

**Canadian Securities Administrators
Implementation of Stage 2 of
Point of Sale Disclosure for Mutual Funds
– Delivery of Fund Facts**

**Notice of Amendments to
National Instrument 81-101
Mutual Fund Prospectus Disclosure,
Form 81-101F3 *Contents of Fund Facts Document*,
Companion Policy 81-101CP
to National Instrument 81-101
*Mutual Fund Prospectus Disclosure and
Consequential Amendments***

June 13, 2013

Introduction

The Canadian Securities Administrators (the CSA or we) are making amendments (the Amendments) to

- National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (the Rule or NI 81-101), including Form 81-101F3 *Contents of Fund Facts Document* (the Form); and
- Companion Policy 81-101CP *to National Instrument 81-101 Mutual Fund Prospectus Disclosure* (the Companion Policy).

Also incorporated in the Amendments are consequential amendments (the 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*. The Amendments will require delivery of the Fund Facts instead of the simplified prospectus to satisfy the prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a conventional mutual fund. Subject to Ministerial approval requirements for rules, the coming into force of the Amendments will be phased in beginning on September 1, 2013.

Adopting the Amendments complete 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).¹ The CSA is implementing the 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* (CSA Staff Notice 81-319) published on June 18, 2010.

The Fund Facts document (the Fund Facts) is central to the Framework. 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, including past performance, risks and the costs of investing in a mutual fund. For illustrative purposes, a sample Fund Facts is set out in Annex A to this Notice.

Under securities legislation, a prospectus is required to be delivered to investors within two days of buying a mutual fund. Stage 2 replaces delivery of the simplified prospectus with delivery of the Fund Facts in order to satisfy this requirement. The prospectus will continue to be available to investors upon request.

Proposed amendments to the Rule and the Companion Policy, together with consequential amendments, were first published for comment by the CSA on August 12, 2011. In response to stakeholder feedback, particularly investor advocates, changes were made to this proposal which focused primarily on the presentation of risk and past performance in the Fund Facts. Those changes were published for further comment on June 21, 2012 (the 2012 Proposal). In the 2012 Proposal, the CSA committed that before finalizing any changes to the Fund Facts content, the CSA would test the changes with investors.

A description of the key changes we have made in the 2012 Proposal is set out in Annex B to this Notice. You can find a summary of the comments we received on the 2012 Proposal, together with our responses, in Annex C to this Notice.

The text of the Amendments is also included in annexes to this Notice and is available on the websites of members of the CSA.

In some jurisdictions, legislative amendments required for the Amendments to be fully effective have been sought and enacted prior to adopting the Amendments. We anticipate that the required legislative amendments relating to the delivery and statutory right of action and of withdrawal in respect of the Fund Facts will be in force in all jurisdictions by the effective date under the Amendments for implementation of the requirement to deliver the Fund Facts.

Testing of Fund Facts

In the 2012 Proposal, the CSA committed to testing the proposed changes to the Fund Facts with investors before proceeding with any changes to the document. During September and October 2012, Allen Research Corporation of Toronto, Ontario, tested investors' understanding of the proposed changes to the Fund Facts, particularly the presentation of risk and past performance in the 2012 Proposal.

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. 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.

The research was conducted in 2 phases: (1) qualitative research conducted through 21 one-on-one in-depth interviews and (2) quantitative research conducted through an online questionnaire with 532 retail investors. The Fund Facts was tested both in English and French.

The testing showed that investors generally find the Fund Facts contains important information, and that it is expressed in easy-to-read language. Investors also indicated they would favour receiving the Fund Facts at or before the point of sale. Other key findings specific to the 2012 Proposal changes to the Fund Facts included:

- investors did not always understand the explanation of the risk scale and the relationship between risk and losses;
- investors did not understand the three to four main risks of the mutual fund that were listed;
- investors did not generally view the comparison of the return on a one-year GIC to the past performance of the mutual fund as an illustration of the relationship between risk and return, but rather, as a tool to assess potential future performance;
- investors thought it was useful to see the worst 3-month return of the mutual fund but also wanted to see the best 3-month return; and
- investors wanted to know about trailing commissions but did not fully understand the language related to potential representative conflicts of interest.

The results of this testing helped to inform the changes we have made to the Fund Facts. The final report, “*CSA Point of Sale Disclosure Project: Fund Facts Document Testing*,” is available on the websites of the Ontario Securities Commission and the Autorité des marchés financiers at www.osc.gov.on.ca and www.lautorite.qc.ca, respectively. Copies are also available from any CSA member.

