PRIMERICA
une société de Citi • A Citi Company

Neil Mohindra
Acting Policy Manager
Joint Forum Project Office
5160 Yonge St.
Box 85, 17th Floor
North York, ON
M2N 6L9

Re: Response to Proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds

Dear Sir:

PFSL Investments Canada Ltd. ("PFSL") sincerely appreciates the opportunity to submit comments in response to the Joint Forum of Financial Market Regulators' ("Joint Forum") proposed Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds ("proposed Framework"). Our company is a subsidiary of Citigroup Inc., one of the largest financial services companies in the world with some 200 million customer accounts in over 100 countries. PFSL is part of the Primerica Financial Services group of companies that have served moderate income investors in Canada since 1986 and has one of the largest mutual fund-licensed sales forces in Canada with approximately 5,000 licensed mutual fund representatives. It is with a perspective enriched by our many years of experience working with individual investors with smaller accounts, the very group that mutual funds were designed to serve, that we submit our response.

As we understand it, the proposed Framework was initiated and developed in order to address concerns that the current disclosure requirements for mutual fund sales were complicated, onerous and untimely. As a financial services company that is truly interested in improving the financial positions of middle-income Canadian families, we are in full agreement with the principle of providing investors with simple, user-friendly investment disclosure to assist in their investment decision making. As a result, we support the Joint Forum's intention of establishing informative and timely disclosure requirements. However, following a careful assessment of the proposed Framework we have identified a number of concerns. At a conceptual level, we have concerns with the way in which the proposal has been developed, including the limited research conducted to justify its implementation. On a more practical level, the implications associated with the proposed Framework raise serious concerns regarding the logistical and financial burdens that would be imposed on the industry as a result of this initiative. In addition, certain aspects of the prescribed content of the Fund Facts, some of which may be inadvertently misleading to clients, raise concerns.

Basis for the Framework

The initial research that was conducted and that has since become the foundation of the proposal raises questions as to whether or not the Framework and the Fund Facts sheet accurately reflect the concerns and changes sought by investors and the industry. The limited samples of opinions that were gathered in investor research and focus group testing in Toronto and Montreal (17 investors and 10 salespersons) do not provide adequate insight into attitudes and expectations regarding the mutual fund sales process and should not be assumed to properly express the concerns and opinions of the industry and investors. In addition, despite being at such a late stage in the development process, no efforts have as of yet been made to analyze and assess the proposed Framework's resulting financial impact and the ways in which its associated costs would affect the industry and investors. Although the original consultation paper established that the proposal was to inform investors in a "cost-effective and practical way", it is questionable as to whether or not it would be less costly or less onerous.

While the proposed Framework has been developed as one part of the Registration Reform Project ("RRP"), questions remain in terms of its place within the RRP. It appears as though the proposal has not been developed hand-in-hand with the other parts of the same project, most notably the Client Relationship Model ("CRM"). The core element of the CRM is the Relationship Disclosure Document ("RDD"), a document that is intended to be provided during the account-opening process and describes the costs, product features, relationships, roles and responsibilities of both the client and the financial services provider. Some of the information contained in the Fund Facts sheet would have already been disclosed to the customer as a result of the RDD, making its appearance in the Fund Facts unnecessary and possibly confusing. Where objectives and disclosure of information overlap between various parts of the RRP, it is important that the information be consistent. Ideally, duplication should be eliminated by doing a careful review and placing the duplicated information into the most appropriate disclosure document.

Logistical Issues

(i) Delivery

In an effort to ensure that investors are making informed decisions, the proposed Framework requires advisors to provide investors with the most recently updated Fund Facts prior to executing any mutual fund order. Although we understand the Joint Forum's intention in this regard, the mandatory presale delivery requirements are overly paternalistic as they prohibit investors from making purchases in the absence of a generic two-page document, regardless of how knowledgeable or interested the investor may be. This approach does not provide investors with the option to waive their right to receive the Fund Facts or access it online in their own time.

