

**CANADIAN SECURITIES ADMINISTRATORS  
IMPLEMENTATION OF STAGE 2 OF  
POINT OF SALE DISCLOSURE FOR MUTUAL FUNDS  
– DELIVERY OF FUND FACTS**

**NOTICE OF AMENDMENTS TO  
NATIONAL INSTRUMENT 81-101  
MUTUAL FUND PROSPECTUS DISCLOSURE,  
FORM 81-101F3 CONTENTS OF FUND FACTS DOCUMENT,  
COMPANION POLICY 81-101CP  
TO NATIONAL INSTRUMENT 81-101  
MUTUAL FUND PROSPECTUS DISCLOSURE  
AND CONSEQUENTIAL AMENDMENTS**

**June 13, 2013**

**Introduction**

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

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

Also incorporated in the Amendments are consequential amendments (the Consequential Amendments) to National Instrument 81-102 *Mutual Funds* (NI 81-102), Form 81-101F1 *Contents of Simplified Prospectus* and Form 81-101F2 *Contents of Annual Information Form*. The Amendments will require delivery of the Fund Facts instead of the simplified prospectus to satisfy the prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a conventional mutual fund. Subject to Ministerial approval requirements for rules, the coming into force of the Amendments will be phased in beginning on September 1, 2013.

Adopting the Amendments complete Stage 2 of the CSA's implementation of the point of sale disclosure framework (the Framework) published in October 2008 by the CSA and the Canadian Council of Insurance Regulators, as members of the Joint Forum of Financial Market Regulators

(the Joint Forum).<sup>1</sup> The CSA is implementing the Framework in three stages, as set out in CSA Staff Notice 81-319 *Status Report on the Implementation of Point of Sale Disclosure for Mutual Funds* (CSA Staff Notice 81-319) published on June 18, 2010.

The Fund Facts document (the Fund Facts) is central to the Framework. The CSA designed the Fund Facts to make it easier for investors to find and use key information. It is in plain language, no more than two pages double-sided and highlights key information important to investors, including past performance, risks and the costs of investing in a mutual fund. For illustrative purposes, a sample Fund Facts is set out in Annex A to this Notice.

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

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

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

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

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

## **Testing of Fund Facts**

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

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<sup>1</sup> The goal of the Joint Forum is to continuously improve the financial services regulatory system through greater harmonization, simplification and co-ordination of regulatory activities. Under the framework, investors would receive more meaningful information about a mutual fund or segregated fund at a time that is relevant to their investment decision.

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

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

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

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

## **Substance and Purpose of the Amendments**

We know that many investors do not use the information in the simplified prospectus because they have trouble finding and understanding the information they need. Research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates investors prefer to receive a concise summary of key information.<sup>2</sup> Financial literacy research further reinforces the need for clear and simple disclosure.

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<sup>2</sup> You can find a list of the research, studies and other sources that the Joint Forum reviewed and relied on in developing the point of sale disclosure framework in Appendix 4 to the proposed framework (the proposed Framework), published in June 2007. The proposed Framework is available on the Joint Forum website and on the websites of some members of the CSA. The *Fund Facts Document Research Report* prepared by Research Strategy Group can be found in Appendix 5 to the proposed Framework.

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

The CSA designed the Fund Facts to make it easier for investors to find and use key information. It is in plain language, no more than two pages double-sided and highlights key information important to investors. The format provides investors with basic information about the mutual fund, followed by a concise explanation of mutual fund expenses and fees, dealer compensation and investor rights. Introductory text specifies that more detailed information about the mutual fund is available in its prospectus.

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

With delivery of the Fund Facts, investors will be able to review key information about the potential benefits, risks and costs of investing in a mutual fund in an accessible format within two days of buying a mutual fund when they still may change their investment decision. We also think familiarity with the Fund Facts may assist investors in their decision-making process and in discussions with their representatives, and highlight for investors where they can find further information about the mutual fund.

## **Background**

CSA Staff Notice 81-319 outlines the CSA's decision to implement the Framework in three stages.

Stage 1 was completed on January 1, 2011, when amendments to NI 81-101 came into force. These amendments, published on October 6, 2010, require mutual funds subject to NI 81-101 to produce and file a Fund Facts and make it available on the mutual fund's or mutual fund manager's website. The Fund Facts must also be delivered or sent to investors free of charge upon request.

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

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

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

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](http://www.jointforum.ca) and on the websites of members of the CSA.

### **Summary of Written Comments Received by the CSA**

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

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

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

### **Summary of Changes to the 2012 Proposal**

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

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

## **Summary of the Amendments**

### **Application**

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

### **Fund Facts**

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

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

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

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

### **Delivery of Fund Facts Instead of the Prospectus**

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

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

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

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

#### **No Effect on Investor Rights**

##### ***Right for failure to deliver the Fund Facts***

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

##### ***Right for withdrawal of purchase***

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

##### ***Right for misrepresentation***

The right for misrepresentation related to the Fund Facts has not changed. The Fund Facts is incorporated by reference into the simplified prospectus. This means that the existing statutory rights of investors that apply for misrepresentations in a prospectus will apply to misrepresentations in the Fund Facts.

#### **No Change to Filing Requirements**

The filing requirements related to the Fund Facts have not changed. The Fund Facts must continue to be filed concurrently with the mutual fund's simplified prospectus and annual information form. The certificate for the mutual fund, which certifies the disclosure in the simplified prospectus and annual information form, applies to the Fund Facts just as it applies to all documents incorporated by reference into the simplified prospectus.

If a material change to the mutual fund relates to a matter that requires a change to the disclosure in the Fund Facts, an amendment to the Fund Facts must be filed. If managers want to provide more current information in the Fund Facts, they may choose to amend the Fund Facts at any time. In all instances, an amendment to a mutual fund's Fund Facts must be accompanied by an amendment to the mutual fund's annual information form.

Any Fund Facts filed after the date of the simplified prospectus is intended to supersede the Fund Facts previously filed. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

## **Transition**

### **Fund Facts**

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

As of January 13, 2014, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts, under the Amendments, for each class or series of the mutual fund offered under the simplified prospectus and post the Fund Facts to the mutual fund's or mutual fund manager's website.

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

A Fund Facts filed separately on SEDAR will be superseded by the Fund Facts that is subsequently filed concurrently with the mutual fund's pro forma simplified prospectus and annual information form.

### **Delivery of Fund Facts Instead of the Simplified Prospectus**

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

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

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



## Transition Timeline

<b>June 13, 2013</b>	➔	<b>September 1, 2013</b>	➔	<b>January 13, 2014</b>	➔	<b>May 13, 2014</b>	➔	<b>June 13, 2014</b>
Publication of Amendments		Amendments come into force		Amended Fund Facts Form takes effect		Filing deadline for Amended Fund Facts Form		Requirement to deliver Funds Facts within 2 days of purchase takes effect

## Alternatives Considered

The earlier publications by the Joint Forum outlined the alternatives we considered, as members of the Joint Forum, in developing the point of sale disclosure regime for mutual funds contemplated by the Amendments. These publications also set out the pros and cons of each alternative. You can find these documents on the Joint Forum website and on the websites of members of the CSA.

## Anticipated Costs and Benefits

The earlier publications by the Joint Forum and CSA outlined some of the anticipated costs and benefits of implementation of the point of sale disclosure regime for mutual funds contemplated by the Framework. We consider these costs and benefits to still be valid. Overall, we continue to believe that the potential benefits of the changes to the disclosure regime for mutual funds as contemplated by the Amendments are proportionate to the costs of making them.

You can find these documents on the Joint Forum website and on the websites of members of the CSA.

## Consequential Amendments

### National amendments

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

### Local amendments

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

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

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

## **Unpublished Materials**

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

## **Next Steps**

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

We will begin work on proposed requirements that would implement delivery of the Fund Facts at the point of sale for mutual funds. These proposed requirements will be published for further comment.

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

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

The proposed exemptive relief would require dealers that are parties to the relief to deliver to investors a summary disclosure document within two days of the investor buying an ETF,

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

whether or not the investor's purchase order is filled from "creation units".<sup>4</sup> This obligation would apply to dealers acting as agent of the purchaser on the "buy" side of the transaction, rather than to dealers acting in a distribution on the "sell" side of the transaction, as currently required under securities legislation.

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

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

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

- providing investors with key information about a fund;
- providing the information in a simple, accessible and comparable format; and
- providing the information before investors make their decision to buy.

These principles keep pace with developing global standards on point of sale disclosure and delivery, which we consider essential to the continued success of the Canadian investment fund industry.

## Questions

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

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

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

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

# XYZ Canadian Equity Fund – Series B

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 representative 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).

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

## Quick facts

<b>Fund code:</b>	XYZ123	<b>Fund manager:</b>	XYZ Mutual Funds
<b>Date series started:</b>	March 31, 2000	<b>Portfolio manager:</b>	Capital Asset Management Ltd.
<b>Total value of fund on June 1, 20XX:</b>	\$1 billion	<b>Distributions:</b>	Annually, on December 15
<b>Management expense ratio (MER):</b>	2.25%	<b>Minimum investment:</b>	\$500 initial, \$50 additional

## What does the fund invest in?

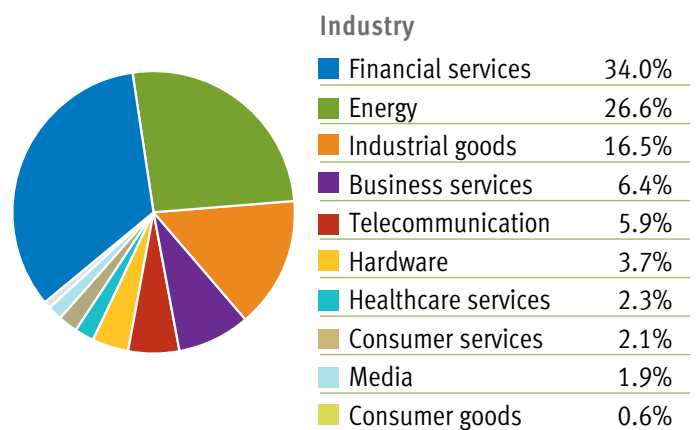
The fund invests in a broad range of stocks of Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund’s investments on June 1, 20XX. The fund’s investments will change.

### 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%
<b>Total percentage of top 10 investments</b>	<b>42.0%</b>

<b>Total number of investments</b>	<b>93</b>
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### Investment mix (June 1, 20XX)



## How risky is it?

The value of the fund can go down as well as up. You could lose money.

One way to gauge risk is to look at how much a fund’s returns change over time. This is called “volatility”.

In general, funds with higher volatility will have returns that change more over time. They typically have a greater chance of losing money and may have a greater chance of higher returns. Funds with lower volatility tend to have returns that change less over time. They typically have lower returns and may have a lower chance of losing money.

## Risk rating

XYZ Mutual Funds has rated the volatility of this fund as **medium**.

This rating is based on how much the fund’s returns have changed from year to year. It doesn’t tell you how volatile the fund will be in the future. The rating can change over time. A fund with a low risk rating can still lose money.



For more information about the risk rating and specific risks that can affect the fund’s returns, see the Risk section of the fund’s simplified prospectus.

