Advocis
390 Queens Quay West, Suite 209
Toronto, ON M5V 3A2
T 416.444.5251
1.800.563.5822
F 416.444.8031
www.advocis.ca

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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 (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

Care of:

The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
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, QC H4Z 1G3
consultation-en-cours@lautorite.qc.ca

VIA EMAIL

Dear Sirs/Mesdames:

Re: CSA Notice and Request for Comment – Mandating a Summary Disclosure Document for Exchange-Traded Mutual Funds and Its Delivery – Proposed Amendments to NI 41-101 *General Prospectus Requirements* and to Companion Policy 41-101CP to NI 41-101 *General Prospectus Requirements* and Related Consequential Amendments

On behalf of Advocis, The Financial Advisors Association of Canada, we are pleased to respond to the Canadian Securities Administrators' ("CSA") consultation regarding the mandating of a summary disclosure document ("ETF Facts") for exchange-traded mutual funds ("ETFs") and its delivery.

ABOUT ADVOCIS

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members, organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to a professional Code of Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients' interests first. Across Canada, no organization's members spend more time working one-on-one on financial matters with individual Canadians than do ours. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.

INTRODUCTORY COMMENTS

We support the CSA's ETF Facts initiative and see its development as the logical next step in consumer protection. ETFs have grown beyond their roots in institutional trading, gaining widespread interest from retail investors.[1] This shift puts ETFs firmly in the mainstream – and their regulation should reflect the needs of today's users. We believe that ETF Facts will be an important tool for consumers, providing them with key information in an accessible format.

We have been a proponent of the CSA's Fund Facts initiative for mutual funds, and we are pleased that ETF Facts will place investors in conventional mutual funds and ETFs on a more equal footing in regards to the disclosure available in connection with a purchase of securities. Commenting on Fund Facts, we have stated that distilling all of the information that a consumer needs into two double-sided pages is ambitious, given the scope and complexity of the issues that bear upon investment decisions – and we believe the same holds true for ETF Facts.

In fact, we are concerned that ETF Facts may exacerbate a general misconception that ETFs are simple products that passively track a broad, underlying index, like the S&P/TSX – meaning their "make up" is easily understood and they do not require anything beyond a superficial investigation. While this may be true for some ETFs, vigorous competition in the industry has spurred the creation of innovative, and extremely complex ETFs, such as actively managed ETFs, inverse and leveraged ETFs, "Smart Beta" ETFs, and commodity ETFs. Growth in these more complex ETFs represent about 11% of Canada's overall ETF sector and half of the growth in the last year.[2]

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[1] As of August 2015, the Canadian ETF sector represents over $85.8 billion (Canadian) in assets amongst 368 ETFs, with $7 billion (US) net inflows in the first half the year alone. See: http://www.theglobeandmail.com/globe-investor/funds-and-etfs/etfs/canadian-etf-sector-continues-to-boom-despite-doubts-in-china-greece/article25913236/.

[2] Assets under management in actively traded ETFs grew to about $9.2 billion as of May 31, 2015, up almost 50% from 2014. See: http://www.theglobeandmail.com/globe-investor/advisers-view/growth-of-actively-managed-etfs-surges-in-canada/article25941079/.

Given this complexity, overreliance on ETF Facts can actually be a disservice to consumers by creating an illusory sense of simplicity: by its nature, ETF Facts is a summary document that consumers are inclined to use to quickly compare different ETFs. Consumers undertaking such a cursory analysis are likely to overlook the sophisticated mechanics that are increasingly behind many of these products – such as whether the ETF is physical or synthetic, whether the ETF employs currency hedging, or whether (and how often) the ETF is rebalanced.

More generally from the retail consumer's perspective, a proper investment decision should not centre on product; first and foremost, consumers should take a critical look at their own financial position and goals, and only then begin considering how a particular ETF (or mutual fund, insurance product, or so on) fits within realizing those goals. For the vast majority of consumers, that in-depth analysis should leverage the knowledge and expertise of a professional financial advisor.

This is especially true as studies have consistently proven that consumers derive substantial benefits from seeking professional advice: a 2012 study by the Center for Interuniversity Research and Analysis of Organizations found that based on data compiled from over 10,000 households, advised households have up to almost three times the median assets of non-advised households.[3] A 2014 study by PricewaterhouseCoopers LLP found that advised households save up to 4.2 times more than non-advised households.[4]

Therefore, in our view, the introduction of ETF Facts will create a helpful tool for retail investors to navigate the increasing array of ETF options – but the best role for ETF Facts is as a springboard for a much deeper conversation with a professional advisor about the client's financial objectives.