The approach also fails to take into consideration the logistical difficulties that will result for various distribution models, such as over-the-phone and kitchen-table sales as well as logistical difficulties servicing certain investors, such as those residing in rural and remote areas. These concerns will carry over to subsequent transactions and will be exacerbated during certain time periods, such as RRSP season. Any reasons for requiring the Fund Facts to be re-delivered in order for an investor to make additional purchases of a fund he or she already owns or to make switches within a fund family can be managed by providing investors with the benefit of a fund family disclosure as opposed to the proposed Fund Facts sheet.

Prohibiting investors from making purchases in the absence of the Fund Facts could prove costly for time sensitive transactions, such as those made during RRSP season when many clients are making last minute contributions at the busiest time of a dealer's year. There is a possibility that the required Fund Facts sheet might not be available, resulting in a delay in executing the trade and possibly missing an important deadline. In addition, the assumption that consumers would want to receive such disclosures prior to each and every transaction may be inaccurate. Serious consideration should be given to eliminating the pre- or at delivery requirement for subsequent transactions or switches between funds in a fund family.

As a large dealer with offices across all regions of Canada, we have been considering the methods for delivering the Fund Facts document in order to comply with the proposed Framework. Delivery would likely be a combination of shipments from a central printing and fulfillment facility to the agents' offices, as well as local printing at the agent offices for lower volumes. Agents would be burdened with the costs of producing and making available large amounts of multi-coloured documents for a variety of funds, much of which will not be used and hence wasted as they become outdated. The advisor would need to purchase a high-quality colour printer, paper, coloured ink and absorb other expenses associated with maintaining the printer. Although the impact of these costs may not concern dealers who focus their efforts on wealth management and large fund transactions, these costs will significantly impact those who generally serve the middle market and deal in smaller investments. In fact, these costs combined with the logistical challenges could result in some dealers establishing minimum account sizes and may potentially lead to the elimination of some of the smaller investment options that are currently available.

While the costs associated with the proposed Framework may initially seem minimal and unlikely to cause such significantly negative results, please consider that this proposal is only one of many new regulatory requirements that will increase industry costs and that each additional dollar in operational costs makes servicing smaller investors that much more difficult and that much less profitable. As an example, PFSL accepts mutual fund pre-authorized contributions ("PACs") as low as $25 per month with a minimum initial investment of $100. The respective $1.25 and $5 commissions garnished from these PACs are then shared by the mutual fund representative and the dealer. As you can appreciate, the shear mailing costs may exceed the profits of servicing clients who opt for such investments. However, PFSL will continue to endeavor to service such clients as part of our effort to develop a culture of saving. Nevertheless, when applied to a business model such as ours, with focused efforts on providing affordable mutual fund products to small investors, the cumulative result of seemingly minimal increases to costs can be significant.

We at PFSL believe the recommendations put forth by the Investment Funds Institute of Canada ("IFIC") represent a more suitable alternative to the proposed framework. IFIC has envisioned a separation of the information that is intended to be contained in the Fund Facts in order to alleviate some of the delivery difficulties while ensuring that clients receive accurate and helpful information at the appropriate time. We believe that this can be done by creating a summary document detailing the sales and compensation structure of funds that is to be delivered at Account Opening. Such information is not unique to each fund, but rather determined at the fund family level. The information that is intended to be included in IFIC's suggested summary is particularly important at account opening since it is at that time that the client is considering a first time transaction within a fund family. This summary would then be supplemented by an abbreviated fund facts document containing other information contemplated by the proposed Framework and could be provided to the client as a trade confirmation at various points of subsequent purchase.