## No guarantees

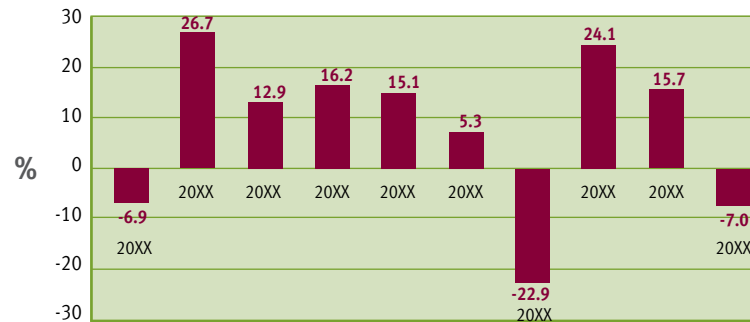
Like most mutual funds, this fund doesn’t have any guarantees. You may not get back the amount of money you invest.

### How has the fund performed?

This section tells you how Series B units of the fund have performed over the past 10 years. Returns are after expenses have been deducted. These expenses reduce the fund’s returns.

#### Year-by-year returns

This chart shows how Series B units of the fund performed in each of the past 10 years. The fund dropped in value in 3 of the 10 years. The range of returns and change from year to year can help you assess how risky the fund has been in the past. It does not tell you how the fund will perform in the future.



#### Best and worst 3-month returns

This table shows the best and worst returns for Series B units of the fund in a 3-month period over the past 10 years. The best and worst 3-month returns could be higher or lower in the future. Consider how much of a loss you could afford to take in a short period of time.

	Return	3 months ending	If you invested \$1,000 at the beginning of the period
<b>Best return</b>	32.6%	April 30, 2003	Your investment would rise to \$1,326.
<b>Worst return</b>	-24.7%	November 30, 2008	Your investment would drop to \$753.

#### Average return

The annual compounded return of Series B units of the fund was 6.8% over the past 10 years. If you had invested \$1,000 in the fund 10 years ago, your investment would now be worth \$1,930.

### Who is this fund for?

#### Investors who:

- are looking for a long-term investment
- want to invest in a broad range of stocks 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.

### 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 — including any commissions — can vary among series of a fund and among funds. Higher commissions can influence representatives to recommend one investment over another. Ask about other funds and investments that may be suitable for you at a lower cost.

### 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 representative decide on the rate.</li> <li>The initial sales charge is deducted from the amount you buy. It goes to your representative's firm as a commission.</li> </ul>														
<b>Deferred sales charge</b>	<b>If you sell within:</b> <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"> <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 representative's 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 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.</li> </ul>
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 (which includes the trailing commission) 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%**

#### More about the trailing commission

The trailing commission is an ongoing commission. It is paid for as long as you own the fund. It is for the services and advice that your representative and their firm provide to you.

XYZ Mutual Funds pays the trailing commission to your representative's firm. It is paid from the fund's management fee and is based on the value of your investment. The rate depends on the sales charge option you choose.

Sales charge option	Amount of trailing commission	
	in per cent (%)	in dollars (\$)
<b>Initial sales charge</b>	0% to 1% of the value of your investment each year	\$0 to \$10 each year on every \$1,000 invested
<b>Deferred sales charge</b>	0% to 0.50% of the value of your investment each year	\$0 to \$5 each year on every \$1,000 invested

## 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.

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 representative's firm may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.
Change fee	Your representative's 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 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 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  
123 Asset Allocation St.  
Toronto, ON M1A 2B3

Phone: (416) 555-5555  
Toll-free: 1-800-555-5556  
Email: [investing@xyzfunds.com](mailto:investing@xyzfunds.com)  
[www.xyzfunds.com](http://www.xyzfunds.com)

To learn more about investing in mutual funds, see the brochure **Understanding mutual funds**, which is available on the website of the Canadian Securities Administrators at [www.securities-administrators.ca](http://www.securities-administrators.ca).



## Annex B

### Summary of Changes to the 2012 Proposal

This Annex describes the key changes we made to the 2012 Proposal. We have made a number of revisions to the content of the Fund Facts. The changes respond to comments received and the testing of the Fund Facts with investors, specifically regarding the presentation of risk and performance. The changes include the following:

#### Fund Facts

##### GENERAL

- We replaced all references to “dealer representative” with “representative”.
- We have 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 45 days to 60 days.

#### PART I – Information about the Fund


##### Introduction

- We moved the statement “Before you invest in any fund, consider how the fund would work with your other investments and your risk for tolerance” to the “Introduction” section from the “Who is this fund for?” section.

##### Quick Facts

- We revised the Quick Facts by adding “Fund code” and removing “Date fund started” and “Total value of series”.

##### Risks

- We changed to heading “What are the risks of this fund?” back to “How risky is it?”.
- We removed the sub-heading “Investment risk” and revised the language to explain the concept of “volatility” in plain language.
- We added the sub-heading “Risk rating” and added wording to clearly disclose it is the manager’s risk rating of the mutual fund. We modified the explanation of the risk scale and the relationship between risk and losses and also added a cross-reference to the simplified prospectus for more information about the risk rating of the mutual fund.

- We removed the sub-heading “Other specific risks” along with the requirement to include a list of no more than four main risks of the fund.
- We changed the heading “Are there any guarantees?” to “No guarantees,” and moved this disclosure under the heading “How risky is this fund?”.

### **Past Performance**

- Under the heading “How has the fund performed?”, we removed the comparison to the mutual fund’s performance with the one-year Guaranteed Investment Certificate (GIC).
- We changed the sub-heading back to “Year-by-year returns” and clarified explanation of the year-by-year performance of the mutual fund.
- We removed the sub-heading “Things you should know:” and replaced the sub-heading “Worst return” to “Best and worst 3-month returns”. We then added the best 3-month return to this section and revised the wording and format. We also limited the best and worst 3-month returns to the past 10 years to be consistent with the “Year-by-year returns.”
- Under the sub-heading “Average return”, we clarified the language describing the mutual fund’s annual compounded return in the last 10 years. We also removed the annual compounded return for the one-year GIC.

## **PART II – Costs, Rights and Other Information**

### **Costs of Buying, Owning and Selling the Fund**

- Under the heading “How much does it cost?”, we refined the disclosure about potential conflicts arising from the payment of commissions that may occur upon the sale of a fund, expanding the explanation to refer investments in general rather than to mutual funds specifically.
- We changed the sub-heading “Trailing commission” to “More about the trailing commission” and also modified the wording in this section.

### **Binding**

We revised the Instrument to allow a single Fund Facts to be attached to a transaction confirmation without a table of contents.

## **Transition**

### **Fund Facts**

We amended the Instrument to provide a four month transition period following the Instrument coming into force. As of January 13, 2014, at the end of the transition period, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts, in the amended Form, for each class or series of the mutual fund offered under the simplified prospectus and post the Fund Facts to the mutual fund's or mutual fund manager's website.

In order to fully implement the delivery of the amended Fund Facts within a reasonable period of time following the coming into force of the Instrument, we further amended the Instrument to require that a mutual fund must, if it has not already done so, file a Fund Facts in the amended Form for each class or series of the mutual fund by May 13, 2014. This may occur either as part of the mutual fund's simplified prospectus and annual information form filing, or by the mutual fund filing a Fund Facts, in the revised Form, separately on SEDAR under a specified SEDAR filing category.

### **Delivery**

We amended the Instrument and consequential amendments so that the requirement to deliver the Fund Facts to satisfy the current legislative requirements to deliver a prospectus within two days of buying a mutual fund takes effect on June 13, 2014. This transition period allows all jurisdictions needing legislative amendments time for the amendments to come into force.

## ANNEX C

### SUMMARY OF PUBLIC COMMENTS ON IMPLEMENTATION OF STAGE 2 OF POINT OF SALE (POS) DISCLOSURE FOR MUTUAL FUNDS (2<sup>ND</sup> PUBLICATION)

<b>Table of Contents</b>	
<b>PART</b>	<b>TITLE</b>
<b>Part 1</b>	<b>Background</b>
<b>Part 2</b>	<b>Comments on the Stage 2 Amendments</b>
<b>Part 3</b>	<b>Comments on the Fund Facts</b>
<b>Part 4</b>	<b>Other general comments</b>
<b>Part 5</b>	<b>List of commenters</b>

<b>Part 1 – Background</b>		
<b>Summary of Comments</b>		
<p>On June 21, 2012, the Canadian Securities Administrators (CSA) published a notice entitled <i>Implementation of Stage 2 of Point of Sale (POS) Disclosure for Mutual Funds</i> (2<sup>nd</sup> publication), 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, the Form, the Companion Policy and NI 81-102, collectively, the Stage 2 Amendments). The comment period expired on September 6, 2012. We received submissions from 33 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 we received in relation to the specific disclosure changes we made to the Fund Facts in the 2<sup>nd</sup> publication and the CSA’s responses. We received suggestions for additional disclosure items that are not related to the Stage 2 amendments, but we are not considering any additional disclosure items at this time. As we move forward with our staged implementation of our POS proposals, the CSA will continue to consider all comments received.</p>		
<b>Part 2 – Comments on the Stage 2 Amendments</b>		
<b><u>Issue</u></b>	<b><u>Comments</u></b>	<b><u>Responses</u></b>
<b><i>1. General comments</i></b>	We received support from investor advocates for the proposed amendments to the Fund Facts, particularly the changes that the CSA has made in response to feedback from this group of commenters.	We thank the commenters for their feedback.

	<p>Many industry commenters also expressed support for the CSA’s goal of providing concise and clear regulated disclosure for investors to help them make informed investment decisions. One industry commenter noted that the proposed changes are generally a move in the right direction, and appreciate that the CSA is continuously trying to make Fund Facts a better tool for investors. In changing the Fund Facts form, however, another industry commenter encouraged us to remain focused on the goals of creating a document that “is in plain language, no more than two pages double-sided and highlights key information that is important to investors.” In so doing, this will assist the CSA with its stated objective of harmonization with other types of investment funds in Stage 3 of this initiative.</p> <p>Some industry commenters expressed concern with the timing of the proposed amendments to the Fund Facts. Given that the Fund Facts has been in use for only a short period of time, these commenters told us it is premature to make changes to the form of the document without meaningful feedback as to its effectiveness. If the CSA imposes all or most of the proposed Fund Facts changes, we were asked not to make further changes until the document gains wider usage.</p> <p>A few industry commentators expressed the view that the combination of the various proposed changes to the Fund Facts place mutual funds in a more negative light than other types of investments because there is no requirement for other investment products (other than segregated funds) to produce Fund Facts, leaving investors with no equivalent basis for comparison.</p>	<p>We continue to move ahead with implementing delivery of Fund Facts in a form that communicates key information about a mutual fund in a concise manner. The Fund Facts will remain a two page double sided document and will serve as a template that may be extended to other investment fund products in Stage 3 of the POS project.</p> <p>The requirement for preparing Fund Facts and making them available on the fund manager’s website has been in place since April 2011. Since then, we have received considerable positive feedback from investors and dealer participants. Our document testing with investors suggests that the Fund Facts is viewed as a well organized and easy to read document. We have also been informed by dealers and advisers that it provides a good starting point for detailed discussions with their clients regarding the client’s financial situation and risk tolerances, and assists in the investment decision making process.</p> <p>The staged approach to POS was conducted precisely to allow industry participants and stakeholders to become familiar with the Fund Facts, and to allow CSA staff to further review any issues or concerns that arise. In response to investor advocates, industry commenters and document testing with investors, we are making some changes to the document. These changes are outlined under Part 3 of this document.</p>
<p><b>2. <i>Comments on delivery of the</i></b></p>	<p>A number of industry commenters expressed support for the CSA's proposal to mandate delivery of the Fund Facts</p>	<p>We appreciate the support from commenters.</p>