QUESTIONS IN CONSULTATION PAPER

Content of the ETF Facts

The ETF Facts is substantially similar to the Fund Facts, except for additional information related to trading and pricing (e.g., average daily volume, number of days traded, market price range, net asset value range, average bid-ask spread and average premium/discount to NAV). We seek specific feedback on these proposed elements of the ETF Facts. In particular, please comment on the disclosure instructions for these elements as outlined in Form 41-101F4. For example, should the range of market prices exclude odd lot trades? In terms of the calculation of the average bid-ask spread, should trading days that do not have a minimum number of quotes be excluded from the calculation? We also seek feedback on whether there are alternative methods or alternative metrics that can be used to convey this information in a more meaningful way for investors.

Odd lots. Odd lot trades should be included in market pricing. Odd lots now represent a significant number of trades: according to U.S. data, they now account for 5% of the equity volume in that

[3] The Center for Interuniversity Research and Analysis of Organizations, *Econometric Models on the Value of Advice of a Financial Advisor* (July 2012), http://www.cirano.qc.ca/pdf/publication/2012RP-17.pdf.
[4] PricewaterhouseCoopers LLP, *Sound Advice: Insights into Canada's Financial Advice Industry* (July 2014), http://www.advocis.ca/sareport.pdf.

jurisdiction[5] – and a recent study found that odd lots contribute up to 30% of price discovery (especially for high-value technology stocks that have resisted splitting).[6] It is likely that odd lots feature as prominently in Canadian markets. Further, from the retail consumer's perspective, the use of modern trading platforms featuring electronic trading or flat commissions makes it no longer difficult or expensive for investors to dispose of odd lots as it once was. Therefore, we view trades of odd lots as legitimate data that should be captured in pricing information.

Average bid-ask spreads and premium/discount to NAV. All trading days, regardless of the number of quotes represented, should be included in the calculation of the average bid-ask spreads and average premium or discount to NAV.

Although these averages are vulnerable to distortion because the calculation is based on equal calendar day weighting of national best bid and offer quotes (as opposed to, say, volume-weighted), that distortion should be effectively minimized because the average encompasses the trailing 12 months – that is a large enough sample size to mute the effect of outlier trading days. If such outliers nonetheless have a significant impact on the calculations, this suggests something more fundamental about the ETF's liquidity, which only bolsters the case for their presentation on ETF Facts.

Further, including all trading days is consistent with the approach taken with the market price and NAV data. The minima and maxima are absolute values captured over the trailing 12 months, regardless of the market circumstances surrounding them. And the average daily trading volume is a simple calendar day average that includes zero volume days. Therefore, for the sake of a consistent approach to the data, the average bid-ask spreads and premium/discount to NAV should not disqualify trading days based on the number of quotes represented.

Additional information in "Quick facts". We believe that the "Quick facts" table should include these additional rows:

- "Asset Type", specifying whether the ETF falls into the equity, fixed income, or hybrid categories.
- "Eligibility for Registered Plans", specifying the ETF's eligibility for inclusion in registered plans (such as RRSP, TFSA, RDSP, etc.).
- "Rebalancing Frequency" (if applicable to the ETF), specifying whether the ETF is rebalanced on a quarterly, annual, or other basis.
- "Distribution Yield" (for ETFs where distributions are a key element), specifying the 12-month trailing yield and distribution yield.

These are fundamental pieces of information that many prospective investors would benefit from having at their fingertips before making an investment decision. Indeed, some of these facets are central to consumers' investment objectives and their absence from the sample ETF Facts is problematic.

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[5] Reuters, *Odd-lot trading data starts being disseminated to public*, (December 9, 2013) http://www.reuters.com/article/2013/12/09/us-exchanges-oddlots-idUSBRE9B814820131209

[6] Maureen O'Hara, Cornell University - Samuel Curtis Johnson Graduate School of Management, Chen Yao, University of Warwick and Mao Ye, University of Illinois at Urbana-Champaign: *What's Not There: The Odd-Lot Bias in TAQ Data* (July 2011), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1892972.

The “How ETFs are priced” section of the ETF Facts is intended to provide ETF investors with some additional information on the factors that influence trading prices and to explain the difference between market price and NAV. This section has been modified in response to investor testing, which showed that investors valued this type of information but were not necessarily aware of how to use it in practice. We seek feedback on whether there is an alternative form of presentation of this information that may better assist investors.

