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March 26, 2014

VIA E-MAIL

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

Attention:
The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
E-mail: comments@osc.gov.on.ca

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
E-mail: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Notice and Request for Comment
Implementation of Stage 3 of Point of Sale Disclosure for Mutual Funds – Point of Sale Delivery of Fund Facts
Proposed Amendments to National instrument 81-101 Mutual Fund Prospectus Disclosure and Companion Policy 81-101CP to National Instrument 81-101 Mutual Fund Prospectus Disclosure (2nd Publication)

We are writing in response to the above-noted CSA Notice and Request for Comment (the "Notice"). As you are aware, we have commented on all previous CSA notices and publications regarding this important issue and welcome further discussion of this initiative.

Invesco Ltd. is a leading independent global investment management company, dedicated to helping people worldwide build their financial security. As of April 30, Invesco and its operating subsidiaries had assets under management of approximately US$779 billion. Invesco operates in more than 20 countries in North America, Europe and Asia. Invesco Canada is registered as an Investment Fund Manager, an Adviser and a Dealer in Ontario and certain other provinces.

Invesco has been supportive of many investor protection initiatives initiated by the CSA over the last several years and has often taken positions that are not necessarily shared by many of its industry peers, such as our support for CRM2 as well as our position on fund risk classification to name a few. We have also been critical of other CSA initiatives. The difference in our approaches to each initiative has been based on our assessment of the perceived investor need for the initiative, whether the initiative meets that need, and the overall impact to the industry. In assessing CRM2, for example, we determined that the information that investors would receive is indeed information investors should receive and there was no real distinction based on investment vehicle regarding what they could receive. We were critical, however, of the elements of CRM2 that appeared to us to single out mutual funds over other substitute products.

Insofar as pre-trade delivery of disclosure is concerned, we agree that investors should have full information about any investment prior to committing any of their wealth. Such statement is axiomatic. What we continue to fail to understand is why the CSA believes that only investors in mutual funds should have this information. That is to say that we are generally supportive of the Proposed Amendments in their substance, our objection to this initiative lies in the fact that it is focused solely on mutual funds and not all investment products. The traditional response we have received to this concern is that the branch of the CSA dealing with this initiative only deals with investment funds and since other products are not investment funds it is outside the scope of their jurisdiction and they cannot address it. In our view, all branches of the regulator should work together and find a solution that improves investor protection across the spectrum of investment products – not just a subset.

We have begun this letter with the previous two paragraphs to make clear our displeasure with the CSA's approach to point of sale disclosure. We fully appreciate that the CSA has made up its mind on this issue and will not budge and we do not wish to waste time, money and effort on a debate that has seemingly been settled. As such, the remainder of our letter will focus on: (1) direct responses to the questions posed in Appendix B of the Notice; and (2) comments on certain aspects of the Notice and the Proposed Amendments that are not the subject of the questions in Appendix B.

Responses to CSA Specific Questions

1. While the Proposed Amendments generally require pre-sale delivery of the Fund Facts, they also set out specific circumstances that would permit post-sale delivery.

a) Do you agree that we should allow post-sale delivery of the Fund Facts in certain limited circumstances? In particular, are there circumstances where post-sale delivery of the Fund Facts should be permitted but are not captured in the Proposed Amendments?

In the context of the Proposed Amendments, we agree that post-sale delivery should be allowed in certain limited circumstances and would not add to the circumstances contained in the Proposed Amendments, other than our comment in the response to Part (c) of this question, below. However, we disagree that any delivery should be required in two circumstances: where the investment under consideration is in money market funds; and where the account itself is a discretionary managed account, that is, where the investment decision is made not by the investor but by the financial advisor. We will address these points later in this letter.

b) When pre-sale delivery is impracticable, one of the conditions for post-sale delivery of the Fund Facts is that the dealer provides verbal disclosure to the purchaser of certain elements contained in the Fund Facts. Please comment on whether the proposed disclosure elements are appropriate. If not, what additional disclosure should be included? Alternatively, are there any disclosure elements that should be excluded?

