



INVESTMENT INDUSTRY ASSOCIATION OF CANADA  
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

## **IIAC SUMMARY PROPOSED FRAMEWORK 81-406: POINT OF SALE DISCLOSURE FOR MUTUAL FUNDS AND SEGREGATED FUNDS**

### Why Point of Sale Disclosure Needed

#### i) Current Regime

Current disclosure regime for mutual funds and seg funds does not give investors meaningful information when they need it most – before they make a decision to buy a fund. They receive a simplified prospectus for mutual funds and the information folder and insurance contract for segregated funds, but many investors do not use this information when making purchase decisions. Further, they may not receive the documents before making a purchase decision. Dealers must send the prospectus to mutual investors within two days after the purchase transaction. Seg fund investors must receive the information folder at the point of sale, but may not receive the insurance contract until after the sale.

#### ii) New Point of Sale Regime

New framework focuses on three principles:

- providing investors with key information about a fund
- providing the information in a simple, accessible and comparable format
- providing the information before investors make their decision to buy

The Point of Sale proposal is intended to provide investors with basic and correct understanding of the potential benefits, risks and costs of investing in a fund and to be able to meaningfully compare one fund with another before the investor gives instructions to buy the fund.

### Format of the Fund Facts

A new mandatory fund summary document called the Fund Facts. It fits on both sides of one page. The Fund Facts document uses Q and A format that is organized, easy to understand and easy to find information with bold headings and white spaces.

Short, informative, friendly and in plain language.

i) Page One

Contains basic information about the fund:

- quick facts about the fund: creation date; total value; portfolio manager; annual expenses/management expense ratio
- what the fund invests in: types of securities, top 10 investments, investment mix
- how the fund has performed; average and year-by-year returns
- overall risk of the fund: a statement of the fund's risk level and where the risk fits on a scale that is based on IFIC's Recommendations for Fund Volatility Risk Classification
- whether the fund is guaranteed
- who the fund is suitable for

ii) Page Two

Contains information about costs, adviser compensation and the cooling-off right:

- sales charge options: how each options works and the effect each options could have on their investment
- adviser compensation: how advisers are generally paid, including what a trailing commission is and how it works
- cooling-off right; how investors can cancel their purchase
- where investors can get more information

The sales charge and adviser compensation sections contain additional questions that an investor may want to ask their adviser.

Many aspects of the Fund Facts will be mandated including the items and order, what is on first and second page, section headings and certain language, font size and grade level.

Will allow flexibility in certain sections to describe the fund's features (i.e. fund's investments) and the types of investors the fund is suitable for.

A separate Fund Facts document will be required for each class or series of a fund that has a separate MER.

This could result in many versions of the Fund Facts for a fund that has more than one class, series or guarantee option with a separate MER and an investor may only receive one version of the Fund Facts, based on their adviser's discretion. As a result, the investor might only be made aware of one option for them to purchase the fund. But in order to keep document short, it does not permit the Fund Facts to be consolidated into a fund family document or other grouping.

### When and How Delivered

Must be delivered before or at the point of sale. Once delivered, the dealer or insurer will have to bring the Fund Facts to the attention of the investor.

#### When Delivered?

- at initial purchase
- subsequent purchase, except for pre-authorized payment plan purchase
- switches, except for switches under asset allocation services
- for seg funds, initial purchase takes place when investors signs the application for the insurance contracts and selects one or more funds

No option to waive receipt of the Fund Facts.

#### How Delivered?

- hand
- fax
- mail
- electronically
- NOT sufficient to have information available on the internet and up to investors to find it
- NOT sufficient to describe document orally without delivering it

### Changes to Current Delivery Requirements

Mutual Funds: Will allow dealers to meet their delivery obligation for the simplified prospectus by delivering ONLY the Fund Facts. Dealers will have to deliver the simplified prospectus to investors only on request.

Seg Funds: The Fund Facts will become part of the information folder. The current requirement for delivery will not change.

### Investor Rights - Cooling-Off Right

Can cancel purchase within two business days by providing written notice to dealer or insurer. Cooling-off period starts when the investor gives instructions to the dealer or insurer to buy the mutual fund or seg fund.

Investor gets lesser of:

- the amount of their original investment and
- the value of the fund on the day they exercise the cooling-off right

Investor also gets back any sales charges or other fees paid to buy the fund.

The Fund Facts will be incorporated by reference into the simplified prospectus. This means that existing securities laws will apply and any misrepresentation in the Fund Facts it will result in the investor having a statutory right to take action against the mutual fund.

The Fund Facts will be incorporated by reference into the insurance contract. This means that if there is a misrepresentation in the Fund Facts, the existing laws will apply and the investor will have the right to take action against the insurer for breach of contract.

Mutual funds: If the Fund Facts are not delivered before or at point of sale, investors can cancel their purchases at any time.

Seg funds: It will be an unfair or deceptive act or practice for insurers to fail to deliver the Fund Facts. This means that although investors will not be able to cancel their purchase, they can complain to their provincial regulator who may take action against the insurer.

### Acknowledgement

Mutual funds: Dealers will not be required to have investors acknowledge receipt of the Fund Facts. Dealers may impose their own requirements as part of their compliance policies and procedures for delivery obligations.

Seg funds: Insurers will have to include a signature line on the insurance contract application for the investor to acknowledge that they have received the Fund Facts for all seg funds selected on the application. Investors will not have to acknowledge receipt for subsequent purchases.

However, there is a requirement for the dealer or insurer to “bring the Fund Facts to the attention of the investor”.

### Filing and Review

Mutual funds: The fund manager will have to file the Fund Facts with securities regulators annually together with the rest of the fund manager’s prospectus documents. Fund managers will have to update and file the Fund Facts when they file their annual and interim continuous disclosure documents. Securities regulators will review the Fund Facts the same way they review other documents that are currently incorporated by reference into the simplified prospectus.

Seg funds: The insurer will have to file the Fund Facts with insurance regulators in provinces where filing is required. Will be filed annually, together with the other documents that form part of the insurance contract. Will form part of the information folder that insurance regulators will review according to their current practices.

### Questions

#### i) Subsequent Purchases

1. Should regulators consider waiving the requirement to deliver the Fund Facts for all subsequent purchases of a fund or only for a certain period after the last purchase? If only for a certain period, what is a reasonable amount of time?

2. For pre-authorized payment plans, investors only receive the Fund Facts for the first purchases. However, information in the Fund Facts will change over time. Would investors want to receive an updated Fund Facts document? If so, how frequently?
3. Does the other disclosure information that investors can choose to receive, such as fund annual reports, provide investors with enough information to make a subsequent purchase decision?

ii) Delivery

4. Do the delivery methods give investors and industry enough flexibility to make and execute investment decisions in a timely manner?
5. Are there other delivery methods or options to consider?
6. What changes would dealers and insurers need to make to existing processes to comply with the proposed delivery requirements? How long would it take to make these changes? What costs would be involved and how much?
7. If the adviser did not have the Fund Facts immediately available, would investors be willing to wait until they received it to make their purchase. If they had to wait, would they likely choose an investment other than a mutual fund or seg fund?

iii) Investor Rights

8. Are there other ways to ensure investors have a meaningful remedy for any misrepresentation in the Fund Facts document for seg funds?

iv) Multiple Classes, Series, Guarantee Options

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 the objective of providing investors with a two-page document that is easy to understand?

v) Updating the Fund Facts

10. Fund managers and insurers may not update the Fund Facts more than quarterly to ensure proper comparisons between Fund Facts documents can occur. Is this frequency appropriate? Should it be more or less frequently than quarterly?
11. How current would investors want the Fund Facts to be?