(ii) Compliance

Establishing the delivery of Fund Facts as a necessary element of every mutual fund transaction is a costly obligation that will negatively impact investors, dealers and the industry. Entirely new compliance mechanisms that would be capable of confirming and ensuring that the most up-to-date Fund Facts is delivered prior to each and every transaction would have to be developed and introduced. To say the least, monitoring compliance for the proposed delivery requirements will be difficult. Moreover, although the proposed Framework seems to have been drafted as a series of advisor obligations, dealers and fund companies would be the ones burdened with the establishment of the compliance regime and the operational risks the delivery requirements impose. These risks should not be underestimated since investors would be entitled to withdrawals from purchases and full compensation, including fees, if the delivery of the Fund Facts can not be substantiated. Considering the difficulties associated with monitoring compliance of the delivery requirements, this additional right to rescind, above and beyond the two day cooling off period, unjustifiably exposes dealers and fund companies to potentially significant financial losses and will likely give rise to frivolous and damaging claims since some investors may view recission rights as a means to recoup losses following market downturns.

A more practical and cost-effective alternative to the Fund Facts delivery as it is being proposed would be to have the RDD include a requirement for dealers to inform their clients as to how they would be able to obtain fund information that is intended to be contained in the Fund Facts or, in the very least, provide the clients with an option of how they would like to receive this information. Adopting a regulatory framework based on the principle of "access equals delivery" and incorporating elements of the proposed Framework in the RDD would not only work to achieve the Joint Forum's intended goals, but also eliminate the potential for redundant disclosure obligations, heighten the degree of cohesion and continuity within the RRP project, prevent the costs associated with mutual fund transactions from increasing, and maintain the investment market accessible to small investors.

Content Issues

Beyond the concerns outlined above regarding the development and basis for the proposed Framework and its logistical difficulties, certain aspects of the Fund Facts content are also problematic. To begin, although we do believe that having a standardized document with certain prescribed content may aid in fund comparisons and help ensure that elements of the document are easily understandable, we feel that the proposed Fund Facts may be problematic as a result of the content being overly prescriptive. The prescribed content regarding costs, compensation and deferred sales charges imposes a "one-size-fits-all" summary that does not account for the different business models and various arrangements that exist within the industry. As a result, this content can be misleading or even inaccurate and interferes with the ability of the Fund Facts to achieve its intended results. The following are some of examples of where the content may be inaccurate or misleading:

- The information contained under the heading "How much does it cost" is presented as a series of options and choices the investor has regarding the payment of sales charges. The information also indicates that the investor may negotiate the rate if he or she has chosen a deferred sales charge. This may cause a significant deal of confusion since sales charges are typically determined by the dealer, specifics of which will be disclosed to the investor at account opening.
- The information regarding the ways in which advisors are paid may be misleading. This list of commission and compensation arrangements is far from exhaustive, and it does not inform investors that their advisors may receive payment based on an alternative structure such as salary and bonus as with some dealer arrangements.
- Deferred sales charges (DSC) are generally set at a family of funds level, such that switches between funds in the family do not incur an early redemption charge do not reset the DSC schedule. Presentation of a Fund Facts on a switch within a fund family would potentially misrepresent how DSC's apply to that transaction.
- The last point on "How does my advisor get paid?" states that the commissions are part of the fund's annual expenses. With respect to a front end load initial sales commission, this is generally incorrect as it reduces the amount of the investor's money that is invested in the fund. With respect to other commissions, generally payment is made by the fund manager to the dealer from management fees earned from the funds, not the funds directly.

This is not meant to be a complete list of concerns about the content on page 2. Each item should be carefully reviewed and considered whether it is accurate and whether it is appropriate to be included in the Fund Facts document which will be a fund company produced document, or disclosed at another point in the process, such as at account opening in a dealer produced document. This is particularly important with respect to items related to the dealer/advisor/client relationship and related compensation. These may be more appropriately described in a RDD. In order to ensure that the content of the Fund Facts is accurate for all business models, there should be some degree of flexibility so that some statements and information may be adjusted appropriately. At the very least, the Fund Facts should contain certain disclosures informing clients that the information regarding their advisors may be inaccurate or incorrect and that the accuracy of these statements depends on the particular business model under which the advisor operates.

