



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

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November 1, 2011

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
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

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

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

Dear Sirs / Madames:

Re: Implementation of Stage 2 of Point of Sale Disclosure for Mutual Funds

We are writing to provide the comments of the Members of The Investment Funds Institute of Canada to the proposed amendments for *Implementation of Stage 2 of Point of Sale Disclosure for Mutual Funds: Proposed Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, Form 81-101F3 and Companion Policy 81-101CP Mutual Fund Prospectus Disclosure And Consequential Amendments* (the "Proposals").

IFIC is supportive of the staged approach that the CSA has chosen to implement Point of Sale Disclosure for Mutual Funds. The staged approach has allowed stakeholders to get access to Fund Facts documents and to familiarize themselves with the document. Stage 2 will further make it easier for stakeholders to access the document. IFIC has supported and continues to support getting simplified and enhanced disclosure into the hands of investors and stakeholders. We make the following recommendations to facilitate the implementation of Stage 2.

TRANSITION PERIOD

The Proposals do not include a transition period. A transition period is necessary so Members have sufficient time to implement technological solutions to deliver the Fund Facts instead of the simplified prospectus. We recommend a transition period of 18 months for the implementation of Stage 2.

FLEXIBILITY ON BINDING

The Proposals are very restrictive in terms of what may be bound with the Fund Facts. Investors should not be disadvantaged with respect to what is included with the Fund Facts. Fund companies, dealers and advisers are in the best position to determine what their investors should receive when purchasing mutual funds. We recommend that there be flexibility in what is bound to the Fund Facts.

Section 5.1.1 is being added to NI 81-101 to limit the documents that may be attached to, or bound with, the Fund Facts to other Fund Facts being purchased by the investor, the confirmation, the simplified prospectus and certain documents incorporated by reference into the simplified prospectus (i.e. AIF, MRFP and financial statements of the same funds being purchased). As a result certain documents will no longer be permitted to be bound with the Fund Facts (such as the application form, registered tax plan documents and educational materials). Similarly, revised section 7.4 of 81-101CP indicates that there are 'no restrictions' on delivery of *non-educational* material with either the simplified prospectus or AIF, provided that it is not included within, or wrapped around or attached or bound to these documents.

We recommend that clarification be provided that educational and non-educational materials may be delivered together with the Fund Facts – although not attached or bound to them. We also recommend that delivery of educational materials be addressed in section 7.4 of 81-101CP as the failure to mention them implies that the educational materials may no longer be delivered with the Fund Facts or simplified prospectus under new section 5.1.1 of the Instrument. Also, we request that the CSA clarify that under section 5.1.1 (2) any *or all* of the front cover, table of contents, and confirmation may be placed before the Fund Facts documents, provided that only the confirmation is physically bound with or attached to the Fund Facts. Imposing restrictions to what can be attached or bound to the Fund Facts will create operational difficulties and additional costs for dealers, with no apparent benefit to investors. Many dealers are currently relying on automated systems allowing them to consolidate all of the transaction confirmations and related supporting disclosure documents that are either required or permitted to be delivered to the investors.

STATUTORY RIGHTS

The Proposed Amendments replace the Statement of Rights in the Fund Facts (Item 2 in Part II of Form 81-101F3) to indicate that the right to withdraw exists within 2 business days after delivery of the Fund Facts, but there is no corresponding change made to the disclosure in the simplified prospectus. It appears that this may have been an oversight and we recommend that the disclosure in both documents be made consistent.

The CSA Notice reflects the fact that the amendments and required changes to Simplified Prospectus delivery obligations will involve legislative changes in certain jurisdictions. We submit that the valuable time of provincial legislatures should not be taken up on this issue pertaining to prospectus delivery obligations without, at the same time, addressing the related issues concerning the statutory rights which flow from these obligations. As has been discussed in the past, there is ambiguity in the sections

of provincial legislation dealing with withdrawal rights as well as confusion as to why there exists a second right, one of rescission (from the time of receipt of the confirm) which applies to mutual fund products and not to other competing products. We believe that changes to the statutory rights sections should be addressed concurrently with the changes contemplated in the Proposals so that all necessary legislative changes dealing with prospectus delivery are dealt with in an efficient and comprehensive manner.

INCORPORATION BY REFERENCE OF THE FUND FACTS INTO THE SIMPLIFIED PROSPECTUS

As confirmed by the amendment to section 2.2(1) of 81-101CP, the simplified prospectus continues to be 'a prospectus' for the purposes of securities legislation, with the Fund Facts deemed to be incorporated by reference into the simplified prospectus. As a result, many of the changes to the Instrument are intended to extend the statutory rights of action and withdrawal to delivery of the Fund Facts, and correspondingly to exempt the requirement in securities legislation to send or deliver 'a prospectus' when the Fund Facts is delivered in lieu of the simplified prospectus.

Perhaps a less complicated approach would be to simply make the Fund Facts 'a prospectus' for purposes of securities legislation, and instead deem the simplified prospectus to be incorporated by reference into the Fund Facts. This would also be more logical given that in most instances the Fund Facts will be the actual disclosure document reviewed by the investor, and it would be not unlike the approach followed by the CSA in the 1980s with the simplified prospectus when the AIF was incorporated by reference into the more concise disclosure document delivered to purchasers.

FUND CODES

The use of the Fund Code on the Fund Facts has been permitted by exemptive relief application. Stage 2 is an appropriate time to include the use of Fund Codes in the Fund Facts document so all companies have the opportunity to include them as part of the disclosure in their Fund Facts. The Fund Code facilitates the use of the Fund Facts by ensuring that investors get the correct document for them. However, the Proposals are too restrictive, as the use of the Fund Code would only be permitted when there is more than one class of fund – this does not recognize other differences such as multiple purchase options for a single-class fund. This is also a more restrictive use of the Fund Code than is currently being allowed by CSA members.

EXCEPTIONS FOR INDIVIDUAL JURISDICTIONS

Relatively minor wording changes are proposed to item 6(1)(a) in Part I, and to item 1.3(5) in Part II, of the Fund Facts (Form 81-101F3) that are applicable 'except in British Columbia'. No explanation is provided as to why British Columbia will be excluded from these seemingly non-substantive changes. It is our view that this sets a poor precedent for making changes to a National Instrument, and the CSA should refrain from making changes to the Fund Facts (or any form that is intended for use in all regions of Canada) that apply in some, but not all, jurisdictions as this could result in different interpretations of the form requirements depending upon the area where the Fund Facts is to be distributed.

We urge the CSA to make the necessary changes to facilitate implementation of Stage 2 of the Point of Sale Framework. Our industry fully supports the principles of simplified and enhanced disclosures getting into the hands of investors and other stakeholders.

Canadian Securities Administrators
Implementation of Stage 2 of POS Disclosure for Mutual Funds
November 1, 2011

If you have any questions, regarding anything in this letter please contact me directly by phone at 416-309-2327 or by email at jcockerline@ific.ca.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



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Director, Policy & Research