We find the “How ETFs are priced” section to be reasonably clear, but we find the information to be incomplete. We appreciate the CSA is attempting to keep the section short, in keeping with the summary nature of the document – but there are other factors that have a significant impact on pricing and therefore warrant a mention. Consumers should be at least made aware of the following variables that influence the actual price they receive:

Liquidity. The section should discuss the impact of transaction volume on liquidity and price volatility, including how small or odd lots at the quoted price may contribute to volatility, relative to the size of the consumer’s order. It should note that liquidity considerations come into play both when the investor purchases the security, as well as when the investor wishes to dispose of it. The discussion on price and liquidity is particularly important for ETFs (compared to mutual funds) given the prevalence of secondary market transactions in these products and the relatively light trading volume of niche or targeted ETFs.

Order types. The section should also note that there are a variety of different order types that affect the consumer’s transaction price. Along with explanations of the most common order types, such as market orders, limit orders and stop orders (with day, good-till, or all-or-none options), the section should also state there are additional order types the investor may wish to consider or ask their advisor about (such as market on close, trailing stop, trailing stop limit, and so on), all of which could impact price.

Please comment on whether there are other disclosure items/topics that should be added to reflect the differences between ETFs and conventional mutual funds.

Benchmarking and tracking. If the investment objective of the ETF is to track the performance of a specified underlying index or benchmark, the CSA should provide a summary of the issues that are relevant to these ETFs.

For example, the ETF Facts should discuss correlation and tracking error risk – a number of factors may affect the ETF’s ability to track its benchmark index or achieve a high degree of correlation with its benchmark, either on a single trading day or for a longer time period. These factors include fund expenses, imperfect correlation between the ETF’s investments and those of its underlying index, rounding of share prices, regulatory policies, high portfolio turnover rate and the use of leverage and currency hedging.

The CSA should include an explanation of the difference between physical and synthetic derivative-based tracking, and tracking that is based on the full replication of an index and tracking that is based on selective or weighted sampling, making clear that failure to achieve a high degree of correlation may prevent the ETF from achieving its investment objective.

Distributions. For ETFs having distributions as a central feature, where data regarding year-by-year, three month best/worst and 10-year returns is presented, it should be made clear whether that growth assumes reinvestment of the distributions. The ETF Facts should also include a table that discloses the form of distributions for the past tax year, broken down into categories of eligible dividends, non-eligible dividends, capital gains, other income or returns of capital. There should also be a note stating that there are income tax implications of the forms of distribution when the ETF is held in non-registered accounts and the characterization of distributions for tax purposes will only be reported after the ETF's tax year end.

Risk disclosure. As it did for Fund Facts, the CSA has selected volatility as the primary metric of risk to present on ETF Facts and it has stated that volatility, as calculated by the standard deviation of returns, will be the basis of its mandatory risk classification methodology that eventually will be applicable to Fund Facts and ETF Facts. We have voiced our general support for this decision, stating that if there is only one metric chosen to represent risk on a summary document, it should be volatility risk based on standard deviation – this metric is generally understood by consumers, has an established calculation methodology, and can be independently verified by third parties.

But it is important to keep in mind that ETF Facts is not a mechanism for consumers to learn about and understand all of the material risks they should know before making an investment decision. There are other major risks beyond volatility risk, such as counterparty, diversification, liquidity and tracking error risk, which are not necessarily expressed in the security's price but are particularly important to ETF investors. And the biggest risks for a particular consumer are a function of his or her personal goals and expectations in the context of an individual financial plan, and this can only be assessed by a qualified professional.

Therefore, we urge the CSA to ensure and promote a prominent role for professional financial advice. In the context of ETF Facts, this includes adding to the discussion about volatility risk a clear statement that the presentation of risk in the document is necessarily limited and recommending that consumers seek professional financial advice before making an investing decision.

Transition Period

Although the questions in this section are aimed specifically at ETF dealers and managers, we wish to provide some high-level commentary on the proposed transition period.

Coordination and priority-setting with other regulatory initiatives. In timing the implementation of ETF Facts, we ask the CSA to be mindful of the myriad of demands on market participants from other regulatory initiatives that are already underway – whether promulgated by the CSA itself or by other entities. For example, just within the roughly two-year proposed transition timeline outlined in the consultation paper, the CSA will be:

- implementing the final stage of its ground-breaking Client Relationship Model, Phase 2 ("CRM-2") reforms;
- effecting pre-sale delivery of its Fund Facts point of sale project for mutual funds;
- releasing its selected proposed standardized risk classification methodology for mutual funds; and
- advancing the next stages of its mutual fund fee and best interest duty consultations.