<p><b><i>Fund Facts instead of the SP</i></b></p>	<p>in lieu of the simplified prospectus within two days after purchasing a mutual fund.</p> <p>One industry commenter asked us to clarify that delivery of the Fund Facts in lieu of the prospectus under securities legislation is applicable where an investor purchases under a preauthorized contribution arrangement and has previously requested annual delivery of the fund’s simplified prospectus.</p> <p>We also heard concern from one investor advocate about the removal of the requirement to deliver the simplified prospectus to investors until the Fund Facts content is strengthened. If the CSA is going to proceed, it was requested that the Fund Facts include a link to a fund’s simplified prospectus and clearly state that it contains important information and should be consulted prior to investing in the fund.</p>	<p>We encourage filers to review their exemptive relief granted in respect of preauthorized contribution arrangements and to speak with CSA staff for further clarification if necessary.</p> <p>The Fund Facts states on the first page that the document is intended to provide key information. The first page of the Fund Facts refers investors to the fund’s simplified prospectus for more detailed information. Investors can request a copy of the simplified prospectus from their representative and/or obtain a copy from the fund manager.</p>
<p><b>3. <i>Binding (s. 5.1.1 of NI 81-101)</i></b></p>	<p>Some industry commenters welcomed the proposed revisions to section 5.2 of NI 81-101 to allow the Fund Facts to be attached to, or bound with application documents, registered tax plan documents, transaction confirmations and other documents relating to transactions listed on the confirmations. One commenter asked for more clarity about the types of documents that may be bound with the Fund Facts.</p> <p>One investor advocate reiterated the importance that the CSA continue to restrict the documents that can be bound to the Fund Facts or provided to investors at point of sale and they expressed reservations about permitting account application documents and registered tax plan documents to be bound with the Fund Facts.</p> <p>Still other industry commenters questioned why it will be necessary to include a table of contents bound with or</p>	<p>The CSA continues to support restricting the documents which may be attached to, or bounds with, the Fund Facts, so as not to distract investors from key information about their mutual fund investments. We have specified which documents may be bound with the Fund Facts. We do not propose to expand the list of documents that may be bound with the Fund Facts to include educational materials.</p> <p>In response to comments, we will not require a table of contents in the instance where a transaction confirmation</p>

	<p>attached to the Fund Facts if the only other document in the package is the transaction confirmation, as proposed by the new subsection. We were told the transaction confirmation and the Fund Facts are very clearly identified such that there is no need to add a table of contents. Also, one commenter said that the change to General Instruction 16 prohibiting different Fund Facts from sharing the same piece of paper will likely increase mailing costs as many Fund Facts will be 3 pages, which means that a blank page must be inserted between each Fund Facts when bound together for delivery.</p> <p>One Fund Facts provider commented that the proposal to allow transaction confirmations of purchase of securities be changed to allow binding of the Fund Facts to transaction confirmations of purchase, as well as sale and for investments of all types such as GICs, ETFs, bonds and equities. Another industry commenter asked whether the provision would include switches of mutual funds.</p> <p>Some industry commenters also asked that the list of documents that can be attached or bound to the Fund Facts also include client statements and documents relevant to the transaction, such as the letter of instruction and disclosure required by law regarding fees, commissions, tax consequences and related issuers.</p> <p>Finally, one industry commenter expressed a concern that the proposed binding restrictions will prevent the delivery of additional educational materials intended to promote financial literacy in the same package as the Fund Facts.</p>	<p>is bound to a single Fund Facts.</p> <p>We are not allowing for multiple Fund Facts to be printed together on the same piece of paper. The Fund Facts is intended to be a stand alone document so investors can easily identify a Fund Facts for a particular fund.</p> <p>For greater clarity, Fund Facts can be bound with transaction confirmations of purchases and/or sale for other types of investments, provided that the investments are referenced in the same transaction confirmation.</p> <p>Switches of mutual funds are technically a sale followed by a purchase transaction. Delivery of a Fund Facts would therefore be required for the fund that the investor is switching into and the restrictions on binding would apply to such a transaction.</p> <p>We do not propose to allow educational materials to be attached to Fund Facts. The Fund Facts, however, does include a reference to the <b>Understanding mutual funds</b> brochure prepared by the CSA. During investor document testing, a number of investors expressed an interest in going to the CSA website and consulting this document.</p>
<p><b>4. Transition period</b></p>	<p>A number of industry commenters told us that a six month transition period is not sufficient to allow for both the implementation of systems to facilitate the delivery of the</p>	<p>In response to comments we have revised the transition period.</p> <p>There will now be a six month transition period for</p>

	<p>Fund Facts and the necessary changes to be made to the Fund Facts template. Many of these commenters stated that it is unrealistic to expect systems development to begin before a final rule is in place.</p> <p>While one industry service provider indicated that from a technical perspective, the proposed changes to the Fund Facts template are reasonably straightforward and can be accomplished in the proposed 6-month transition period, another industry service provider told us that the concurrent conversion of all its dealer clients to the new delivery system within a six-month period would not be practical.</p> <p>The group of commenters suggested that a transition period of at least 12 months, and up to 18 months, would be more appropriate.</p> <p>However, we did hear from some industry commenters who agreed that a six month transition period for implementation of delivery of the current Fund Facts would be appropriate. But they asked for a longer transition period of 18 months to deal with Fund Facts content changes.</p> <p>Many industry commenters agreed that the CSA should follow the same approach it used in respect of the introduction of Fund Facts under stage 1 by requiring immediate compliance (after the effective date) for new Fund Facts, but allow existing Fund Facts to be updated upon their next amendment or renewal, rather than mandating that all Fund Facts be re-filed upon the effective date. We were told that allowing fund companies to include the content changes during the normal course of a prospectus renewal rather than through the amendment process would help to significantly lessen the administrative burden of implementing the content changes, as well as help lessen the costs that are ultimately borne by investors.</p>	<p>complying with the revised Fund Facts form requirements. As suggested by commenters, six month after the rule amendments come into force, any fund filing either a (i) preliminary prospectus, (ii) pro forma prospectus or (iii) prospectus amendment would be required to file a Fund Facts document that complies with the revised form requirements.</p> <p>There will be a 12 month transition period for complying with the revised delivery requirement.</p> <p>In order to ensure that all Fund Facts have been updated by the time that the revised delivery requirement comes into effect, we are requiring that each fund that has not already filed the revised Fund Facts do so one month prior to the new delivery requirement coming into effect.</p> <p>We think this timeline is responsive to industry concerns regarding timing required for a technology build, as well as investor advocate concerns that any decision to proceed with the requirement to deliver the Fund Facts should be on the basis of the new Fund Facts requirements.</p> <p>The CSA encourages early adoption of the new Fund Facts form and early adoption of delivery of the revised Fund Facts in lieu of the simplified prospectus to investors.</p>
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	Finally, one commenter stated that after this round of amendments, no further significant changes should occur until after investors have had the chance to review, use and comment on these documents.	
<b>5. <i>Investor Testing</i></b>	We received support for the CSA’s intention to test the proposed changes to the Fund Facts with investors. One commenter requested that the CSA make its investor testing findings publicly available upon completion. We were also asked to consider undertaking some form of advisor testing as well since effectively engaging the advisory layer is critical to improving investor understanding of investment risk.	The final report of the Fund Facts document testing is available on the websites of the members of the CSA. Advisor testing of the Fund Facts is not contemplated at this time.
<b>Part 3 – Comments on the Fund Facts</b>		
<b><u>Issue</u></b>	<b><u>Comments</u></b>	<b><u>Responses</u></b>
<b>6. <i>Improving clarity and consistency in the Fund Facts</i></b>	Some industry commenters noted that the fund manager name is repeated throughout the Fund Facts and that repetition of the name is redundant and not an efficient use of space. It was suggested that the prescribed wording reference the word 'manager' rather than the specific name of the manager other than in the first instance to aid in investor understanding and avoid misrepresentations.	We do not propose any change.
<b>7. <i>References to Dealer Representative vs. Advisor</i></b>	An industry association representing advisors submitted that it is a mistake to replace the references to the term "advisor" in the Fund Facts, with "dealer representative." While the rationale provided for this change is to ensure consistency of terminology in securities legislation, the commenter noted the Fund Facts is meant to inform and educate the investor and changing every reference to an advisor in the Fund Facts to "dealer representative" robs the document of meaning in	The document testing with investors indicated that investors understood the term “financial advisor” better than the term “dealer representative”. However, due to legislative restrictions for dealer representatives to refer to themselves as advisors, we have decided to use the term “representative” in the Fund Facts, which is consistent with the terminology used under the second phase of the client relationship model program currently

	<p>terms of the characterization of an individual who is a vital resource in the investor's decision process.</p> <p>Still another industry commenter suggested that if “dealer representative” is used in the Fund Facts, Form 81-101F1 <i>Contents of Simplified Prospectus</i> and Form 81-101F2 <i>Contents of Annual Information Form</i> should be amended to similarly reference "dealer representative" rather than "advisor".</p>	<p>underway. Consistent use of terminology should help lessen potential investor confusion as to who the reference pertains to.</p>
<p><b>8. <i>Future material changes and mergers</i></b></p>	<p>A number of industry commenters expressed support for permitting greater flexibility to disclose proposed fundamental changes and material changes in the Fund Facts, thus eliminating the need to file an exemptive relief application to include such additional information. However, some of these commenters noted that there are some challenges in terms of disclosing material changes since each section of the template has embedded space constraints.</p> <p>Although there may be instances where a material change will naturally fit in one of the already-existing sections of the Form, there may also be instances where significant space may be required in order to describe a material change. Most commenters on this issue, therefore, asked for additional flexibility on where to include disclosure of material changes and proposed fundamental changes.</p> <p>One commenter suggested that it would be better if the CSA permitted an option to put the disclosure in a separate prominent location anywhere in the document. However, we also heard from a commenter that fund managers should be allowed to identify the most appropriate and/or relevant location for disclosure.</p> <p>Still, another commenter recommended allowing disclosure of a material change or proposed fundamental change in the</p>	<p>Upon further review, the CSA’s preference would be to require that material changes and proposed fundamental changes be identified in a standard location at the beginning of the document. In particular, such disclosure could be provided in a separate textbox, immediately prior to the Quick Facts section of the Fund Facts. We recognize, however, that templates that have been created to help facilitate the fund facts creation process may not have sufficient flexibility to accommodate this type of formatting change. Furthermore, we understand that our original proposal may also create some difficulties since templates may not have sufficient space in a particular section of the document to accommodate the additional disclosure necessary to explain the material change or the proposed fundamental change. As a result, we are adding additional flexibility into the requirement.</p>

