

**CSA Notice and Request for Comment****Implementation of Stage 2 of  
Point of Sale Disclosure for Mutual Funds****Proposed Amendments to  
National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, Form 81-101F3 and  
Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure* and Consequential  
Amendments  
(2<sup>nd</sup> Publication)****June 21, 2012****Introduction**

The Canadian Securities Administrators (the CSA or we) are publishing for second comment changes to proposed amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (the Rule or NI 81-101), including Form 81-101F3 (the Form) and Companion Policy 81-101CP (the Companion Policy). We refer to the proposed amendments to the Rule, the Form and the Companion Policy together as the Proposed Amendments.

A prior version of the proposed amendments to the Rule, the Form and the Companion Policy, together with consequential amendments, was published by the CSA on August 12, 2011 (the 2011 Proposal). The 2011 Proposal sets out proposed Stage 2 of the CSA's implementation of the point of sale disclosure framework (the Framework), published in October 2008 by the CSA and the Canadian Council of Insurance Regulators, as members of the Joint Forum of Financial Market Regulators (the Joint Forum).<sup>1</sup> The Fund Facts document (the Fund Facts) is central to the Framework.

Stage 2 will require delivery of the Fund Facts within two days of buying a mutual fund. It will also permit the delivery of the Fund Facts to satisfy the prospectus delivery requirements under securities legislation. Although delivery of the simplified prospectus will no longer be required, it will continue to be available to investors upon request.

The changes made to the 2011 Proposal are in response to stakeholder feedback, particularly investor advocates, and focus primarily on the presentation of risk in the Fund Facts. A sample Fund Facts with the proposed changes is set out in Appendix A to this Notice. Appendix B sets out the key changes we have made to the 2011 Proposal.

Concurrently with the publication of the Proposed Amendments, the CSA will test the proposed changes to the Fund Facts with investors which will inform any changes we make to the Fund Facts.

We will also continue to consider mandating a CSA risk classification methodology to identify a

<sup>1</sup> The goal of the Joint Forum is to continuously improve the financial services regulatory system through greater harmonization, simplification and co-ordination of regulatory activities. Under the framework, investors would receive more meaningful information about a mutual fund or segregated fund at a time that is relevant to their investment decision.

mutual fund's risk level on the scale prescribed in the Fund Facts. The CSA will publish for comment any proposed requirements that would prescribe a risk classification methodology for mutual funds.

The text of the Proposed Amendments is included in annexes to this Notice and is available on the websites of members of the CSA, together with proposed consequential amendments to:

- National Instrument 81-102 *Mutual Funds* (NI 81-102);
- Form 81-101F1 *Contents of Simplified Prospectus*; and
- Form 81-101F2 *Contents of Annual Information Form*.

We expect the Proposed Amendments and consequential amendments to be adopted in each jurisdiction of Canada, following the satisfaction of applicable Ministerial approval requirements. In some jurisdictions, legislative amendments may need to be sought and enacted prior to implementing the Proposed Amendments and consequential amendments.

## Background

On June 16, 2010, the CSA published CSA Staff Notice 81-319 *Status Report on the Implementation of Point of Sale Disclosure for Mutual Funds*, which outlined the CSA's decision to implement the Framework in three stages.

Stage 1 was completed on January 1, 2011 when amendments to NI 81-101 came into force. These amendments, published on October 6, 2010, require mutual funds subject to NI 81-101 to produce and file a Fund Facts and make it available on the mutual fund's or mutual fund manager's website. The Fund Facts must also be delivered or sent to investors free of charge upon request.

Stage 2, now underway, proposes amendments to NI 81-101 to allow delivery of the Fund Facts to satisfy the prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund.

In Stage 3, the CSA will publish for further comment any proposed requirements that would implement point of sale delivery for mutual funds. As part of Stage 3, we will consider the applicability of a summary disclosure document and point of sale delivery for other types of publicly offered investment funds.

You can find additional background information and other Joint Forum publications on the topic of point of sale disclosure for mutual funds and segregated funds on the Joint Forum website at [www.jointforum.ca](http://www.jointforum.ca) and on the websites of members of the CSA.

## Substance and Purpose of the Proposed Amendments

We know that many investors do not use the information in the simplified prospectus because they have trouble finding and understanding the information they need. Research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates

investors prefer to be offered a concise summary of key information.<sup>2</sup> Financial literacy research further reinforces the need for clear and simple disclosure.