While we believe that the Joint Forum's intentions are commendable, the proposed Framework has a number of difficulties that would limit its potential effectiveness and prevent it from achieving its intended goals. These difficulties are found in the proposed Framework's design, its logistical implications and the prescribed content of the Fund Facts. PFSL continues to support the Joint Forum's intent to have investors provided with simple, informative and timely disclosures, but we can not offer unqualified support for the proposed Framework in its current form. We commend the Joint Forum's open and collaborative approach to the development of the proposal to date and we hope that we can continue a meaningful dialogue to devise the most effective disclosure regime that will serve the investors' and industry's interests alike.

Sincerely,

John A. Adams, CEO
PFSL Investments Canada Ltd.

Appendix: Answers to Specific Questions Contained in the Point of Sale Disclosure for Mutual Funds and Segregated Funds

4. Do the delivery methods described above give investors and industry enough flexibility to and execute investment decisions in a timely manner?

As they currently stand, the delivery requirements contained in the proposed Framework can potentially interfere with the timely execution of investment instructions and would benefit from increased flexibility. By establishing the Fund Facts as a necessary component of all transactions, including subsequent sales and switches, the investor's ability to make purchases will be limited and delayed by the availability and delivery of a specific document for each fund being purchased, regardless of the investors' preferences. For subsequent sales and switches especially, these delays will not be received well by already informed investors and will also limit the advisor's ability to efficiently act upon a client's investment decisions.

5. Are there other delivery methods or options that we should consider that are consistent with our objectives or providing investors with disclosure before or at the point of sale?

The proposed Framework, as well as the investor, would benefit greatly if consideration were given to the principle of "access equals delivery". It is hoped that the Joint Forum would take advantage of the technological and environmental realities of society and provide investors with the option of being able to view the information contained in the Fund Facts electronically via the Internet. Adopting the access-equals-delivery model with a regularly updated websites would enhance the timeliness of delivery requirements, eliminate potential for unnecessary delays and assure continued access to information in a more cost-effective and waste-reducing manner. At the very least, we believe that consideration should be given to such an alternative model of delivery for subsequent sales and switches.

6. What changes would you need to make to your existing processes to comply with our proposed delivery requirements? How long would it take to make these changes? What costs would be involved? Approximately how much would these costs be?

It is difficult for us at this time to determine the extent of the implications and changes that would have to occur as a result of the Proposal taking force. However, we are of the belief that the changes would be extensive, costly and ultimately borne by investors. As stated in our response, the financial obligations and logistical problems associated with producing and providing the Fund Facts would have a detrimental effect on small investors *and* the investment options available to investors. In addition, an array of extensive and costly changes would also be involved in the establishment of a compliance system since we currently lack the means to ascertain with certainty if an investor has received the correct Fund Facts before making a purchase.

9. Are there other ways of disclosing the information in the Fund Facts for a fund with multiple classes, series or guarantee options that are consistent with our objective of providing investors with a two-page document that is easy to understand?

It appears that more can be done to achieve the objective of providing investors with easily understandable disclosure since some of the information that is contained in the proposed Fund Facts raises question regarding its appropriateness and accuracy. Fund Facts would provide more valuable disclosure if its content was limited to essential information regarding a particular fund. In its current design, Fund Facts provides questionable information regarding relationships between the client, dealer and advisor, which may cause some confusion and detract from the document's effectiveness. Disclosures regarding client-advisor/dealer relationships can be more suitably and accurately made as an aspect of the account opening process. As stated in our response, these disclosures would be better made through the Relationship Disclosure Document and left out of the Fund Facts.

10. How often would you want to update the Fund Facts? If more or less frequently than quarterly, with what frequency?

Since dealers are currently required to complete their filings and undergo regulatory reviews of these filings on an annual basis or following material changes, we believe that updating the Fund Facts at the same frequency would be more practical than what is being proposed. By having requirements regarding Fund Facts updates consistent with existing regulatory requirements, the current mechanism for regulatory review could simply be extended to ensure proper compliance.