

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
(2nd 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).¹ 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.

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.

We will also continue to consider mandating a CSA risk classification methodology to identify a 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 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.² 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. 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.

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 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 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.

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.

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Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
Email: comments@osc.gov.on.ca

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800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax : 514-864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

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*



This document contains key information you should know about XYZ Canadian Equity Fund. You can find more details in the fund’s simplified prospectus. Ask your dealer representative for a copy, contact XYZ Mutual Funds at 1-800-555-5556 or investing@xyzfunds.com, or visit www.xyzfunds.com.

Quick facts

Date series started:	March, 31, 2000	Fund manager:	XYZ Mutual Funds
Date fund started:	January 1, 1996	Portfolio manager:	Capital Asset Management Ltd.
Total value of series on June 1, 20XX:	\$350 million	Distributions:	Annually, on December 15
Total value of fund on June 1, 20XX:	\$1 billion	Minimum investment:	\$500 initial, \$50 additional
Management expense ratio (MER):	2.25%		

What does this fund invest in?

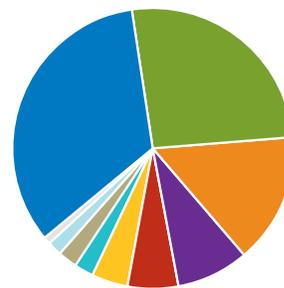
The fund invests in Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund’s investments on June 1, 20XX. The fund’s investments will change.

Top 10 investments (June 1, 20XX)

1. Royal Bank of Canada	7.5%
2. Toronto-Dominion Bank	7.1%
3. Canadian Natural Resources	5.8%
4. The Bank of Nova Scotia	4.1%
5. Cenovus Energy Inc.	3.7%
6. Suncor Energy Inc.	3.2%
7. Enbridge Inc.	3.1%
8. Canadian Imperial Bank of Commerce	2.9%
9. Manulife Financial Corporation	2.7%
10. Canadian National Railway Company	1.9%

The top 10 investments make up 42% of the fund.
Total number of investments 93

Investment mix (June 1, 20XX)



Industry

Financial services	34.0%
Energy	26.6%
Industrial goods	16.5%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

! What are the risks of this fund?

All investments involve risks. Understanding those risks can help you choose the right fund for you.

Investment risk. When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.

Other specific risks. To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. XYZ Mutual Funds has identified these top risk factors for the fund:

- **Active Management Risk**
- **Equity Risk**
- **Specialization Risk**

For a full list of this fund’s risk factors and details about them, see the Risk section of the fund’s simplified prospectus.



The risk category shown is not fixed and may change over time.
The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

How has the fund performed?

This chart shows you:

- how the fund has performed over the past 10 years
- how the fund’s return compares to the return of a one-year Guaranteed Investment Certificate (GIC). GIC data is from the Bank of Canada.



Notes:

- This chart does not tell you how the fund or GIC will perform in the future.
- Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.
- The fund’s returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

Things you should know:

a) Worst return

The fund dropped in value in 3 of the last 10 years.

The worst quarterly return (3 months) of the fund since its start date was a drop in value of -24.7% in the 3-month period ending November 30, 2008. If you had invested \$1,000 in the fund at the start of this period, your investment would have dropped to \$753 after 3 months.

b) Average return

In the last 10 years, the fund generated an annual compounded return of 6.8%. This means if you had invested \$1,000 in the fund 10 years ago, your investment would now be worth \$1,930.

In comparison, the annual compounded return of a GIC, for the same period, was 1.6%. If you had invested \$1,000 in a one-year GIC 10 years ago and kept reinvesting the maturity amount from one year to the next, you would now have \$1,172.

Are there any guarantees?

Like most mutual funds, this fund doesn’t have any guarantees. You may not get back the amount of money you invest.

Who is this fund for?

Investors who:

- are looking for a long-term investment
- want to invest in a broad range of Canadian companies
- can handle the ups and downs of the stock market.

! Don’t buy this fund if you need a steady source of income from your investment.

Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.

A word about tax

In general, you’ll have to pay income tax on any money you make on a fund. How much you pay depends on the tax laws where you live and whether or not you hold the fund in a registered plan, such as a Registered Retirement Savings Plan or a Tax-Free Savings Account.

Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

How much does it cost?

The following tables show the fees and expenses you could pay to buy, own and sell Series B units of the fund. The fees and expenses are different for each series. Ask about other series that may be suitable for you.

1. Sales charges

You have to choose a sales charge option when you buy the fund. Ask about the pros and cons of each option.

Sales charge option	What you pay		How it works														
	in per cent (%)	in dollars (\$)															
Initial sales charge	0% to 4% of the amount you buy	\$0 to \$40 on every \$1,000 you buy	<ul style="list-style-type: none"> You and your dealer representative decide on the rate. The initial sales charge is deducted from the amount you buy. It goes to your dealer as a commission. 														
Deferred sales charge	If you sell within: <table border="1"> <tr> <td>1 year of buying</td> <td>6.0%</td> </tr> <tr> <td>2 years of buying</td> <td>5.0%</td> </tr> <tr> <td>3 years of buying</td> <td>4.0%</td> </tr> <tr> <td>4 years of buying</td> <td>3.0%</td> </tr> <tr> <td>5 years of buying</td> <td>2.0%</td> </tr> <tr> <td>6 years of buying</td> <td>1.0%</td> </tr> <tr> <td>After 6 years</td> <td>nothing</td> </tr> </table>	1 year of buying	6.0%	2 years of buying	5.0%	3 years of buying	4.0%	4 years of buying	3.0%	5 years of buying	2.0%	6 years of buying	1.0%	After 6 years	nothing	\$0 to \$60 on every \$1,000 you sell	<ul style="list-style-type: none"> The deferred sales charge is a set rate. It is deducted from the amount you sell. When you buy the fund, XYZ Mutual Funds pays your dealer a commission of 4.9%. Any deferred sales charge you pay goes to XYZ Mutual Funds. You can sell up to 10% of your units each year without paying a deferred sales charge. You can switch to Series B units of other XYZ Mutual Funds at any time without paying a deferred sales charge. The deferred sales charge schedule will be based on the date you bought the first fund.
1 year of buying	6.0%																
2 years of buying	5.0%																
3 years of buying	4.0%																
4 years of buying	3.0%																
5 years of buying	2.0%																
6 years of buying	1.0%																
After 6 years	nothing																

2. Fund expenses

You don't pay these expenses directly. They affect you because they reduce the fund's returns.

As of March 31, 20XX, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

Annual rate (as a % of the fund's value)

Management expense ratio (MER)

This is the total of the fund's management fee and operating expenses.

XYZ Mutual Funds waived some of the fund's expenses.

If it had not done so, the MER would have been higher.

2.25%

Trading expense ratio (TER)

These are the fund's trading costs.

0.05%

Fund expenses

2.30%

Trailing commission

XYZ Mutual Funds pays your dealer a trailing commission for as long as you own the fund. The trailing commission is paid out of the management fee. It is for the services and advice that your dealer provides to you. The rate depends on the sales charge option you choose:

- **Initial sales charge** – up to 1.0% of the value of your investment each year. This equals \$10 each year for every \$1,000 invested.
- **Deferred sales charge** – up to 0.50% of the value of your investment each year. This equals \$5 each year for \$1,000 invested.

These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.

How much does it cost? cont'd

3. Other fees

You may have to pay other fees when you buy, hold, sell or switch units of the fund.

Fees	What you pay
Short-term trading fee	1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.
Switch fee	Your dealer may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.
Change fee	Your dealer may charge you up to 2% of the value of units you switch to another series of the fund.

What if I change my mind?

Under securities law in some provinces and territories, you have the right to:

- withdraw from an agreement to buy mutual fund units within two business days after you receive a fund facts document or
- cancel your purchase within 48 hours after you receive confirmation of the purchase.