The CSA designed the Fund Facts to make it easier for investors to find and use key information. It is in plain language, no more than two pages double-sided and highlights key information important to investors. The format provides investors with basic information about the mutual fund, followed by a concise explanation of mutual fund expenses and fees, dealer compensation and the investor's rights. Introductory text specifies that more detailed information about the mutual fund is available in its simplified prospectus.

The Proposed Amendments are an important step in the implementation of this investor-focused initiative. Investors will be able to review key information about the potential benefits, risks and costs of investing in a mutual fund in an accessible format at a time that is relevant to their investment decision. We also think familiarity with the Fund Facts may assist investors in their decision-making process and in discussions with dealer representatives, and highlight for investors where they can find further information about the mutual fund.

### **Changes to the 2011 Proposal**

We received 12 comment letters on the 2011 Proposal. Copies of the comment letters have been posted on the Ontario Securities Commission website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). Copies are also available from any CSA member. You can find the names of the commenters and a summary of the comments and our responses in Appendix C to this Notice.

We have considered all of the comments. In response to the comments, the CSA have proposed a number of changes to the presentation of risk in the Fund Facts to enhance the current disclosure. For illustrative purposes, a sample Fund Facts with the proposed changes is set out in Appendix A to this Notice.

Concurrently with the publication, the CSA will test the Fund Facts with investors to better inform our decision on what changes to make.

### **Summary of the Proposed Amendments**

You can find a summary of the key changes we made to the 2011 Proposal set out in Appendix B to this Notice. As indicated, the key changes we have made to the Proposed Amendments relate to the content of the Fund Facts, notably, the presentation of risk.

Appendix B to this Notice also raises some specific issues for comment related to the changes.

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<sup>2</sup> You can find a list of the research, studies and other sources that the Joint Forum reviewed and relied on in developing the point of sale disclosure framework in Appendix 4 to the proposed framework (the proposed Framework), published in June 2007. The proposed Framework is available on the Joint Forum website and on the websites of members of the CSA. The *Fund Facts Document Research Report* prepared by Research Strategy Group can be found in Appendix 5 to the proposed Framework.

## **Alternatives Considered**

The earlier publications by the Joint Forum outlined the alternatives we considered, as members of the Joint Forum, in developing the point of sale disclosure regime for mutual funds contemplated by the Proposed Amendments. These publications also set out the pros and cons to each alternative. You can find these documents on the Joint Forum website and on the websites of members of the CSA.

## **Anticipated Costs and Benefits**

The earlier publications by the Joint Forum and CSA outlined some of the anticipated costs and benefits of implementation of the point of sale disclosure regime for mutual funds contemplated by the Framework. We consider these costs and benefits to still be valid. Overall, we continue to believe that the potential benefits of the changes to the disclosure regime for mutual funds as contemplated by the Proposed Amendments are proportionate to the costs of making them.

You can find these documents on the Joint Forum website and on the websites of members of the CSA.

## **Consequential Amendments**

### **National amendments**

Proposed amendments to NI 81-102 are set out in Annex C to this Notice.

### **Local amendments**

Elements of local securities legislation may need to be amended in conjunction with the implementation of the Proposed Amendments. The provincial and territorial securities regulatory authorities may publish these proposed local amendments separately in their jurisdictions. These local changes may be to rules/regulations or to statutes. If statutory amendments are necessary in a jurisdiction, these changes will be initiated and published by the local provincial government.

Proposed consequential amendments to rules or regulations in a particular jurisdiction or publication requirements of a particular jurisdiction are in an Annex D to this Notice published in that particular jurisdiction.

Some jurisdictions may need to modify the application of the Proposed Amendments using a local implementing rule. Jurisdictions that must do so will separately publish the implementing rule.

## **Unpublished Materials**

In developing the Proposed Amendments and consequential amendments, we have not relied on any significant unpublished study, report or other written materials.

## Request for Comments

We would like your input on the Proposed Amendments and consequential amendments. We have raised specific issues for comment in Appendix B to this Notice. We also welcome your comments on other aspects of the Proposed Amendments.

## Deadline for Comments

Your comments must be submitted in writing by **September 6, 2012**.

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period. All comments will be posted on the OSC website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca).

Please send your comments electronically in Word, Windows format.

## Where to Send Your Comments

Please address your comments to the following CSA members:

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
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

Please send your comments **only** to the addresses below. Your comments will be forwarded to the other CSA members.

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
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## Questions

Please refer your questions to any of the following CSA staff:

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The text of the Proposed Amendments and consequential amendments is contained in the following annexes to this Notice and is available on the websites of members of the CSA:

- Annex A – Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*
- Annex B – Amendments to Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure*
- Annex C – Amendments to National Instrument 81-102 *Mutual Funds*
- Annex D – Local Information