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Canadian Securities Administrators
Tour de la Bourse
800, Square Victoria, Suite 4130
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**CSA NOTICE 81-318 - REQUEST FOR COMMENT
Regarding Framework 81-406 Point of sale disclosure for
mutual funds and segregated funds**

We are writing in response to the Canadian Securities Administrators' (CSA's) Request for Comment on issues related to implementation of Framework 81-406 and its principles in advance of the publication by CSA members of proposed changes to existing securities laws for first comment.

Advocis is the largest and oldest voluntary professional membership association of financial advisors in Canada. Our members are independent owners and operators of small businesses and sales representatives of medium and large-size financial services companies, who provide comprehensive financial planning and investment advice, retirement and estate planning, and employee benefit plans. Our members offer clients a prudent long-term perspective on managing a wide array of financial risks and meeting long-term financial goals. Our members are typically dual-licensed to provide life and health insurance as well as mutual funds and securities.

Advocis supports the goal of providing to consumers information about mutual funds and securities they are considering in a form that is clear, concise, accessible and allows easy comparison.

The delivery requirements that are proposed in the final Framework document, though they have been revised in some respects, continue to pose serious challenges. As we indicated in our earlier submissions to the Joint Forum, there is a risk that the Fund Facts document, particularly if it is required in all cases to be delivered to the investor before the investor is permitted to act on the professional advice of their financial advisor would disrupt the sales process and could be misconstrued as investment advice or be used to supplant the professional role of the advisor.

We believe the CSA should take a two-stage approach to implementation of the Framework, so that the industry can make Fund Facts available to investors in the context of existing sales processes and also online, within a reasonably short time. The CSA should then, as a next step, consult further with the industry and with investors, prior to implementing delivery requirements.

Advocis and other industry stakeholders are concerned that the proposed delivery requirements for mutual funds will disrupt the sales process and add compliance costs, and will disadvantage mutual funds in relation to other investment products. We believe that in the final result, the requirements that are currently proposed for the delivery of the Fund Facts will not enhance the mutual fund investor's decision process in any meaningful way, and the benefits will be outweighed by other, disadvantageous consequences. Given the role and responsibility of the financial advisor to advise and explain investment products that are offered for the mutual fund investor's consideration, the added step of delivery of a Fund Facts is likely to disrupt, annoy and even confuse the investor. This added step is not likely to materially help the investor who is prepared to make a decision on the basis of information and advice from their financial advisor, to perfect their investment decision.

The main compliance and cost-related concern is that, even though the Framework says dealers will not have to get investors to acknowledge receipt of the Fund Facts, industry stakeholders expect that will be necessary due to liability concerns and possibly SRO requirements, and that dealers will need to establish costly compliance systems to document that the Fund Facts was in fact delivered. Thus a seemingly excellent idea is burdened with undesirable consequences.

We also share with many other mutual fund industry stakeholders a concern that the proposed delivery requirements, because they will not apply to most other investment choices, will have a profound impact on product availability and investor choices, and will discourage purchases of mutual funds as compared to other investment products. Yet again, what appeared at first glance to be a fine idea, is burdened with undesired negative consequences.

We believe that the Joint Forum's emphasis on ensuring delivery of information at or prior to the precise point of decision reflects a dated paradigm, based on principles relating to prospectus disclosure about stocks and bonds, that is not appropriate to mutual funds. Mutual fund investors purchase access to the expertise of professional investment managers who manage a diversified basket of issuers. The information that will be in the Fund Facts is important and useful, but is different in character from the information that informs a decision about the purchase of a particular stock or bond. As well, rights of rescission permit mutual fund investors to change their mind about their decision, arguably making it less crucially important for the Fund Facts document to be received prior to purchase.

We do not question the general proposition that it benefits consumers to receive clear disclosure before they make decisions. However, we do not think the Joint Forum has made a persuasive case *that it will benefit investors to impose a requirement to deliver Fund Facts disclosure prior to their purchase of mutual funds (though not other investment products)*. We are not aware of any research undertaken or reviewed by the Joint Forum, concerning the decision process leading to investment in mutual funds. Will receipt of the Fund Facts make a real, substantive difference to the decision process? Will most investors read the Fund Facts, and will receipt by all investors of the Fund Facts prior to sale, actually make a difference in investors' decisions whether to invest in particular funds? Will additional steps and even slight delays that will be added to the decision process, lead to different investment choices? We think there is reason to expect that most investors will not read the Fund Facts, no matter when they receive it, and that the delivery requirements as currently proposed will divert investors to other products and sales channels. It also is likely to affect product offerings. *The potential benefits to the consumer of the requirement to deliver a Fund Facts document must be considered against the regulatory costs associated with the rule, which include product arbitrage and increased compliance costs to business, and possibly increased pricing to the consumer.*

The Joint Forum has not demonstrated that it is critical for investors to receive a Fund Facts document prior to their decision to purchase a particular mutual fund. The requirement appears to be derived from the securities law requirement, that investment in a security must be preceded by full true and plain disclosure about the security. However, the Joint Forum has not presented any substantive evidence to support the proposition that delivery of the Fund Facts before the investor is permitted to make a decision to invest in a particular mutual fund, is likely to either enhance consumers' decisions, or help them avert bad decisions.

The Joint Forum's Framework initiative has the potential to demonstrate that financial services regulators in Canada are able to work together successfully to bring about improved disclosure that may improve investor decision making. We believe that the rollout by the industry of Fund Facts and availability of the Fund Facts online, will be perceived as a success for the Joint Forum and the CSA. We believe it is likely that there would be reason to conclude, at that point, that the Framework will have achieved its main objectives. Crucially, however, we believe that waiting until that stage is completed before continuing to consult with stakeholders around delivery requirements, will afford the CSA the opportunity to work with the industry to ensure that the delivery requirements that are adopted will also be part of the success of the Framework, and not its undoing.

We would be pleased to meet with you to further discuss our issues and concerns.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'G' followed by a long horizontal line that ends in a small arrowhead pointing to the right.

Greg Pollock
President and CEO

A handwritten signature in black ink, appearing to be 'Kris Birchard' in a cursive, flowing script.

Kris Birchard, CFP, CLU, CH.F.C., TEP
Chair, National Board of Directors