In some provinces and territories, you also have the right to cancel a purchase, or in some jurisdictions, claim damages, if the simplified prospectus, annual information form, fund facts document or financial statements contain a misrepresentation. You must act within the time limit set by the securities law in your province or territory.

For more information, see the securities law of your province or territory or ask a lawyer.

For more information

Contact XYZ Mutual Funds or your dealer representative for a copy of the fund's simplified prospectus and other disclosure documents. These documents and the fund facts make up the fund's legal documents.

XYZ Mutual Funds
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Toronto, ON M1A 2B3

Phone: (416) 555-5555
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Email: investing@xyzfunds.com
www.xyzfunds.com

To learn more about investing in mutual funds please see the brochure **Understanding mutual funds** which is available on the website of the Canadian Securities Administrators at www.securities-administrators.ca

Appendix B

Summary of Changes to the 2011 Proposal and Issues for Comment

This appendix describes the key changes we made to the 2011 Proposal and raises specific issues for comment in text boxes related to specific changes. Many of the changes respond to investor advocate comments relating to the presentation of risk in the Fund Facts.

Fund Facts

Content

We have made a number of revisions to the content of the Fund Facts. The changes respond to investor advocate comments to provide greater detail or clarity to the disclosure, specifically regarding the presentation of risk and performance. The changes include the following:

- We permitted all recognized and publicly available identification codes for the class or series of the mutual fund to be disclosed on the top of the first page.
- We improved the Quick Facts by adding background on the history and relative size of the class or series of the mutual fund. For example, we created separate headings for the “Date fund started” and “Date class/series started”.
- We added the percentage of each holding to the list of Top 10 investments to provide a greater sense of the fund’s concentration risk in a particular investment.
- We mandated stronger warning language about the risks of investing in mutual funds.
- We included an explanation of the risk scale and the relationship between risk and losses (i.e. higher returns typically result in greater chances of losses).

Feedback Sought:

1. The proposed explanatory text included above the risk scale is based on the assumption that fund managers use risk classification methodologies based on measures of market volatility, such as standard deviation.

We seek feedback on whether the proposed text will assist investors in understanding how to interpret the risk scale in the Fund Facts, and whether the explanation is compatible with the risk classification methodologies used by fund managers.

- We added a requirement to include a list of no more than four main risks of the fund, while continuing to direct investors to the simplified prospectus for a more detailed discussion of a fund's specific risks.

Feedback Sought:

2. The intent of the proposed requirement to list the fund's main risks under the heading "What are the risks of this fund?" is to highlight for investors some of the specific risk factors that may impact the fund's returns. In an effort to avoid lengthy boilerplate disclosure, we are proposing to limit the list to no more than four risk factors, as identified by the fund manager, and to not allow any narrative description of those risks.

We seek feedback on whether the proposed inclusion of the fund's main risks will assist investors in better understanding the risks associated with investing in the fund. If we were to allow narrative descriptions of each risk factor, we invite feedback on how we could ensure that such descriptions convey meaningful information to investors while remaining short, simple and in plain language.

- We added a comparison to the mutual fund's performance with a lower risk investment, specifically the one-year Guaranteed Investment Certificate (GIC).

Feedback Sought:

3. We are proposing to compare the fund's performance to a benchmark of a one-year GIC, to assist investors in assessing the performance of the fund relative to its associated risk. This comparison is intended to highlight the risk of investing in a fund by illustrating how a fund may have a higher return than a GIC in some years, but its return will generally vary from year to year and may sometimes lose money.

We seek feedback as to whether there are other appropriate benchmarks to illustrate this comparison.

- We added the worst 3 month return to the performance section to better inform investors about the possible loss of investing in the fund.
- We added a requirement to confirm whether trailing commissions are paid. We also added disclosure regarding the potential conflicts arising from the payment of trailing commissions.
- We permitted greater flexibility to include disclosure regarding a material change or a proposed fundamental change, such as a proposed merger.
- We extended the time frame for certain information disclosed in the Fund Facts from 30 days to 45 days to allow greater flexibility in complying with the disclosure requirements.

- We added a cross-reference to the brochure “Understanding mutual funds” which is available on the website of the Canadian Securities Administrators at www.securities-administrators.ca.

Binding

We made several revisions to reflect comments received. The changes include the following:

- We revised the list of documents which may be attached to, or bound with, the Fund Facts to include a cover page, account application documents and registered tax plan documents. We have also updated the order of documents attached to, or bound with, the Fund Facts.
- We replaced the term “trade confirmation” with “transaction confirmation” to more accurately reflect current business practices.
- We have repealed the list of documents which may be attached to, or bound with, the simplified prospectus (section 5.1(3) of NI 81-101).

Effective Date

- We have added a six month transition period from the date the instrument comes into force.

Feedback Sought:

4. To implement Stage 2 in a reasonable time period, we are considering a six month transition period to allow for the implementation of systems to facilitate the delivery of the Fund Facts. This will also allow for necessary changes to be made to the Fund Facts template. It is the CSA’s expectation that systems development to contemplate the delivery of Fund Facts will begin now.

We also are considering whether to require the Fund Facts be amended to include the proposed changes to the Fund Facts prior to the expiry of the transition period. Alternatively, we could allow existing mutual funds to amend the Fund Facts at the earlier of an amendment to the mutual fund or the filing of its pro forma prospectus.

We seek feedback on our proposed approach to implementation.

Appendix C

SUMMARY OF PUBLIC COMMENTS ON IMPLEMENTATION OF STAGE 2 OF POINT OF SALE (POS) DISCLOSURE FOR MUTUAL FUNDS

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PART	TITLE
Part 1	Background
Part 2	Comments on the Stage 2 Amendments
Part 3	Comments on the Fund Facts
Part 4	Other comments
Part 5	List of commenters

Part 1 – Background		
Summary of Comments		
<p>On August 12, 2011, the Canadian Securities Administrators (CSA) published <i>Implementation of Stage 2 of Point of Sale (POS) Disclosure for Mutual Funds</i>, which proposed amendments to National Instrument 81-101 <i>Mutual Fund Prospectus Disclosure</i> (NI 81-101), Form 81-101F3 (the Form), Companion Policy 81-101CP (the Companion Policy) and National Instrument 81-102 <i>Mutual Funds</i> (NI 81-102) (NI 81-101, Form, the Companion Policy and NI 81-102, collectively, the Stage 2 Amendments). The comment period expired on November 10, 2011. We received submissions from 12 commenters, which are listed in Part 5 of this document.</p> <p>We thank everyone who took the time to prepare and submit comment letters. This document contains a summary of the comments and the CSA’s responses.</p>		
Part 2 – Comments on Stage 2 Amendments		
<u>Issue</u>	<u>Comments</u>	<u>Responses</u>
<i>Comments on delivery of the Fund Facts instead of the</i>	<i>Support for delivery of Fund Facts instead of SP</i> Both investor advocate and industry commenters conveyed	

		<p>disclosure in the Fund Facts. For more information, please see the responses to the sections entitled “How has the fund performed” and “How much does it cost?”.</p> <p>While we continue to view the SP as a valuable disclosure document, we know that investors do not read the SP. Research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates investors prefer a concise summary of key information. The CSA designed the Fund Facts to make it easier for investors to access and use key information.</p> <p>For more information on our investor research, please see the <i>Fund Facts Document Research Report</i> prepared by Research Strategy Group in Appendix 5 to Proposed Framework 81-406 <i>Point of Sale Disclosure for Mutual Funds and Segregated Funds</i> published by the Joint Forum on June 15, 2007 (the Initial Framework) on the OSC website.</p> <p>We note that the SP continues to be available to investors free of charge upon request and on SEDAR.</p>
<p><i>Binding (s. 5.1.1 of NI 81-101)</i></p>	<p><i>Flexibility in binding documents to the Fund Facts</i></p> <p>Several industry commenters view the binding provisions to be restrictive and argue that flexibility is critical to achieving efficiencies in delivering accessible materials to investors.</p> <p>One of these commenters requested flexibility to bind the Fund Facts with other Fund Facts for funds that the dealer wishes the client to consider purchasing in the relatively near future.</p>	<p>The CSA continues to support restricting the documents which may be attached to, or bound with, the Fund Facts. We remain committed to providing investors with key information in an accessible format. Permitting extraneous documents to be attached to, or bound with, the Fund Facts detracts from this goal. However, in response to comments, we are permitting increased flexibility to bind the Fund Facts with account application documents and registered tax plan documents.</p>