	<p>existing white space at the top of the Fund Facts rather than requiring that the most relevant section of the Fund Facts be revised. This would have the added benefit of drawing extra attention to this important information.</p>	
<p><b>9. Fund codes</b></p>	<p>A number of industry commenters expressed support for permitting the fund codes to be disclosed on the first page of the Fund Facts. They commented that this will help avoid confusion among advisors and investors. One commenter questioned why the fund codes have to be 'recognized and publicly available' since certain fund companies use codes for tracking and identification purposes that may not necessarily be considered as widely 'recognized and publicly available'.</p> <p>Another commenter asked the CSA to amend Form 81-101F3 to explicitly permit the inclusion of marketing stock codes or other non-obtrusive marketing stock codes and trademark references at the bottom of the final page of the Fund Facts.</p>	<p>In order to more readily identify the fund code, we are including disclosure of fund codes under the “Quick Facts” section of the Fund Facts on the first page.</p> <p>The CSA will permit inclusion of stock codes and trademark references on the bottom of the Fund Facts.</p>
<p><b>10. Date of Information</b></p>	<p>A number of industry commenters appreciated the proposed changes to Items 2, 3 and 4 of Part I of Form 81-101F3 to allow the inclusion of data that is within 45 days of the date of the Fund Facts instead of the current 30 days, since this would help facilitate data gathering and validation processes, and will permit funds more flexibility to file their final prospectus renewals up to 10 days after the lapse date.</p> <p>A number of these commenters, however, stated that an extension to 60 days would be a more appropriate period to allow adequate time to collect, verify and present the financial data and would provide additional flexibility in terms of filing prospectus renewals.</p> <p>Given that financial data is generally calculated for month-end periods only, we were told calculating financial data for periods other than month-end would be more complicated</p>	<p>To allow for consistency with National Instrument 81-106 <i>Investment Fund Continuous Disclosure</i> (NI 81-106) disclosure documents, as well as provide additional flexibility, we are allowing for the date of the information in the Fund Facts to be within 60 days of the document.</p>

	<p>from a gathering/validation perspective and would require significant and expensive systems changes on the part of mutual fund managers.</p> <p>Some of these commenters noted that a 60 day time frame is also consistent with those for other disclosure documents that present financial and/or performance data such as MRFPs and financial statements.</p> <p>A couple of these commenters also stated that 60 days would better coincide with the prospectus renewal process and would provide additional flexibility in terms of dealing with filing timelines.</p>	
<p><b>11. Quick facts</b></p>	<p>We were also asked to consider changing all references to “fund” with the “class or series” of the fund and changing the introductory sentence under the heading "How has the fund performed?" to state "This chart shows you how <i>this series of the fund</i> has performed over the past 10 years."</p> <p>Many industry commenters welcomed the addition of the “Date class/series started” to the “Quick facts” section of the Fund Facts which they believe will provide greater clarity. Some commenters suggested that this information be mandatory even where the fund and series started on the same date. Some commenters noted that there are other instances in the form in which references to “fund” should be references to “series” and recommended that the language in the form be amended to ensure consistency and clarity.</p> <p>Many industry commenters did not support the addition of the size of the series to the “Quick facts” section, arguing that it would not be useful or relevant for an investor and may cause confusion given that a mutual fund’s assets are referable to the fund as a whole, and not a particular series.</p>	<p>Under the “How has the fund performed?” section, we are including an introductory statement that clarifies that the chart shows the performance of a particular series of the fund.</p> <p>We have amended the language throughout the form to ensure that references are consistent.</p> <p>We agree with the comment and are not requiring separate disclosure of the value of the series.</p>

	<p>One commenter thought the addition of the “Fund manager” to the “Quick facts” section was redundant since the fund manager’s name is usually disclosed with the fund’s logo. Alternatively, the CSA could amend Item 1(e) of Part I of Form 81-101F3 to include a sentence stating "XYZ Funds is the Fund Manager of this fund".</p> <p>Another industry commenter indicated that the instructions for “Portfolio Manager” in the “Quick facts” section makes it difficult to inform investors about sub-advisors and underlying fund of fund investments, which can be important to investors when making an informed investment decision.</p> <p>One investor advocate suggested that the “Quick facts” section include applicable CIFSC Fund Category. Another suggested that the “Quick facts” section show the highest capitalization value of the fund and the date that this was achieved.</p>	<p>We propose no change. We think it is important to state the name of the fund manager under “Quick facts”.</p> <p>Mutual funds may disclose the names of specific individuals and/or sub-advisers if they so wish under “Portfolio Manager”.</p> <p>We do not propose adding any additional information in the Quick Facts section.</p>
<p><b>12. What does the fund invest in?</b></p>	<p>While we received investor advocate support for the disclosure of the percentage of each of the top 10 holdings, a number of industry commenters did not support the percentage of net assets represented by each of the fund's top 10 positions. A concern was expressed that increasing the frequency of portfolio disclosure could alert other investors to a fund’s trading strategy, particularly less liquid stocks. In fact, a few commenters noted that the proposed 45 day period for the disclosure of percentage holdings by position may violate the portfolio disclosure policies of fund managers. The commenters reminded the CSA that extensive representations were made by the industry when NI 81-106 was adopted, and again when the Fund Facts requirements were under discussion during Stage 1, that funds should not be required to disclose their portfolio holdings earlier than 60 days. The 60 day period currently applies for purposes of the Quarterly Portfolio Disclosure Statement in section 6.2(2) of NI 81-106, and should apply for these purposes as well.</p>	<p>We will require disclosure of the percentage of each holding in the Top 10 holdings in the Fund Facts, as well as the total number of holdings of the fund. This is intended to provide the investor with information about the types of holdings, as well as the concentration risk of the fund. We are allowing for the date of the information in the Fund Facts to be within 60 days of the document.</p> <p>The document testing with retail investors suggested that the top 10 holdings and the investment mix were well received by investors. Many spent time studying the holdings of the fund and sector exposures. They believed this information allowed them to assess the riskiness and diversification of the fund, and suggested this was key information. Therefore, we do not propose to remove any information from this section.</p>

	<p>Therefore, the usefulness of this information, we were told, does not outweigh the risk of harm to a fund’s portfolio. The commenter supported using already publicly disclosed information from the quarterly portfolio disclosures.</p> <p>Two commenters also noted that this information quickly becomes dated and more accurate and up-to-date information can be found elsewhere, like the fund's website, the management report of fund performance (MRFP) or quarterly portfolio disclosure, or that investors can ask their advisor.</p> <p>Some industry commenters also indicated that the top ten investments and the pie chart are not necessary in the Fund Facts because the total mix of the portfolio provides a complete picture of what the investor has purchased. The percentages for the top ten investments may change and the pie chart duplicates what is already provided in the “Investment mix” list. Removing these items results in a more concise document.</p> <p>One industry commenter gave support for the percentage of net assets represented by each of the fund's top 10 positions, but suggested that the requirement provide the total number of positions be deleted because it does not provide key information, and it is often inaccurate as there is no industry consensus with respect to the methodology used for counting certain derivative and swap positions.</p> <p>Another industry commenter pointed out that the disclosure of percentage of net assets represented by each of the fund's top 10 positions compromises compliance with OSC Staff Notice 81-717 – <i>Report on Staff’s Continuous Disclosure Review of Portfolio Holdings by Investment Funds</i> (OSC Staff Notice 81-717) which says that this section of the Fund Facts should provide consistent disclosure with that of the</p>	<p>The total number of positions is not a new requirement. We do not propose to make any changes.</p> <p>OSC Staff Notice 81-717 suggests that the categories used to break down fund portfolios under the Investment mix section of the Fund Facts should be consistent with the disclosure in the MRFP. We do not believe requiring disclosure of percentage of net assets</p>
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	<p>annual MRFP. Many funds disclose their asset classifications in multiple tables in the MRFP. This commenter said the Fund Facts, as currently designed, will need the space proposed for percentages in order to include multiple tables and will also migrate from pie charts to tables to fit the space allotted.</p>	<p>represented by the fund’s top 10 positions compromises space required for investment mix disclosure.</p>
<p><b>13. Development of CSA Risk Methodology</b></p>	<p>Investor advocates stressed the importance of a standardized risk measure in the Fund Facts and told us that the use of a low to high risk “scale” that is self-assessed by the fund is an ongoing concern. A measure prescribed by the CSA, we were told, would be more useful to investors, as it would provide an objective and consistent baseline against which the risks of different products could be compared. It was suggested, therefore, that the CSA should consider further ways to improve the present risk measure as part of Stage 3 of the POS initiative.</p> <p>One investor commenter noted that we should implement a standard methodology similar to the methodology used for investment funds in Europe that would make it possible for third parties to calculate and verify the risk rating.</p> <p>Some industry commenters also agreed with the CSA development of a single risk classification method to be used by the entire industry, as this would facilitate comparisons between mutual funds, which, in turn, would benefit investors.</p> <p>Alternatively, a few industry commenters strongly urged the CSA to adopt the risk rating methodology used by The Investment Funds Institute of Canada (IFIC) for the purposes of the risk level classification chart. However, investor advocates stated that a scale that has been developed by the IFIC, without public comment or regulatory oversight, should not be adopted.</p>	<p>We appreciate the feedback from commenters. The CSA is currently considering development of a standardized risk classification methodology on a separate timeline from Stage 2 of the POS project. If the CSA decides to mandate a risk classification methodology, it will be published for public comment before implementation.</p>

	<p>Finally, one commenter expressed support for assessing risk based on potential for loss, instead of focusing on volatility. This commenter is of the view that risk is the potential for permanent loss of capital over a long-term investment horizon, focused on how much money could be lost and the probability of that loss.</p>	
<p><b>14. What are the risks of this fund?</b></p> <p>- <i>Inclusion of Additional Explanatory Text for the Risk Scale</i></p>	<p>Most commenters agreed that it is important for investors to understand exactly what is being measured or quantified and how this translates into an assessment of “risk” for a fund. On this basis, they supported in concept the inclusion of additional warning language, as well as a plain language explanation of what the risk rating means. One commenter said the new explanation of the risk scale and the relationship between risk and losses is an improvement over the current disclosure. However, a number of the commenters questioned the effectiveness of the proposed disclosure.</p> <p>A number of commenters were of the view that risk should be discussed in the context of performance and suggested the disclosure concerning Risk should be better integrated with the Past Performance. From this perspective, moving the Past Performance section to a different page of the Fund Facts was viewed as being a step backwards in terms of assisting investor understanding.</p> <p>Given that most fund companies use volatility as their primary measure for determining the risk rating for a fund, a number of commenters further suggested that the risk scale be described in terms of volatility or variability of returns rather than as a measure of the risk of losses.</p> <p>Some of these commenters also suggested that in addition to the fund’s risk rating and a plain language description of volatility, there should also be a discussion of the typical</p>	<p>Given that the majority of fund managers use volatility of past returns in assessing the risk classification of their funds, CSA staff have clarified the disclosure in the Fund Facts to state that the risk scale is meant to measure volatility risk. Volatility risk is explained in concise and understandable language and the risk-return linkage is clarified i.e. funds with higher volatility risk may have a greater chance of losing money and may have a greater chance of higher returns.</p> <p>Disclosure of the relationship between risk and chances of losses was positively received by commenters as well as by investors during the document testing. A majority of investors commented that this information clearly explains the relationship between risk, returns and potential for losses.</p> <p>Mutual funds will be required to state that low risk mutual funds can still lose money. This was in response to testing that showed that some investors believed that mutual funds carry no risk of losses.</p> <p>Overall, in response to the investor document testing, we have modified the disclosure around volatility risk and the risk-return linkage to make it more focused, concise and plain language.</p> <p>Studies have revealed that the average retail investor is not familiar with statistical concepts such as standard deviation or range of returns. Therefore, we do not</p>



