



30 Eglinton Avenue West, Suite 306
Mississauga ON L5R 3E7
Tel: (905) 279-2727
Website: www.ifbc.ca

September 6, 2012

To:

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
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, Tour de la Bourse
Montréal, Québec
H4Z 1G3
Fax : 514-864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

Submitted by E-mail

Dear Sirs and Mesdames:

Subject: CSA consultation on Implementation of Stage 2 of Point of Sale Disclosure for Mutual Funds

Independent Financial Brokers of Canada (IFB) is pleased to provide comments to the Canadian Securities Administrators (CSA) on the implementation of “Stage 2 of the Point of Sale Disclosure for Mutual Funds”, issued on June 21st. Stage 2 proposes certain disclosure enhancements to the Fund Facts document.

Independent Financial Brokers of Canada

IFB is a national, not for profit association representing approximately 4,000 self-employed financial advisors. Our members are duly licensed and offer professional advice to clients to assist them and their families meet their financial goals. The majority of our members are licensed to sell mutual funds and/or life insurance products. However, many can provide a wide range of financial services and products.

IFB has contributed to past consultations regarding the development and delivery of Fund Facts for both mutual and segregated funds. Our members fully support the goal to provide simpler and more easily understood information for investors of both these products. Much of the material contained in a simplified prospectus or policy information folder has been too detailed and complex for the average investor. As such, it tends to be ignored and does not meet its objective to disclose relevant information to investors. Of course, simply providing investors with new, less complex materials is not a replacement for professional advice. Our members pride themselves on their personalized approach to customer service which often includes meeting clients in their own homes to discuss their financial needs and ways to meet their financial objectives. We would like to note that a number of studies have supported the role of advice and the value it brings in helping consumers achieve their financial goals and, ultimately, contribute to their financial stability.

However, not all investors choose to work with an advisor. Investors who do not should be well aware that the Fund Facts does not present the entirety of relevant information to be considered and is not a replacement for the simplified prospectus and annual information form. Investors may gain a false sense of confidence in their level of knowledge if they base decisions only on the limited information contained in the Fund Facts.

Financial literacy

Of course, the Fund Facts is only one element in the broader issues of promoting investor education and improving financial literacy. Improvements in both these areas are on government and regulatory agendas, which we fully support.

In addition, the role of independent financial advisors, like our members, should also be recognized. They contribute greatly to the financial literacy process every day, as they meet with Canadians to explain these concepts and guide them through the review of products most appropriate to meet their financial needs.

We note that some of the issues for comment in this consultation are more appropriately addressed by other industry stakeholders. However, we have prepared comments related to the proposals that affect our members and their clients, as follows.

Use of benchmarks

The CSA is suggesting including a benchmark comparing the fund's performance to a lower risk investment, specifically a one year GIC. We understand that including a benchmark can help investors better understand the risks of investing in the mutual fund, however, we suggest that it would be misleading to use a GIC for several reasons.

We think a more appropriate choice would be using benchmarks specific to the type of investment held in that fund. For example, equity funds would use securities related indices such as the TSX or S&P. Funds investing primarily in bonds would use the DEX Universe Bond Index. Furthermore, the investment horizon and objectives of investing in mutual funds versus GICs are very different and, therefore, not comparable. In addition, the assumption that a GIC is risk-free is not necessarily the case as early cash out of a GIC is not without penalty. Acknowledgement of this potential cost is not addressed, while the costs of investing in mutual funds are stressed throughout the Fund Facts.

Adding worst 3 month performance

In our view, this again detracts from longer term nature of a mutual fund investment and seems an unduly short time to concentrate on. While we support the CSA's intent to help investors better understand the risks of investing, this could be achieved by adding the appropriate benchmark comparison (for example, the TSX return for equity based funds) to the existing year-by-year performance bar chart for the fund. This would also illustrate for investors the correlation between the underlying performance of the markets and the fund's performance. If the CSA wishes to keep the "worst 3 month performance", then we would like to see a corresponding "best 3 month performance" to better balance the investor's perception of performance returns.

We agree with the CSA's comment that investors should continue to be directed to the simplified prospectus for a more complete discussion of the risk factors. Continuing to add information to the Fund Facts that is readily available in the simplified prospectus lengthens the Fund Facts document and detracts from the original intent - which was to provide investors with a simplified, concise document that they could use to compare funds, prior to a purchase. The Fund Facts was not intended to replace the completeness of the disclosure contained in the simplified prospectus or annual information form. In addition, considerable care must be taken to ensure that any descriptors or terminology is consistent among the three documents so that investors are not inadvertently misled or confused.

Disclosure of trailing commissions as a potential conflict of interest

Disclosure that a trailing commission will be paid to the dealer, and possibly the advisor, is dealt with in some detail now, as the fee (expressed as a percentage) is shown relative to the purchase option. It is clear that this is compensation for ongoing services provided to the investor for as long as s/he owns the fund. In our opinion, this is self-explanatory and does not require further

mandated disclosure. Investors who wish a more detailed explanation can discuss their questions directly with the dealer representative.

In conclusion, while IFB is generally supportive of the Fund Facts regime, we are concerned that some of the proposals, particularly those related to additional risk disclosure, place mutual funds in a more negative light than other types of investments. Partly this is because there is no requirement for other investment products (other than segregated funds) to produce Fund Facts, leaving investors with no equivalent basis for comparison.

Mutual funds provide a viable, flexible investment vehicle for many Canadians and we are concerned that investors may be discouraged from purchasing them if they are perceived to be 'riskier' than alternative types of investments. At a minimum, the CSA could consider adding a general statement to the Fund Facts disclosure that the performance of all investment products, including mutual funds, is sensitive to market fluctuations. This would help to reduce the negative emphasis on mutual funds.

We appreciate the opportunity to provide our comments. Should you wish to discuss any of the above, please contact the undersigned.

Yours truly,

A handwritten signature in black ink, appearing to read 'John Whaley', written in a cursive style.

John Whaley
Executive Director
Email: jaw@ifbc.ca