

**Canadian Securities Administrators  
Implementation of Stage 1 of  
Point of Sale Disclosure for Mutual Funds**

**Notice of Amendments to National Instrument 81-101  
*Mutual Fund Prospectus Disclosure*, Form 81-101F1 and 81-101F2 and  
Companion Policy 81-101CP  
*Mutual Fund Prospectus Disclosure*  
and Related Amendments**

## Introduction

We, the Canadian Securities Administrators (the CSA or we), are making amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (the Rule), Forms 81-101F1 *Contents of Simplified Prospectus* and 81-101F2 *Contents of Annual Information Form* (the Forms), and Companion Policy 81-101CP *Mutual Fund Prospectus Disclosure* (the Companion Policy). New Form 81-101F3 *Contents of Fund Facts Document* is part of the Rule. We refer to the amendments to the Rule, the Forms and Companion Policy together as the Instrument. We expect that the Instrument and related amendments will come into force on January 1, 2011.

Adopting the Instrument and related amendments is the first step in the implementation by the CSA of the point of sale disclosure framework published 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> on October 24, 2008 (the Framework). The Framework represents the shared vision of securities and insurance regulators to provide investors with more meaningful information about a mutual fund or segregated fund at a time that is relevant to their investment decision.<sup>2</sup>

Central to the Instrument is the new summary disclosure document called “Fund Facts”. It highlights key information that is important to investors, in language they can easily understand, and will be no more than two pages, double-sided, in length.

The CSA is implementing the point of sale disclosure 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* published on June 18, 2010 (the Staff Notice). The Instrument completes the first stage of the implementation.

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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.

<sup>2</sup> You can find 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.

The Instrument mandates the production of the Fund Facts document and the requirement for it to be made available on a 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. As described in the Staff Notice, the project has two other stages. These are:

- Stage 2: publishing for comment a proposal to allow delivery of the Fund Facts document to satisfy the current prospectus delivery requirements under securities legislation to deliver a prospectus within two days of buying a mutual fund; and
- Stage 3: once the CSA has completed its review and consideration of the issues related to point of sale delivery, publishing for further comment any proposed requirements that would implement point of sale delivery for mutual funds. We will also be considering point of sale delivery for other types of publicly offered investment funds.

After we complete all of the stages of implementation, we intend to review the overall disclosure regime for mutual funds to reduce any unnecessary duplication.

The CSA remains committed to implementing point of sale disclosure for mutual funds. A staged implementation allows us to make the Fund Facts document available to investors and market participants sooner, while we continue to consult with stakeholders and consider the issues a large number of commenters have raised related to point of sale delivery for mutual funds and the applicability of the point of sale regime to other types of publicly offered investment funds.

The text of the amendments follows this Notice and can be obtained on the websites of members of the CSA. We are also making consequential amendments to:

- National Instrument 81-102 *Mutual Funds* and Companion Policy 81-102CP *Mutual Funds*;
- National Instrument 81-106 *Investment Fund Continuous Disclosure* and Companion Policy 81-106CP *Investment Fund Continuous Disclosure*; and
- National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*.

We expect the Instrument and related amendments to be adopted in each jurisdiction of Canada.

## **Substance and Purpose of the Instrument**

We know that many investors do not use the information in the simplified prospectus because they have trouble finding and understanding the information they need. Research on investor preferences for mutual fund information, including our own testing of the Fund Facts, indicates investors prefer to be offered a concise summary of key information.<sup>3</sup> Financial literacy research further reinforces the need for clear and simple disclosure.

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<sup>3</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 on the Joint Forum website and on the websites of members of the CSA. The *Fund Facts Document Research Report* prepared by Research Strategy Group can be found in Appendix 5 to the proposed Framework.

The CSA designed the Fund Facts to make it easier for investors to find and use key information. The format provides investors with basic information about the mutual fund, followed by a concise explanation of mutual fund expenses and fees, adviser compensation and the investor's cancellation rights. An introductory heading specifies that more detailed information about the mutual fund is available in the simplified prospectus.

The Instrument and related amendments should enhance investor protection by providing investors with the opportunity to access disclosure that gives them a basic understanding of the potential benefits, risks and costs of investing in a mutual fund, and allows them the opportunity to meaningfully compare one fund to another. We think the Fund Facts will not only provide investors with the opportunity to make more informed investment decisions, but will also assist investors in their discussions with advisers and highlight for investors who may want more detail where they can find further information about the fund.

The Instrument and related amendments should also contribute to more efficient Canadian capital markets by harmonizing the disclosure regimes for mutual funds and segregated funds. These similar products are often sold by a dually licensed dealer. The Instrument and related amendments are not intended to detract from a dealer's existing obligation to 'know your client' and determine suitability of all purchases of mutual funds. Rather, we anticipate that dealers will use the Fund Facts as a tool in making investment recommendations.

As the CSA's implementation of the point of sale disclosure framework progresses, we should achieve the Joint Forum's vision for the point of sale disclosure regime described in the Framework. This vision focuses on three principles:

- 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 mutual fund industry.

## **Feedback on the 2009 Proposal**

Concurrently with the publication of the Framework in 2008, we published CSA Notice 81-318 *Request for Comment Framework 81-406 Point of Sale Disclosure for Mutual Funds and Segregated Funds* seeking feedback from all stakeholders on issues related to implementation of the Framework and its principles. The CSA considered these comments in developing the proposed changes to existing securities legislation. You can find a summary of the comments we received on the Framework and our responses in Appendix A to the notice to the 2009 Proposal.

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On June 19, 2009, we published proposed amendments to the Rule, the Forms and the Companion Policy (the 2009 Proposal) aimed at implementing all of the elements of the point of sale disclosure regime set out in the Framework. This included the new Fund Facts document, pre-sale delivery options, investor rights and the regulatory requirements for preparing, filing and delivering the Fund Facts document. We received 54 comment letters on the 2009 Proposal. We thank everyone who provided comments. Copies of the comment letters have been posted on the Ontario Securities Commission website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). Copies are also available from any CSA member.

The comments show that stakeholders generally agree with the benefits of providing investors with a more meaningful and simplified form of disclosure, and support the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration. However, we received significant comments related to operational and compliance concerns with point of sale delivery for mutual funds. A large number of commenters also asked the CSA to implement a point of sale disclosure regime for other types of publicly offered investment funds and other securities at the same time.

You can find a summary of the comments we received on the 2009 Proposal, together with our responses, in Appendix B to this Notice.

## **Changes to the 2009 Proposal**

We have considered all comments received on the 2009 Proposal. As set out in the Staff Notice, the CSA agrees with the feedback that further review and consideration of the issues related to point of sale delivery for mutual funds is necessary. However, we also think it would be beneficial for the Fund Facts document to be made available to investors and market participants as soon as possible.

Accordingly, the Instrument only finalizes those aspects of the 2009 Proposal consistent with the first stage of the staged approach to implementation described in the Staff Notice. Specifically, the Instrument sets out requirements for the production of the Fund Facts document and the requirement for it to be made available on a mutual fund's or mutual fund manager's website, as well as for it to be delivered or sent free of charge upon request.

A description of the key changes we made to the 2009 Proposal is set out in Appendix A to this Notice.

## **Summary of the Instrument**

### **Application**

The Instrument and related amendments apply only to mutual funds subject to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.

### **Fund Facts**

The Fund Facts document set out in new Form 81-101F3 *Contents of Fund Facts Document* is central to the Instrument and largely follows the 2009 Proposal.

It will be in plain language, no more than two pages double-sided and will highlight key information that is important to investors, including past performance, risks and the costs of investing in a mutual fund. It is designed using a question-and-answer format that makes it easy for investors to find information. It also contains a number of statements that help investors understand the risks of investing in a mutual fund.