In our view, proposed clause 3.2.1.1(3)(e) is impractical. In effect, the CSA requires the recitation of approximately half of the Fund Facts document by the financial advisor verbally to their client. It is hard to imagine much of that conversation having an impact on or being understood by the client. It is our belief that such conversations are more effective with a document shared among the participants to the conversation. An alternative to the disclosure that should be considered is requiring post-sale delivery followed by a conversation about the Fund Facts document between the financial advisor and the investor and leaving withdrawal rights open until two days following such conversation. Doing so would ensure the investor can properly digest the information and would also provide an effective disincentive to abuse of the exemption.

c) In the case of pre-authorized purchase plans, a Fund Facts would only be required to be sent or delivered to a participant in connection with the first purchase provided that certain notice requirements are met. Please comment on whether the Fund Facts should also be sent or delivered to a participant if the Fund Facts is subsequently amended and/or every year upon renewal of the Fund Facts. If so, what parameters should be put in place for such delivery? For example, should it be delivered in advance of the next purchase that is scheduled to take place after the Fund Facts has been amended or renewed? Or would post-sale delivery be more appropriate?

CSA members have historically provided relief from prospectus delivery requirements for pre-authorized purchase plans. Under the terms of such relief, a prospectus is only required to be delivered in connection with the first purchase of the mutual fund. If the prospectus is amended, the amendment must be sent, but there is no requirement to send a renewal prospectus unless such is requested. This system has worked well for both participants in pre-authorized purchase plans and mutual fund companies and we see no reason to alter that in the context of the Fund Facts document. As such, we agree in principle with the exceptions contained in proposed subsection 3.2.1.1(5) of NI 81-101, which alters the delivery requirement for PACs.

We believe, however, that subclause 3.2.1.1(5)(b)(ii) is unnecessary and represents an additional burden that has no justification. This subclause requires that the dealer provide the PAC participant with a reply form to request a Fund Facts document. We note that on the initial purchase of the mutual fund, the PAC plan participant will receive a Fund Facts document and it is not clear when this form would be provided. If the form is to be provided upon request by the investor at such time as the investor wishes to receive a Fund Facts document, we think this is overregulation as it turns a simple request into a complex process. As such, this subclause should be deleted. The notice itself would already state how a Fund Facts document can be requested and presumably that would include the ability to phone in a request. But even if the notice requires a written request, what is to be gained by adding a prescribed form?

To be consistent with the PAC relief for prospectuses, we agree that amended Fund Facts documents should be delivered to these investors. We believe it would be difficult to ensure delivery of a Fund Facts document to a PAC plan participant a set number of days prior to their next purchase and, as such, would recommend that this becomes another scenario where post-sale delivery is permitted after the next PAC purchase following an amendment. This would simplify the dealers' abilities to ensure the investor receives the amended Fund Facts document as each PAC purchase could initiate the check for any amended documents.

2. The CSA expect that dealers will follow current practices to maintain evidence sufficient to demonstrate effective delivery of the Fund Facts. Are there any aspects to the requirements in the Proposed Amendments that require further guidance or clarification? If so, please identify the areas where additional guidance would be useful.

We believe that the CSA expectation as stated in this question is appropriate and that no further guidance or clarification is required or would be useful.

3. We seek feedback on whether you agree or disagree with our perspective on the benefits and costs of implementing pre-sale delivery of the Fund Facts. Specifically, do you agree with our view that the costs will be incremental in nature and/or one-time cost? We request specific data from the mutual fund industry and service providers on any anticipated costs.

In the introduction to the section "Anticipated Costs and Benefits", the Notice states "investors often do not have key information about a mutual fund before they make their investment decision and may not know where to find the information." We agree with this statement but question whether point of sale delivery of the Fund Facts document solves that issue. We submit that it does not. Studies not sponsored by the mutual fund industry[1] have shown that pre-trade delivery of a summary document in lieu of a prospectus merely hastens the speed with which the investment decision is made but has no other impact, including on the quality of the investment decision. The CSA is aware of this study[2] yet has not addressed it nor even acknowledged its existence as it develops Canada's point of sale disclosure regime. We agree with the Small Investor Protection Association that "[i]t would

[1] Beshears, J., Choi, J., Laibson, D. and Madrian, B. (2009), How Does Simplified Disclosure Affect Individuals' Mutual Fund Choice?, Yale International Centre for Finance, p.3

[2] Referred to initially in a comment letter dated August 26, 2009, from the Small Investor Protection Association regarding "Proposed Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, Forms 81-101F1 and 81-101F2 and Companion Policy 81-101CP Mutual Fund Prospectus Disclosure and Related Amendments, p.4

not be in the public interest for the CSA to ignore this important research."[3] Without addressing this issue, we believe the benefits of the Proposed Amendments may be illusory, but with structural costs that are unacceptable.