	<p>In contrast, an investor advocate commenter argued that the proposed binding restrictions are too flexible, and questioned whether promotional and non-educational material should be delivered to investors with legal disclosure materials. Said this commenter, a separate folder, staple, or clip may not make a meaningful difference to how investors process information in formulating their investment decisions.</p> <p><i>Including transaction confirmations in section 5.1.1</i></p> <p>A few industry commenters requested expanding section 5.1.1(1)(1) to include “transaction confirmations” (i.e. purchase <i>and</i> sale confirmations) for the following reasons:</p> <ul style="list-style-type: none"> • currently confirmations for sale, purchase and switch transactions are consolidated and printed on the same sheet of paper and bound together with required supporting documents – therefore permitting binding of the three transaction types will be consistent with current practices; • failure to expand the binding provision will have a significant impact on dealers that use “statement style” transaction confirmation layout and those that use transaction confirmation consolidation; and • binding restrictions will negatively impact the investor experience because they will receive multiple mailings for transactions processed on the same day. 	<p>We have revised the requirement to capture transaction confirmations. If the transaction confirmation is attached to, or bound with, the Fund Facts, any required disclosure document that relates to a transaction listed in the transaction confirmation may also be attached to, or bound with, the Fund Facts. We expect that this will capture only transactions completed on the same day and will avoid multiple mailings.</p>
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	<p>Another commenter recommended deleting subsection 5.1(3) of NI 81-101 and importing greater flexibility into proposed section 5.1.1 of NI 81-101. We were told that the current interplay of section 5.1(3) and proposed 5.1.1 is confusing since the Fund Facts is a document incorporated by reference into the SP.</p> <p><i>Order of bound documents</i></p> <p>A commenter sought clarification of whether under section 5.1.1(2) any <i>or all</i> of the front cover, table of contents, and confirmation may be placed before the Fund Facts, if only the confirmation is attached to or bound with the Fund Facts.</p> <p><i>Delivery of non-educational material</i></p> <p>A few industry commenters sought clarification regarding which educational and non-educational materials may be delivered with the Fund Facts – although not attached to or bound with the Fund Facts. Section 5.1.1 of NI 81-101 limits the documents that may be attached to, or bound with the Fund Facts. However, section 7.4 of 81-101CP indicates that there are ‘no restrictions’ on delivery of non-educational material with either the SP or AIF, provided that it is not included within, wrapped around or attached or bound to these documents. As a result, the commenters recommend addressing delivery of education material in section 7.4 of 81-101CP as the failure to mention them implies that the educational materials may no longer be delivered with the Fund Facts or SP under new section 5.1.1 of the NI 81-101.</p>	<p>For greater clarity, we propose to repeal the list of documents in section 5.1(3) because we intend delivery of the Fund Facts to satisfy current prospectus delivery requirements under securities legislation.</p> <p>If another document is attached to, or bound with, the Fund Facts, we propose that a table of contents must be attached to the bound package. No pages may come before the Fund Facts other than the table of contents and the transaction confirmation.</p> <p>For greater clarity, we have revised section 7.4 of 81-101CP to indicate that the CSA do not intend educational and non-educational material to be attached to, or bound with, the Fund Facts.</p>
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	<p><i>Codifying exemptive relief for binding SP sections</i></p> <p>One commenter recommended revising section 5.1.1 of NI 81-101 to codify existing exemptive relief granted to a service provider to extract the Part A section of an SP and the applicable Part B sections of the SP.</p>	<p>The CSA expects the exemptive relief from the binding provisions to expire upon the implementation of the Stage 2 Amendments, when the Fund Facts will be delivered instead of the SP. This is consistent with the existing sunset provisions in such exemptions.</p>
<p>Transition period</p>	<p>Several industry commenters request a transition period of 12 to 18 months for the Stage 2 Amendments.</p>	<p>We do not propose a lengthy transition period for Stage 2. With the publications of CSA Staff Notices 81-319 and 81-321 and the Stage 2 Amendments in August, 2011, coupled with the granting of relief to over 45 fund managers to permit the early use of the Fund Facts, the CSA do not think a lengthy transition period is necessary.</p>
<p><i>Legislative amendments</i></p>	<p>A few commenters requested a uniform statutory right of withdrawal and rescission to address ambiguity in the existing rights. For greater efficiency, changes to the statutory rights, we were told, should occur with the legislative amendments to implement delivery of the Fund Facts instead of the SP.</p> <p>One commenter asked for clarification on the mechanism for the delivery obligations under the Stage 2 Amendments and withdrawal and rescission rights. Given the investor will not receive the SP, we were asked how the rights of action for misrepresentations will operate if the Fund Facts is delivered instead of the SP and how investors will be informed about this change.</p>	<p>As noted in prior responses to comments, the CSA have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of the POS project progresses, we may consider this issue further.</p> <p>The withdrawal rights will be triggered with the sending or delivery of the Fund Facts. We have made changes to the “Statement of Rights” section of the Fund Facts to alert investors to this change. Rescission rights remain unchanged and flow from receipt of the trade confirmation and/or failure to deliver the Fund Facts, in accordance with the securities legislation in each CSA jurisdiction, as amended.</p>

Part 3 – Comments on the Fund Facts		
<u>Issue</u>	<u>Comments</u>	<u>Responses</u>
<i>Improving clarity and consistency in the Fund Facts</i>	<p>An investor advocate commenter noted that the Fund Facts is vague in critical areas such as cost disclosure and investor rights, which undermines the objective to enhance investor understanding of the value, risks, and performance of managed investment products.</p> <p>Another investor advocate commenter requested we use terms set out in National Instrument 31-103 <i>Registration Requirements and Exemptions (NI 31-103)</i> in the Fund Facts. For example, replacing the term “adviser” with “representative”.</p>	<p>In response to these comments, we have provided greater clarity in specific sections of the Fund Facts. As implementation of the POS project progresses, we may consider further refinements to the Fund Facts. For more information, please see the responses under “What does the fund invest in?” and “How much does it cost?”.</p> <p>We have replaced the term “adviser” with “dealer representative” for consistency with NI 31-103.</p>
<i>Warning language</i>	<p>Consistent with earlier feedback, a commenter again requested we use a more emphatic statement at the beginning of the Fund Facts that emphasizes the SP should be consulted.</p>	<p>The CSA proposes no further changes to the introductory language in the Fund Facts at this time. We note that there is already a reference to consult the SP in the “For more information” section, as well as in the risk section of the Fund Facts.</p>
<i>General instructions</i>	<p>We were asked to clarify General Instruction 16 to the Form, which states that each Fund Facts start on a new page.</p>	<p>We expect that every Fund Facts start on a new sheet of paper and have made this clarification in General Instruction 16.</p>
<i>Quick facts</i>	<p>One commenter requested that the heading in the “Quick Facts” should be amended to disclose the date that a particular series or class was established.</p>	<p>We agree with this comment and have made the change. We have also added a separate heading for the date the mutual fund was created, to provide context for investors.</p>
<i>What does the fund</i>	<p>A commenter asked for additional disclosure of the fund’s</p>	<p>We have revised the “Top 10 investments” section to</p>