A separate Fund Facts document is required for each class or series of a mutual fund.

## **Filing Requirements**

As under the 2009 Proposal, the Instrument requires the Fund Facts document to be filed concurrently with the mutual fund's simplified prospectus and annual information form. The certificate for the mutual fund, which verifies 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 document 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.

## **Investor Right for Misrepresentation**

Once the Fund Facts document is filed with the mutual fund's simplified prospectus and annual information form, it will be 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.

An initial Fund Facts document filed separately on SEDAR during the transition period will not be incorporated by reference into the simplified prospectus. However, the disclosure must comply with the requirements of the Instrument and securities legislation.

## **Transition**

The requirements in the Instrument and related amendments to produce and file the Fund Facts document and to post it to the mutual fund's or mutual fund manager's website, take effect three-months after the Instrument and related amendments come into force. This means, from the time of publication of this Notice, a mutual fund will have at least six months to make any changes to compliance and operational systems that are necessary to produce, file and post the Fund Facts to a website.

On the date the Instrument comes into force, a mutual fund may choose to file a Fund Facts for each class or series of the mutual fund. This may happen either concurrently with the mutual

fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

As of the effective date, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts 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.

To implement the Instrument within a reasonable time period, the Instrument and related amendments require that a mutual fund must, if it has not already done so, file a Fund Facts document for each class or series of the mutual fund within six months of the Instrument and related amendments coming into force. Again, this may occur either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR.

A Fund Facts initially 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.

## Questions

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

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The text of the Instrument and Related Consequential Amendments follows or can be found elsewhere on a CSA member website.

Annex A – Amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* and Forms 81-101F1 *Contents of Simplified Prospectus* and 81-101F2 *Contents of Annual Information Form*, and new Form 81-101F3 *Contents of Fund Facts*

Annex B – Amendments to Companion Policy 81-101CP to National Instrument 81-101 *Mutual Fund Prospectus Disclosure*

Annex C – Amendments to National Instrument 81-102 *Mutual Funds*

Annex D – Amendments to Companion Policy 81-102CP to National Instrument 81-102 *Mutual Funds*

Annex E – Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*

Annex F – Amendments to Companion Policy 81-106CP to National Instrument 81-106 *Investment Fund Continuous Disclosure*

Annex G – Amendments to National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*

## Appendix A

### Summary of Changes to the 2009 Proposal

This appendix describes the key changes we made to the 2009 Proposal. Most of these changes reflect the CSA's decision to proceed with a staged implementation of the POS initiative. The Instrument only finalizes those parts of the 2009 Proposal that are necessary to proceed with the first stage of the staged implementation described in the Staff Notice.

The first stage mandates the production of the Fund Facts document and requires it to be made available on a mutual fund's or mutual fund manager's website. The Fund Facts must also be delivered free of charge to an investor upon request.

As the CSA's implementation of the point of sale disclosure framework progresses, we expect to publish for further comment requirements related to the other aspects of the 2009 Proposal.

### Fund Facts

#### Content

We have made a number of revisions to the content of the Fund Facts document. We sought specific feedback on some of these changes in the 2009 Proposal. Many of the changes respond to investor advocate comments to provide greater detail or clarity to the disclosure. The changes include the following:

- We added an introductory heading to the Fund Facts to give greater emphasis that the Fund Facts may not contain all the information an investor wants, and that more detailed information is available in the simplified prospectus. Some of this wording was located under the section 'For more information' in the 2009 Proposal.
- We have added a cross-reference in the section of the Fund Facts called 'How risky is it?' to refer to the simplified prospectus. This highlights for investors that they can find more detailed information about the mutual fund's specific risks in the fund's simplified prospectus.
- We created a new section in the Fund Facts called 'A word about tax' to provide investors with some general information on the impact of income tax on their mutual fund investments.
- We added the requirement to disclose the trading expense ratio (TER) under 'Ongoing Fund expenses' (renamed 'Fund expenses') to give a more complete picture of the costs associated with an investment in a mutual fund. As a result of the inclusion of the TER, to maintain simplicity and accessibility, we removed the



requirement to show the components of the management expense ratio (MER) in addition to the MER.

- For greater clarity, we added the requirement in the section ‘Ongoing fund expenses’ (renamed ‘Fund expenses’) to disclose the combined total of MER and TER costs as a percentage of the mutual fund’s value. We have named this combined total ‘Fund expenses’.
- We added dollars and cents illustrations of the sales charges, fund expenses and trailing commissions in the Fund Facts to better convey to investors the impact of the costs of investing in a mutual fund.
- We amended the disclosure in the Fund Facts in the section called ‘What if I change my mind?’ to reflect the current withdrawal and rescission rights under securities legislation.

### **Flesch-Kincaid grade level**

We have not carried forward the requirement that the Fund Facts be written at a grade level of 6.0 or less on the Flesch-Kincaid grade level scale because we were told there is no French language equivalent to the scale. However, the Fund Facts is still required to be prepared using plain language and in a format that assists in readability and comprehension.

We have added guidance in the Companion Policy that the CSA will generally consider a grade level of 6.0 or less on the Flesch-Kincaid grade level scale to demonstrate that the Fund Facts is written in plain language.

### **Length**

In light of the changes we have made to the Fund Facts, we amended the requirement that the Fund Facts not exceed three pages in length, to allow the Fund Facts to be four pages in length if the required information in each section of the Fund Facts causes the disclosure to extend to two pages, double-sided.

## **Filing Requirements**

### **Voluntary Updating of Fund Facts**

We removed the section in the Instrument that permitted a mutual fund to file on SEDAR an updated Fund Facts at regular intervals of either six or three months. 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 file an amended Fund Facts at any time.

## **Websites**

We revised the Instrument to clarify that the Fund Facts can be posted to either the website of the mutual fund, the mutual fund's family, or the website of the manager of the mutual fund.

## **Binding**

We revised the Instrument to limit the requirements on binding of the Fund Facts with other Fund Facts and with other documents to website postings, SEDAR filings and instances where the Fund Facts is delivered with the simplified prospectus. We further clarified that if the Fund Facts is bound with a single or multiple simplified prospectus for delivery, the Fund Facts must be the first document in the package.

## **Delivery**

We removed the requirements in the Instrument that were related to point of sale delivery options and the regulatory requirements for point of sale delivery of the Fund Facts. These aspects of the 2009 Proposal will be considered further as the CSA's implementation of the point of sale disclosure framework progresses.

## **Investor rights**

At this time, we are not proceeding with replacing the current withdrawal and rescission rights under securities legislation with a single, harmonized two-day cooling-off right for investors. This aspect of the 2009 Proposal may be considered further as the CSA's implementation of the point of sale disclosure framework progresses.

The Instrument contemplates that a Fund Facts, once filed with the mutual fund's simplified prospectus and annual information form, will be incorporated by reference into the simplified prospectus. This means that existing statutory rights for misrepresentations in a prospectus will apply to misrepresentations in the Fund Facts.

## **Transition**

We have removed the transition provisions in the Instrument that were related to point of sale delivery of the Fund Facts.

We amended the Instrument to provide a three month transition period following the Instrument coming into force. At the end of the three month transition period, a mutual fund that files a preliminary or pro forma simplified prospectus and annual information form must concurrently file a Fund Facts 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.

To implement the Instrument within a reasonable time period, we further amended the Instrument to require that a mutual fund must, if it has not already done so, file a Fund Facts within six months of the Instrument coming into force. This may occur either as part of the mutual fund's simplified prospectus and annual information form filing, or by the mutual fund initially filing a Fund Facts separately on SEDAR.

A mutual fund that chooses to file a Fund Facts for the mutual fund following the Instrument coming into force may do so either concurrently with the mutual fund's filing of its simplified prospectus and annual information form during the transition period, or by the mutual fund initially filing a Fund Facts separately on SEDAR. Once filed, the Fund Facts must be posted to the mutual fund's or the mutual fund manager's website.