These are just a sampling of the CSA's active initiatives, and other regulatory entities will be pursuing their own projects. For example, the Mutual Fund Dealers Association of Canada is working towards developing ETF proficiency standards for its registered representatives, and there are regular changes to the anti-money laundering and anti-terrorist financing requirements of the Financial Transactions and Reports Analysis Centre of Canada.

All of these initiatives require the focus of market participants, through responding to proposals or revising operational procedures to comply with new laws. We ask that the CSA attempt to coordinate the efforts of its various branches to avoid overwhelming the industry with demands that arise all at once – this could involve mapping out priorities, determining which initiatives should be implemented first (due to their importance in addressing an emerging issue or because they can be done with relatively little disruption to industry), and which ones should be held back until the preceding "wave" of reforms have been absorbed and their efficacy can be assessed.

On this basis, we believe that ETF Facts should take relative priority because the point of sale project on the mutual funds side is so well advanced – other than the determination of the standardized risk methodology, which will also apply to ETF Facts, we understand that the Fund Facts project will be complete in 2016. We have always held that retail consumers should enjoy similar disclosure and rights vis-à-vis financial products that, from their perspective, are complementary in fulfilling their investment needs, so it makes sense for ETF Facts to "catch up" to Fund Facts as soon as practicable.

Impact on dealers and advisors. Even though many dealers and advisors will be able to leverage the experience gained through the Fund Facts transition experience, the implementation of ETF Facts still poses significant challenges – particularly for smaller dealers who are not captured under the existing exemptive relief. The development (or modification) of a compliance system that tracks client contact points and records delivery fulfillment will be of paramount importance; this will be particularly trying for smaller firms where branch managers wear many hats and must contemporaneously be an oversight and a business person. Larger dealers face their own challenge in coordinating training and communication across a branch network dispersed across the country.

Advisors and their support staff will need to be trained on how to access the ETF Facts document, and make client-specific arrangements for the preferred mode of delivering the document to each client. Advisors will need to be trained on how to explain the ETF Facts document to clients, particularly how ETFs differ from mutual funds. An interesting challenge will be how ETF Facts interacts with the CRM-2 pre-trade disclosure now in effect and Fund Facts pre-sale delivery after May 30, 2016; consumers may be confused as to why Fund Facts is delivered in advance but ETF Facts is delivered after, but the fundamental aspects of both are discussed together, in advance. The practical result of this may be that advisors move to *de facto* pre-sale delivery of the ETF Facts from the outset.

Effective date. In finalizing the ETF Facts delivery effective date, the CSA should avoid the calendar year-end and the period known in the industry as the "RRSP season". These periods are notoriously busy for the financial services industry and represent difficult times to sit down with clients and introduce new changes to point of sale procedures. Ideally, we would suggest that the CSA schedule the effective date to occur during the summer months, which generally see lower transaction volumes. Advisors and clients alike would be able to devote the time required to become accustomed with the new process and discuss the new document in detail.

Right for Withdrawal of Purchase

Currently, under securities legislation, investors have a right for withdrawal of purchase within two business days after receiving the prospectus. This right only applies in respect of a distribution for which prospectus delivery is required. In the case of ETFs, today only purchases filled with Creation Units trigger a prospectus delivery requirement and are therefore subject to a withdrawal right.

Consistent with the approach taken in the Exemptive Relief, the Proposed Amendments do not extend the right of withdrawal of purchase to investors for the delivery of the ETF Facts. In some jurisdictions, investors will continue to have a right of rescission with delivery of the trade confirmation. We seek feedback on this proposed approach. Specifically, please highlight if any practical impediments exist to introducing a right of withdrawal for purchases made in the secondary market in connection with delivery of the ETF Facts, should we decide to pursue this.

For the same reasons that the ETF Facts initiative seeks to achieve uniform consumer disclosure for ETFs (including aligning their disclosure with mutual funds), Advocis would prefer to see a standardized right of rescission across Canada: investors should not be disadvantaged simply on the basis of the province or territory in which they reside. Further, from the consumer's perspective, there is no difference whether their ETF order was fulfilled via creation units or through the secondary market.

