

**Canadian Securities Administrators
Implementation of Stage 1 of
Point of Sale Disclosure for Mutual Funds**

**Notice of Amendments to National Instrument 81-101
Mutual Fund Prospectus Disclosure, Form 81-101F1 and 81-101F2 and
Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure*
and Related Amendments**

Introduction

We, the Canadian Securities Administrators (the CSA or we), are making amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (the Rule), Forms 81-101F1 *Contents of Simplified Prospectus* and 81-101F2 *Contents of Annual Information Form* (the Forms), and Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure* (the Companion Policy). New Form 81-101F3 *Contents of Fund Facts Document* is part of the Rule. We refer to the amendments to the Rule, the Forms and Companion Policy together as the Instrument. We expect that the Instrument and related amendments will come into force on January 1, 2011.

Adopting the Instrument and related amendments is the first step in the implementation by the CSA of the point of sale disclosure framework published by the CSA and the Canadian Council of Insurance Regulators, as members of the Joint Forum of Financial Market Regulators (the Joint Forum)¹ on October 24, 2008 (the Framework). The Framework represents the shared vision of securities and insurance regulators to provide investors with more meaningful information about a mutual fund or segregated fund at a time that is relevant to their investment decision.²

Central to the Instrument is the new summary disclosure document called “Fund Facts”. It highlights key information that is important to investors, in language they can easily understand, and will be no more than two pages, double-sided, in length.

The CSA is implementing the point of sale disclosure framework in three stages, as set out in CSA Staff Notice 81-319 *Status Report on the Implementation of Point of Sale Disclosure for Mutual Funds* published on June 18, 2010 (the Staff Notice). The Instrument completes the first stage of the implementation.

The Instrument mandates the production of the Fund Facts document and the requirement for it to be made available on a mutual fund’s or mutual fund manager’s website. The Fund Facts must

¹ 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.

² You can find 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 and on the websites of members of the CSA.

also be delivered or sent to investors free of charge upon request. As described in the Staff Notice, the project has two other stages. These are:

- Stage 2: publishing for comment a proposal to allow delivery of the Fund Facts document to satisfy the current prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund; and
- Stage 3: once the CSA has completed its review and consideration of the issues related to point of sale delivery, publishing for further comment any proposed requirements that would implement point of sale delivery for mutual funds. We will also be considering point of sale delivery for other types of publicly offered investment funds.

After we complete all of the stages of implementation, we intend to review the overall disclosure regime for mutual funds to reduce any unnecessary duplication.

The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged implementation allows us to make the Fund Facts document available to investors and market participants sooner, while we continue to consult with stakeholders and consider the issues a large number of commenters have raised related to point of sale delivery for mutual funds and the applicability of the point of sale regime to other types of publicly offered investment funds.

The text of the amendments follows this Notice and can be obtained on the websites of members of the CSA. We are also making consequential amendments to:

- National Instrument 81-102 *Mutual Funds* and Companion Policy 81-102CP *Mutual Funds*;
- National Instrument 81-106 *Investment Fund Continuous Disclosure* and Companion Policy 81-106CP *Investment Fund Continuous Disclosure*; and
- National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*.

We expect the Instrument and related amendments to be adopted in each jurisdiction of Canada.

Substance and Purpose of the Instrument

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.³ Financial literacy research further reinforces the need for clear and simple disclosure.

³ 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 on the Joint Forum website and on the websites of members of the CSA. The

The CSA designed the Fund Facts to make it easier for investors to find and use key information. The format provides investors with basic information about the mutual fund, followed by a concise explanation of mutual fund expenses and fees, adviser compensation and the investor's cancellation rights. An introductory heading specifies that more detailed information about the mutual fund is available in the simplified prospectus.

The Instrument and related amendments should enhance investor protection by providing investors with the opportunity to access disclosure that gives them a basic understanding of the potential benefits, risks and costs of investing in a mutual fund, and allows them the opportunity to meaningfully compare one fund to another. We think the Fund Facts will not only provide investors with the opportunity to make more informed investment decisions, but will also assist investors in their discussions with advisers and highlight for investors who may want more detail where they can find further information about the fund.

The Instrument and related amendments should also contribute to more efficient Canadian capital markets by harmonizing the disclosure regimes for mutual funds and segregated funds. These similar products are often sold by a dually licensed dealer. The Instrument and related amendments are not intended to detract from a dealer's existing obligation to 'know your client' and determine suitability of all purchases of mutual funds. Rather, we anticipate that dealers will use the Fund Facts as a tool in making investment recommendations.

As the CSA's implementation of the point of sale disclosure framework progresses, we should achieve the Joint Forum's vision for the point of sale disclosure regime described in the Framework. This vision focuses on three principles:

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

These principles keep pace with developing global standards on point of sale disclosure and delivery, which we consider essential to the continued success of the Canadian mutual fund industry.

Feedback on the 2009 Proposal

Concurrently with the publication of the Framework in 2008, we published CSA Notice 81-318 *Request for Comment Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds* seeking feedback from all stakeholders on issues related to implementation of

Fund Facts Document Research Report prepared by Research Strategy Group can be found in Appendix 5 to the proposed Framework.

the Framework and its principles. The CSA considered these comments in developing the proposed changes to existing securities legislation. You can find a summary of the comments we received on the Framework and our responses in Appendix A to the notice to the 2009 Proposal.