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

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### **Part 1 – Background**

#### **Summary of Comments**

On June 19, 2009, the Canadian Securities Administrators (CSA) published a notice entitled *Implementation of Point of Sale (POS) Disclosure for Mutual Funds*, which proposed Form 81-101F3 (the Fund Facts Form) and amendments to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (NI 81-101), Forms 81-101F1 and 81-101F2 (the Forms) and Companion Policy 81-101CP (the Companion Policy) (NI 81-101, the Forms and the Companion Policy, collectively, the Instrument). The comment period expired on October 17, 2009. We received submissions from 54 commenters, which are listed in Part 6 of this document.

We thank everyone who took the time to prepare and submit comment letters. This document contains a summary of the comments and the CSA's responses relating to the parts of the Instrument that we are proceeding with in this stage of implementation. We continue to consider all comments received. For each stage of implementation, we will publish a summary of comments relating to that stage.

| <b>Part 2 - Comments on issues for comment</b>  |  |
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| <b>I) Comments on Issues for comment in the Notice and Request for Comment</b>  |  |
| <b>1. We seek feedback on whether you agree or disagree with our perspective on the benefits of the Instrument. We particularly seek feedback from investors.</b>   |  |
| <i>Comments</i>   | <i>Responses</i>   |
| <p><b><i>Support for the benefits of the POS proposals</i></b></p> <p>Investor advocate commenters told us they strongly support the goal of the CSA to provide investors with clear, meaningful and simplified information when the investor needs it most: before or at the time they make their decision to invest their savings in a mutual fund or segregated fund.</p> <p>While only a few industry commenters agreed with the benefit of investors obtaining information about a prospective investment prior to making an investment decision, most agreed with the benefits of providing investors with a more meaningful and simplified form of disclosure, and supported the Fund Facts, as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.</p> <p>In fact, we were told by a scholarship plan dealers association that a similar regulatory regime should be</p> | <p>We recognize the significant comments related to operational and compliance concerns with point of sale delivery for mutual funds, as well as requests to level the playing field by implementing a point of sale regime for other types of publicly offered investment funds and other securities at the same time.</p> <p>While the CSA agrees that further review and consideration of issues related to point of sale delivery for mutual funds are necessary, we also think that it would be beneficial for the Fund Facts to be made available to investors and market participants as soon as possible. This would provide investors with the opportunity to have access to key information about a mutual fund sooner. It would also allow investors and dealers to become familiar with the document and start using the Fund Facts in the decision-making process. Accordingly, the CSA has concluded to proceed with a staged implementation of the project, which is described in CSA Staff Notice 81-319 <i>Status Report on Point of Sale Disclosure for Mutual Funds</i> published on June 16, 2010 (Notice 81-319).</p> <p>The CSA remains committed to implementing point of sale disclosure for</p> |

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| <p>contemplated for scholarship plans, and we were given a number of submissions to this end.</p> <p>There was also general agreement that the prospectus does not meet its objective to disclose relevant information to investors.</p> <p>Some industry commenters also agreed that substitution of the Fund Facts for the delivery of the simplified prospectus (SP) will reduce certain printing and mailing costs for the industry.</p> <p>And, we received support for the benefit of a harmonized disclosure regime for mutual funds and segregated funds, so investors purchasing similar investments have comparable disclosure and protection.</p> <p>To further benefit investors, an investor advocate commenter encouraged the CSA to implement web-based ‘tagging’ technology such as XBRL, as a way to further allow investors to compare different mutual funds.</p> <p>Finally, to ensure the benefits for investors are as anticipated, investor advocate commenters urged us to pro-actively seek out retail investor comment, with one commenter suggesting the CSA host a forum, inviting retail investors, investor advocates, software suppliers, academia, consumer associations and seniors and pension groups to discuss the POS proposals face to face, preferably before the deadline for submissions.</p> <p>These commenters all told us that the current notice and</p> | <p>mutual funds. A staged implementation of the project will allow us the opportunity to continue to consult with stakeholders and to consider the applicability of the point of sale regime for mutual funds to other types of publicly offered investment funds, with the possible outcome of implementing a point of sale delivery requirement at the same time for all comparable investment fund products.</p> <p>While we welcome investor feedback, we do not anticipate hosting an investor forum at this time. In developing the Instrument, we consulted broadly with investor advocates, industry representatives, self-regulatory organizations and service providers. We have also considered the comments provided on Framework 81-406 <i>Point of sale disclosure for mutual funds and segregated funds</i> (the Framework) published on October 24, 2008 by the Joint Forum of Financial Market Regulators (Joint Forum). All of this feedback is reflected in the Instrument. As noted above, we will continue to publish for comment further amendments and consult with stakeholders on all future stages of the POS project.</p> <p>On the issue of rationalizing the current disclosure obligations that exist for mutual funds, it is our intention to review these obligations once implementation of the POS project is complete.</p> <p>The implementation of tagging technology, such as XBRL, is outside the scope of the POS project. The CSA is currently exploring requirements related to XBRL. If a decision is made to require disclosure documents to be filed in XBRL format, we will consider extending this requirement to the Fund Facts.</p> |
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public comment procedures are not adequate for meaningful public consultation.

***Disagreement with benefits of POS***

We were told a staged implementation of the rule would be the best way for investors to get the benefit of the Fund Facts with a minimum of delay, while other aspects of the rule such as delivery, are being developed.

One industry commenter added that the benefits of the Fund Facts come only with flexibility around when and how information is provided to investors.

Other industry commenters stated that because there is not a rationalization of other disclosure obligations, such as the SP, annual information form (AIF) and management report of fund performance (MRFP), they didn't see a benefit to investors through cost reduction. Rather, compliance will increase the costs to investors.

This was echoed by an independent review committee, which remarked that there already exists many types of documents produced by the mutual fund industry and third parties that provide information to investors and questioned the need for the Fund Facts.

A few of these commenters urged the regulators to streamline the existing disclosure regime for mutual funds concurrently with implementation of the Fund Facts legislation.

One industry commenter disagreed with the CSA that investor protection would be furthered through the Instrument for 3 reasons:

- the disclosure regime already provides investors with an abundant amount of information, including fund fact like documents, without fundamentally altering the manner in which mutual funds are sold;
- investors rely on expert advisers to explain the benefits and risks associated with investment purchases, yet the role of advisers has been completely ignored by the CSA proposals; and
- the marginal benefit, if any, of an investor being able to review a one page document before purchase is greatly outweighed by the costly and disruptive changes the proposals will force upon the mutual fund industry.

One of these commenters stated that the POS initiative reinforces the popular, but unfounded, belief that investors actively review and make decisions on their own based solely, or even primarily, on the written disclosure they receive about a fund. We were told the anticipated benefits are somewhat *ideal* benefits, but ones that may not be achievable or supported by actual investor behaviour.

Yet, an investor advocate commenter cited different research studies, which indicates investors will respond positively to summary data presented on a single page.

We also heard that the Instrument will put significant administrative pressure on the client/adviser relationship and make it more cumbersome for investors in a business



that is already administratively burdened.

A number of industry commenters noted that the Instrument should not create unintended frustrations for investors and their advisers by establishing barriers to easily transact or by reducing available choices of mutual funds. This level of frustration, indicated some commenters, may significantly defeat the intended benefits from the perspective of the investor.

To this end, it was recommended that the CSA conduct additional investor research in assessing the benefits and any aggravations experienced by investors due to this regulatory initiative.

One mutual fund company, that has had research conducted independently on its behalf remarked that the benefits to investors needs to be better measured and understood.

