



Joint Forum of Financial Market Regulators

Forum conjoint des autorités de réglementation du marché financier

## **Background Summary**

### **Framework for Point of Sale Disclosure**

#### **for Mutual funds and Segregated funds**

The current disclosure regime for mutual funds and segregated funds does not give investors meaningful information when they need it most—before they make their decision to buy a fund.

The framework describes the elements of the Joint Forum’s point of sale disclosure system, including a new mandatory fund summary document called Fund Facts, to be delivered to investors before they buy a fund, and a new simplified “cooling off” right for an investor to cancel a purchase. The framework has been approved by the regulators that are members of the Joint Forum and its member associations. It does not necessarily represent the views of any government.

The Joint Forum developed this plain language document format to give investors the key information to help them understand the potential benefits, risks and costs of investing in a fund.

#### **CONTENT**

The central document in the disclosure system is the Fund Facts, which highlights key information that is important to investors. The information in the Fund Facts fits on both sides of one page and is organized in a way that makes sense to investors. It uses a question-and-answer format that makes it easy for investors to find information. It contains statements that help investors understand the risks of investing in a fund.

To make it as simple, meaningful and accessible as possible, the Fund Facts was written with the following principles in mind:

- Avoid legal or financial jargon.
- Use simple examples, tables and graphics to illustrate concepts.
- Use bold headings and white space to make the document easier to read and navigate.
- Write at a grade level of 6.0 or less on the Flesch-Kincaid or equivalent scale.
- Recognize the role of the adviser in the sales process.

#### **WHEN FUND FACTS MUST BE DELIVERED**

Dealers and insurers will have to deliver the Fund Facts for initial purchases (first purchase of a fund not currently held in the account or under the insurance contract).

If the adviser recommends the fund, Fund facts must be delivered before or at the point of sale for initial purchases (with the exception of money market funds).

For investor initiated purchases through an adviser, investors can choose to receive the Fund Facts before or at the point of sale, or with their trade confirmation. The adviser will have to bring the Fund Facts to the investor's attention. Suitability requirements will still apply.

For initial purchases made through order execution-only accounts, Fund Facts will be required to be delivered with the trade confirmation.

Dealers and insurers will be required to give investors the option to receive annually the Fund Facts for all of the funds they hold.

### **HOW FUND FACTS MAY BE DELIVERED**

Fund Facts can be directly delivered to each investor by hand, fax, mail, or electronically.

Electronic delivery could include sending an electronic copy of the document directly to the investor either as an attachment or link, or directing the investor to the document on the fund manager's or insurer's website.

It would not be sufficient to make the information available on the internet and leave it to investors to find it. Nor would it be sufficient to describe the document orally without delivering it.

### **INVESTOR RIGHTS**

Investors have rights under the framework including a new cooling off right.

Investors in mutual funds and segregated funds will have a cooling-off right that allows them to cancel their purchase. They will have two business days from receipt of trade confirmation to exercise this right.

The investor will get back the lesser of:

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

The cancellation of a purchase is processed the same way as a redemption.

### **FILING REQUIREMENTS**

Preparation and filing of Fund Facts will be subject to the regulatory requirements relevant to the product. For example, Fund Facts for mutual funds would fall within the jurisdiction of the securities regulators while segregated funds would fall within the jurisdiction of the insurance regulators.

**JOINT FORUM OF FINANCIAL MARKET REGULATORS**

The Joint Forum of Financial Market Regulators (Joint Forum) consists of representatives from

- Canadian Association of Pension Supervisory Authorities (CAPSA),
- Canadian Council of Insurance Regulators (CCIR) and
- Canadian Securities Administrators (CSA).

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.