Substance and Purpose of the 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 receive a concise summary of key information.² Financial literacy research

² 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 some 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.

More recent research on investor understanding and preferences can be found on the websites of some members of the CSA: The *CSA Point of Sale Disclosure Project: Fund Facts Document Testing* prepared by Allen Research Corporation can be found on the websites of some members of the CSA accompanying this publication. See also the investor research reports and document testing that accompanied the publication of Proposed Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and to Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (2nd publication), June 14, 2012: *Exempt Market Investors – Account Reporting Practices Online Survey Final*

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 investor rights. Introductory text specifies that more detailed information about the mutual fund is available in its prospectus.

The Amendments are an important step in the implementation of this investor-focused initiative.

With delivery of the Fund Facts, 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 within two days of buying a mutual fund when they still may change their investment decision. We also think familiarity with the Fund Facts may assist investors in their decision-making process and in discussions with their representatives, and highlight for investors where they can find further information about the mutual fund.

Background

CSA Staff Notice 81-319 outlines 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.

With the adoption of the Amendments, Stage 2 will be completed on June 13, 2014. The Amendments will require delivery of the Fund Facts instead of the prospectus to satisfy the prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund. A description of the phase-in of Stage 2 is set out below under the heading "Transition".

In Stage 3, the CSA will publish for comment proposed requirements that will require point of sale delivery of the Fund Facts for conventional mutual funds. As part of Stage 3, we will also consider the applicability of a similar document to Fund Facts and point of sale delivery for other types of publicly offered investment funds, including exchange-traded funds (ETFs).

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

Report prepared by The Brondesbury Group, Results of Investor Focus Groups and Personal Interviews – Background Report for Online Survey of Exempt Market Investors prepared by The Brondesbury Group, Telephone Survey of Retail Investors – Account Reporting Practices – Omnibus Final Report prepared by The Brondesbury Group, Canadian Securities Administrators Performance Report Testing prepared by Allen Research Corporation, and Report: Performance Reporting and Cost Disclosure prepared by The Brondesbury Group. See also the 2012 CSA Investor Index prepared by Innovative Research Group, Inc.

www.jointforum.ca and on the websites of members of the CSA.

Summary of Written Comments Received by the CSA

We received 33 comment letters on the 2012 Proposal. We thank everyone who provided comments. Copies of the comment letters are posted on the websites of the Ontario Securities Commission and the Autorité des marchés financiers at www.osc.gov.on.ca and www.lautorite.qc.ca, respectively. Copies are also available from any CSA member. You can find the names of the commenters and a summary of the comments and the CSA responses in Annex C to this Notice.

Commenters generally support the delivery of Fund Facts instead of the prospectus within two days of buying a mutual fund. However, a large number of commenters indicated that a six month transition period is not enough time to make changes to both the Fund Facts template and operational systems. We also received a number of comments on the proposed changes to the risk and past performance disclosure in the Fund Facts.

Commenters generally supported the CSA development of a risk classification methodology. Based on the feedback we received, we are continuing to consider the development of a CSA risk classification methodology. We intend to consult on this methodology and to publish any proposals for comment.

Summary of Changes to the 2012 Proposal

We have not made any changes to the delivery requirements related to the Fund Facts as contemplated in the 2012 Proposal, except to extend the transition period for implementation of delivery of the Fund Facts to 12 months after the publication of the Amendments. In response to the comments we received on the proposed changes to the Fund Facts and the results of the testing, we have made a number of changes to the Form.

A more detailed description of the key changes we have made to the 2012 Proposal is set out in Annex B to this Notice.

Summary of the Amendments

Application

The Amendments continue to apply only to conventional mutual funds subject to NI 81-101.

Fund Facts

The Fund Facts document set out in Form 81-101F3 is central to the Amendments. A separate Fund Facts document continues to be required for each class or series of a mutual fund.

Some of the changes we have made to the Fund Facts content include:

- adding an explanation of “volatility” in the risk section to provide greater explanation of the risk scale;
- removing the requirement to include a list of main risks of the mutual fund;
- removing the comparison to the mutual fund’s performance with the one-year Guaranteed Investment Certificate (GIC);
- adding the best 3-month returns to the performance section in addition to the worst 3-month returns; and
- refining the disclosure about potential conflicts arising from the payment of commissions to refer to investments in general rather than mutual funds specifically.