We were further asked by an industry commenter to carefully consider the substantial costs, the likelihood of unnecessary duplication of existing disclosure and the use of potentially stale dated information versus the benefits of the provision of the Fund Facts.

Still other industry commenters remarked that the creation of yet another disclosure document, providing some but not all of the information contained in both the Part B of the SP and the MRFP, coupled with the complexity of the POS proposals about what types of trades need to get pre-

sale information, at what stage during the sales process, and what time periods the information is designed to cover, will not be beneficial to investors but rather, investors will be confused and overwhelmed by the process.

Other industry commenters questioned whether there are other measures that the CSA can take at this time to improve the mutual fund disclosure regime while reducing the cost burden.

Many commenters urged us to consider POS for riskier parts of the financial services business, as well as additional disclosure in advertising, rather than focussing on the mutual fund industry, which is a comparatively safe and regulated business.

One of these commenters stated that it is paradoxical that the CSA is seeking to make the disclosure system for mutual funds more onerous while keeping the status quo for higher risk investments.

An independent review committee of a mutual fund agreed, asking why the disclosure regime proposed is considered beneficial for mutual funds, while other like products can be sold to investors without the requirement to deliver any disclosure document.

An alternative, equally effective regulatory approach, suggested one commenter, to achieve the benefits perceived by the POS proposals would be to revert strictly

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| back to the original and stated principles behind the SP system set out in NI 81-101.  |   |
| <b>2. We seek feedback on whether you agree or disagree with our perspective on the cost burden of the Instrument. Specifically, we request specific data from the mutual fund industry and service providers on the anticipated costs and savings of complying with the Instrument for the mutual fund industry.</b>  |   |
| <i>Comments</i>  | <i>Responses</i>  |
| <p><b><i>Disagreement with stated cost burden</i></b><br/> We were told by a number of industry commenters that many aspects of the Instrument need to be clarified before reliable cost estimates can be determined.</p> <p>One commenter stated that there are several variables that make a cost analysis very difficult at this time. For example, will the CSA allow multiple series in one Fund Facts, which will reduce costs? The mutual fund industry has not concluded on the best way to interface with the dealers and advisers operationally and this will have significant costs. In addition, there currently is not an automated solution for delivery of the Fund Facts, which again will impact the cost analysis.</p> <p>Many industry commenters told us that although unable to provide detailed information about likely costs at this time, they think that the CSA has underestimated the systems infrastructure, development costs and administrative process that will be involved in preparing, posting and arranging for delivery of Fund Facts through multiple channels, as well as moving to the new pre-sale delivery requirement.</p> | <p>Although we received some general comments on the cost burden of the Instrument, we received limited data from the mutual fund industry and service providers on the anticipated costs and savings of complying with the Instrument for the mutual fund industry. In addition, most of these comments related to delivery aspects of the Instrument. As the CSA moves forward with implementation of the POS project, we will further consult on the costs of the Instrument, particularly as they relate to the operational and compliance concerns of point of sale delivery.</p> <p>It is not intended that the production, filing and posting of the Fund Facts to the mutual fund's or mutual fund manager's website be more onerous than a mutual fund or mutual fund manager's existing mechanisms for producing and maintaining required disclosure. We have allowed for a three-month transition period following the in-force date of the Instrument. This is to provide sufficient time for implementation of compliance and operational systems.</p> |

Some of these commenters remarked that requiring the Fund Facts to be delivered contemporaneously with the sale of mutual funds and segregated funds, rather than post sale, fundamentally alters the way in which these products are sold and will require the creation of an independent system of document delivery and auditing that will vastly increase the costs and administrative burdens associated with selling mutual funds.

We also heard that collecting investors' opt-in or opt-out preferences for the annual option in the Instrument to receive all Fund Facts held will create fairly significant additional procedural complexities for dealers, who currently have no mechanism in place to comply with this type of requirement, particularly smaller independent mutual fund dealers.

A few commenters went on to say that any minimal benefit that the provision of a Fund Facts at point of sale would provide is eclipsed by the costly overhaul of the sale process that would be required.

One industry commenter remarked they didn't think the CSA has conducted a meaningful cost benefit analysis.

In fact, some industry commenters recommended undertaking a final review prior to publication after all policy directions are determined to assess their implications from a cost and compliance standpoint for all stakeholders.

One commenter stated that there must be focused cost-benefit analysis and additional research into the actual system of delivery and use of the Fund Facts. The practicalities of the proposed disclosure system need additional exploration and various alternatives, including technological solutions, need to be considered further before a formal rule can be developed to replace existing regulation.

It was also suggested that the CSA seek cost data from mutual fund companies and dealers on a confidential basis and to release the aggregate results, as this information, when available, is proprietary in nature.

The costs associated with implementing the Instrument were identified by one commenter as largely breaking down into Fund Facts production (creation, update, filing, and management of Fund Facts) and Fund Facts delivery (eligibility workflow, receipting, and dealer compliance).

Finally, a number of industry commenters reminded the CSA that the incremental costs of implementing the Instrument will eventually be borne to the investing public.

***Agree with stated cost burden***

One service provider remarked that production of the Fund Facts may represent an opportunity for manufacturers to gain some efficiency in the manner with which they update and inform customers through the replacement of the SP and potentially more automated

production and authorization protocols towards producing and filing Fund Facts for investors.

This commenter stated that orienting manufacturers towards digital production as a more expeditious means of delivery may reduce print, distribution and environmental costs over the longer term.

This same service provider also suggested compliance costs could be contained through outsourcing of the delivery obligation outside existing dealer systems and the minimization of integration into back office protocols for the purposes of compliance.

Another industry service provider told us it expects to leverage its existing fulfilment infrastructure to have Fund Facts available for distribution to investors by e-mail, download, fax or print and mail on a timely basis and that its automated system ensures that only the current document is distributed.

Still, this commenter noted that while increasingly advanced technology will be of tremendous assistance in meeting the new requirements, including the restrictions on bundling and the differentiations in the delivery requirements, the Instrument still adds to the compliance burden and costs incurred in the industry.

In addition, continued this commenter, there will be significant ongoing costs related to the collection and maintenance of various investor preferences, adviser training

and support, and infrastructure maintenance.

***Specific data***

Based on the proposed Instrument, one industry commenter, a mutual fund manufacturer and dealer, gave the following rough estimates:

- the initial costs for the preparation of approximately 800 Fund Facts for five fund families (which costs include the design and layout, staffing, legal counsel, French translation, website development, Fund Facts fulfillment and printing) would be approximately \$2,000,000 in the first two years, with ongoing costs decreasing to approximately \$1,500,000 per year;
- distribution costs to develop or enhance the information delivery systems would be \$1,800,000. The ongoing costs to maintain the new system would cost approximately \$200,000 per year;
- filing approximately 800 Fund Facts for five fund families would take 4 to 5 business days to complete with a cost of approximately \$13,000 per year for investors; and
- compliance/staff costs in overseeing and maintaining the delivery regime could initially cost our related dealers \$500,000. Ongoing compliance costs would include increased staffing and expenses required to manage the new systems and would cost such dealers approximately \$150,000 per year.