<p><i>invest in?</i></p>	<p>investment objectives given its importance.</p> <p>This commenter also requested that the “Top 10 investments” section include the percentage of each holding to provide a sense of concentration risk and that the description specify the asset classes invested in by the fund (i.e. stocks, bonds).</p>	<p>require disclosure of the percentage of each holding in the Top 10 list.</p>
<p><i>How has the fund performed?</i></p> <p><i>Inclusion of a benchmark</i></p>	<p>Performance</p> <p>Two investor advocate commenters requested that this section add a stronger warning about choosing funds based on past performance.</p> <p>One suggested adding wording that past performance is not a useful predictor of future returns.</p> <p>The other commenter suggested adding wording to not expect the fund’s past performance to continue in the future.</p> <p>Still another commenter requested that the Form better articulate whether the performance disclosure requirements apply to the fund or to the class or series of the fund.</p> <p>Benchmark</p> <p>Three commenters requested we add a benchmark to this section. Benchmarks, we were told, would allow investors to compare the fund’s historical rate of return to the performance of a relevant benchmark or a risk-free rate of return such as GICs or Canadian Government bonds, which would provide context in assessing its historical performance.</p> <p>One of these commenters remarked that benchmarks are essential to providing a framework within which investors</p>	<p>The Fund Facts currently mandates disclosure that states the performance of the fund will not tell an investor how the fund will perform in the future. Accordingly, we do not propose any further changes at this time.</p> <p>Instruction 4 to Item 5 of the Form requires performance data related to the specific class or series in the Fund Facts.</p> <p>In response to this feedback, we have added a comparison to the fund’s performance with a less risky investment, specifically the one-year GIC. We are of the view that adding this comparison may assist investors in assessing the risk-return tradeoff associated with investing in a particular fund. We will be interested in the results of this added disclosure in our testing with investors.</p>

	<p>can assess the relative performance of a given fund, and its associated risk (since different benchmarks will have different levels of risk (i.e. 5 year GIC vs. S&P/TSX Composite Index) and make a more informed financial decision about whether to purchase a fund.</p>	
<p><i>Risk disclosure</i></p>	<p>Several investor advocate commenters raised concerns about the presentation of risk in the Fund Facts, including the following:</p> <ul style="list-style-type: none"> • permitting fund managers to select the risk classification level for a fund, results in an inconsistent evaluation of risk; • the description of risk in the Fund Facts is virtually identical to that in the New Account Application Forms (NAAF) and could confuse an investor or his/her salesperson; • many funds are using the risk methodology developed by IFIC, an industry lobby group, and not a methodology developed by regulators with investor consultation; • the IFIC risk methodology measures only volatility risk, calculated as the three-year standard deviation of returns which may not adequately capture the volatility of a particular fund; and • it is difficult for investors to access the SP and understand the risk classification methodology alongside the Fund Facts; as a result, investors will rely disproportionately on the risk classification in 	<p>In response to the concerns raised by investor advocate commenters, we are proposing the changes described below, which we intend to focus test with investors.</p> <p>We are adding stronger warning language about the risks of investing in mutual funds.</p> <p>We are mandating the inclusion of a list of the fund’s three to four main risks, while continuing to direct investors to the SP for a more detailed discussion of a fund’s specific risks.</p> <p>We are adding an explanation that the risk scale is intended to show market risk and the relationship between risk and losses (i.e. higher returns typically result in greater chances of losses).</p> <p>We are adding the worst 3 month return to the “Performance” section.</p>

	<p>the Fund Facts.</p> <p>These commenters provided some recommendations for improving risk disclosure, including: prescribing a standardized risk methodology to ensure comparability between funds, such as the risk methodology prescribed by the Committee of European Securities Regulators in CESR/10-6739; adding to the performance section of the Fund Facts a specific measure such as the worst monthly, quarterly or annual loss in the previous 10 years; and clarifying the connection between investor suitability and the risk classification level selected in the Fund Facts.</p> <p>Said one of those commenters, the IFIC Volatility Risk Classification Report (the Report) should be made publicly available since it is incorporated by reference into the SP by fund managers.</p>	<p>The CSA is committed to assessing the feasibility of developing a CSA risk methodology to be applied by fund managers in assessing the fund’s risk on the scale in the Fund Facts. This work is currently underway. As an interim step, we are proposing to maintain the existing Fund Facts risk scale with the additional disclosure described above, which we think responds to the feedback we have received.</p> <p>The CSA expects fund managers to make the Report available upon request.</p>
<i>A word about tax</i>	<p>Consistent with recent prospectus reviews, one commenter requested amending the prescribed wording for the “A word about tax” section to include more specifics regarding the tax implications of holding securities of a fund.</p>	<p>We propose no change. The CSA considers the Form to be flexible enough to allow such additional information.</p>
<i>How much does it cost?</i>	<p>We were asked by an investor advocate commenter to better clarify the impact of fees on investor returns. Also, other fees such as switch fees, change fees, and trailing commissions, said this commenter, are presented as potential, rather than actual costs to the investor. If the fees are discretionary, then this should also be clearly stated. The disclosure of other information, such as foreign exchange hedging policies, should also be considered.</p> <p>Added another investor advocate commenter, the cost disclosure should clearly indicate whether or not the</p>	<p>We have considered these comments and in response, have added the following statement regarding commissions:</p> <p><i>“These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.”</i></p> <p>We have also proposed that the Fund Facts disclose</p>

	<p>salesperson will earn a commission from selling the fund.</p> <p><i>Fee based arrangements</i></p> <p>Two commenters expressed concerns with proposed changes to Instruction (2) to Item 1.4 of Part II of the Form. They noted that fund companies typically have no control over the fees charged by third-party dealers for fee-based arrangements, and may not know the range of some fees. These commenters suggested that the scope of the required disclosure should be limited to management fees or other fees charged by a mutual fund or its manager, and that the required disclosure should not apply to fee-based arrangements.</p> <p>One of these commenters also asked for clarification of the scope of the requirement to disclose all fees and expenses payable directly by the investor when buying, holding, selling or switching units or shares of the mutual fund. For example, whether all possible expenses currently referred to in the SP (such as NSF charges, wire transaction charges) are required under the proposed language in Instruction (1) to Item 1.4 of Part II of the Form. This commenter also sought clarification of whether a fixed administration fee in lieu of all or a portion of a mutual fund’s operating expenses should be disclosed in “Other fees” or whether the disclosure should be in “Fund expenses” (Item 1.3(4) of Part II of the Form).</p>	<p>whether trailing commissions are paid to dealers.</p> <p>We note that if foreign currency hedging is a fundamental feature of a fund, we expect this feature to be disclosed in the “What does the fund invest in?” section and listed as a critical risk in the Risk section.</p> <p>The CSA thinks disclosure of the existence of fee-based arrangements is important for investors. As the Fund Facts is filed on a class or series basis, it is important to clarify whether the particular class or series is intended for fee-based arrangements.</p> <p>The CSA does not expect all possible expenses listed in the SP to be disclosed under “Other fees”. Rather, the key fees and expenses required to hold the securities of the class or series should be disclosed, as set out in Instruction 1 to Item 1.4 of Part II of the Form. Fixed administration fees should be disclosed in the “Fund expenses” section of the Fund Facts since they are expenses paid by the fund and must be included in the fund’s management expense ratio, further to section 15.1 of National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i>.</p>
<i>Conflict of interest</i>	One commenter requested that the Fund Facts disclose any	In response, we have added disclosure to the Fund Facts