	<p>range of variability in annual returns for each rating. For example, the standard deviation range or scale for the risk category that the fund is assigned to, as set out in the IFIC Risk Classification Methodology, could be used.</p> <p>Still another commenter questioned whether the proposed disclosure adequately reflected its approach to measuring and disclosing risk and suggested that the Fund Facts form require the manager to disclose how it assesses risk and what the risk rankings mean, but not mandate language. While one industry commenter urged the CSA to strike a proper task force, involving regulators, academics, industry representatives and investor advocates to devise a risk classification scale (or to decide that such a simplistic approach is inadequate) and only then to mandate explanatory language.</p> <p>One investor advocate told us that despite some proposed improvements to risk disclosure, many investors will not likely understand standard deviation or its limitations. Providing investors with a risk scale may tempt them to rely on that rating as the sole source of information about a fund's risks.</p> <p>Some industry commenters took issue with the high number of warnings related to risk, which may unnecessarily discourage the purchase of mutual funds. One commenter expressed concern about the change to the title "What are the risks of this fund?" from the original "How risky is it?". The original language, said this commenter, emphasized the level of risk, while the new language alters the emphasis to the focus on the various factors that comprise the risk but a complete list of risks is not disclosed in the Fund Facts.</p> <p>One commenter suggested adding a cross-reference to the prospectus for further information about the manager's fund</p>	<p>propose to include these concepts in the Fund Facts. Investors are referred to the simplified prospectus for more detailed information on the risk classification methodology.</p> <p>In response to comments, we changed the title to "How risky is this fund?"</p> <p>The Fund Facts now refers investors to the simplified prospectus for more detail of specific risks as well as the</p>
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	<p>risk classification methodology, or alternatively, indicating that investor may request a copy of the methodology by contacting the manager of the fund. This could be done by revising the reference indicating that investors can learn more about the fund's risk factors in the fund's simplified prospectus to also incorporate a reference to a more detailed description of the risk scale in the simplified prospectus.</p> <p>Another commenter suggested that the general risk disclosure refer to investing in general rather than specifically to investing in mutual funds.</p> <p>Some of the commenters provided specific suggestions for revised disclosure in their comment letters.</p> <p>Finally, one commenter also noted that the connection between the scale and the rating by a fund's manager, which is currently set out in Item 5(1) of Part I of the Form, has been omitted from the Proposed Amendments. This commenter recommended including this information as the last paragraph in Item 4(2) of Part I of the Form.</p>	<p>risk classification methodology used by the fund manager.</p> <p>This disclosure was inadvertently dropped in Item 5(1) of Part 1 of the Form at the time of 2<sup>nd</sup> publication. We have now required a specific reference to the risk rating that the fund manager has assigned to the fund.</p>
<p><b>15. What are the risks of this fund?</b></p> <p>- <i>Identification of top fund risks</i></p>	<p>A number of industry commenters support retaining the current Form requirement to reference the simplified prospectus for a full list of the risks of the fund and their descriptions.</p> <p>One commenter suggested that an explanation for <i>all material and probable</i> risks should be provided in plain language within the Fund Facts. Ultimately, an investor is better informed when they are aware of the complete range of risks that a fund could encounter rather than a limited number of 'top' risks selected at a particular point in time.</p>	<p>The list of top risks did not test well with investors during the document testing. In response to this testing and commenter's concerns, the CSA have decided to remove the requirement to list the top risks of the fund in the Fund Facts.</p> <p>The document testing revealed that a majority of investors did not understand the specific risks very clearly or at all. The investors were more likely to ask their representative to explain the specific risks of the fund or to obtain this information from the simplified prospectus, than to try to obtain information about these risks from the Fund Facts. We have included a cross reference to the Risk section of the simplified prospectus</p>

	<p><u>List of Top Risks Without Narrative Descriptions</u></p> <p>A number of industry commenters opposed disclosing a list of “top” four risks without a narrative description in addition to the risk scale because it could be misleading to investors. Among the reasons we heard were:</p> <ul style="list-style-type: none"> <li>• listing the top risks beside the risk scale suggests to investors that there is a direct link between risk rating and key risks;</li> <li>• different fund managers may use different terminology to name and describe the same risk; listing the risks may make comparability difficult without a standardized definition of the risks;</li> <li>• risks are subjective to the specific investor. Consequently, a fund manager’s view of the main risks of the fund is subjective, and may not necessarily align with what risks may influence a particular investor’s investment decisions;</li> <li>• listing 4 top risks without narrative descriptions is likely not useful information for investors;</li> <li>• liability could attach from not naming all relevant risks; by limiting the number of risks in the Fund Facts, a fund manager must assess not only the factual reasons for choosing a risk but must also consider what risks may affect a fund in the future based on possible market conditions; and</li> <li>• selecting the “top” four risks downplays the actual</li> </ul>	<p>for investors who would like more information about specific risks that affect a fund’s value.</p> <p>After further consideration, in our view, for the specific risks to be meaningful, detailed explanations of each of the risks would have to be provided. This, however, would add considerable length to the Fund Facts. During document testing, investors suggested that either detailed explanations should be provided or a reference to the simplified prospectus should be included. In keeping with the guiding principles of simple, accessible and comparable information, the CSA has decided to provide a cross-reference to the specific risks of the mutual fund described in the simplified prospectus.</p>
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	<p>range of risks that a fund could face in changing market conditions.</p> <p>If the CSA proceeds with requiring a ranked list of risk factors, among the recommendations made by those commenters were the following:</p> <ul style="list-style-type: none"> <li>• replacing the reference to the phrase "top risks" with the phrase "important risks" in the introductory language;</li> <li>• establishing a CSA working group to develop a precise methodology for assessing risks, common names and definitions for risk factors disclosed in the Fund Facts; and</li> <li>• continuing to refer investors to the simplified prospectus for more information on specific risks.</li> </ul> <p>Commenters also asked the CSA to clarify in the Rule or the Companion Policy whether a fund manager will have to amend its Fund Facts if the list of risks changes materially throughout the year but is still consistent with the list of risks disclosed in its simplified prospectus.</p> <p><u>List of Top Risks with Narrative Descriptions</u></p> <p>Some industry commenters also expressed a concern with the option to permit narrative descriptions of the top risks. These commenters remarked there is not enough space for narrative descriptions as many risk factors require multiple paragraphs to adequately be explained.</p> <p>Moreover, some of those commenters also are concerned about a fund manager's liability for failing to properly</p>	
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	<p>disclose the nature and complexity of each risk factor in the Fund Facts.</p> <p>While one investor advocate supported disclosing the top risks of a fund with brief one line descriptions being permitted, still another investor advocate commented that a list of top risks would not be meaningful. This commenter suggested not including a detailed risk narrative in Fund Facts.</p> <p>We were also provided with additional recommendations of content for this section by commenters in their letters.</p> <p>One investor advocate suggested we require a disclosure line which answers the question, ‘To what extent does this fund rely on one or a small group of key portfolio managers?’ It was also suggested that we add, for Ontario investors, a link to the Investor Education Fund’s website, since it contains a number of useful tools and calculators that would assist investors in learning more about risk assessment.</p> <p>Still another commenter suggested that the risks section of the Fund Facts be expanded to include at least some reference to the benefits of diversification and professional management that investing in mutual funds offer in comparison with other types of investments.</p>	
<p><b>16. How has the fund performed?</b></p> <p>- <i>General Comments</i></p>	<p>One industry commenter asked that the CSA consider allowing a partial year return for the fund as is allowed in the MRFP and provide guidance in the companion policy that this is acceptable.</p> <p>An investor advocate suggested stronger warning language about choosing funds based on past performance. This commenter also suggested de-emphasizing past performance by placing the section “How has the fund performed?” lower</p>	<p>We are not proposing any changes to the current requirements.</p> <p>We have revised the warning language in the Fund Facts to state “It [the performance] does not tell you how the fund will perform in the future”. In order to de-emphasize the performance section, we have moved it after the Risk</p>

	down in the Fund Facts.	<p>section of the Fund Facts.</p> <p>There is a linkage between the risk section and the performance section of the Fund Facts. The returns section allows for a pictorial depiction of the volatility risk measured by the risk section of the Fund Facts.</p>
<p><b>17. How has the fund performed?</b></p> <p>- <i>Inclusion of Worst Return</i></p>	<p>Many industry commenters expressed concern about the proposed addition of the worst three month return to the performance section. These commenters believed that instead of better informing investors about the possible loss of investing in a fund, such requirement has a potential to be misleading for the investors. Among the feedback we heard was:</p> <ul style="list-style-type: none"> <li>• it focuses on short-term performance, which is at odds with the long-term nature of most mutual funds (other than money market funds);</li> <li>• it will cause confusion because the worst three month performance does not match the risk level classification disclosure under Item 4;</li> <li>• such performance is an aberration and past performance is not necessarily indicative of future performance; and</li> <li>• it would be based on the inception date of the fund; this information would be biased against funds with long histories relative to newly created funds because of the greater chance that those with long histories at some point experienced a significant down-turn. These commenters suggested that it should be limited to the worst 3 month return over the past 10 years.</li> </ul> <p>Still another industry commenter noted that the existing</p>	<p>The CSA propose to retain the worst 3 month return, and in response to comments, that it be supplemented by the best 3 month return. We also propose to provide a dollar illustration of the worst and best returns. The investor document testing showed that investors preferred actual dollar figures compared to percentages.</p> <p>The worst return disclosure was received very favourably by investors with the majority finding it to be pertinent information. These investors used this information to assess whether they would be comfortable withstanding such a loss. Investors found this information to be “honest” and that it allowed them to be better prepared should the fund not perform as expected.</p> <p>We are including appropriate warning language that the best and worst 3 month return could be different in the future. We have also specifically included wording that indicates that the worst 3 month return is meant to allow the investor to assess if they would be comfortable with such a loss over a <i>short period of time</i>.</p> <p>We are limiting the best and worst 3 month return over the past 10 years, to be consistent with the year-by-year chart in the Fund Facts.</p> <p>We do not propose to include the best and worst returns over varying time periods. The best and worst 3 month returns is intended to provide investors with an idea of the possible gains and losses over a <i>very short period of time</i>, so they can assess their comfort withstanding short term</p>



	<p>month return, noting that providing a visual illustrates the historical downside risk, which is very valuable information for an investor and is likely to be more meaningful than the risk indicator.</p> <p>One investor advocate suggested the disclosure of the worst 12 month return also be added.</p>	<p>year return chart already shows past performance for a 12 month period. We are concerned that adding additional data points may prove confusing to investors.</p>
<p><b>18. How has the fund performed?</b></p> <p>- <i>Comparing the fund's performance to a benchmark of a one-year GIC</i></p>	<p>There was support from investor advocates for us to adopt a one-year GIC as a benchmark to illustrate the fund's performance and the risk/reward proposition. GICs, we were told, are a familiar investment vehicle to most retail investors and the use of this benchmark will inform investors about the fund's volatility and rate of return, and the relationship between these concepts, in a fairly simple and straightforward manner.</p> <p>An industry commenter agreed, telling us the one-year GIC is an easy-to-understand indicator, which will help investors choose the right products to achieve their objectives.</p> <p>However, most industry commenters opposed comparing a fund's performance to a benchmark of a one-year GIC. We were told the comparison would not assist investors in assessing the performance of a fund relative to its associated risk. Rather, one industry commenter noted, over time, mutual funds will compare favourably to GICS, and therefore, it is not a useful benchmark.</p> <p>Among the reasons these commenters provided for their opposition to the inclusion of the GIC benchmark were:</p> <ul style="list-style-type: none"> <li>• a one-year GIC is a short-term deposit instrument (not a security) which is a fundamentally different investment product from a mutual fund, which have</li> </ul>	<p>As a result of the document testing and in response to comments, the CSA have decided to remove the GIC performance comparison. The document testing revealed that a number of investors did not understand the purpose of the GIC comparison. While it was intended to illustrate the relationship between risk and reward, many investors believed the bar chart illustrated that the mutual fund had outperformed GICs in the past and would outperform GICs in the future, rather than illustrating the difference in volatility of the two investments.</p>