Still another industry commenter told us that the potential cost savings of replacing the prospectus with the Fund Facts will be marginal, since the largest portion of

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| <p>delivery cost of either a Fund Facts or a prospectus is postage, which will remain unchanged and represents 65% of the total production costs.</p>  |  |
| <p><b>II. – Comments on issues for comment on the Instrument</b></p>   |  |
| <p><b>1. We are considering allowing fund managers greater flexibility to provide more current information to investors by not restricting how frequently a fund manager may file an updated fund facts document. What are your views? How would this impact compliance with the requirement to deliver the most recently filed fund facts document?</b></p>   |  |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>  |
| <p><b><i>In favour of greater flexibility to file Fund Facts</i></b><br/> A few commenters had no objection to our extending this flexibility, and remarked there may be some merit to more frequent updating of Fund Facts. One of these commenters stated that fund managers should not have restrictions placed on updating the Fund Facts more frequently than once annually if they so desire. However, these commenters remarked that increased frequency of updating and filing the Fund Facts could result in increased costs to investors.</p> <p>One commenter stated that since much of the disclosure contained in the Fund Facts would not change with a more frequent updating schedule, its value to investors would be outweighed by the increased costs that would be borne by them. An alternative, stated this commenter, would be to direct investors to the MRFP and quarterly portfolio summaries.</p> | <p>We have considered the comments and acknowledge the concerns about the potential issues related to the frequency of updating the Fund Facts. As a result, we will only require mutual funds to file a Fund Facts annually, or if a material change occurs that relates to the information contained in the Fund Facts. The Instrument, however, does allow a fund manager the flexibility to file an amended Fund Facts more frequently if they choose.</p> |



Another noted that fund companies would have a tendency, however, to update the Fund Facts only when markets are rising or alternatively, when the performance calculation eliminates a period of poor performance that occurred essentially 10 years ago.

***Opposed to greater flexibility to file Fund Facts***

Most industry commenters were against the CSA proposal to allow fund managers greater flexibility to file updated Fund Facts or told us they would not use it.

***Suggested that we limit the frequency of filings***

A number of industry commenters recommended that the Instrument be amended to limit the number of times the Fund Facts must be reproduced.

It was suggested by these commenters that the requirement to file a Fund Facts be limited to an annual basis, or more frequently if there is a material change, be retained.

Requiring an amended Fund Facts upon the occurrence of a material change, stated one of these commenters, renders more frequent filings unnecessary and confusing.

Still another commenter remarked that very up-to-date information is readily available from data vendors, and other than the Top 10 and the investment mix charts, they do not anticipate that there would be significant changes in the Fund Facts content from quarter to quarter. Any benefit to be gained by more frequent production, stated this commenter,

is unlikely to outweigh the cost.

***Frequent filings of Fund Facts will cause dealer confusion and increase cost and complexity of compliance***

Most of these commenters remarked that without restrictions on filing updated Fund Facts, inconsistent practices could develop among fund managers in the frequency of updating, which could lead to increased confusion for dealers in referencing the most recently filed Fund Facts and could potentially lead to errors in delivering the correct Fund Facts to an investor.

One commenter stated that greater frequency in filing will require dealers to constantly monitor when a Fund Facts has been updated for a particular mutual fund or series. The complexities, stated this commenter, simply are not justified. Added another of these commenters, it would be a monumental task for dealers to devise appropriate systems to ensure that the mutual fund's most recently filed Fund Facts is sent to investors, when the requisite document potentially changes every three months.

Still another commenter noted that just as amendments to the SP are often confusing for advisers, so too will amendments to the Fund Facts. Adding flexibility will just increase the already existing confusion.

We also heard from industry commenters that the amount of time, effort and resources engaged by fund managers in the compiling, editing, translation and approval of the Fund Facts would be a huge and onerous undertaking.

***Frequent filings of Fund Facts will cause investor confusion***

A number of commenters also told us that this option may lead to more difficulty, confusion and frustration for investors in comparing Fund Facts, and could undermine comparability for investors.

One commenter told us that allowing for discretionary timing of filing updates or failing to harmonize the time frames mandated for particular data elements would make it difficult for investors to know that they are comparing apples to apples and make it difficult for them to know that they are looking at the most up-to-date information.

We were referred to the SEC's explanation as to why it did not require more frequent updates be made to each mutual fund's Summary Prospectus. Namely, that quarterly updating of performance information could confuse investors and would discourage mutual funds from using the Summary Prospectus.

***Frequent filings will cause competitive disadvantage***

One commenter, a national dealer association, further stated that that this option could create a competitive disadvantage for fund managers that choose not to update the Fund Facts at regular intervals, since once one major fund company starts preparing and filing Fund Facts more frequently, all of their competitors would be required to fall in line due to demand from advisers.

| <b>5. In response to comments, we are proposing some limited binding of fund facts documents. In section 4.1.5 of the Companion Policy we have provided guidance on this provision. Is this guidance sufficient? Do you agree with this approach?</b>  |   |
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| <i>Comments</i>  | <i>Responses</i>  |
| <p>While some industry commenters told us the Instrument’s flexibility to allow some binding of the Fund Facts is laudable, all industry commenters told us that the suggested limitations on binding set out in the Companion Policy are arbitrary and too prescriptive, and encouraged the CSA to provide a high degree of flexibility in the number of Fund Facts that are permitted to be bound together.</p> <p>This is particularly true, we were told, when the Fund Facts is permitted to be delivered with the trade confirmation, since the number of Fund Facts is determined by the number of executed purchases providing information about that purchase trade.</p> <p>A few commenters further questioned the need for the “principled-based” test in section 5.4 stating that it appears impossible to be able to say with any degree of certainty, whether or not it has been met.</p> <p>A number of commenters stated that there may be cases where the provision of information about more than 10 mutual funds of a single fund family, or the comparison of more than 10 mutual funds of a similar type from different families would not compromise the principles of simplicity,</p> | <p>For the purposes of posting to a website, each Fund Facts must be posted as a separate document. Posting a single document per fund should help investors more easily find and access information about the particular mutual fund. For SEDAR filing purposes, the Instrument allows the Fund Facts of all the mutual funds contained in a multiple SP to be bound together.</p> |

accessibility and comparability.

We were given examples where bundling of more than 10 Fund Facts may be desirable from the investor's perspective, such as:

- for the top and underlying funds of a fund of funds structure, or
- funds of an asset class, or by country, or across a group of assets with like risks.

Added a service provider commenter, implementing technologies to comply with the restrictions as described in the Companion Policy would add significant costs to the implementation as well as ongoing production and postage costs associated with the potential mailing of a number of separate packages to an investor.

This commenter went on to say that receiving multiple packages in the mail would be more confusing to investors and be less likely to encourage them to read the material than if they receive one consolidated, bound booklet personalized to their interests with a clear index that informs them on what they are reviewing.

It was therefore recommended that the limit of 10 Fund Facts be omitted from the Companion Policy or expressed in softer language, so that the Instrument is flexible on bundling of Fund Facts, both electronically and in paper form, and that the decision on whether or not to bind be left to the discretion of the manufacturer and/or dealer, provided the bundling adheres to the principles of

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| <p>simplicity, accessibility and comparability.</p> <p>We were also told by a number of industry commenters that section 5.4(2) of the Instrument should be amended to allow for electronic delivery of multiple Fund Facts that are bound together in a PDF document, consistent with delivery in paper format.</p> <p>These commenters disagreed that multiple Fund Facts could constrain an investor's ability to download the file, find and print the specific Fund Facts, remarking that it would not be difficult for investors to download a document of approximately 20-30 pages, representing 10 Fund Facts, investors would prefer receiving one e-mail and it would be more efficient for dealers and ensure stronger compliance with the Instrument.</p> |   |
| <p><b>7. Depending on the comments we receive, we may decide to proceed with finalizing some parts of the Instrument while continuing to consult on other parts. For example, we may be able to move forward sooner with the requirement to prepare and file a fund facts document and have it posted to the website. If this were to occur, we would provide a reasonable transition period before anyone has to comply with the fund facts document requirements and we would consider a shorter transitional period for delivery.</b></p> <p><b>What are your views on this approach? What period would be appropriate?</b></p>   |   |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>   |
| <p>While a few industry commenters recommended removing the requirement for pre-sale delivery, most industry commenters simply reiterated their support for a staged implementation, with the first stage consisting of the</p>  | <p>For the reasons indicated above, the CSA has concluded to move forward with a staged implementation of the project.</p> <p>While the staged implementation may differ from the implementation schedule contemplated by the CCIR, the Fund Facts is harmonized with</p> |

