

May 26, 2014

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

Attention:

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, ON  
M5H 3S8  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

and

Me 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, QC  
H4Z 1G3  
[consultation-en-cours@lautortie.qc.ca](mailto:consultation-en-cours@lautortie.qc.ca)

Dear Sirs/Madams:

**Re: 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* (the “Proposed Amendments”)**

Assante Wealth Management (Canada) Ltd. (“**Assante**”) is pleased at the opportunity to provide comments and respond to the Canadian Securities Administrators (“**CSA**”) regarding the above

noted Proposed Amendments. Assante is an independent wealth management advisory firm with approximately \$30 billion in assets under administration that provides financial advisory services to its clients through a network of financial advisors across the country.

In general, Assante supports initiatives that provide investors with information that will enable them to make informed investment decisions. While we support the intended objective of the Proposed Amendments we offer the following comments.

### **Exceptions from Pre-Sale Delivery of the Fund Facts**

#### **(1) Model Portfolio Products**

The exception from pre-sale delivery of the Fund Facts for purchases of mutual funds as outlined in the Proposed Amendments is too restrictive. In addition to the exception that is provided when a client requests the purchase of a mutual fund to be completed immediately, an exception should be provided for model portfolio products. Some of these products optimize the investments for clients by automatically re-allocating an initial investment in a cash management pool into an asset class mandate that is only determined when a client has gone through an illustration tool that considers benchmarks, generates portfolio analytics which includes performance, rate of return and gives access to a fee calculator to determine the total cost of the investment. Completing an investment portfolio questionnaire determines the client's risk objectives and their income/equity allocation which places the client in model portfolios. The software further considers the client's tax situation and will determine which class and structure of fund supports the clients' tax strategies. Considerations are made based on the tax efficiency of an asset relative to an account registration type. For example, a non-registered account would receive shares of a corporate class fund in order to facilitate rebalancing between funds without triggering a taxable disposition whereas a registered account would hold the same underlying fund with the trust units as all taxation is sheltered within a registered plan. The optimization process and the subsequent purchases occur as a continuous process, often requiring a re-balancing if the portfolio moves outside of the investment mandate. This process will result in the client potentially purchasing between 10 and 64 funds, which is outlined for the client in their personalized Investment Policy Statement. Since we would not know the exact funds the client is purchasing prior to the sale, we would need to delivery up to 64 Fund Facts to cover all the funds the client might purchase.

An exception from the pre-sale Fund Facts delivery obligation is required for these products as the dealer and advisor has no knowledge of the specific allocation purchases until after the optimization process has been completed for the model portfolio product. As well, the delivery of Fund Facts *prior to the sale* for model portfolio products is less important since as part of the sale process the advisor spends a considerable amount of time and effort describing the product and related funds to the client prior to the purchase. This would not change if the Fund Facts were delivered prior to the sale.

The exception for post-sale delivery of Fund Facts in section 3.2.1.1(3) of the Proposed Amendments is too restrictive to work for model portfolio products. For example, and in response to your Issues for Comment in Annex B of the Request for Comments, the amount of verbal disclosure required in section 3.2.1.1(3)(e) would be overly cumbersome if an investor is

purchasing any more than a few funds like they would in a model portfolio product. Further, the requirement in section 3.2.1.1(4) of the Proposed Amendments to obtain consent for each purchase would be too cumbersome to work for managed portfolio products. The Proposed Amendments should allow for a blanket consent provided that the subsequent purchases are in compliance with the client's instructions and consistent with their personalized investment policy statement.

## (2) Pre-authorized Purchase Plans (PAC)

The exception provided for subsequent purchases of a mutual fund under a PAC plan should be consistent with the current prospectus exemption. Specifically, there should not be a requirement to send or deliver a Fund Facts on an annual basis nor should it be required that the Fund Facts be sent to clients each time the Fund Facts is amended provided the dealer adheres to section 3.2.1.1(5) of the Proposed Amendments. In addition, we disagree with the requirements that would require the dealer notice to include a form that the participant can use to request the fund facts document and the delivery of the annual notice on how to access the Fund Facts, immediately following the effective date of the proposed amendments, rather than allowing for a transition period that would permit the delivery of the annual notice at a regularly scheduled delivery time.

As a point of clarification, section 7.2 of the Proposed Companion Policy states that Fund Facts must be delivered for subsequent purchases. The Proposed Companion Policy should state that such delivery is not required for PACs.