<i>disclosure</i>	<p>conflict of interest that could give the intermediary or its salespersons a financial incentive to sell a particular fund over others.</p> <p>This commenter further recommends adding clear language to the Fund Facts explicitly stating either (a) there is no payment of a trailing commission; or (b) there is a trailing commission paid which creates a conflict of interest and which may influence the broker-dealer or other intermediary and the salesperson to recommend that fund over another investment. Another commenter supported this recommendation.</p>	<p>identifying the potential for conflicts of interest that may arise from the dealer receiving commissions. Please see the response under “How much does it cost?”.</p>
<i>Statement of rights</i>	<p>Two commenters noted that the proposed amendments replace the “Statement of Rights” section in the Fund Facts (Item 2 in Part II of Form 81-101F3) to indicate that the right of withdrawal exists within two business days after delivery of the Fund Facts, however, there is no corresponding change made to the disclosure in the SP.</p>	<p>We have revised the disclosure in the SP to ensure consistency with the Fund Facts.</p>
<i>Incorporation by reference of the Fund Facts into the SP</i>	<p>Consistent with a prior comment, we again were asked by a commenter to make the Fund Facts “a prospectus” for the purposes of securities legislation, and deem the SP to be incorporated by reference into the Fund Facts.</p>	<p>As we indicated in prior responses to comment, the CSA proposes no change at this time. The Fund Facts is incorporated by reference into the SP and, together with the fund’s disclosure documents, comprise a mutual fund’s disclosure documents.</p>
<i>Fund codes</i>	<p>Industry and investor commenters told us they supported adding fund codes to the Fund Facts.</p>	<p>Consistent with recent prospectus reviews, we have made the change to allow fund codes on the Fund Facts. We will allow reference to generally accepted and publicly available codes in the Fund Facts.</p>
<i>Exceptions for individual</i>	<p>A few commenters stressed the need to avoid provincial differences in the implementation of Stage 2. For example, we were asked to explain why in some cases the proposed</p>	<p>The CSA has worked to ensure the results of our amendments achieve a harmonized outcome. However, this common outcome has been reached working with</p>

<i>jurisdictions</i>	amendments to the Form state “except in British Columbia” (i.e. item 6(1)(a) in Part I, and to item 1.3(5) in Part II of the Form).	different legislative approaches or wording, which results in differences in the drafting of NI 81-101.
<i>Future material changes and mergers</i>	A few commenters requested we allow disclosure in the Fund Facts of future material changes in instances where the fund manager considers relevant. For example, upcoming fund mergers.	We agree with this feedback. In response, we have added General Instruction 8.1 to the Form permitting greater flexibility to disclose anticipated fundamental changes and material changes in the Fund Facts. We are also permitting a fund to present financial information as at a date within 45 days before the date of the amended and restated Fund Facts.
<i>Additional disclosure</i>	<p>One industry commenter again asked that the Fund Facts recognize the role of the registered financial advisor.</p> <p>This commenter is also concerned about the possibility of investors relying on an outdated Fund Facts. It was suggested that the Fund Facts clearly state that the document may be updated without notice to the investor and that the investor should consult with his or her registered financial advisor to be sure that he or she is in possession of the most up-to-date of the particular Fund Facts.</p>	<p>We propose no further change at this time. We note that the Form already directs investors to contact their dealer representative for more information.</p> <p>We propose no further change since the Fund Facts is dated and the relevant financial information is taken from publicly available documents, such as the management report of fund performance.</p>
<i>CSA Companion Guide to the Fund Facts</i>	Consistent with earlier feedback, an investor advocate commenter reiterated their request that the CSA prepare a Companion Guide for investors to assist them in understanding the Fund Facts.	<p>As we stated in the Initial Framework, while we agree that investor education is a key aspect of investor protection, we no longer think it is necessary to create a consumers’ guide as part of this project.</p> <p>We have, however, in response to this comment, added to the “For more information” section of the Fund Facts a cross-reference the CSA brochure entitled “Understanding mutual funds” available on the CSA website, to provide investors with more general information about mutual funds. This brochure was revised with the Fund Facts in</p>

		mind.
<i>Ordering of items in the Fund Facts</i>	<p>A few commenters requested changes to the ordering of items in the Fund Facts. One asked for the section entitled “Who is this fund for?” to be moved up to just below the Quick Facts section.</p> <p>Another requested that cost and risk information be disclosed before performance data.</p>	As a result of the changes made to the risk disclosure in the Fund Facts, the risk information now comes before the performance information.
Part 4 – Other comments		
<u>Issue</u>	<u>Comments</u>	<u>Responses</u>
Exemptive relief to allow early use of the Fund Facts	<p>One investor advocate commenter indicated they did not support the CSA’s consideration of applications for exemptive relief to permit the early use of the Fund Facts before implementation of the Stage 2 Amendments.</p>	<p>The early use of the Fund Facts to satisfy the current prospectus delivery requirements is intended to provide investors with the opportunity to have access to more meaningful information about a mutual fund at a time that is still relevant to their investment decision.</p> <p>We think that receipt of a Fund Facts within two days of buying a mutual fund would give investors the opportunity to review the basic features of the fund they purchased, and determine if it’s the investment they wanted or if they have changed their mind.</p> <p>Early use of the Fund Facts would also provide investors and dealers with the opportunity to become more familiar with the new document. Familiarity with the Fund Facts may prompt investors to start requesting Fund Facts before they make investment decisions. It could also prompt dealers to start using Fund Facts as a tool in making recommendations.</p>

<p>Enforcement of Fund Facts</p>	<p>One commenter strongly urged the CSA to establish an enforcement approach, such as regulatory sanctions and penalties for non-compliance. This commenter also requested that the CSA collaborate with IIROC and the MFDA and other industry groups to develop stronger and more harmonized public enforcement mechanisms.</p>	<p>The CSA actively monitors compliance with the Form through prospectus and continuous disclosure reviews. We also continue to collaborate with IIROC and the MFDA.</p>
<p>Fiduciary duty</p>	<p>One commenter advocated for the establishment of a fiduciary duty for investment advisors to their clients and suggested the absence of a fiduciary duty was the underlying problem the Fund Facts is trying to address. This commenter noted that the fact that clients cannot rely upon their advisors for unbiased advice or to act in their client’s best interests, rather than that of the advisor or their dealer, is the underlying problem that a worthwhile initiative like the Fund Facts is trying to fix.</p>	<p>Nothing in the Stage 2 Amendments is intended to detract from the central role of a dealer representative. We think that the Fund Facts builds on a dealer representative’s existing obligation to determine suitability of all purchases of a mutual fund. We expect that the Fund Facts will be a tool used by representatives to assist in the sales process.</p>
<p>POS delivery</p>	<p>Investor advocate commenters requested that we implement POS delivery of the Fund Facts as soon as possible because the Fund Facts was never intended to be provided after an investment decision had been made and post-sale delivery will not inform an investor’s decision.</p> <p>In contrast, an industry advocate indicated that dealers continue to have concerns with delivery at or before the point of sale because it may not be practical when conducting business.</p>	<p>The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged approach allows us the opportunity to continue to consult with stakeholders and to consider the applicability of the point of sale regime for mutual funds to other types of publicly offered investment funds, with the possible outcome of implementing a point of sale delivery requirement at the same time for all comparable investment fund products.</p>
<p><i>Summary disclosure for other types of investment funds</i></p>	<p>Investor advocate commenters reiterated their view that a key facts document should be developed for other investment fund products, including structured products, ETFs (including leveraged, inverse and commodity ETFs), contracts for difference, and listed funds within six to twelve</p>	<p>Consistent with CSA Staff Notice 81-319, as we move forward with implementation of the POS project, the CSA will be considering summary disclosure documents for other types of investment funds.</p>

	months.	
<i>Reconciliation of SP and AIF</i>	One commenter asked the CSA to rationalize the SP, AIF and Fund Facts to remove redundancies and duplication. This commenter noted that investors are not well served with duplicative and redundant disclosure documents.	As we indicated in our June 2009 publication, following the CSA's implementation of a point of sale delivery regime, we intend to review the overall disclosure framework for mutual funds to reduce unnecessary duplication. In particular, we intend to explore the development of a single foundation document to replace the current SP and AIF.
Part 5– List of commenters		
<ul style="list-style-type: none"> • Advocis • Borden Lardner Gervais LLP • Broadridge Investor Communication Solutions, Canada • Canadian Advocacy Council for Canadian CFA Institute Societies • Canadian Bankers Association • Canadian Foundation for Advancement of Investor Rights • Fidelity Investments Canada ULC • InvestorPOS • Investment Funds Institute of Canada • Investment Industry Association of Canada • Kenmar Associates • OSC Investor Advisory Panel 		