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| <p>production of the Fund Facts. POS delivery would be deferred to allow for a longer consultative process until there are clear, practical and workable solutions developed to the operational and compliance concerns related to delivery.</p> <p>One investor advocate commenter also expressed support for the CSA to move forward sooner with certain requirements (such as the requirement to prepare and file a Fund Facts and have it posted to the website), and to continue to consult on other parts of the Instrument.</p> <p>One service provider stated, at a minimum, the transition period will need to address the likelihood that during this period, a dealer will need to be able to deliver a combination of SPs and Fund Facts.</p> <p>We were encouraged to allow the voluntary use of the Fund Facts before any delivery requirements are mandated.</p> <p>However, even with a deferred implementation of delivery, we were told by some industry commenters that a two-year transition period for delivery would still be appropriate and should not be shortened. Others, however, remarked they were uncertain whether a two-year transition to delivery will be sufficient to resolve pre-trade delivery problems including the operational interface to facilitate delivery.</p> <p>In addition, a number of industry commenters additionally expressed support for a transition period that provides for</p> | <p>the CCIR approach.</p> <p>As the CSA moves forward with the remaining stages of implementation set out in Notice 81-319, we will continue our consultations with stakeholders.</p> <p>We do not think that the CSA's approach to implementation will cause confusion for investors. The Funds Facts published by the CSA is consistent with the Fund Facts to be finalized by the CCIR. We note that the CSA and CCIR currently have different delivery requirements for disclosure documents. The CSA remains committed to proceeding with POS delivery.</p> |
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the earlier dissemination of Fund Facts to investors, telling us it will allow users of the Fund Facts to gain valuable experience with the document and enable them to determine its utility. They agreed with allowing funds to make use of the Fund Facts during the transition period under the current delivery requirements.

One industry commenter stated that once the Fund Facts is filed, the disclosure regime contemplated under the Instrument should become effective, with only the point of sale or timing of the delivery phased in.

Another commenter remarked that before delivery of the Fund Facts comes into effect, the CSA must ensure that appropriate modifications to applicable legislation are in place.

Yet, we also heard from an association that represents both insurance and mutual fund professionals that while a two-step approach to implementation has some merit, this approach differs from the implementation schedule contemplated by the Joint Forum and the Canadian Counsel of Insurance Regulators (CCIR). We were told it makes little sense to proceed with full implementation for segregated funds and a staged implementation for mutual funds because it would create confusion for investors and advisers. Implementation for both products, indicated this commenter, should be the same.



| <b>III) Issues for Comment on Form 81-101F3 Contents of Fund Facts Document</b>  |  |
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| <p><b>1. In response to comments, we have provided some flexibility in the proposed amendments to National Instrument 81- 101 <i>Mutual Fund Prospectus Disclosure</i> for a fund facts document to be attached to, or bound with, one or more fund facts documents of other mutual funds. To date, however, we have not seen a sample fund facts document that contains multiple class or series disclosure that meets the principle of providing investors with information in a simple, accessible and comparable format as set out in <i>Framework 81-406: Point of Sale Disclosure for Mutual Funds and Segregated Funds</i> (Framework).</b></p> <p><b>For us to consider allowing flexibility to permit a single fund facts document per mutual fund, we request sample fund facts documents that demonstrate multiple class or series information presented in a manner consistent with the principles of the Framework.</b></p> |  |
| <i>Comments</i>  | <i>Responses</i>   |
| <p>In response to the CSA’s request, four industry commenters prepared and submitted sample multi-series Fund Facts, including the Investment Funds Institute of Canada, a national trade association for the investment funds industry. We also received an alternative POS template from an individual commenter.</p> <p>An independent review committee commented that the content of a single series or class Fund Facts will not allow an investor to understand his or her investment options.</p> <p>The majority of industry commenters stated that a multi-series Fund Facts can meet the principles of simplicity, accessibility and comparability, if the series’ are</p>   | <p>We do not propose to make any change at this time. The CSA will continue to consider this issue as we move toward implementation of POS delivery.</p> |

predominately the same (with no material difference). An example is retail series that are the same but for different distribution amounts.

A number of industry commenters remarked that although Fund Facts can be bundled and read together, if the differences between series and classes are minimal, comprehension for both investors and financial advisers is simplified by integrating the multiple series disclosure into one document. They said this would provide a more complete picture of the investment options available for each mutual fund. In particular, noted a commenter, investors would have access to consolidated fees and expenses information for each series of a mutual fund.

The addition of an extra page or two to a Fund Facts to accommodate a multi-series document on this basis would not, indicated one commenter, undermine the principle of readability, which is central to the CSA's proposals.

A number of industry commenters did acknowledge, however, that including dissimilar series in a single Fund Facts risks presenting information that is not fully explained or easily comparable. Noted one commenter, flexibility should be extended only when the series' are substantially comparable and are all available to the investor through the dealer that is delivering the Fund Facts.

Another commenter added that if new mutual fund series for each province/territory is created due to HST, mutual fund manufacturers could only realistically combine the

series related to one province/territory into one document.

We were told that grouping similar series in a single Fund Facts would reduce the number of Fund Facts for a particular mutual fund down to 3 or 4 from an expected 10 or more and, in aggregate, by approximately two-thirds. This would significantly reduce costs to create, design, review, post online, print and deliver Fund Facts. One commenter added that this grouping would also assist similarly qualified investors in understanding the different purchase options available to them.

Added another industry commenter, the sample template submitted by IFIC could be further simplified by consolidating the graphs for different series showing the year-by-year returns in the “How has the fund performed section” into one graph with different bars representing different series in the same graph. In this way, it would be possible to combine different series into one Fund Facts without unduly lengthening it and without confusing investors.

Still, other industry commenters told us fund managers should have the flexibility to choose whether to combine any series into the same Fund Facts if, stated one of these commenters, the Fund Facts does not exceed 4 pages.

Another commenter, a mutual fund dealer, stated that multiple series Fund Facts could be problematic, since not all mutual fund dealers necessarily sell all the series of each mutual fund. Including more than one series in a

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| <p>Fund Facts, stated this commenter, could therefore create confusion between advisers and investors and detract from the objective of providing streamlined and simple disclosure. A possible exception to this would be where the series are substantially the same so that the differences between the information for each series are minimal.</p> <p>Finally, if a Fund Facts includes multiple series or classes, an investor advocate commenter remarked that the CSA should require the inclusion of comparative information (particularly with respect to fees) between the different series or classes of mutual funds.</p> |  |
| <p><b>2. We are considering whether it is more appropriate to require disclosure of the MER without any waivers or absorptions, since there is no guarantee such waivers or absorptions will continue. Do you agree with this approach?</b></p>  |  |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>  |
| <p>While some investor advocate commenters supported presenting the MER without any waivers and absorptions, industry commenters who responded disagreed, and told us the “actual” MER (i.e. the MER after waivers and absorptions) should be presented.</p> <p>We were told that presenting the MER after waivers and absorptions will match the performance information contained in the Fund Facts and is the most consistent with the objectives of the Fund Facts.</p> <p>A number of industry commenters further remarked that presenting only the MER before waivers and absorptions</p>  | <p>We think that requiring the disclosure of MER after waivers and absorptions is consistent with industry practice and avoids confusion for investors. The MER will be taken from the most recently filed MRFP for the mutual fund.</p> <p>In our view, providing two different MERs in the Fund Facts would be confusing to readers. therefore, where the MER reflects waivers and absorptions, we require disclosure in the Fund Facts to that effect. As a result, the MER disclosed in “Quick Facts” and the MER in “Fund Expenses” are the same.</p> |

could be confusing or misleading for investors since it would not represent what investors would experience as mutual fund holders.