In the benefits section, the CSA states that "research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates investors prefer a concise summary of the information to be offered before the sale so that they case use the information to make a decision." While we are certain that this statement is true, it misses the point entirely and takes no account of the findings of the study by Beshears et al. referred to above.

The CSA cites three anticipated benefits of the Proposed Amendments. We comment on those benefits as follows:

1. Less risk of investors buying inappropriate products or not fully benefitting from the advice services they pay for: This linkage is not clear. The Fund Facts document provides very little risk disclosure and understanding the risk of an investment is directly linked to the appropriateness of an investment at the individual level. Furthermore, the information that the Fund Facts document does not provide makes any determination of appropriateness of a product at an individual investor level impossible to ascertain. While the Fund Facts document provides general information about the types of investments a mutual fund makes and gives a representative list of holdings, it is not possible from the Fund Facts document to discern either the investment approach or primary strategies of the mutual fund nor its investment objective. These are serious deficiencies.

   The Notice refers to pre-trade delivery requirements in, among other jurisdictions, Hong Kong. What the Notice fails to mention is the quality of the document required in those jurisdictions, which exceeds the 2 page (4 side) requirement conjured up by the CSA, and includes an actual articulation of risks. The Hong Kong document can be viewed here: http://www.sfc.hk/web/doc/EN/intermediaries/products/pkfStatements/KFS%20UT%20General%20Funds%20Eng%202012-Feb.pdf. As you can see, it includes investment objectives and strategies and a recitation of the key risks of the investment. What is interesting about this document is that in all other respects, it looks like a Fund Facts document. One must question, therefore, why the CSA chose to ignore those parts of the document.

   It is also unclear to us how pre-trade delivery of the Fund Facts document reduces the risk of investors not fully benefitting from the advice services they pay for. Does the CSA take this view due to the cost disclosure? If so, we note that NI 31-103 requirements relating to pre-trade cost disclosure and annual reporting of charges address this issue and, as such, the requirement in the Fund Facts document is redundant.

2. Investors being in a position to better understand, discuss, and compare one mutual fund to another, particularly the costs of investing in the mutual funds, before making their investment decision: First, we agree that it is important and essential that an investor understand the costs or potential costs of investment prior to investing; however, less clear is why such concern applies only to mutual funds. Under NI 31-103, arguably this requirement applies to all investments. We believe

[3] Ibid., p.4.

that is a far superior approach. Second, we do not believe the information provided in a Fund Facts documents allows an appropriate comparison. Because of the scant information permitted to be included in a Fund Facts document, the basis of comparison for a retail investor will really come down to performance. If comparing two Canadian equity funds, you would not know what the differences in approach or style are between the two funds by reading a Fund Facts document and knowing the Top 10 investments at a point in time is a poor basis upon which to make an investment decision, so all that is left is comparison of performance. This seems odd since NI 81-102 requires that mutual fund managers state, in all performance-related sales communications, that past performance is not an indicator of future results. Furthermore, it appears to be settled fact that past performance is no indicator of future returns. Perhaps this is why the Hong Kong regulators make the provision of performance information optional.

3. Investors becoming better informed overall, which reinforces investor confidence in mutual funds: This benefit is dubious at best. How is an investor better informed by simply reading the top 10 investments of the mutual fund and its past performance (information which is readily available and easily accessible without a Fund Facts document)? How does this provide an investor with confidence?

In terms of costs, the CSA acknowledges the aforementioned NI 31-103 requirements. As such, how can pre-trade delivery of the Fund Facts document add anything?

From a mutual fund manager's perspective, we do not believe the hard costs of implementing the Proposed Amendments will be significant since the manager's primary obligation is to make the Fund Facts document available for the dealer to deliver prior to the trade. The costs related to Fund Facts documents would generally have been incurred in Stage 2 of the Point of Sale Proposal.