Accordingly, Advocis believes that it would be in the best interests of Canadians for the CSA to bring uniformity to ETF investors' rights of rescission and withdrawal. Therefore, we believe the CSA should extend the right of withdrawal to purchasers of ETF securities for a period of two days following receipt of the ETF Facts, regardless of jurisdiction or whether the trade occurred in the secondary market. Various industry stakeholders have, for over a decade, articulately and forcefully emphasized the pressing need for harmonization of these rights and for clarification of how they are to be interpreted and applied.

Other Considerations

We believe the CSA should consider the following additional issues that arise in connection with the implementation of ETF Facts.

Obsolescence of data. ETF Facts provides an opportunity to build on the experience gained from the Fund Facts program and improve both point-of-sale initiatives. One particular concern we have noted with Fund Facts is that its data is often obsolete by the time it is received by the consumer, and we are concerned that the same problem will occur with ETF Facts.

The CSA requires fund companies to update Fund Facts once per year (in step with prospectus requirements), and as a result, certain key information appearing on Fund Facts may be many months old by the time it is in the consumer's hands. As one example, prior to Fund Facts, an advisor could not provide clients with information regarding the rates of return for a mutual fund that had been calculated more than three months prior. Today, the Fund Facts provided to consumers may be nearly a year old and show rate of return calculations that are out of date by much more than three months. This unintended result harms the ability of consumers to make informed decisions.

Specifically, the following points of data appearing on Fund Facts are vulnerable to rapid obsolescence (collectively, the "Variable Portion"):

- total value of the fund as of a certain date;
- top ten holdings;
- investment mix or asset allocation; and
- investment performance.

The other sections of Fund Facts do not normally change (the "Fixed Portion"), even upon its annual update. If the Fixed Portion does change, it is likely a material change that warrants that a new Fund Facts and prospectus be filed in any event.

We recognize that, from the fund manufacturer's perspective, a Fund Facts document has to be filed separately with securities commissions for each of the different series of a particular fund. Thus, when they file Fund Facts, they have to file many iterations of these documents (which could literally be into the hundreds) – so doing so on a more regular (that is, more often than annual) basis would result in excessive cost and administrative burden on the fund company.

But now that fund companies, advisors and investors have had more experience with Fund Facts, we believe the time is appropriate for the securities commissions and the fund companies to come to a new compromise: we suggest that Fund Facts should continue to be filed annually. However, the Variable Portion should be updated quarterly by the fund companies, made available on their websites, and populated into "working versions" of their Fund Facts – but fund companies would not have to file those quarterly versions with securities commissions.

Proper Fund Facts delivery to consumers would constitute delivery of the latest quarterly-updated version. Of course, if the fund company files a prospectus amendment and new Fund Facts with securities commissions due to a material change between annual filings, the quarterly updates would be populated into that latest filed version. And since the updates to the Variable Portion would be applicable to multiple series of the same mutual fund, the objective of providing relevant data to consumers on a current basis at a reasonable cost to the fund company would be achieved.

The same approach should be taken with ETF Facts – annual filing with securities commissions, and quarterly "working" updates for the Variable Portion – so that consumers are provided with relevant and timely information. After all, providing consumers with information that is known to be outdated, under the premise that they can use it to make informed decisions, seems at odds with the objective of the point-of-sale project and consumer protection more generally.

Delivery requirements vis-à-vis Fund Facts. The CSA is calling for ETF Facts to be delivered on a post-sale basis when it first comes into effect, following the same procedure it used when it introduced Fund Facts. We believe this staged approach makes sense, as it grants industry participants the opportunity to acclimatize to the new point of sale requirements. But by the time ETF Facts actually goes into effect, Fund Facts will have advanced to pre-sale delivery and the ultimate goal is clearly to synchronize the delivery requirements for both Fund Facts and ETF Facts.

In a previous submission on the Fund Facts project, we stated that it would have been preferable if the CSA had waited to implement the pre-sale delivery phase of Fund Facts until ETF Facts was launched and both were operating on a post-sale delivery basis; once both Fund Facts and ETF Facts were established and functioning well, the CSA could select a uniform switchover date upon which both documents would require pre-sale delivery. A coordinated transition would have better aligned with the International

Organization of Securities Commissions' Point of Sale Principle 4, which calls for "[d]isclosure of key information… in plain language and in a simple, accessible and comparable format to *facilitate a meaningful comparison of information disclosed for competing CIS* [Collective Investment Scheme] *products*" (emphasis added).[7]

Given the CSA's other consumer-focused reforms that are proceeding as scheduled, particularly CRM-2, we believe the benefits of the pre-sale delivery of Fund Facts (in advance of the pre-sale delivery of ETF Facts) could be outweighed by the unnecessary confusion and complication brought about by having two separate delivery regimes for complementary products. Therefore, we recommend that the CSA consider delaying the pre-sale delivery phase for Fund Facts until the ETF Facts initiative "catches up" and both documents can be switched over to pre-sale delivery together.