One of these commenters stated that all numerical data in disclosure documents is, of necessity, backward-looking and intended to give investors a good sense, not a guarantee, of what they will experience as owners of the investment product.

However, some industry commenters did acknowledge the importance of disclosing that the MER may reflect waivers and absorptions. A few commenters suggested the Fund Facts follow the current practice in the SP of stating that waivers apply to the MER, which may change from year to year.

Another commenter told us to consider providing a cross-reference to more detailed disclosure on this issue, given its importance to an investor.

Still another industry commenter suggested that the Quick Facts section could disclose the actual MER, while the Ongoing Fund Expenses section could disclose both the actual MER and the MER before waivers and absorptions. However, a different commenter stated that disclosing both net and gross MER might confuse the investor and complicate the Fund Facts.

Finally, if the CSA is concerned that mutual fund managers might decide not to waive or absorb fees in a

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| <p>particular year after the investor has made a purchase, one industry commenter suggested this could be addressed by requiring policies and procedures around waivers and absorptions and having them explained in the SP or AIF.</p>  |  |
| <p><b>3. In response to comments, including concerns raised by investors and the Investment Funds Institute of Canada (IFIC) of the use of its risk scale, we are proposing for the manager to identify the mutual fund’s risk level on a prescribed scale set out in the fund facts document, based upon the risk classification methodology adopted by the manager.</b></p> <p><b>We request comment on whether this approach achieves our objective to provide investors with a simple and comparable presentation of the level of investment risk associated with the mutual fund. Are there alternatives to achieve this objective?</b></p>   |  |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>  |
| <p>A number of industry commenters and an investor advocate commenter agreed with the CSA proposed approach to require that the methodology used to disclose risk in the Fund Facts be consistent with that used by the fund manager in the SP. They supported providing investors with a simple and comparable presentation of the level of investment risk.</p> <p>One of these commenters stated that, the flexible approach to the risk classification methodology is appropriate, but did note that for comparability, one methodology for every fund manager would be preferable.</p> <p>However, other industry commenters as well as the investor advocates who commented, remarked that the objective of comparability could only be achieved by adopting a common risk scale or a common methodology to determine the risk level. These commenters suggested</p> | <p>We have decided to allow the fund manager to identify the mutual fund’s risk level based on the investment risk classification methodology adopted by the fund manager.</p> <p>The Fund Facts Form requires the fund manager of the mutual fund to provide a risk rating for the mutual fund based on the risk classification methodology adopted by the fund manager. The fund manager must then identify the mutual fund’s risk level on a scale prescribed in the Fund Facts Form made up of five categories ranging from low to high.</p> <p>It is our view that the use of a prescribed scale will promote comparability of risk across mutual funds. We received positive feedback from investors and advisers on the risk scale when we tested the Fund Facts document. See the <i>Fund Facts Document Research Report</i> (the Research Report) prepared by Research Strategy Group in Appendix 5 to Proposed Framework 81-406 <i>Point of Sale Disclosure for Mutual Funds and Segregated Funds</i> published by the Joint Forum on June 15, 2007 (the</p> |

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| <p>that the CSA either adopt the IFIC Fund Risk Classification methodology or create its own prescribed risk scale or methodology.</p> <p>Added one of the investor advocate commenters, if this approach is taken, there should be a requirement for prospectus disclosure of the methodology used.</p> <p>We were also told that the risk classification methodology will vary from fund manager to fund manager and will unavoidably contain some elements of judgement and subjectivity.</p> <p>One commenter also remarked that while a widely accepted risk measurement formula does work well in the long-run, it is misleading to suggest to investors that a bond fund has a lower risk than an emerging market equity fund. It is possible for interest rates to rise dramatically in the short run and the value of a bond fund can drop as if it were a high-risk emerging market fund.</p> <p>Other industry commenters told us that any disclosure of a risk measure for a mutual fund is confusing and could be misinterpreted or misused by investors and advisers.</p> <p>Some of these commenters noted that there are limits to the usefulness of rating the risk of particular funds in isolation, separately from an investor's overall portfolio, circumstances, risk profile and investment objectives. It was also expressed that fund risk was never intended to be used by dealers, advisers or investors as a proxy for</p> | <p>Initial Framework) on the OSC website.</p> <p>The consequential amendments require a description in the SP of the methodology used by the fund manager in arriving at its determination of the mutual fund's investment risk level.</p> |
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| <p>suitability.</p> <p><b><i>Alternatives suggested</i></b></p> <p><b><i>Worst 12-month return</i></b><br/>Investor advocate commenters suggested that the Fund Facts disclose the worst 12-month return for the fund. These commenters indicated that the information would equip investors with a greater understanding of the risks they might need to bear if a similar 12-month return period were to recur.</p> <p><b><i>Past performance</i></b><br/>We were told that although past performance is not an accurate indicator of future returns, investors frequently do not fully understand the risks associated with mutual fund investments. Clearly showing investors a “worst-case scenario”, we were told, can drive home the message that investing in a mutual fund can be risky, with the potential to result in a loss of the investment.</p> <p><b><i>Refer investors to SP</i></b><br/>A few industry commenters remarked that a risk scale may not be necessary at all, since the SP already contains extensive risk disclosure, as well as comments on suitability. Instead, it was suggested the Fund Facts refer the investor to the SP for risk disclosure.</p> <p><b><i>Proposed risk scale</i></b><br/>Finally, if the CSA decides to proceed with the proposed risk scale, a number of industry commenters asked that a</p> | <p><b><i>Worst 12-month return</i></b><br/>We have not made any changes. We think that isolating a mutual fund’s worst 12-month return could be potentially misleading to investors. The mandated disclosure will show graphically the performance of the mutual fund. We also note that “Year-by-Year Returns” must indicate the number of years in which the value of the mutual fund dropped.</p> <p><b><i>Past performance</i></b><br/>We propose no change. Consistent with the existing prospectus disclosure and continuous disclosure regimes, the Fund Facts Form requires performance be disclosed annually.</p> <p><b><i>Refer investors to SP</i></b><br/>We disagree with the comment that a risk scale is not necessary, however, we agree with the suggestion of adding a cross-reference to the SP. The Fund Facts Form now requires a cross-reference to the risk disclosure contained in a mutual fund’s SP.</p> <p><b><i>Proposed risk scale</i></b><br/>In response to comments, we have added qualifying language to “Who is</p> |
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| <p>statement be included to clarify that the risk measure is the fund manager’s reasonable assessment of the fund’s historical volatility risk and not the investor’s risk tolerance, and that the investor should consider the investment in the context of his or her entire portfolio rather than in isolation.</p>   | <p>this fund for?” to alert investors that before investing in any mutual fund, they should consider how it would work with their other investments and their own risk tolerance. We think that this qualifying language will encourage investors to seek out more information.</p>  |
| <p><b>4. We would like feedback on whether the band we’ve prescribed for the scale is appropriate. Are there better ways to describe the range of investment risk for a mutual fund?</b></p>   |  |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>  |
| <p>While some industry commenters and an investor advocate told us they agree with the scale the CSA has prescribed for identifying a mutual fund’s risk level, other industry commenters stated that the concepts of fund volatility risk and overall investor risk tolerance are commonly confused by investors. The scale may exacerbate the confusion, leading to improper investment decisions that may increase the risks associated with the investor’s overall portfolio.</p> <p>Added an investor advocate commenter, permitting fund companies to rate the relative riskiness of their mutual funds on a sliding scale will leave investors in the dark about the mutual fund’s true risks.</p> <p><b>Better ways to describe risk</b></p> <p><i>Highlight investor risk tolerance</i><br/>As previously noted, a number of industry commenters told us the risk scale should be removed or, if retained, that the</p> | <p>We have not made any changes to the bands we’ve prescribed for the scale. In response to comments, we now require a cross-reference to the SP for a description of mutual fund-specific risks.</p> <p><b>Better ways to describe risk</b></p> <p><i>Highlight investor risk tolerance</i><br/>We have not removed the risk scale, however, we have added a sentence to “Who is this fund for?” which alerts investors to consider how the investment fits with their risk tolerance and with their portfolio.</p> |

Fund Facts clarify that the disclosure shows the fund manager's assessment of the fund's historic volatility risk and not investor risk tolerance and that the investor should consider the investment in the context of their entire portfolio, rather than in isolation.

