



**By Email:** comments@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

May 26, 2014

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumers Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (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

<b>Attention:</b>	The Secretary Ontario Securities Commission 20 Queen Street West 22 <sup>nd</sup> Floor Toronto, Ontario 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
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Dear Sirs/Mesdames:

**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***

I write to provide you with comments on behalf of Scotia Capital Inc.<sup>1</sup>, Scotia Securities Inc.<sup>2</sup> and HollisWealth Advisory Services Inc.<sup>3</sup> with respect to the 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* published on March 26, 2014 (the “Proposal”). We appreciate the opportunity to participate in this discussion.

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<sup>1</sup> Scotia Capital Inc. is an investment dealer and a member of the Investment Industry Regulatory Organization of Canada. Its divisions include HollisWealth, ScotiaMcLeod, and Scotia iTRADE.

<sup>2</sup> Scotia Securities Inc. is a mutual fund dealer and a member of the Mutual Fund Dealers Association of Canada.

<sup>3</sup> HollisWealth Advisory Services Inc. is a mutual fund dealer and a member of the Mutual Fund Dealers Association of Canada.

Scotia Capital Inc. is a member of the Investment Industry Association of Canada (“IIAC”) and Scotia Securities Inc. is a member of The Investment Funds Institute of Canada (“IFIC”). We have read and are generally in agreement with both IFIC’s and IIAC’s letters commenting on the Proposal.

We fully support the objective of providing investors with key information in a simple, accessible and comparable format before they invest. We are, however, deeply concerned by the aggressive transition periods being considered by the CSA. We will have to undertake substantial systems and technology changes to implement the Proposal. In addition, there will be a significant training component to ensure that sales and operational personnel are prepared to properly explain the Fund Facts and manage the delivery exception process. This undertaking would arrive at a time when our human resources are already heavily invested in the implementation of CRM2 and other regulatory initiatives. We urge the CSA to consider a transition period of at least **two years** from the date of publication of the final rules, which we understand will be no earlier than 2015.

In this submission, we have responded to the specific questions posed by the CSA. Each paragraph heading references the corresponding issue for comment set out in Annex B of the Notice.

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

We agree that post-sale delivery of the Fund Facts in certain limited circumstances should be allowed, as pre-sale delivery will not always be practicable.

As currently drafted, the verbal disclosure requirement appears to prescribe a reading of the Fund Facts almost in its entirety. We are concerned that a communication of such length will be an inconvenience to investors wishing to complete a purchase. Considering the overall disclosure regime, we believe that investor protection concerns would be adequately addressed through a summary of the Fund Facts information and a reminder of the existence of rescission rights.

#### *Pre-authorized Purchase Plans*

We agree that investors with a pre-authorized purchase plan should receive notice regarding the availability of the Fund Facts and instructions on how to request a copy. We believe that this notice could be accomplished with a simple disclosure included with the investor’s quarterly account statement.

In addition, we would recommend that the CSA simplify the pre-authorized purchase plan exemption provisions by eliminating the requirement of a “mail-in” request form to be delivered to pre-authorized purchase plan participants. This is an outdated means of obtaining information. For existing pre-authorized purchase plan participants, it should be sufficient to receive notice with their regular account statement of the availability of the Fund Facts and instructions on how to obtain a copy from either their advisor, online or by phone through a contact centre.

Finally, we are of the view that the delivery of the Fund Facts to an investor with a pre-authorized purchase plan when the Fund Facts is amended and/or every year upon renewal of the Fund Facts would be unnecessary. Both the existing disclosure regime and the Proposal, if implemented, would provide participants who wish to review an updated Fund Facts with several opportunities to receive it. This framework addresses update concerns without overwhelming participants with unwanted additional documents. Notifying participants that they should annually review the Fund Facts either with their advisor, online or by requesting a copy from a contact centre should be sufficient.