Annex A

Proposed Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*

1. *National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended by this Instrument.*
2. *Section 1.1 is amended by adding the following definitions:*

“statutory right of action” means,

- (a) in Alberta, paragraph 206(a) of the *Securities Act* (Alberta),
- (b) in British Columbia, section 135 of the *Securities Act* (British Columbia), and
- (c) in New Brunswick, section 155 of the *Securities Act* (New Brunswick); **and**

“statutory right of withdrawal” means,

- (a) in Alberta, subsection 130(1) of the *Securities Act* (Alberta),
- (b) in British Columbia, subsections 83(3) and (5) of the *Securities Act* (British Columbia),
and
- (c) in New Brunswick, subsection 88(2) of the *Securities Act* (New Brunswick)..

3. *Section 3.2 is amended by replacing subsection (2) with the following:*

(2) If a prospectus is required under securities legislation to be sent or delivered to a person or company, the fund facts document most recently filed under this Instrument for the applicable class or series of securities must be sent or delivered to the person or company at the same time and in the same manner as otherwise required for the prospectus.

(2.1) The requirement in securities legislation to send or deliver a prospectus does not apply if a fund facts document is sent or delivered under subsection (2).

(2.2) In Ontario, a fund facts document is a disclosure document prescribed under subsection 71(1.1) of the *Securities Act* (Ontario)..

4. *The following sections are added after section 3.2:*

3.2.1 Fund facts document – purchaser’s right of withdrawal

(1) A purchaser has a right of withdrawal in respect of a fund facts document that was sent or delivered under subsection 3.2(2), as the purchaser would otherwise have when a prospectus is required to be sent or delivered under securities legislation and, for that purpose, a fund facts document is a prescribed document under the statutory right of withdrawal.

(2) In Ontario, instead of subsection (1), subsection 71(2) of the *Securities Act* (Ontario) applies.

(3) In Québec, instead of subsection (1), section 30 of the *Securities Act* (Québec) applies..

3.2.2 Fund facts document – purchaser’s right of action for failure to send or deliver

(1) A purchaser has a right of action if a fund facts document is not sent or delivered as required by subsection 3.2(2), as the purchaser would otherwise have when a prospectus is not sent or delivered as required under securities legislation and, for that purpose, a fund facts document is a prescribed document under the statutory right of action.

(2) In Ontario, instead of subsection (1), section 133 of the *Securities Act* (Ontario) applies.

(3) In Québec, instead of subsection (1), section 214 of the *Securities Act* (Québec) applies..

5. *Section 3.5 is amended by replacing “must” with “may”.*

6. *Subsection 4.1(1) is amended by replacing “in a format” with “be in a format”.*

7. *Subsection 5.1(3) is repealed.*

8. *Section 5.2 is replaced with the following:*

5.2 Combinations of Fund Facts Documents for Delivery Purposes

(1) A fund facts document sent or delivered under section 3.2 must not be attached to or bound with any other materials or documents except one or more of the following:

1. A general front cover pertaining to the package of attached or bound materials and documents.
2. A transaction confirmation which discloses the purchase of securities of the mutual fund.
3. A fund facts document of another mutual fund if that fund facts document is being sent or delivered under section 3.2.
4. A simplified prospectus or a multiple SP of the mutual fund.
5. Any document incorporated by reference into the simplified prospectus or the multiple SP.
6. Account application documents.
7. Registered tax plan applications and documents.

(2) If a transaction confirmation referred to in subsection (1) is attached to or bound with a fund facts document, any other disclosure document required to be sent or delivered to satisfy a regulatory requirement for purchases listed in the transaction confirmation may be attached to or bound with the fund facts document..

- (3) If a fund facts document is attached to or bound with any of the materials or documents referred to in subsection (1), a table of contents specifying all documents must be attached to or bound with the fund facts document, except when the only other document attached to or bound with the fund facts document is the cover page.
- (4) If one or more fund facts document are attached to or bound with any of the materials or documents referred to in subsection (1), only the general front cover, the table of contents and the transaction confirmation may be placed in front of those fund facts documents.

9. Form 81-101F1 Contents of Simplified Prospectus is amended:

a. by adding the following after Item 1.1(6) of Part A:

INSTRUCTION

Complete the bracketed information in paragraph (3) above by

- (a) inserting the names of each jurisdiction in which the mutual fund intends to offer securities under the prospectus;
- (b) stating that the filing has been made in each of the provinces of Canada or each of the provinces and territories of Canada; or
- (c) identifying the filing jurisdictions by exception (i.e. every province of Canada or every province and territory of Canada, except [excluded jurisdictions]);

b. by adding the following after Item 1.2(6) of Part A:

INSTRUCTION

Complete the bracketed information in paragraph (3) above by

- (a) inserting the names of each jurisdiction in which the mutual fund intends to offer securities under the prospectus;
- (b) stating that the filing has been made in each of the provinces of Canada or each of the provinces and territories of Canada; or
- (c) identifying the filing jurisdictions by exception (i.e. every province of Canada or every province and territory of Canada, except [excluded jurisdictions]); **and**

c. by replacing the text following the introduction in Item 11 of Part A with the following:

Securities legislation in some provinces and territories gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the Simplified Prospectus or Fund Facts, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund [units/shares] and get your money back, or to make a claim for damages, if the Simplified Prospectus, Annual Information Form, Fund Facts or financial statements misrepresent any facts about the Fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer..

10. Form 81-101F2 Contents of Annual Information Form is amended

a. by adding the following after Item 1.1(6):

INSTRUCTION

Complete the bracketed information in paragraph (3) above by

- (a) inserting the names of each jurisdiction in which the mutual fund intends to offer securities under the prospectus;
- (b) stating that the filing has been made in each of the provinces of Canada or each of the provinces and territories of Canada; or
- (c) identifying the filing jurisdictions by exception (i.e. every province of Canada or every province and territory of Canada, except [excluded jurisdictions]); **and**

b. by adding the following after Item 1.2(6):

INSTRUCTION

Complete the bracketed information in paragraph (3) above by

- (a) inserting the names of each jurisdiction in which the mutual fund intends to offer securities under the prospectus;
- (b) stating that the filing has been made in each of the provinces of Canada or each of the provinces and territories of Canada; or
- (c) identifying the filing jurisdictions by exception (i.e. every province of Canada or every province and territory of Canada, except [excluded jurisdictions]).

