

**CANADIAN SECURITIES ADMINISTRATORS  
STAFF NOTICE 81-319****STATUS REPORT ON THE IMPLEMENTATION OF  
POINT OF SALE DISCLOSURE FOR MUTUAL FUNDS****Purpose**

This Notice provides an update on the implementation of the Canadian Securities Administrators (CSA) point of sale disclosure project for mutual funds.

**Background**

On June 19, 2009, the CSA published proposed amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*, its Forms and Companion Policy (collectively, the Instrument), aimed at providing investors with more meaningful and effective disclosure. The Instrument was the first step in implementing the point of sale disclosure framework published in October 2008 by the Joint Forum of Financial Market Regulators (the Joint Forum), which includes the CSA. Under the framework, investors would receive key information about a mutual fund at a time that is relevant to their investment decision.

Central to the new prospectus disclosure regime is the Fund Facts document. It is in plain language, will be no more than two pages and highlights the potential benefits, risks and the costs of investing in a mutual fund. Investors would generally receive a Fund Facts when they buy a fund for the first time (at or before the "point of sale").

The comment period expired on October 17, 2009. We received 54 comment letters on the Instrument. Copies of the comment letters have been posted on the Ontario Securities Commission website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). Copies are also available from any CSA member.

This is a significant investor protection initiative. Canadian investors have approximately \$620 billion invested in mutual funds held in over 47 million accounts. We think the disclosure required by the Instrument would provide investors with the opportunity to make more informed investment decisions by giving investors key information about a mutual fund, in language they can easily understand, at a time that is relevant to their investment decision. The Instrument also keeps pace with developing global standards on point of sale disclosure and delivery.

**A staged approach to implementation**

The comments show that stakeholders generally agree with the benefits of providing investors with a more meaningful and simplified form of disclosure, and support the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.

However, we received significant comments related to operational and compliance concerns with point of sale delivery for mutual funds. A large number of commenters also asked the CSA to implement a point of sale disclosure regime for other types of publicly offered investment funds and other securities at the same time.

While the CSA agrees that further review and consideration of issues related to point of sale delivery for mutual funds are necessary, we also think that it would be beneficial for the Fund Facts document to be made available to investors and market participants as soon as possible. This would provide investors with the opportunity to

have access to key information about a mutual fund sooner. It would also allow investors and dealers to become familiar with the document and start using the Fund Facts in the decision-making process. Accordingly, the CSA has concluded to proceed with a staged implementation of the project.

The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged implementation will allow 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. At this time, we are not considering the applicability of point of sale to securities other than publicly offered investment funds.

We anticipate a staged implementation of the project to proceed as follows:

### **1. File and post Fund Facts**

We will finalize the requirements in the Instrument requiring a mutual fund to prepare and file a Fund Facts document and have it posted to the mutual fund's or its manager's website. As part of these requirements, a Fund Facts would be required to be delivered to an investor upon request.

Since the expiry of the comment period, we have focused on the feedback related to the Fund Facts. In response to the comments received, we have made some non-material revisions to the Fund Facts document published in June 2009. Appendix A to this Notice contains an example of a form of Fund Facts the CSA expects will satisfy the requirements of the final Instrument.

We anticipate publishing the Fund Facts requirements by December 2010, with an effective date in early 2011. The requirements will include a transition period.

### **2. Deliver Fund Facts under current requirements**

In mid-2011, we expect to publish for comment a proposal to allow delivery of the Fund Facts to satisfy the current prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund. As part of this proposal, we do not intend to make any changes to a mutual fund's obligation to file its simplified prospectus and annual information form with the CSA, and these documents would continue to be made available to investors on a website and upon request, at no cost.

While this work on delivery within the existing requirements is underway, the CSA will consider applications for exemptive relief to permit the early use by dealers of the Fund Facts to satisfy the current prospectus delivery requirements. We will publish a staff notice in 2011 that sets out the key terms and conditions the CSA anticipate requiring as part of any exemption.

### **3. Point of sale delivery**

Once the CSA has completed its review and consideration of the issues related to point of sale delivery, including consultations with all stakeholders, we intend to move forward with requirements for point of sale delivery for mutual funds and possibly for other types of publicly offered investment funds. We will publish for further comment any proposed requirements that would implement these delivery requirements.

## Questions

You may refer any questions or comments to any of,

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# Appendix A Sample Fund Facts Document

## FUND FACTS

### XYZ Mutual Funds

### XYZ Canadian Equity Fund – Series A June 30, 20XX

This document contains key information you should know about XYZ Canadian Equity Fund. You can find more detailed information in the fund's simplified prospectus. Ask your adviser for a copy, contact XYZ Mutual Funds at 1-800-555-5556 or [investing@xyzfunds.com](mailto:investing@xyzfunds.com), or visit [www.xyzfunds.com](http://www.xyzfunds.com).