Regulatory arbitrage. The point of sale project is a continuation of the shared vision of securities and insurance regulators to provide consumers with more meaningful and effective prospectus disclosure for mutual funds (now including ETFs) and individual variable insurance contracts ("IVICs" or "segregated funds"), as described in *Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds*, which was published by the Joint Forum of Financial Market Regulators (the "Joint Forum") on October 24, 2008.

On January 1, 2011, new disclosure requirements went into effect for segregated funds to implement the principles set out by the Joint Forum and to harmonize the short-form disclosure practices for mutual funds and segregated funds. In summary, the purchaser of an IVIC must receive an Information Folder which contains a "Key Facts" document, which is essentially a version of Fund/ETF Facts for the segregated fund.

Since that time, there has been relatively little change to the regulatory requirements for Key Facts, including no foreseeable pre-sale delivery requirement. Compare this to the continuous change on the securities side, including the forthcoming pre-sale delivery for Fund Facts which will eventually apply to ETF Facts. The result of this disparity could lead to a regulatory arbitrage situation which would favour the insurance sector.

Regulatory arbitrage is a real and ongoing issue and the forthcoming pre-sale delivery requirements for mutual funds (and eventually ETFs) will exacerbate the problem vis-à-vis segregated funds. The impact of such arbitrage will only increase as insurance companies continue their foray into wealth management. Any re-allocation of investment assets to alternative product choices on the basis of the different regulatory requirements at the point of sale should be cause for concern.

If IVICs do not share the same pre-sale delivery requirements as mutual funds or ETFs, then the Canadian retail investor is exposed to the problem of less-than-professional dual-licenced advisors diverting clients from mutual funds to more costly IVICs. Whenever possible, investor protection should not play out on an un-level playing field.

ETF Facts delivery and the discount brokerage channel. Many of the retail investors who have been "early adopters" of ETFs have executed their trades on discount brokerage platforms, without the benefit of suitability assessments and know-your-client processes. Nonetheless, the CSA should ensure

[7] International Organization of Securities Commissions, *Principles on Point of Sale Disclosure – Final Report* (February 2011), available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD343.pdf.

that investors transacting through this channel are afforded the benefits of ETF Facts by verifying that discount brokerages have proper processes in place to "deliver" ETF Facts to their clients. As the discount brokerage model is based on having little personal contact with the consumer, there may be unique challenges in determining whether ETF Facts is successfully delivered.

CONCLUSIONS

The CSA's ETF Facts initiative continues the evolution of the point-of-sale project and is logically based on the experience gained through the implementation of Fund Facts. ETF Facts helps level the playing field between ETFs and mutual funds and serves as a useful tool for consumers to consider in making investment decisions. The initiative is timely given the explosive growth in popularity of ETFs amongst retail investors.

Through the consultation paper, the CSA seeks to ensure that the main differences of ETFs are captured on ETF Facts, vis-à-vis mutual funds and Fund Facts. We believe that certain additional information must be included – despite the risk of complicating what is intended to be a summary document, there are certain aspects of ETFs that are too fundamental to exclude. And while it was already a challenge to distill the main features of a mutual fund into two double-sided pages, the issues unique to ETFs make such summarization even more difficult, and as a result, risky for consumers to be over-reliant upon.

In fact, for most consumers, having a positive experience with the capital markets will not be determined by choosing any one specific product over another, but by developing and adhering to a personalized financial plan. We urge the CSA to be mindful of the inherent limitations of a document like ETF Facts and recognize how professional financial advice is critical to consumer financial literacy and protection. A document like ETF Facts simply cannot capture the complexity of the ETF universe, but it can serve as the foundation of a deeper discussion with a professional advisor about the consumer's financial position and objectives.

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We look forward to working with the CSA as it works to implement the ETF Facts initiative. Should you have any questions, please do not hesitate to contact the undersigned, or Ed Skwarek, Vice President, Regulatory and Public Affairs at 416-342-9837 or eskwarek@advocis.ca.

Sincerely,

Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO

Caron Czorny, FLMI, ACS, CFP, CLU, CH.F.C., EPC, CHS
Chair, National Board of Directors