	<p>medium to long-term investment objectives ; if the objective is to 'assess performance of the fund relative to the associated risk', a one-year GIC comparison across the range of risk categories is not appropriate;</p> <ul style="list-style-type: none"> <li>• if the intention is to provide investors with a comparison to a "risk free rate of return", the proposed comparison to a one-year GIC is not appropriate; GICs are subject to their own risks, including inflation risk, which are not disclosed;</li> <li>• a comparison of returns would require substantial disclosure setting out all of the material differences between the two instruments consistent with Part 15 of National Instrument 81-102 <i>Mutual Funds</i>;</li> <li>• the proposal is to use the Bank of Canada GIC rate, which is a nominal rate; actual GIC rates depend on the terms of the issuing financial institution;</li> <li>• there is no disclosure to explain why the mutual fund's performance is being compared to a GIC so investors may not understand that the objective of showing the performance of the fund compared to the one-year GIC is to help them assess performance of the fund relative to the associated risk;</li> <li>• the GIC competes with mutual funds for savings dollars and prescribing disclosure regarding a competitive product is commercially unfair;</li> <li>• if adding the comparison to a one-year GIC is intended to demonstrate volatility of fund returns, this information is already captured in the existing</li> </ul>	
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	<p>performance chart which demonstrates the volatility of fund returns over the last 10 years;</p> <ul style="list-style-type: none"> <li>• the use of a benchmark such as a one-year GIC would run contrary to other disclosure documents, such as the MRFP, in which investment funds are required to provide a comparison of performance relative to a widely accepted and investible broad based index;</li> <li>• a comparison to a one-year GIC undermines the intention of section 13.1(7) in the Companion Policy to NI 81-102 which requires the performance of a mutual fund to be compared to another investment or benchmark if the comparison clearly sets out the factors that are necessary to ensure that the comparison is fair and not misleading; and</li> <li>• employing a benchmark of any type when considering a single fund out of the context of an investor's overall portfolio characteristics is unnecessary and potentially misleading.</li> </ul> <p><u>Other appropriate benchmarks</u></p> <p>While some industry commenters said the Fund Facts should not include any benchmark as it would add to investor confusion and complexity and is already provided in the MRFP, other industry commenters suggested alternative benchmarks.</p> <p>One suggested that a 90-Day T-Bill is a more appropriate “risk-free” benchmark as it is a more liquid security than a 1-year GIC and therefore has lower liquidity risk and also a</p>	<p>We do not propose to add any benchmarking information. Our proposal to provide a GIC comparison was for risk comparison purposes and not for relative performance evaluation of the portfolio manager or the fund. Since investor testing revealed that the GIC comparison failed to meet this objective, we are proposing to remove the performance comparison.</p>
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	<p>lower interest rate risk. Still another commenter suggested that instead of using a one-year GIC, a staggered five-year GIC program should be used.</p> <p>Other suggestions included requiring that a fund be compared to another fund with a similar or lower risk rating, the use of an appropriate broad-based securities market index, or the CSA providing a range of benchmarks that fund managers could use to compare against the fund's performance.</p> <p>Two other industry commenters proposed that rather than showing the worst three month period, it would be more meaningful for investors if the worst and best three-month, one, three, five and ten-year returns of a general benchmark were shown.</p>	
<p><b>19. How much does it cost?</b></p>	<p>While one commenter appreciated the additional clarification provided in the disclosure required for "other fees", and for identifying the appropriate section in a Fund Facts for disclosure of a fixed administration fee, some commenters thought that the proposed requirement to disclose any fixed administration fees payable by a Fund was out of context and could confuse investors.</p> <p>One investor advocate commented that retail investors are known to ignore fund costs yet the MER is accepted as the most robust predictor of fund performance. The commenter recommended that cost information should precede performance data, which would be consistent with published behavioural finance research and IOSCO recommendations. Given the potential long-term impact of fees on an investor's total returns, relocation of the fee table will place fee information in a more prominent location and encourage investors to give greater attention to costs and cost</p>	<p>It is only in the case of a new mutual fund that does not yet have MER information available that we would expect the actual administration fee to be disclosed. We have revised the instruction accordingly.</p> <p>We propose no further changes to the layout of the Fund Facts at this time. The flow and organization of the content has been carefully considered. The first part of the Fund Facts focuses on information about the fund. The second part of the document focuses on fees and expenses associated with investing in the fund. We note, however, that the MER is highlighted in the Quick Facts section of the Fund Facts.</p>

	<p>comparisons.</p> <p>One investor advocate indicated that sales commissions should always be stated as a quantitative range rather than a limit “up to xx%”.</p>	<p>Sales commissions are currently required to be stated as a range. We will clarify that trailing commissions that are payable under different sales charge options should also be disclosed as a range.</p>
<p><b>20. Conflict of interest disclosure</b></p>	<p>Investor advocates appreciated the inclusion of additional conflict of interest disclosure under the “Trailing commission” section of the Fund Facts. However, one advocate told us they thought that the CSA could go further and noted that other jurisdictions, such as Australia and the United Kingdom, have completely banned the payment of such commissions to financial services representatives.</p> <p>Noted another commenter, it is important, however, to focus on the dollar cost of charges to the extent possible, and not simply a percentage figure, which may not resonate as thoroughly with investors.</p> <p>Most industry commenters, on the other hand, disagreed with the proposal to include additional conflict of interest disclosure. They thought it would be unfair to single out trailing commissions for this type of disclosure, since the placement of any investment for commission or fees could presumably have the same influence. The proposed language was viewed as being unduly prejudicial to mutual funds and could improperly bias the way investors view the product by creating undue suspicion, particularly since there a multitude of other investment products that also pay commissions but that are not required to provide similar disclosure in their offering documents.</p> <p>Most of these commenters stated that, since investment funds have no involvement in the remuneration arrangements between dealers and their advisors, conflict</p>	<p>The CSA is currently examining the mutual fund fee structure in Canada more broadly. See CSA Discussion Paper and Request for Comment 81-407 <i>Mutual Fund Fees</i>.</p> <p>We have proposed to include a dollar amount beside percentage figures where possible throughout the Fund Facts.</p> <p>The document testing with investors found that references to ‘conflict of interest’ were not well understood by investors and caused confusion. In response to the testing, and to the comments received, we are proposing to simplify the language by stating that “Higher commissions can influence a representative to recommend one investment over another. Ask about other funds and investments that may be suitable for you at a lower cost”. This language is intended to prompt investors to ask questions about the various fee options available to them, while continuing to highlight the potential conflict of interest that exists in their representative’s compensation arrangement with the fund manager. Since this conflict arises in the context of trailing commissions as well as sales charges, we are proposing to move this disclosure</p>

	<p>of interest disclosure is more properly addressed in discussions between the dealer representative and their client. To this end, they noted that issues relating to potential or perceived conflicts of interest in respect of advisor compensation are already dealt with through existing MFDA and IIROC processes and rules which govern the opening and supervision of accounts, as required by National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>.</p> <p>One of these commenters submitted that the CSA should instead consider amending the Companion Policy to NI 31-103 to clarify that the requirements in s. 13.4(3) of NI 31-103 include the disclosure of trailing commissions received from investment fund managers, and the conflicts of interest that could occur as a result of such arrangements.</p> <p>Others noted that the presence of a trailing commission does not necessarily lead to a conflict so one-size fits all boilerplate disclosure would not be helpful to investors. Noted one commenter, it does not take into account situations where a conflict of interest does not exist (or is mitigated), such as where a fund is distributed through a dedicated distribution network.</p> <p>Many industry commenters were of the view that the current disclosure on trailing commissions in the Fund Facts is sufficiently clear so no further disclosure should be necessary. A few commenters proposed adding: "Ask your dealer representative for more information".</p> <p>However, there were some industry commenters who did not object to the additional disclosure but provided suggestions for improving the proposed conflict of interest language, which they felt would convey more balanced and fair understanding of potential conflicts of interest.</p>	<p>directly under the "How much does it cost?" heading.</p> <p>We think the revised placement of the disclosure addresses concerns that trailing commissions alone are not the sole source of potential conflicts. Such conflicts may also arise in the context of the sales charge option that is selected. In addition, we are referencing commissions that may be payable on investment products generally.</p>
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<p><b>21. For more information</b></p>	<p>An industry association representing financial advisors agreed it would be helpful to include a reference to the CSA's Understanding Mutual Funds brochure in the Fund Facts (the "Brochure"). This commenter also suggested that the CSA put a link to the Brochure on their home page, to make it easier for investors to find this document.</p> <p>We also received support from IFIC for the inclusion of a cross-reference to the Brochure. Still, one industry commenter opposed the cross-reference to the Brochure as the Fund Facts is a liability document and the fund manager does not control the content of the Brochure.</p> <p>Additionally, one investor advocate expressed concern that the Brochure is not sufficient and suggested that the Fund Facts reference a guide which would help investors interpret and use each section of the Fund Facts.</p>	<p>We do not consider inclusion of the reference to the Brochure to present any liability issues for fund managers. The Brochure was developed by the CSA and contains general educational material about mutual funds.</p> <p>As we have previously stated, while we agree that investor education is a key aspect of investor protection, we do not propose to create a user guide for the Fund Facts as we think it is unnecessary. The reference to the Brochure is intended to provide investors with a tool to obtain more general information about mutual funds. The Brochure has been revised with the Fund Facts in mind.</p>
<p><b>22. Exceptions for individual jurisdictions</b></p>	<p>IFIC commented that in Appendix C of the Notice, the CSA determined not to eliminate provincial differences in the drafting of NI 81-101. The commenter urged the CSA to avoid making any changes to the Fund Facts (or any form that is intended for use in all regions of Canada) that would apply in some, but not all, jurisdictions. The commenter believes the application of different form requirements across jurisdictions will introduce ambiguity and confusion in interpreting the form requirements. This may result in conflicting interpretations based on the jurisdictions to which Fund Facts are being distributed.</p>	<p>The CSA stress that while the delivery requirement in NI 81-101 has been drafted to reflect each jurisdiction's legislation, the result is the same.</p>

<b>Part 4 – Other general comments</b>		
<b><u>Issue</u></b>	<b><u>Comments</u></b>	<b><u>Responses</u></b>
<b>23. <i>Exemptive Relief to Allow Early Use of Fund Facts</i></b>	A Fund Facts service provider commented that only a few fund managers and dealers have started to deliver Fund Facts in place of simplified prospectuses because of difficulty complying with exemptive relief conditions and the fact that Stage 2 is not yet final. The commenter asked that we relax the exemptive relief conditions to encourage dealers to deliver the Fund Facts.	We propose no change and encourage the early adoption of the Fund Facts form and delivery.
<b>24. <i>POS delivery</i></b>	Investor advocates expressed appreciation for the CSA’s efforts to move forward quickly with the implementation of Stage 2 of the POS initiative and emphasized future delays should be avoided. While the industry has expressed concerns about the practicality and costs of compliance with this initiative, the point-of-sale delivery of the Fund Facts to investors is a fundamental aspect of the POS regime and should be implemented sooner rather than later to better serve investors.  An industry commenter supported delivery of the Fund Facts instead of the simplified prospectus at the point of sale.	We appreciate the support from commenters.
<b>25. <i>Summary disclosure for other types of investment funds</i></b>	A number of industry commenters stressed the need to  (i) achieve consistent and comparable disclosure across all market participants offering products similar to mutual funds (e.g., exchange traded funds, closed end funds, and hedge funds) ; and  (ii) promote a level regulatory playing field and reduce the potential for product arbitrage.  As indicated by IFIC, on the Canadian household balance sheet, Canadians invest their financial assets in mutual funds as well	We will be considering the development of summary disclosure documents for other types of publicly offered investment funds as part of Stage 3 of the POS initiative.