A description of all the key changes we have made to the Fund Facts is set out in Annex B to this Notice.

Delivery of Fund Facts Instead of the Prospectus

Currently, under NI 81-101, the requirement under securities legislation to deliver a prospectus of a mutual fund is satisfied by delivery of the simplified prospectus. The Amendments will require delivery of the most recently filed Fund Facts for the applicable class or series of securities of the mutual fund in all instances where the prospectus would otherwise be required to be delivered. Delivery of the Fund Facts will satisfy the current prospectus delivery requirements under securities legislation.

The Amendments will restrict the documents that may be attached to, or bound with, the Fund Facts on delivery.

We have not made any changes to a mutual fund’s obligation to file its simplified prospectus and annual information form with the CSA. These documents will continue to be made available to investors on the mutual fund’s or mutual fund manager’s websites and upon request, delivered or sent at no cost.

The delivery provisions in the Amendments are drafted to reflect the current differences in the legislative authority of members of the CSA. While drafting may differ among the members of the CSA, we anticipate that each jurisdiction will achieve the same outcome of requiring delivery of the Fund Facts to satisfy legislative requirements to deliver the prospectus. By the time delivery provisions of the Amendments are implemented, we anticipate that the required legislative amendments will be in force in all jurisdictions in order to achieve a harmonized provision.

No Effect on Investor Rights

Right for failure to deliver the Fund Facts

If the Fund Facts is to be delivered instead of the simplified prospectus, some jurisdictions may

require legislative amendments in order to preserve an investor's right of damages or to rescind the purchase if the investor does not receive the Fund Facts. The CSA expect that required legislative amendments will be in force in all jurisdictions by the effective date under the Amendments for implementation of delivery of the Fund Facts.

Right for withdrawal of purchase

If the Fund Facts is to be delivered instead of the simplified prospectus, some jurisdictions may require legislative amendments in order to preserve an investor's right to withdraw from the purchase within two business days after receiving the Fund Facts. The CSA expect that required legislative amendments will be in force in all jurisdictions by the effective date under the Amendments for implementation of delivery of the Fund Facts.

Right for misrepresentation

The right for misrepresentation related to the Fund Facts has not changed. The Fund Facts is 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.

No Change to Filing Requirements

The filing requirements related to the Fund Facts have not changed. The Fund Facts must continue to be filed concurrently with the mutual fund's simplified prospectus and annual information form. The certificate for the mutual fund, which certifies 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 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.

Transition

Fund Facts

The Amendments to the Form requirements take effect January 13, 2014. This means, from the time of publication of this Notice, a conventional mutual fund will have six months to make any changes to compliance and operational systems that are necessary to produce the Fund Facts in the amended Form.

As of January 13, 2014, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts, under the Amendments, 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.

In order to fully implement the Amendments within a reasonable time period, the Amendments require that a mutual fund must, if it has not already done so, file a Fund Facts under the Amendments for each class or series of the mutual fund by May 13, 2014. This may occur either concurrently with the mutual fund's filing of its simplified prospectus and annual information form, or by the mutual fund filing a Fund Facts separately on SEDAR. A separate SEDAR filing category has been created for this purpose, named "Stage 2 Fund Facts."

A Fund Facts 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.

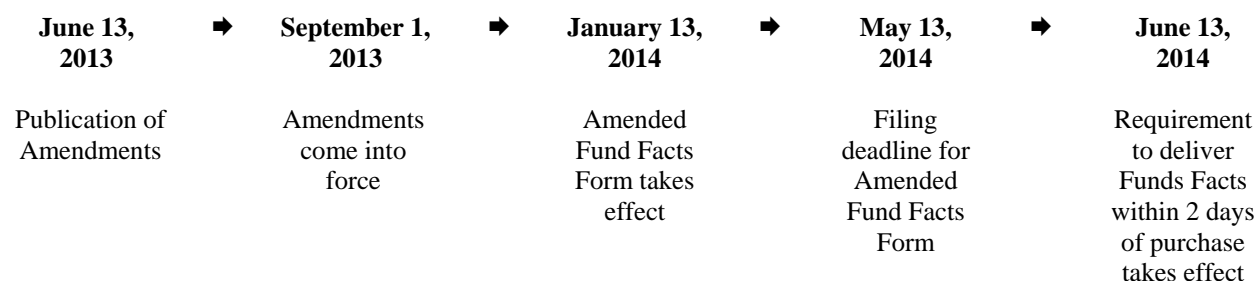
Delivery of Fund Facts Instead of the Simplified Prospectus

The requirement in the Amendments for delivery of the Fund Facts within two days of buying a conventional mutual fund takes effect on June 13, 2014. This means, from the time of publication of this Notice, a mutual fund will have 12 months to make any changes to compliance and operational systems that are necessary to effect Fund Facts delivery. From June 13, 2014, delivery of the Fund Facts will satisfy the legislative requirement to deliver a prospectus within two days of buying a conventional mutual fund.