## **Compliance**

We do not foresee difficulties in complying with the CSA's expectation that dealers will follow current practices to maintain evidence demonstrating effective delivery of the Fund Facts. Although we have not identified aspects to the requirements that require further guidance at this point, we are confident that the self-regulatory organizations are well-positioned to detect emerging issues and provide guidance as appropriate.

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

We agree that there are benefits to providing investors with key information about a mutual fund before they invest. The shift from post-sale to pre-sale delivery of the Fund Facts does, however, require a major change in the manner in which we distribute the Fund Facts. We strongly encourage the CSA to conduct a meaningful cost-benefit analysis to fully understand the impact of a regulatory initiative of this magnitude. The question of whether the costs are proportionate to the benefits derived from the Proposal merits more analysis than simply contrasting generalities and opinions. We would also strongly encourage the CSA to conduct a quantitative comparison of the costs and benefits of pre-sale delivery of Fund Facts versus post-sale delivery.

In our view, the Proposal entails substantial costs that are *not* incremental in nature and go beyond those identified by the CSA in the Notice accompanying the Proposal. We will have to undertake costly technology builds to allow the proprietary systems of each of our distribution channels to accommodate the pre-sale delivery of Fund Facts, which is currently being handled post-sale by a single back-office system. In addition, the effective implementation of any third-party automated program or application for pre-sale delivery of Fund Facts requires systems and technology changes to integrate them with our existing systems and to adapt them to our various distribution channels. Other significant expenses would include large-scale training across Canada, oversight and compliance mechanisms, and the production (and potential stockpiling) of Fund Facts at points of sale.

In light of the substantial anticipated costs and the lack of a detailed cost-benefit analysis, we are unable to agree with the CSA's perspective on the costs and benefits of implementing pre-sale delivery of the Fund Facts.

## **Transition Period**

A transition period of less than two years from the date of publication of the final rules is too aggressive for large financial institutions with multiple dealers and distribution channels.

As you know, customers purchase mutual funds through several distribution channels – bank and dealer branches, telephone contact centres, and online platforms. The Proposal entails a fundamental shift in the distribution of Fund Facts, moving it from a back-office function to a front-line sales function that would involve different proprietary systems used by each of our dealers and their distribution channels. While third-party service providers have created Fund Facts repositories, we will have to undertake substantial systems and technology changes to allow the delivery of the Fund Facts at the point of sale and integrate the relevant Fund Fact repository with the proprietary system used by each distribution channel. Also, it is our understanding that there are no “off the shelf” systems that will effectively integrate across multiple delivery channels (branch, online and contact centre) with our advisor-facing delivery systems. As such, we believe that dealers will face significant challenges in adapting or building systems to meet delivery and compliance requirements.

Based on the scope of the undertaking, we will require at least two years to develop and roll out the required systems and technology changes. This timeline assumes a minimum of six months of planning and development of systems requirements and specifications, a year to build and/or modify proprietary systems and another six months for testing, training and implementation. We will need to provide training to thousands of advisors across Canada on the pre-sale delivery requirements and the related technology to ensure appropriate compliance.

We would also like to note that the Proposal comes at a time where our human resources are already focused on implementing the many other regulatory initiatives underway, the most significant of which is CRM2. We worry that an aggressive transition period would pose serious human resource challenges, leading to delays, as well as customer experience and compliance concerns.

With respect to any proposed “switch-over date”, we would highly recommend avoiding the months of December through March, as our resources are at that time of year already heavily engaged in the RRSP season, year-end trading and financial reporting. We would also urge the CSA to avoid the last quarter of 2016, when the reporting requirements of CRM2 will be implemented.

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In conclusion, should a pre-sale delivery requirement come to pass, we strongly urge the CSA to consider a two-year transition period to allow firms to appropriately implement the Proposal.

Thank you for your consideration of this submission. If you have any questions or require further information, please do not hesitate to contact the undersigned at (416) 945 8906.

Yours truly,

*“Nathalie Pierre-Louis”*

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