	<p>as in deposit instruments, fixed income and equities and segregated funds. Providing Canadians with access to consistent disclosure materials for all of those products would provide them with the tools to make informed decisions.</p> <p>Finally, investor advocates expressed support for the CSA's plans to consider extending the POS delivery and disclosure requirements to other investment products which are substantively similar to mutual funds with the hope that this will be done as soon as possible. They stressed that investors need clear, simple and meaningful disclosure regardless of the type of product they invest in so there is no principled basis to limit the POS framework to mutual funds.</p> <p>We were asked to collaborate with other regulators to create a more robust and consistent disclosure regime. If the CSA chooses to focus only on those products that it regulates, we were told regulatory arbitrage may result. At a minimum, the CSA must work with insurance regulators to harmonize the disclosure for mutual funds and segregated funds.</p>	
<p><b>26. Cost Benefit Analysis</b></p>	<p>One industry commenter told us that the changes proposed will not provide any meaningful enhanced disclosure of benefit to investors. Furthermore, the cost of compliance with the additional disclosure requirements will far outweigh any such marginal benefit. This commenter stated that compliance with the proposals will come at a significant cost to mutual fund companies in terms of information technology, third party service providers, legal, and accounting costs and these costs may ultimately be borne by investors.</p>	<p>The earlier publications by the Joint Forum and CSA outlined the anticipated costs and benefits of implementation of the POS disclosure regime for mutual funds. We consider these costs and benefits to still be valid. We continue to believe that the potential benefits of the changes to the disclosure regime are proportionate to the costs of making them.</p>



## **Part 5 – List of commenters**

- **ADVOCIS**
- **AGF INVESTMENTS INC.**
- **BORDEN LADNER GERVAIS LLP**
- **BRANDES INVESTMENT PARTNERS & CO.**
- **BROADRIDGE FINANCIAL SOLUTIONS INC.**
- **CANADIAN ADVOCACY COUNCIL FOR CANADIAN CFA INSTITUTE SOCIETIES (CFA)**
- **CANADIAN BANKERS ASSOCIATION (CBA)**
- **CANADIAN FOUNDATION FOR ADVANCEMENT OF INVESTOR RIGHTS (FAIR)**
- **CANADIAN IMPERIAL BANK OF COMMERCE (CIBC)**
- **CAPITAL INTERNATIONAL ASSET MANAGEMENT (CANADA), INC.**
- **CI FINANCIAL CORP.**
- **EDGEPOINT WEALTH MANAGEMENT INC.**
- **ERIC FANDICH**
- **FIDELITY INVESTMENTS CANADA ULC AND RBC GLOBAL ASSET MANAGEMENT INC.**
- **FRANKLIN TEMPLETON INVESTMENTS CORP.**
- **IA CLARINGTON INVESTMENTS INC.**

- **INDEPENDENT FINANCIAL BROKERS OF CANADA (IFB)**
- **ING DIRECT ASSET MANAGEMENT LIMITED**
- **INVESCO CANADA LTD.**
- **INVESTMENT FUNDS INSTITUTE OF CANADA (IFIC)**
- **INVESTMENT INDUSTRY ASSOCIATION OF CANADA (IIAC)**
- **INVESTMENT PLANNING COUNSEL INC. (IPC)**
- **INVESTORPOS INC.**
- **INVESTORS GROUP INC.**
- **KENMAR ASSOCIATES**
- **LE MOUVEMENT DES CAISSES DESJARDINS (MCD)**
- **MACKENZIE FINANCIAL CORPORATION**
- **MANULIFE MUTUAL FUNDS**
- **OSC INVESTOR ADVISORY PANEL (IAP)**
- **PFSL INVESTMENTS (CANADA) LTD. AND PFSL FUND MANAGEMENT LTD.**
- **HEATHER SCHERLOSKI**
- **SUN LIFE GLOBAL INVESTMENTS (CANADA) INC.**
- **TD ASSET MANAGEMENT INC.**



**Annex D**

**THE MANITOBA SECURITIES COMMISSION  
MSC RULE 2013-24  
(Section 149.1, *The Securities Act*)**

**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),
- (c) in Manitoba, section 141.2 of the *Securities Act* (Manitoba),
- (d) in New Brunswick, section 155 of the *Securities Act* (New Brunswick),
- (e) in Northwest Territories, section 116 of the *Securities Act* (Northwest Territories),
- (f) in Nunavut, section 116 of the *Securities Act* (Nunavut),
- (g) in Saskatchewan, section 141(2) of *The Securities Act, 1988* (Saskatchewan), and
- (h) in Yukon, section 116 of the *Securities Act* (Yukon);

**"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),
- (c) in Manitoba, sections 1.2 and 1.5 of *Local Rule 41-502 Prospectus Delivery Requirement* (Manitoba),
- (d) in New Brunswick, subsection 88(2) of the *Securities Act* (New Brunswick),
- (e) in Northwest Territories, section 101(2) of the *Securities Act* (Northwest Territories),
- (f) in Nunavut, subsection 101(2) of the *Securities Act* (Nunavut),
- (g) in Saskatchewan, section 79(3) of *The Securities Act, 1988* (Saskatchewan), and
- (h) in Yukon, subsection 101(2) of the *Securities Act* (Yukon)..

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

**3.2(2)** If a prospectus is required under securities legislation to be delivered or sent 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 delivered or sent to the person or company at the same time and in the same manner as otherwise required for the prospectus.

**3.2(2.1)** The requirement under securities legislation to deliver or send a prospectus does not apply if a fund facts document is delivered or sent under subsection (2).

**3.2(2.2)** In Nova Scotia, a fund facts document is a disclosure document prescribed under subsection 76(1A) of the *Securities Act* (Nova Scotia).

**3.2(2.3)** 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:*

**Fund facts document – purchaser’s right of withdrawal**

**3.2.1(1)** A purchaser has a right of withdrawal in respect of a fund facts document that was delivered or sent under subsection 3.2(2), as the purchaser would otherwise have when a prospectus is required to be delivered or sent under securities legislation and, for that purpose, a fund facts document is a prescribed document under the statutory right of withdrawal.

**3.2.1(2)** In Nova Scotia, instead of subsection (1), subsection 76(2) of the *Securities Act* (Nova Scotia) applies.

**3.2.1(3)** In Ontario, instead of subsection (1), subsection 71(2) of the *Securities Act* (Ontario) applies.

**3.2.1(4)** In Québec, instead of subsection (1), section 30 of the *Securities Act* (Québec) applies..

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

**3.2.2(1)** A purchaser has a right of action if a fund facts document is not delivered or sent as required by subsection 3.2(2), as the purchaser would otherwise have when a prospectus is not delivered or sent as required under securities legislation and, for that purpose, a fund facts document is a prescribed document under the statutory right of action.

**3.2.2(2)** In Nova Scotia, instead of subsection (1), subsection 141(1) of the *Securities Act* (Nova Scotia) applies.

**3.2.2(3)** In Ontario, instead of subsection (1), section 133 of the *Securities Act* (Ontario) applies.

**3.2.2(4)** 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:*

**Combinations of fund facts documents for delivery purposes**

**5.2(1)** A fund facts document delivered or sent under section 3.2 must not be attached to or bound with any other materials or documents, except that it may be attached to or bound with one or more of the following:

1. A general front cover pertaining to the package of attached or bound materials and documents.
2. A trade 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 delivered or sent 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.

**5.2(2)** If a trade confirmation referred to in subsection (1) is attached to or bound with a fund facts document, any other disclosure document required to be delivered or sent to satisfy a regulatory requirement for purchases listed in the trade confirmation may be attached to or bound with the fund facts document.

**5.2(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 documents attached to or bound with the fund facts document are the general front cover or the trade confirmation.

**5.2(4)** If one or more fund facts documents 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 trade 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 subsection (3) above by*

- (a) inserting the name of each jurisdiction of Canada 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 of Canada 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 subsection (3) above by*

- (a) inserting the name of each jurisdiction of Canada 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 of Canada 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 first paragraph of 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 a 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 subsection (3) above by*

*(a) inserting the name of each jurisdiction of Canada 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 of Canada 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 subsection (3) above by*

*(a) inserting the name of each jurisdiction of Canada 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 of Canada 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 replacing subsection (8) of the General Instructions with the following:

*(8) Except as permitted by subsection (8.1), a fund facts document must contain only the information that is specifically mandated or permitted by this Form. In addition, each Item must be presented in the order and under the heading or sub-heading stipulated in this Form.*

*(8.1) A fund facts document may contain a brief explanation of a material change or a proposed fundamental change. The disclosure may be included in a textbox before Item 2 of Part I or in the most relevant section of the fund facts document. If necessary, the mutual fund may provide a cross-reference to a more detailed explanation at the end of the fund facts document.*

(b) by replacing "section 5.4" with "Part 5" in subsections (15) and (16) of the General Instructions;

(c) 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.;*

(d) 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;;*

*(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;;*

(e) by deleting "and" in paragraph (d) of Item 1 of Part I;

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

(e) a brief introduction to the document using wording substantially similar to 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 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]; and

(f) state in bold type using wording substantially similar to the following:

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

(g) by replacing the table in Item 2 of Part I with the following:

<b>Fund code:</b> (see instruction 0.1)	<b>Fund manager:</b> (see instruction 3.1)
<b>Date [class/series] started:</b> (see instruction 1)	<b>Portfolio manager:</b> (see instruction 4)
<b>Total value of the fund on [date]:</b> (see instruction 2)	<b>Distributions:</b> (see instruction 5)
<b>Management expense ratio (MER):</b> (see instruction 3)	<b>Minimum investment:</b> (see instruction 6)

(h) by adding, immediately before subsection (1), the following to the Instructions under Item 2 of Part I:

(0.1) At the option of the mutual fund, include all recognized and publicly available identification codes for the class or series of the mutual fund.

(i) by replacing "30 days" with "60 days" in subsection (2) of the Instructions under Item 2 of Part I;

(j) by adding, immediately after subsection (3), the following to the Instructions under Item 2 of Part I:

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

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

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

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

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

(a) the top 10 positions held by the mutual fund, each expressed as a percentage of the 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. ;

(m) by replacing "30 days" with "60 days" in subsection (4) of the Instructions to Item 3 of Part I;



(n) by replacing "30 days" with "60 days" in subsection (9) of the Instructions to Item 3 of Part I;

(o) by replacing Items 4 and 5 of Part I with the following:

**Item 4 : Risks**

(1) Under the heading "How risky is it?", state the following:

The value of the fund can go down as well as up. You could lose money.

