this submission, please contact me directly by phone at 416-309-2300 or by email at [jdelaurentiis@ific.ca](mailto:jdelaurentiis@ific.ca) or Jon Cockerline, Director - Policy, Dealer Issues by phone at 416-309-2327 or by email at [jcockerline@ific.ca](mailto:jcockerline@ific.ca).

Yours truly,

**THE INVESTMENT FUNDS INSTITUTE OF CANADA**



By: Joanne De Laurentiis  
President & Chief Executive Officer

Chart 1

## Consistent mutual fund usage across middle income brackets

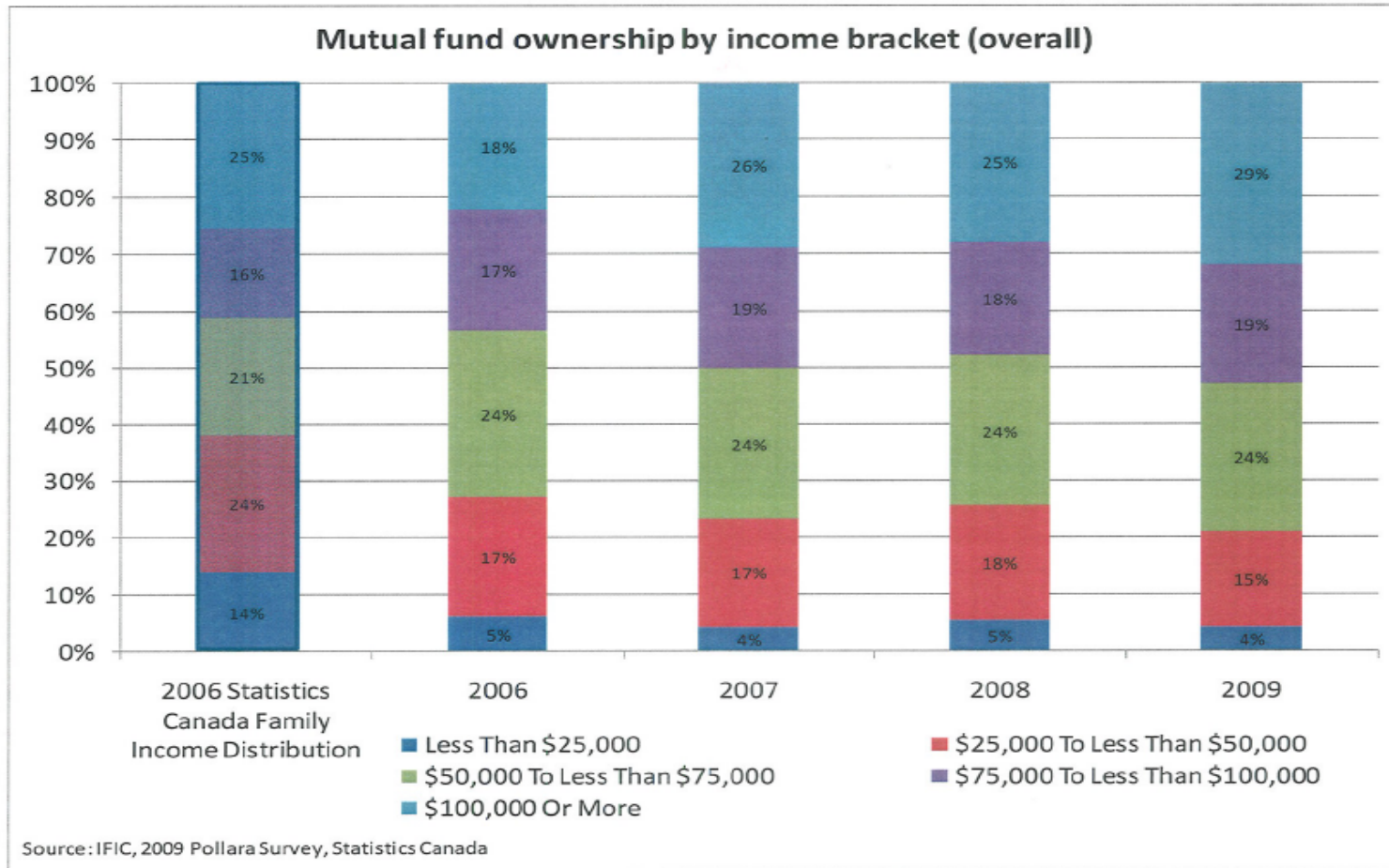


Chart 2



Agencia Item 11.4.0.

Composition of assets in RRSP accounts