On June 19, 2009, we published proposed amendments to the Rule, the Forms and the Companion Policy (the 2009 Proposal) aimed at implementing all of the elements of the point of sale disclosure regime set out in the Framework. This included the new Fund Facts document, pre-sale delivery options, investor rights and the regulatory requirements for preparing, filing and delivering the Fund Facts document. We received 54 comment letters on the 2009 Proposal. We thank everyone who provided comments. Copies of the comment letters have been posted on the Ontario Securities Commission website at www.osc.gov.on.ca. Copies are also available from any CSA member.

The comments show that stakeholders generally agree with the benefits of providing investors with a more meaningful and simplified form of disclosure, and support the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration. However, we received significant comments related to operational and compliance concerns with point of sale delivery for mutual funds. A large number of commenters also asked the CSA to implement a point of sale disclosure regime for other types of publicly offered investment funds and other securities at the same time.

You can find a summary of the comments we received on the 2009 Proposal, together with our responses, in Appendix B to this Notice.

Changes to the 2009 Proposal

We have considered all comments received on the 2009 Proposal. As set out in the Staff Notice, the CSA agrees with the feedback that further review and consideration of the issues related to point of sale delivery for mutual funds is necessary. However, we also think it would be beneficial for the Fund Facts document to be made available to investors and market participants as soon as possible.

Accordingly, the Instrument only finalizes those aspects of the 2009 Proposal consistent with the first stage of the staged approach to implementation described in the Staff Notice. Specifically, the Instrument sets out requirements for the production of the Fund Facts document and the requirement for it to be made available on a mutual fund's or mutual fund manager's website, as well as for it to be delivered or sent free of charge upon request.

A description of the key changes we made to the 2009 Proposal is set out in Appendix A to this Notice.

Summary of the Instrument

Application

The Instrument and related amendments apply only to mutual funds subject to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.

Fund Facts

The Fund Facts document set out in new Form 81-101F3 *Contents of Fund Facts Document* is central to the Instrument and largely follows the 2009 Proposal.

It will be in plain language, no more than two pages double-sided and will highlight key information that is important to investors, including past performance, risks and the costs of investing in a mutual fund. It is designed using a question-and-answer format that makes it easy for investors to find information. It also contains a number of statements that help investors understand the risks of investing in a mutual fund.

A separate Fund Facts document is required for each class or series of a mutual fund.

Filing Requirements

As under the 2009 Proposal, the Instrument requires the Fund Facts document to be filed concurrently with the mutual fund's simplified prospectus and annual information form. The certificate for the mutual fund, which verifies the disclosure in the simplified prospectus and annual information form, applies to the Fund Facts just as it applies to all documents incorporated by reference into the simplified prospectus.

If a material change to the mutual fund relates to a matter that requires a change to the disclosure in the Fund Facts, an amendment to the Fund Facts must be filed. If managers want to provide more current information in the Fund Facts, they may choose to amend the Fund Facts at any time. In all instances, an amendment to a mutual fund's Fund Facts must be accompanied by an amendment to the mutual fund's annual information form.

Any Fund Facts document filed after the date of the simplified prospectus is intended to supersede the Fund Facts previously filed. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

Investor Right for Misrepresentation

Once the Fund Facts document is filed with the mutual fund's simplified prospectus and annual information form, it will be incorporated by reference into the simplified prospectus. This means that the existing statutory rights of investors that apply for misrepresentations in a prospectus will apply to misrepresentations in the Fund Facts.

An initial Fund Facts document filed separately on SEDAR during the transition period will not be incorporated by reference into the simplified prospectus. However, the disclosure must comply with the requirements of the Instrument and securities legislation.

Transition

The requirements in the Instrument and related amendments to produce and file the Fund Facts document and to post it to the mutual fund's or mutual fund manager's website, take effect three-months after the Instrument and related amendments come into force. This means, from the time of publication of this Notice, a mutual fund will have at least six months to make any changes to compliance and operational systems that are necessary to produce, file and post the Fund Facts to a website.

On the date the Instrument comes into force, a mutual fund may choose to file a Fund Facts for each class or series of the mutual fund. This may happen either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

As of the effective date, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts for each class or series of the mutual fund offered under the simplified prospectus and post the Fund Facts to the mutual fund's or mutual fund manager's website.

To implement the Instrument within a reasonable time period, the Instrument and related amendments require that a mutual fund must, if it has not already done so, file a Fund Facts document for each class or series of the mutual fund within six months of the Instrument and related amendments coming into force. Again, this may occur either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR.

A Fund Facts initially filed separately on SEDAR will be superseded by the Fund Facts that is subsequently filed concurrently with the mutual fund's pro forma simplified prospectus and annual information form.

Questions

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

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The text of the Instrument and Related Consequential Amendments follows or can be found elsewhere on a CSA member website.

- Annex A – Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* and Forms 81-101F1 *Contents of Simplified Prospectus* and 81-101F2 *Contents of Annual Information Form*, and new Form 81-101F3 *Contents of Fund Facts*
- Annex B – Amendments to Companion Policy 81-101CP to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*
- Annex C – Amendments to National Instrument 81-102 *Mutual Funds*
- Annex D – Amendments to Companion Policy 81-102CP to National Instrument 81-102 *Mutual Funds*
- Annex E – Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*
- Annex F – Amendments to Companion Policy 81-106CP to National Instrument 81-106 *Investment Fund Continuous Disclosure*
- Annex G – Amendments to National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*