11. Form 81-101F3 Contents of Fund Facts Document is amended:

a. by adding the following sentence at the end of subsection (8) of the General Instructions:

If information required to be disclosed in the fund facts document is not applicable or is not available, please state so and provide an explanation.;

b. by adding subsection (8.1) to the General Instructions which states:

(8.1) A fund facts document may disclose a material change and proposed fundamental change, such as a proposed merger. The most relevant section of the fund facts document should be revised to describe the material change or proposed fundamental change.;

c. by replacing the reference to “section 5.4” with “Part 5” in subsection (15) of the General Instructions;

d. by replacing the last sentence of subsection (16) of the General Instructions with the

following:

Each fund facts document must start on a new page, and may not share a page with another fund facts document.;

e. by replacing paragraph (c) of Item 1 of Part I with the following:

(c) the name of the mutual fund to which the fund facts document pertains;;

f. by adding the following after paragraph (c) of Item 1 of Part I:

(c.1) if the mutual fund has more than one class or series of securities, the name of the class or series described in the fund facts document and, at the option of the mutual fund, all recognized and publicly available identification codes for the class or series of the mutual fund;;

g. by replacing the text which follows the introduction to paragraph (e) of Item 1 of Part I with the following:

This document contains key information you should know about [insert name of the mutual fund]. You can find more details in the fund’s simplified prospectus. Ask your dealer representative for a copy, contact [insert name of the manager of the mutual fund] at [insert if applicable the toll-free number and email address of the manager of the mutual fund] or visit [insert the website of the mutual fund, the mutual fund’s family or the manager of the mutual fund] [as applicable].;

h. by replacing the table under Item 2 of Part I with the following:

Date [class/series] started: (see instruction 1)	Fund manager: (see instruction 3.1)
Date fund started: (see instruction 1.1)	Portfolio manager: (see instruction 4)
Total value of [class/series] on [date]: (see instruction 2.1)	Distributions: (see instruction 5)
Total fund value on [date]: (see instruction 2)	Minimum investment: (see instruction 6)
Management expense ratio (MER): (see instruction 3)	

i. by adding subsection (1.1) to the Instructions under Item 2 of Part I which states:

(1.1) If the date that the mutual fund first became available to the public differs from the date that the class or series of the mutual fund became available to the public, include the date that the mutual fund first became available to the public.;

j. by replacing “30 days” with “45 days” in subsection (2) of the Instructions under Item 2 of Part I;

k. by adding subsection (2.1) to the Instructions under Item 2 of Part I which states:

(2.1) Specify the net asset value of the class or series of the mutual fund as at a date within 45 days before the date of the fund facts document. For a newly established class or series of a mutual fund, simply state that this information is not available because it is a new class or series.;

l. by adding subsection (3.1) to the Instructions under Item 2 of Part I which states:

(3.1) Specify the name of the manager of the mutual fund.;

m. by replacing subsection (4) of the Instructions under Item 2 of Part I with the following:

(4) Specify the mutual fund's portfolio manager. The mutual fund may also include the name of the specific individual(s) responsible for portfolio selection and if applicable, the name of the sub-advisor(s).;

n. by replacing Item 3(4) of Part I with the following:

(4) Include under the sub-heading "Top 10 investments [date]" a table disclosing:

- (a) the top 10 positions held by the mutual fund, each expressed as a percentage of net asset value of the mutual fund;
- (b) the percentage of net asset value of the mutual fund represented by the top 10 positions; and
- (c) the total number of positions held by the mutual fund.;

o. by replacing "30 days" with "45 days" in subsection (4) of the Instructions to Item 3 of Part I;

p. by replacing "30 days" with "45 days" in subsection (9) of the Instructions to Item 3 of Part I;

q. by replacing Item 4 and Item 5 with the following:

Item 4: Risks

(1) Under the heading "What are the risks of this fund?" state in wording substantially similar to the following:

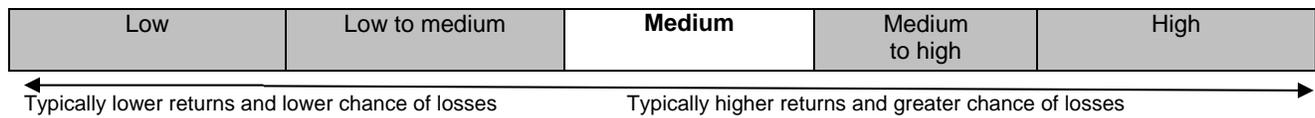
All investments involve risks. Understanding those risks can help you choose the right fund for you.

(2) Under the subheading "Investment risk" state in wording substantially similar to the following:

When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

[Insert fund manager name] is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.

- (3) Using the investment risk classification methodology adopted by the manager, identify the mutual fund’s investment risk level on the following scale:



- (4) State in bold font in wording substantially similar to the following:

The risk category shown is not fixed and may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

- (5) Under the subheading “Other specific risks” state in wording substantially similar to the following:

To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. [Insert fund manager name] has identified these top risk factors for the fund: [insert risk factors].

For a full list of this fund’s risk factors and details about them, see the Risk section of the fund’s simplified prospectus.

INSTRUCTIONS:

- (1) *Based upon the investment risk classification methodology adopted by the manager of the mutual fund, identify where the mutual fund fits on the continuum of investment risk levels by showing the full investment risk scale set out in Item 4(3) and highlighting the applicable category on the scale.*
- (2) *Where the mutual fund is a newly established mutual fund and it is not possible for the manager of the mutual fund to apply its investment risk classification methodology to the mutual fund, include a statement explaining that it is a new mutual fund and use the scale to indicate the investment risk level that the manager of the mutual fund would expect for the mutual fund.*

- (3) *In response to Item 4(5), insert no more than 4 main risks of the mutual fund. Disclosure in this section is limited to a listing of the applicable risk factors and must not include a general description of each risk factor.*

Item 5: Past Performance

- (1) Under the heading “How has the fund performed?” include an introduction using wording substantially similar to the following:

This chart shows you:

- how the fund has performed over the past 10 years
- how the fund’s return compares to the return of a one-year Guaranteed Investment Certificate (GIC). GIC data is from the Bank of Canada.

- (2) Provide a bar chart that shows

- (a) the annual total return of the mutual fund, in chronological order with the most recent year on the right of the bar chart, for the lesser of

(i) each of the 10 most recently completed calendar years, and

(ii) each of the completed calendar years in which the mutual fund has been in existence and which the mutual fund was a reporting issuer; and

- (b) the average of the monthly series of the one-year GIC rates for each calendar year as disclosed on the Bank of Canada website, in chronological order with the most recent year on the right of the bar chart, for the lesser of

(i) each of the 10 most recently completed calendar years, and

(ii) each of the completed calendar years in which the mutual fund has been in existence and which the mutual fund was a reporting issuer.

- (3) Under the bar chart state in wording substantially similar to the following:

Notes:

- This chart does not tell you how the fund or GIC will perform in the future.
- Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.
- The fund’s returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

- (4) Include the sub-heading “Things you should know:”.

- (5) Under the sub-heading “a) Worst return” provide:

- (a) for the particular years shown in the bar chart above, the number of years in which the value of the mutual fund dropped.
 - (b) since the inception of the mutual fund, the worst rolling 3-month return as at the end of the period that ends within 45 days before the date of the fund facts document, and
 - (c) the final value that would equate with a hypothetical \$1000 investment during the worst 3-month period.
- (6) Under the sub-heading “b) Average return” show
- (a) the final value of a hypothetical \$1000 investment in the mutual fund as at the end of the period that ends within 45 days before the date of the fund facts document and consists of the lesser of
 - (i) 10 years, or
 - (ii) the time since inception of the mutual fund;
 - (b) the annual compounded rate of return that would equate the hypothetical \$1000 investment to the final value; and
 - (c) the final value of a hypothetical \$1000 investment in a one-year GIC rate as at the end of the period that ends within 45 days before the date of the fund facts document and consists of the lesser of
 - (i) a continual reinvestment of the maturity amount in a one-year GIC for each of the past 10 years, or
 - (ii) a continual reinvestment of the maturity amount in a one-year GIC since inception of the mutual fund.

INSTRUCTIONS

- (1) *In responding to the requirements of this Item, a mutual fund must comply with the relevant sections of Part 15 of National Instrument 81-102 Mutual Funds as if those sections applied to a fund facts document.*
- (2) *Use a linear scale for each axis of the bar chart required by this Item.*
- (3) *The x-axis and y-axis for the bar chart required by this Item must intersect at 0.*
- (4) *A mutual fund that distributes different classes or series of securities that are referable to the same portfolio of assets must only show performance data related to the specific class or series of securities being described in the fund facts*

document.