|  |                 |   |                                |      |               |               |                |      |
|--|-----------------|---|--------------------------------|------|---------------|---------------|----------------|------|
| <b>Quick facts</b>   |                 |   |                                |      |               |               |                |      |
| Date fund created:   | January 1, 1996 | Portfolio manager   | Capital Asset Management Ltd.  |      |               |               |                |      |
| Total value on June 1, 20XX:   | \$1 billion     | Distributions   | Annually, on December 15       |      |               |               |                |      |
| Management expense ratio (MER):  | 2.25%           | Minimum investment  | \$500 initial, \$50 additional |      |               |               |                |      |
| <b>What does the fund invest in?</b>   |                 |   |                                |      |               |               |                |      |
| 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.   |                 |   |                                |      |               |               |                |      |
| <b>Top 10 investments (June 1, 20XX)</b>   |                 | <b>Investment mix (June 1, 20XX)</b>  |                                |      |               |               |                |      |
| <ol style="list-style-type: none"> <li>1. Royal Bank of Canada</li> <li>2. Encana Corp.</li> <li>3. Petro-Canada</li> <li>4. Alcan Inc.</li> <li>5. Canadian National Railway Company</li> <li>6. Goldcorp. Inc.</li> <li>7. Extencicare Inc.</li> <li>8. Husky Energy</li> <li>9. Open Text</li> <li>10. Thomson Reuters Corp.</li> </ol> |                 | [pie chart]   |                                |      |               |               |                |      |
|  |                 | <b>Industry</b>   |                                |      |               |               |                |      |
|  |                 | 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%                           |      |               |               |                |      |
| <b>Total investments</b>   |                 | <b>126</b>  |                                |      |               |               |                |      |
| <b>The top 10 investments make up 32% of the fund.</b>   |                 |   |                                |      |               |               |                |      |
| <b>How has the fund performed?</b>   |                 | <b>How risky is it?</b>   |                                |      |               |               |                |      |
| This section tells you how the fund has performed over the past 10 years. Returns are after expenses have been deducted. These expenses reduce the fund's returns.   |                 | When you invest in a fund, the value of your investment can go down as well as up. XYZ Mutual Funds has rated this fund's risk as medium. For a description of the specific risks of this fund, see the fund's simplified prospectus.   |                                |      |               |               |                |      |
| It's important to note that this doesn't tell you how the fund will perform in the future. Also, your actual after-tax return will depend on your personal tax situation.  |                 | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Low</td> <td style="width: 20%;">Low to medium</td> <td style="width: 20%; text-align: center;"><b>Medium</b></td> <td style="width: 20%;">Medium to high</td> <td style="width: 20%;">High</td> </tr> </table> |                                | Low  | Low to medium | <b>Medium</b> | Medium to high | High |
| Low  | Low to medium   | <b>Medium</b>   | Medium to high                 | High |               |               |                |      |
| <b>Average return</b>  |                 | <b>Are there any guarantees?</b>  |                                |      |               |               |                |      |
| A person who invested \$1,000 in the fund 10 years ago now has \$2,705. This works out to an annual compound return of 10.5%.  |                 | Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.   |                                |      |               |               |                |      |
| <b>Year-by-year returns</b>  |                 | <b>Who is this fund for?</b>  |                                |      |               |               |                |      |
| This chart shows how the fund has performed in each of the past 10 years. The fund dropped in value in three of the 10 years.  |                 | Investors who:  |                                |      |               |               |                |      |
| [bar chart]  |                 | <ul style="list-style-type: none"> <li>are looking for a long-term investment</li> <li>want to invest in a broad range of Canadian companies</li> <li>can handle the ups and downs of the stock market.</li> </ul>  |                                |      |               |               |                |      |
|  |                 | ! Don't buy this fund if you need a steady source of income from your investment.   |                                |      |               |               |                |      |
| <b>Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.</b>   |                 |   |                                |      |               |               |                |      |

**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.

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## How much does it cost?

The following tables show the fees and expenses you could pay to buy, own and sell Series A 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 (\$)                       |   |
| <b>Initial sales charge</b>  | 0% to 4% of the amount you buy   | \$0 to \$40 on every \$1,000 you buy  | <ul style="list-style-type: none"><li>You and your adviser decide on the rate.</li><li>The initial sales charge is deducted from the amount you buy. It goes to your investment firm as a commission.</li></ul>   |
| <b>Deferred sales charge</b> | <b>If you sell within:</b><br>1 year of buying 6.0%<br>2 years of buying 5.0%<br>3 years of buying 4.0%<br>4 years of buying 3.0%<br>5 years of buying 2.0%<br>6 years of buying 1.0%<br>After 6 years nothing | \$0 to \$60 on every \$1,000 you sell | <ul style="list-style-type: none"><li>The deferred sales charge is a set rate. It is deducted from the amount you sell.</li><li>When you buy the fund, XYZ Mutual Funds pays your investment firm a commission of 4.9%. Any deferred sales charge you pay goes to XYZ Mutual Funds.</li><li>You can sell up to 10% of your units each year without paying a deferred sales charge.</li><li>You can switch to Series A 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.</li></ul> |

### 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) |
|---|--|
| <b>Management expense ratio (MER)</b><br>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%                                    |
| <b>Trading expense ratio (TER)</b><br>These are the fund's trading costs.   | 0.05%                                    |
| <b>Fund expenses</b>  | <b>2.30%</b>                             |

### Trailing commission

XYZ Mutual Funds pays your investment firm a trailing commission for as long as you own the fund. It is for the services and advice your investment firm provides to you. Investment firms may pay part of the trailing commission to their representatives.

The trailing commission is paid out of the management fee. 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.

### 3. Other fees

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

| Fee                    | 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 investment firm may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.    |
| Change fee             | Your investment firm 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 simplified prospectus, or

### For more information

Contact XYZ Mutual Funds or your adviser 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.

- cancel your purchase within 48 hours after you receive confirmation of the purchase.

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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 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.

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