We believe that dealers will incur significant costs since their entire disclosure delivery system is based on post-trade delivery. We are simply not in a position to comment on those costs. Our concern, however, and it is simply not possible to quantify this at this time, is that dealers will seek to pass such costs off to mutual fund companies. We note that mutual fund managers pay a portion of the dealer cost for printing and delivering the SMART prospectus and ETF manufacturers pay an even greater proportion of those costs for the ETF summary document, required as a result of various regulatory orders. We note that Broadridge charges more per impression for the latter than it does for the former or for Fund Facts documents. We have recently been warned to expect requests to increase the amount of financial support we provide to cover the costs associated with Broadridge for Fund Facts documents to bring the two cost structures in line. As such, whatever cost savings realized by investors from the conversion to Fund Facts documents is likely to be short-lived or reduced.

4. We seek feedback from the mutual fund industry and service providers on the appropriate transition period for full implementation of the Proposed Amendments. For example, assuming that publication of final rules takes place in early 2015, please comment on the feasibility of implementing the Proposed Amendments within 3 months of publication. Would a longer transition period of 6 months or 1 year be more appropriate? If so, why? In responding please comment on the impact these different transition periods might have in terms of cost, systems implications, and potential changes to current sales practices.

With respect to transition periods, we note that the Proposed Amendments represent a fundamental shift in the sales process of mutual funds. Too short a transition period – in an environment where the making of no other investment faces similar requirements - increases the likelihood that dealers and investors will simply choose the route of simplicity and avoid mutual funds altogether. This is an unquantifiable negative impact since mutual funds are more heavily regulated than any other investment or investment product, which presumably is good for investor protection. Put differently, what is the validity of a regulatory initiative that steers investors requiring protection to less regulated alternatives? At a broader level, we know that the mutual fund industry makes significant contributions to the Canadian economy[4]. As pre-trade delivery would necessarily require a certain amount of restructuring of operations within the industry, we believe the best way to preserve the economic benefits of the industry would be a lengthier transition period of between 1 and 2 years.

We are concerned that ignoring the broader economic impact will simply invite an additional round of lobbying at the ministerial level once a final version of the Proposed Amendments is provided to the Minister of Finance. Such lobbying is not desirable by any stakeholders as it extends regulatory uncertainty and causes damage to the relationship between the CSA members and the industry. The Notice and Comment process should be carried out to avoid such outcomes but that is only possible if the CSA genuinely considers all impacts of the Proposed Amendments.

We understand that some investor advocates have advocated a transition period of less than a year and even the CSA questions whether a year is too long. The basis for the CSA question appears to be that the industry has had plenty of notice about the Proposed Amendments and should have taken steps to comply already. We are surprised by this assertion as we know of no business anywhere in the world that makes investments due to regulatory changes prior to a regulation being enacted. The reason for this is quite simple: until enacted, there is no certainty of enactment and, as such, any investment is purely speculative. It is simply inappropriate to expect investment in this situation. We would remind the CSA that in 2009 when formal amendments relating to pre-trade delivery were first introduced (the "2009 Proposal"), the CSA was quite certain such amendments would be enacted at that time. History has demonstrated the wisdom of such belief and the industry would urge the CSA to learn from that experience.

5. We are currently contemplating a single switch-over date for implementing pre-sale delivery of the Fund Facts. From a business planning and business cycle perspective, are there specific months or specific periods of the year that should be avoided in terms of selecting a specific switch-over date? Please explain.

Under the Proposed Amendments, the mutual fund manufacturer's role appears to be limited to preparing the Fund Facts document and making it available for distribution through dealers. As such, from a manufacturer's perspective, there is no better or worse time to switch over to pre-trade delivery.

[4]Antunes, P. and Macdonald, A., (2013), Making Dollars and Sense of Canada's Mutual Fund Industry: An Economic Impact Analysis, The Conference Board of Canada.

Comments on the Notice and Proposed Amendments

Notice

In contrast to the previous publication of a Point of Sale regime, we note that the current proposal removes the exemption from pre-trade delivery for discount brokers. We applaud the CSA for removing this exemption. However, we also note that the exemption for money market funds was eliminated in the Proposed Amendments without any substantive explanation. In our view, the rationale for a Fund Facts document is not met in the case of a money market fund investment.

We note that the CSA takes the position that "access does not equal delivery", a position that stands in contrast with other securities regulators around the world. It is not clear why the CSA rejects this approach. We believe any issues with general access can be resolved by regulating the manner in which specific information is obtainable on a website. Regardless of the foregoing, we do believe that an email with a link to the actual Fund Facts document meets the requirements set forth in the Proposed Amendments; however, it would be helpful if the CSA were to clearly state as such in the Companion Policy.