(5) *If the information required to be disclosed under this Item is not reasonably available, include the required sub-headings, provide a brief statement explaining why the required information is not available. Information relating to year-by-year returns in the bar chart will generally not be available for a mutual fund that has been distributing securities under a simplified prospectus for less than one calendar year. Information under “a) Worst return” and “b) Average return” will generally not be available for a mutual fund that has been distributing securities under a simplified prospectus for less than 12 consecutive months.*

(6) *The dollar amounts shown under this Item may be rounded up to the nearest dollar.*

(7) *The percentage amounts shown under this Item may be rounded up to the nearest decimal place.;*

r. except in British Columbia, by adding “and” at the end of paragraph (a) of Item 6(1) in Part I;

s. except in British Columbia, in Item 1.3(5) in Part II by replacing “where” with “in which”;

t. by replacing Item 1.3(6) of Part II with the following:

(6) Under the sub-heading “Trailing commission”, state whether the manager of the mutual fund or another member of the mutual fund’s organization pays trailing commissions, and include a brief description of these commissions.;

u. by replacing Item 1.3(7) of Part II with the following:

(7) The description of trailing commissions must include a statement in substantially the following words:

[insert name of fund manager] pays your dealer a trailing commission for as long as you own the fund. The trailing commission is paid out of the management fee. It is for the services and advice that your dealer provides to you. The rate depends on the sales charge option you choose [if applicable, insert sales charge options].

These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.;

v. by adding subsection (2.1) to the Instructions under Item 1.3 of Part II which states:

(2.1) Disclose any fixed administration fees payable in the Fund expenses.;

w. **by replacing subsection (8) to the Instructions under Item 1.3 of Part II with the following:**

- (8) The description of the trailing commission must briefly and concisely explain the purpose of the commission, how the commissions are paid and the maximum rate of the commission for each of the sales charge options. In addition to the percentage amount of the commission, this description must also set out the equivalent dollar amount for each \$1000 investment.;

x. **by replacing Item 1.4(1) of Part II with the following:**

- (1) Under the sub-heading “Other fees” provide an introduction using wording similar to the following:

You may have to pay other fees when you buy, hold, sell or switch [units/shares] of the fund.;

y. **by adding “buy, hold,” before “sell or switch” to Item 1.4(2) of Part II;**

z. **by replacing subsections (1) and (2) to the Instructions under Item 1.4 of Part II with the following:**

- (1) *Under this Item, it is necessary to include only those fees that apply to the particular series or class of the mutual fund. Examples include management fees and administration fees payable directly by investors, short-term trading fees, switch fees and change fees. This would also include any requirement for an investor to participate in a fee-based arrangement with their dealer in order to be eligible to purchase the particular class or series of the mutual fund. If there are no other fees associated with buying, holding, selling or switching units or shares of the mutual fund, replace the table with a statement to that effect.;*
- (2) *Provide a brief description of each fee disclosing the amount to be paid as a percentage (or, if applicable, a fixed dollar amount) and state who charges the fee. If the amount of the fee varies so that specific disclosure of the amount of the fee cannot be disclosed, where possible, include the highest possible rate or range for that fee.;*

aa. **by replacing Item 2 in Part II with the following:**

Item 2: Statement of Rights

Under the heading “What if I change my mind?” state in substantially the following words:

Under securities law in some provinces and territories, you have the right to:

- *withdraw from an agreement to buy mutual funds within two business days after you receive a fund facts document, or*
- *cancel your purchase within 48 hours after you receive confirmation of the purchase.*

In some provinces and territories, you also have the right to cancel a purchase, or in some jurisdictions, claim damages, if the simplified prospectus, annual information form, fund facts document or financial statements contain a misrepresentation. You must act within the time limit set by the securities law in your province or territory.

For more information, see the securities law of the province or territory or ask a lawyer.; **and**

bb. by replacing Item 3(1) of Part II with the following:

- (1) Under the heading “For more information” state in substantially the following words:

Contact [insert name of the manager of the mutual fund] or your dealer representative for a copy of the fund’s simplified prospectus and other disclosure documents. These documents and the Fund Facts make up the fund’s legal documents.; **and**

cc. by adding Item 3(3) of Part II which states:

- (3) State in substantially the following words:

To learn more about investing in mutual funds please see the brochure **Understanding mutual funds** which is available on the website of the Canadian Securities Administrators at www.securities-administrators.ca.

12. Transition – expiration of exemptions and waivers

Any exemption from or waiver of a provision of National Instrument 81-101 Mutual Fund Prospectus Disclosure in relation to the prospectus delivery requirements for mutual funds, or an approval in relation to those requirements, expires on the date that this Instrument comes into force.

13. Effective date

(1) This Instrument comes into force on •.

(2) Despite subsection (1) this Instrument does not apply to a mutual fund until the date that is six months after this Instrument comes into force.

Annex B

Proposed Changes to Companion Policy 81-101CP To National Instrument 81-101 Mutual Fund Prospectus Disclosure

1. *The changes proposed to Companion Policy 81-101CP To National Instrument 81-101 Mutual Fund Prospectus Disclosure are set out in this Annex.*

2. *Subsection 2.1.1(4) is replaced by the following:*

The CSA encourages the use and distribution of the fund facts document as a key part of the sales process in helping to inform investors about mutual funds they are considering for investment. The Instrument also requires delivery of the fund facts document, which may satisfy the prospectus delivery requirements under applicable securities legislation..

3. *Subsection 2.2(1) is replaced by the following:*

(1) A simplified prospectus is the prospectus for the purposes of securities legislation. While the Instrument allows delivery of a fund facts document to an investor in connection with a purchase, an investor may also request delivery of the simplified prospectus, or any other documents incorporated by reference into the simplified prospectus..

4. *Section 2.7 is changed by adding the following paragraph:*

(2.1) General Instruction (8.1) of Form 81-101F3 permits a mutual fund to disclose a material change and proposed fundamental change, such as a proposed merger, in an amended and restated fund facts document. We would permit flexibility in selecting the appropriate section of the amended and restated fund facts document to describe the material change or proposed fundamental change. However, we also expect that the variable sections of the fund facts document, such as the Top 10 investments and investment mix, to be updated within 45 days before the date of the fund facts document. In addition, if a mutual fund completes a calendar year or files a management report of fund performance prior to the filing of the amended and restated fund facts document, we expect the fund facts document to reflect the updated information.

5. *Subsection 4.1.3(3) is changed by replacing the reference to “section 2.3.2” with “section 2.3.1”.*

6. *Subsection 7.1(1) is replaced by the following:*

7.1 Delivery of the Simplified prospectus and Annual Information Form – (1) The Instrument contemplates delivery to all investors of a fund facts document in accordance with the requirements in securities legislation. It does not require the delivery of the simplified prospectus, or any other documents incorporated by reference into the simplified prospectus, unless requested. Mutual funds or dealers may also provide investors with any of the other

disclosure documents incorporated by reference into the simplified prospectus..

7. *Section 7.4 is replaced by the following:*

7.4 Delivery of Non-Educational Material – The Instrument and related forms contain no restrictions on the delivery of non-educational material such as promotional brochures with either of the simplified prospectus and the annual information form. This type of material may, therefore, be delivered with, but cannot be included within, wrapped around, or attached or bound to, the simplified prospectus and the annual information form. The Instrument does not permit the binding of educational and non-educational material with the Fund Facts Document. The intention of the Instrument is not to unreasonably encumber the Fund Facts with additional documents..

8. *These changes becomes effective on •.*

Annex C

Proposed Amendments to National Instrument 81-102 *Mutual Funds*

1. *National Instrument 81-102 Mutual Funds is amended by this Instrument.*
2. *Subparagraph 5.6(1)(f)(ii) is replaced with the following:*
 - (ii) the most recently filed fund facts document for the mutual fund into which the mutual fund will be reorganized, and.
3. *This Instrument comes into force on •.*