Any existing exemptive relief to allow for the early use of the Fund Facts to satisfy the current prospectus delivery requirements will expire in accordance with the sunset provisions of such relief. These sunset provisions generally expire on the date the Amendments come into force.

The CSA continue to encourage applications to permit the early use of the Fund Facts instead of the prospectus. For early delivery of the Fund Facts in the amended Form, please speak to CSA staff.

Transition Timeline



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 Amendments. These publications also set out the pros and cons of 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 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

Amendments to NI 81-102 are set out in Annex F to this Notice.

Local amendments

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

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

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

Unpublished Materials

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

Next Steps

The CSA remains committed to a staged approach to implementation of the point of sale disclosure framework.

We will begin work on proposed requirements that would implement delivery of the Fund Facts

at the point of sale for mutual funds. These proposed requirements will be published for further comment.

As part of Stage 3, we stated that we will also consider the applicability of a summary disclosure document and point of sale delivery for other types of publicly offered investment funds not captured by NI 81-101, including ETFs. Related to this work, we are considering applications from ETF providers and a group of dealers for exemptive relief from the existing prospectus delivery requirements under securities legislation in order to permit the delivery of a summary disclosure document.

Generally, the prospectus delivery requirement under securities legislation applies only to an investor's purchase if the order is filled from a dealer's "creation units". "Creation units" are issued by ETFs to dealers that are authorized to purchase newly issued securities directly from the ETF. The dealers, in turn, re-sell securities from their "creation units" on an exchange.³ The CSA take the view that the first re-sale of a "creation unit" on an exchange or another marketplace in Canada will generally constitute a distribution of "creation units" subject to the prospectus delivery requirement. If, however, the ETF investor's purchase order is filled through a secondary market trade of previously issued existing ETF securities, the prospectus delivery requirement does not apply. This means that investors who purchase ETF securities that are trading in the secondary market may not be entitled to receive a prospectus under securities legislation unless they specifically request it.

The proposed exemptive relief would require dealers that are parties to the relief to deliver to investors a summary disclosure document within two days of the investor buying an ETF, whether or not the investor's purchase order is filled from "creation units".⁴ This obligation would apply to dealers acting as agent of the purchaser on the "buy" side of the transaction, rather than to dealers acting in a distribution on the "sell" side of the transaction, as currently required under securities legislation.

We think the proposed exemptive relief would improve the consistency with which disclosure is provided to ETF investors and help create a more consistent disclosure framework between conventional mutual funds and ETFs.

We expect that the exemptive relief will be effective by Fall 2013. We then anticipate initiating rule-making and seeking legislative amendments to codify the concepts of the proposed exemptive relief to make it applicable to all dealers who act as agent of the purchaser of an ETF security. This would include a summary disclosure document for ETFs, similar to the Fund Facts. The sunset provisions of the exemptive relief are intended to expire once rule-making and legislative amendments are in place. At the same time as the work to codify this exemptive relief is underway, we will begin to develop requirements to implement delivery of the Fund Facts at the point of sale for mutual funds.

³ This initial re-sale from a "creation unit" on an exchange will generally constitute a distribution under securities legislation as it would be considered a trade in the securities of an issuer that have not been previously issued and a purchase and re-sale by the dealer in the course of or incidental to a distribution.

⁴ Similar to delivery of the Fund Facts, delivery would only be required in instances where the investor has not previously received the latest summary disclosure document of the ETF.

As the CSA's implementation of the point of sale disclosure framework continues to progress, we should achieve the Joint Forum's vision described in the Framework:

- 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 investment fund industry.

Questions

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

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

Annex D – Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*
Annex E – Amendments to Companion Policy 81-101CP *to National Instrument 81-101 Mutual Fund Prospectus Disclosure*
Annex F – Amendments to National Instrument 81-102 *Mutual Funds*
Annex G – Local Information