## (3) Managed Accounts

We ask that the CSA provides confirmation that Portfolio Managers are exempt from pre-sale delivery of Fund Facts as the client has given discretionary authority to the Portfolio Manager. This is consistent with the current rules for discretionary managed accounts.

## **Compliance**

To achieve the principles of simplicity, accessibility and comparability, the CSA has suggested that a limited number of Fund Facts should be attached to or bundled with one or more Fund Facts. Section 7.5 of the Proposed Companion Policy states: "We think a document with more than 10 fund facts documents bound together may discourage an investor from finding and reading a fund facts document and obscure key information ...". We suggest that there may be circumstances when it is appropriate for an advisor to provide a client with more than 10 Fund Facts documents bundled together given that there may be several funds that are suitable for the client and each funds may have multiple series. For example, if a client has both a registered and non-registered account, it is quite feasible that the client could hold the same underlying fund, one in corporate class and one in trust which would require two fund facts per underlying fund. As such, the Proposed Companion Policy should be amended to provide for greater flexibility for the bundling of Fund Facts. As well, where a client is using a model portfolio product described above, they may be purchasing up to 64 funds at the same time. We believe it would be in the best interests of clients to receive the Fund Facts for all of those funds bundled together to help the client understand that the funds are all part of the same product and purchase decision. It would be more confusing to the

client if the Fund Facts for each of those funds was delivered as a separate document, link or e-mail. As mentioned above, however, we believe the better solution for model portfolio products is to allow for flexible post-sale delivery so that clients only receive the Fund Facts for the funds that they are actually purchasing.

We also require clarification on whether Section 7.5 of the Proposed Companion Policy only applies to all forms of delivery of Fund Facts or only paper delivery. The confusion arises because section 5.2(2) of the Proposed Amendments states that Fund Facts sent electronically must not be attached to other materials or documents including another Fund Fact. We are also not clear as to why, under section 5.2(3) of the Proposed Amendments, Fund Facts that are permitted to be delivered post-sale under section 3.2.1.1(3) can be bound with the items specified in that section whereas Fund Facts delivered pre-sale are not permitted to be bound with such items.

### **Anticipated Costs and Benefits of Pre-Sale Delivery of the Fund Facts**

The costs to Assante and its related companies for the implementation of the Proposed Amendments will include new systems for advisors to be able to deliver the Fund Facts in compliance with the Proposed Amendments, information technology costs for modifications to model portfolio and other product systems to change how they are sold to investors, and the incremental time and effort of senior management in overseeing the implementation and operation of these changes plus the time and effort of other employees implementing these changes and managing their operation. We estimate that the total development cost resulting from these changes will be approximately \$700,000 for Assante and we estimate our annual operational costs will increase by approximately \$200,000 per year.

### **Transition Period**

The request for comment document suggests several different transition periods, ranging in length from one year to three months. We believe a minimum transition period of 18 months is reasonably required from the date the amendments are finalized and published.

The overwhelming regulatory burden imposed on the mutual fund industry over the past four years and especially during the most recent 18 months, has consumed significant human and financial resources across the industry. The Client Relationship Model (CRM) amendments to NI 31-103 are widely considered to be the most significant and extensive regulatory changes to be encountered in recent memory. Implementing CRM 2 is a challenge for firms of all sizes but especially for the smaller dealers who may not have the expertise and financial resources to implement the new requirements. The complexity of the requirements and the concurrent projects adds to the challenge. In addition, the potential confusion for clients resulting from the delivery of new reports in 2016 is real and concerning. Industry compliance departments will be inundated with client complaints and questions arising from this confusion, further taxing limited resources. For these reasons, we believe a transition period of at least 18 months for the Proposed Amendments, and in any case, not earlier than January 2017, is reasonable.

## **Other Comments**

With respect to the expiration of exemptions and waivers, exemptions in relation to pre-authorized purchase plans should terminate on the effective date following any applicable transition period (the "Effective Date"). However, for any PAC plan established prior to such date, the exemption should terminate on the earlier of one year after the Effective Date and the mailing of the annual notice to PAC participants.

With the implementation of the Proposed Amendments, we also ask that the CSA simplify the forms of the simplified prospectus and annual information form in order to reflect the fact that the Fund Facts are now the principal disclosure document.

Thank you for providing us with the opportunity to comment on this proposal. If you have questions or wish for us to clarify any comments, please contact Steven Donald, the undersigned below, at 416-364-1145.

Sincerely,

Assante Wealth Management

"Steven J. Donald"

Steven J. Donald, FCPA, FCA  
President