Proposed Amendments

Proposed Subsection 5.2(2) of NI 81-101: We are concerned with the interpretation of this section, which limits the ability to bind multiple Fund Facts documents together in the case of electronic delivery. We believe that it would be appropriate to include in one email to a client attachments for multiple Fund Facts documents or direct links to multiple Fund Facts documents. The number should be consistent with the number of Fund Facts documents that can be physically bound together. We see no reason for there to be different treatment of bundling between electronic delivery and physical delivery. Our concern is that if a client receives from its dealer 10 emails at a time, each containing 1 Fund Facts document, they will be inclined to ignore most of the emails, thinking there is an error with the sender's server. We believe that up to 10 attachments or links is appropriate. (This would be consistent with Proposed Subsection 7.5(1) of Companion Policy 81-101CP as it relates to physically bound documents.) Notwithstanding the lack of clarity in the Proposed Amendments, we have made this comment on the assumption that an email with a link is acceptable insofar as by clicking on the link, the requisite Fund Facts document appears, without further action by the reader. That is, one click on a link or one click on an attachment should make no difference. If the CSA disagrees that such is permissible for electronic delivery, we strongly urge the CSA to reconsider its position on that point.

Proposed Subsection 3.2.1.1(2) of NI 81-101 and Proposed subsection 7.2(2) of Companion Policy 81-101CP: These provisions provide a delivery exemption for delivery of the Fund Facts document for subsequent purchases, unless there is a more recent version of the Fund Facts document available. Unfortunately, there is no discretion to deliver based on the differences between Fund Facts documents. We submit that in most cases, there ought to be few changes year to year in a Fund Facts document other than holdings and performance information. Yet, in many cases, during the currency of a Fund Facts document, that information is stale and more recent holdings and performance information is available either on the fund manager's website or on Globeinvestor.com, Morningstar.com or from other third party data providers. Therefore, we believe this requirement should be limited to instances where the subsequent Fund Facts document makes changes to sections other than those regarding holdings and performance.

Proposed Subsection 7.3(3) of Companion Policy 81-101CP: This subsection refers to the pre-trade disclosure obligations under NI 31-103. It seems obvious that providing a Fund Facts document would be sufficient to meet that obligation; however, it would provide comfort and certainty were the CSA to explicitly state as such in the Companion Policy. Therefore, please state in the Companion Policy that provision of a Fund Facts document prior to a trade in a mutual fund constitutes compliance with the pre-trade cost disclosure requirement in NI 31-103.

Managed Accounts: We believe that there should be an exemption from pre-trade delivery requirements for mutual fund investments by managed accounts. In a managed account, the investor does not participate in the investment-decision as it is left solely to the advisor. Accordingly, it would be nonsensical for an investor to receive a Fund Facts document relating to a mutual fund investment in their managed account and the investor would probably be confused as to why they were receiving the Fund Facts document. It would also seem to be nonsensical to require the financial advisor or the dealer to receive a Fund Facts document prior to making such a purchase, given the nature of the account and their obligations to know the products in which they invest for their clients. Therefore, we request that the CSA add this exemption. Failing that, it is imperative that guidance be provided regarding to whom the Fund Facts document should be delivered prior to the trade when a managed account subscribes for mutual fund securities.

Money Market Funds: The 2009 Proposal included an exemption from the pre-trade delivery requirements for investments in money market funds. We believe that this type of exemption makes sense since investors do not typically invest in a money market fund unless they intend to invest otherwise with the fund company. It would be extremely rare for an investor to own an Invesco money market fund as its sole investment with us yet have the rest of their investments with another fund company. That is, the reasons for selecting a money market fund are quite different from the reasons for owning other types of mutual funds. The information in a Fund Facts document, to the extent it assists with investment decision-making generally, does not accomplish that goal for money market funds. Therefore, we urge the CSA to include an exemption from pre-trade delivery requirements for money market funds.

Conclusion

Thank you for providing us with the opportunity to comment on this important initiative. We would be pleased to discuss our comments further should you so desire.

Yours very truly,

Invesco Canada Ltd.

Eric Adelson
Senior Vice President
Head of Legal - Canada