One way to gauge risk is to look at how much a fund's returns change over time. This is called "volatility".

In general, funds with higher volatility will have returns that change more over time. They typically have a greater chance of losing money and may have a greater chance of higher returns. Funds with lower volatility tend to have returns that change less over time. They typically have lower returns and may have a lower chance of losing money.

(2) Under the sub-heading "Risk rating",

(a) using the investment risk classification methodology adopted by the manager of the mutual fund, identify the mutual fund's investment risk level on the following risk scale:

Low	Low to medium	Medium	Medium to high	High
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(b) unless the mutual fund is a newly established mutual fund, include an introduction to the risk scale which states the following:

[Insert name of manager of the mutual fund] has rated the volatility of this fund as [insert investment risk level identified in paragraph (a) in bold type].

This rating is based on how much the fund's returns have changed from year to year. It doesn't tell you how volatile the fund will be in the future. The rating can change over time. A fund with a low risk rating can still lose money.

(c) for a newly established mutual fund, include an introduction to the risk scale which states the following:

[Insert name of manager of the mutual fund] has rated the volatility of this fund as [insert investment risk level identified in paragraph (a) in bold type].

Because this is a new fund, the risk rating is only an estimate by [insert name of manager of the mutual fund]. Generally, the rating is based on how much the fund's returns have changed from year to year. It doesn't tell you how volatile the fund will be in the future. The rating can change over time. A fund with a low risk rating can still lose money.

(d) following the risk scale, state using wording substantially similar to the following:

For more information about the risk rating and specific risks that can affect the fund's returns, see the [insert cross-reference to the appropriate section of the mutual fund's simplified prospectus] section of the fund's simplified prospectus.

- (3) Under the sub-heading "No guarantees", state using wording substantially similar to the following:

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

**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(2)(a) and highlighting the applicable category on the scale. Consideration should be given to ensure that the highlighted investment risk rating is easily identifiable.*

**Item 5: Past Performance**

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

This section tells you how [name of class/series of securities described in the fund facts document] [units/shares] of the fund have performed over the past [insert number of calendar years shown in the bar chart required under paragraph (2)(a)] years. Returns are after expenses have been deducted. These expenses reduce the fund's returns.

- (2) Under the sub-heading "Year-by-year returns",

(a) provide a bar chart that shows 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) include an introduction to the bar chart using wording substantially similar to the following:

This chart shows how [name of class/series of securities described in the fund facts document] [units/shares] of the fund performed in each of the past [insert number of calendar years shown in the bar chart required under paragraph (a)]. The fund dropped in value in [for the particular years shown in the bar chart required under paragraph (a), insert the number of years in which the value of the mutual fund dropped] of the [insert number of calendar years shown in the bar chart required in paragraph (a)] years. The range of returns and change from year to year can help you assess how risky the fund has been in the past. It does not tell you how the fund will perform in the future.

- (3) Under the sub-heading "Best and worst 3-month returns",

(a) provide information for the period covered in the bar chart required under paragraph (2)(a) in the form of the following table:

	<b>Return</b>	<b>3 months ending</b>	<b>If you invested \$1,000 at the beginning of the period</b>
Best return	(see instruction 8)	(see instruction 10)	Your investment would [rise/drop] to (see instruction 12).
Worst return	(see instruction 9)	(see instruction 11)	Your investment would [rise/drop] to (see instruction 13).

(b) include an introduction to the table using wording substantially similar to the following:

This table shows the best and worst returns for the [name of class/series of securities described in the fund facts document] [units/shares] of the fund in a 3-month period over the past [insert number of calendar years shown in the bar chart required under paragraph (2)(a)]. The best and worst 3-month returns could be higher or lower in the future. Consider how much of a loss you could afford to take in a short period of time.

(4) Under the sub-heading "Average return", show the following:

(a) the final value of a hypothetical \$1000 investment in the mutual fund as at the end of the period that ends within 60 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 equates the hypothetical \$1000 investment to the final value.

#### **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 zero.*

(4) *A mutual fund that distributes different classes or series of securities that are referable to the same portfolio of assets must show performance data related only 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 and 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 "Best and worst 3-month returns" and "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 to one decimal place.*
- (8) *Show the best rolling 3-month return as at the end of the period that ends within 60 days before the date of the fund facts document.*
- (9) *Show the worst rolling 3-month return as at the end of the period that ends within 60 days before the date of the fund facts document.*
- (10) *Insert the end date for the best 3-month return period.*
- (11) *Insert the end date for the worst 3-month return period.*
- (12) *Insert the final value that would equate with a hypothetical \$1000 investment for the best 3-month return period shown in the table.*
- (13) *Insert the final value that would equate with a hypothetical \$1000 investment for the worst 3-month return period shown in the table.;*

(p) *by deleting Item 6 of Part I;*

(q) *by deleting Item 7(2) of Part I;*

(r) *by replacing Item 1.1 of Part II with the following:*

### **1.1 Introduction**

Under the heading "How much does it cost?", state the following:

The following tables show the fees and expenses you could pay to buy, own and sell [name of the class/series of securities described in the fund facts document] [units/shares] of the fund. The fees and expenses – including any commissions – can vary among [classes/series] of a fund and among funds. Higher commissions can influence representatives to recommend one investment over another. Ask about other funds and investments that may be suitable for you at a lower cost. ;

(s) *by replacing Item 1.3(2) of Part II with the following:*

(2) Unless the mutual fund has not yet filed a management report of fund performance, provide information about the expenses of the mutual fund in the form of the following table:

	<b>Annual rate (as a % of the fund's value)</b>
<b>Management expense ratio (MER)</b> This is the total of the fund's management fee (including the trailing commission) and operating expenses. (see instruction 1)	(see instruction 2)
<b>Trading expense ratio (TER)</b> These are the fund's trading costs.	(see instruction 3)
<b>Fund expenses</b>	(see instruction 4)

(t) by replacing Item 1.3(4) of Part II with the following:

(4) For a mutual fund that has not yet filed a management report of fund performance, state the following:

The fund's expenses are made up of the management fee, operating expenses and trading costs. The [class'/series'] annual management fee is [see instruction 7]% of the [class'/series'] value. Because this [class/series] is new, operating expenses and trading costs are not yet available. ;

(u) in Item 1.3(5) in Part II by replacing "where" with "in which";

(v) by replacing Items 1.3(6) and (7) of Part II with the following:

(6) Under the sub-heading "More about the trailing commission", state whether the manager of the mutual fund or another member of the mutual fund's organization pays trailing commissions. If trailing commissions are paid, include a description using wording substantially similar to the following:

The trailing commission is an ongoing commission. It is paid for as long as you own the fund. It is for the services and advice that your representative and their firm provide to you.

[Insert name of fund manager] pays the trailing commission to your representative's firm. It is paid from the fund's management fee and is based on the value of your investment. The rate depends on the sales charge option you choose.

(7) If applicable, disclose the range of the rates of the trailing commission for each sales charge option disclosed under Item 1.2. ;

(w) by adding the following to the Instructions under Item 1.3 of Part II:

(2.1) If applicable, include a reference to any fixed administration fees in the management expense ratio description required in the table under Item 1.3(2). ;

(x) by adding the following to the Instructions under Item 1.3 of Part II:

(7.1) For a mutual fund that is required to include the disclosure under subsection (4), in the description of the items that make up fund fees, include a reference to any fixed administrative fees, if applicable. Also disclose the amount of the fixed administration fee in the same manner as required for the management fee. The percentage disclosed for the fixed administration fee must correspond to the percentage shown in the fee table in the simplified prospectus. ;

(y) by replacing subsection (8) of the Instructions under Item 1.3 of Part II with the following:

(8) In disclosing the range of rates of trailing commissions for each sales charge option, show both the percentage amount and the equivalent dollar amount for each \$1000 investment. ;

(z) by replacing Item 1.4(1) of Part II with the following:

(1) Under the sub-heading "Other fees", provide an introduction using wording substantially similar to the following:

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

(aa) by adding "buy, hold," before "sell or switch" to Item 1.4(2) of Part II;

(bb) 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 class or series of securities 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 also includes 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 securities 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 include, where possible, the highest possible rate or range for that fee.;

(cc) 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 using wording substantially similar to the following:

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 simplified prospectus or 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.;

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

(1) Under the heading "For more information", state using wording substantially similar to the following:

Contact [insert name of the manager of the mutual fund] or your 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**

(ee) by adding the following after Item 3(2) of Part II:

(3) State using wording substantially similar to the following:

To learn more about investing in mutual funds, see the brochure **Understanding mutual funds**, which is available on the website of the Canadian Securities Administrators at [www.securities-administrators.ca](http://www.securities-administrators.ca).

## 12. 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. Transition

(1) A mutual fund must, on or before May 13, 2014, file a completed Form 81-101F3 *Contents of Fund Facts Document* for each class or series of securities of the mutual fund that, on that date, are the subject of disclosure under a simplified prospectus.

(2) The date of a fund facts document filed under subsection (1) must be the date on which it was filed.

## 14. Effective date

(1) Subject to subsection (2), this Instrument comes into force on September 1, 2013.

(2) The provisions of this Instrument listed in column 1 of the following table come into force on the date set out in column 2 of the table:

<b>Column 1</b> <b>Provision of this Instrument</b>	<b>Column 2</b> <b>Date</b>
11	January 13, 2014
3	June 13, 2014

15. This Instrument may be cited as MSC Rule 2013-24.

## **Annex E**

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

**1. *The changes 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 Instrument requires delivery of the fund facts document, which satisfies the prospectus delivery requirements under applicable securities legislation. The CSA also 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..

**3. *Section 2.1.1 is changed by adding the following paragraph:***

(5) The CSA generally consider volatility to be a suitable basis for determining the investment risk rating of a mutual fund. For this reason, Form 81-101F3 prescribes specific disclosure in the fund facts document explaining how volatility can be used as a measure to gauge the risk of an investment. If the disclosure is not compatible with the specific investment risk classification methodology that is used by the manager of the mutual fund, the CSA will consider applications for relief from Item 4 of Form 81-101F3. In making the application, the manager must demonstrate the suitability of using an alternative measure in determining the investment risk rating of its mutual fund. The application must also provide sample disclosure in place of the prescribed disclosure that would assist investors in understanding the investment risk rating of the mutual fund..

**4. *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 requires delivery of a fund facts document to an investor in connection with a purchase, an investor may also request delivery a copy of the simplified prospectus, or any other documents incorporated by reference into the simplified prospectus..

**5. *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 60 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..

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

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

**7.1 Delivery of the Fund Facts Document, 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..

8. *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..

9. *The Sample Fund Facts Document in Appendix A – Sample Fund Facts Document is replaced by the following:*

[Insert Sample Fund Facts Document]

10. *These changes become effective on September 1, 2013 .*

**Annex F**

**THE MANITOBA SECURITIES COMMISSION  
MSC RULE 2013-25  
(Section 149.1, *The Securities Act*)**

**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 September 1, 2013.
4. This Instrument may be cited as MSC Rule 2013-25.