***Change nomenclature***

Industry commenters also recommended that, to minimize the confusion between fund volatility risk and investor risk tolerance, the CSA should consider changing the nomenclature of the risk bands, using the term "average" in place of terms often used to denote client risk tolerance such as "moderate" or "medium".

It was also suggested that the Fund Facts refer to the fund's "volatility" rather than its "risk" consistent with the year-by-year performance data which illustrates volatility.

***Increase number of risk 'clusters' on band***

A number of industry commenters told us that the band has too few categories, resulting in each risk band being too large in size. They recommended that expanding the band to include "very low" volatility, commensurate with IFIC's revised risk classification methodology which recognizes six clusters of fund standard deviations.

***Highlight worst twelve-month returns***

As previously noted, investor advocate commenters suggested that the Fund Facts disclose the worst 12-month return for the mutual fund as a way to better illustrate the risks an investor might need to bear.

***Increase number of risk 'clusters' on band***

We propose no change. As noted above, we think the risk scale appropriately gives readers a snapshot of the risk level of the mutual fund.

***Highlight worst twelve-month returns***

We propose no change. As noted previously, the Fund Facts Form requires disclosure of a mutual fund's performance over a 10-year period. We think the 10-year time horizon will provide investors with an illustration of the best and the worst performance of the fund.

***Include risk/reward numerics***

We disagree with this comment. We do not consider the 15 risk/reward

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| <p><b><i>Include risk/reward numerics</i></b><br/> Finally, we heard from another commenter who recommended that instead of the risk scale, the following 15 risk/reward numerics should be provided to investors prior to purchasing a mutual fund as a way to better describe the range of investment risk:</p> <p>1. Alpha, 2. Beta, 3. Correlation Benchmark, 4. Downside Risk, 5. Downside Frequency, 6. Downside Magnitude, 7. Jensen’s Measure, 8. Morningstar Rating, 9. Mean, 10. R-Squared, 11. Sharpe Ratio, 12. Skewness 13. Sortino Ratio, 14. Standard Deviation 15. Treynor’s Measure.</p> | <p>numerics described to be written in a way that is consistent with plain language principles. Our research identified the following facts about the Canadian population: our population is aging, about one-fifth of Canadians have a language other than French or English as their mother tongue, about one-half of adult Canadians have serious problems dealing with printed materials or can deal only with simple reading tasks, and a large majority of investors lack basic investment knowledge. Consistent with our research, we have decided to present the information in a simple and accessible format. To achieve this goal, we have designed the Fund Facts in a short, informative, investor-friendly and plain language format.</p> |
| <p><b>5. We recognize that managers with similar type mutual funds may adopt different methodologies to identify the mutual fund’s risk level on the scale prescribed. We would like your view on whether this will detract from our objective to provide a simple and comparable presentation of the level of investment risk. Should we consider requiring a particular type of risk classification methodology be used? If so, what methodology would be appropriate?</b></p>  |   |
| <p><b><i>Comments</i></b></p>   | <p><b><i>Responses</i></b></p>  |
| <p>Only one investor advocate commenter suggested an alternative risk methodology, asking us to consider including beta as a risk measure.</p> <p>A few industry commenters endorsed mandating the use of IFIC’s Fund Risk Classification Model, saying that risk classification cannot be compared between Fund Facts prepared using different methodology. However, most industry commenters, including IFIC, remarked that the use of the IFIC Fund Risk Classification methodology, while useful to help ensure comparability, should not be</p>  | <p>After much consideration, we have decided not to prescribe the use of a particular type of risk classification methodology. The fund manager must choose the most applicable risk methodology and describe the methodology used in the mutual fund’s prospectus. The fund manager must certify the risk methodology selected by the mutual fund in the AIF.</p>  |

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| <p>prescribed.</p> <p>IFIC remarked that its risk classification methodology is only a guideline and is not mandatory.</p> <p>A number of industry commenters further recommended against adopting alternative risk methodologies, which we were told could have the potential for bias or substantial annual variation, and thereby have serious impacts on investors.</p>  |  |
| <p><b>6. In response to comments, we are considering allowing the disclosure in this section to be supplemented with a brief description of the key risks associated with an investment in the mutual fund. We request feedback on this approach. Should we limit this risk disclosure? If so, how?</b></p>  |  |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>  |
| <p><b><i>Agree with allowing a description of key risks</i></b><br/> Investor advocate commenters and an SRO commenter generally supported the CSA proposal to allow a brief description of the key risks associated with the mutual fund, although they differed on what risks they thought should be included.</p> <p>Investor advocate commenters suggested we require mutual funds with significant exposure to currency fluctuations to state their hedging policy.</p> <p>One of these commenters stated that, some narrative should be permitted even if an additional page is required, since the communication of risk and suitability is at the heart of POS</p> | <p>We propose no change. In response to comments, we are requiring a cross-reference to the risk disclosure found in the SP so that investors are aware that there are more specific descriptions of a mutual fund’s risk and know how to obtain more information.</p> |

disclosure.

Another commenter also told us that investors should be made aware of the general risks of investing in a mutual fund (price fluctuation risk, investment is not guaranteed risk, and redemptions may be suspended risk) as well as the specific risks of investing in a mutual fund (including: concentration risk, credit risk, currency risk, derivative risks, equity risk, foreign investment risk, interest rate risk, large transaction risk, liquidity risk, repayment risk, replication management risk, repurchase and reverse repurchase transactions and securities lending risk).

Added this commenter, there should also be transparency of the mutual fund's statement of investment policy, since the investment ranges that the fund manager must adhere to per asset category within the mutual fund is a key risk/reward identifier.

We also heard from one industry commenter who suggested that the CSA mandate a delineation between primary and additional risks in the SP, and then require fund managers to briefly address only the primary risks in the Fund Facts.

***Disagree with allowing a description of key risks***

Most industry commenters, however, disagreed with supplementing the risk section with a description of key risks.

Some of these commenters told us they did not see how

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| <p>detailed descriptions would fit within the two-to-three page format of the Fund Facts, nor did they think that additional narrative would facilitate the goal of concise disclosure and comparability between mutual funds.</p> <p>Others remarked that listing the key risks by title would be of little use to those not familiar with the particular risk factors named.</p> <p>Still other commenters told us it would be difficult to prioritize which risks should be disclosed in that limited space and the exercise of selectively choosing some risks and excluding others could result in incomplete or misleading disclosure. One of these commenters stated that certain risks may seem very remote or improbable, but can have an extremely significant and adverse impact if they were to manifest.</p> <p>Instead, most industry commenters recommended including a clear and specific reference to the SP for investors who would like more information regarding key risks, together with a statement that the Fund Facts does not address all of the risks of investing in the mutual fund.</p> |   |
| <p><b>7. To better convey the impact on the investor of sales charges and ongoing fund expenses, we are considering requiring an illustration of the amounts payable in dollars and cents. What are your views?</b></p>   |   |
| <p><i>Comments</i></p>  | <p><i>Responses</i></p>   |
| <p>Support for an illustration of sales charges and ongoing mutual fund expenses in dollars and cents was divided</p>   | <p>The comments made by investor advocates resonated with us. We think that a simple presentation of costs in dollars and cents will help investors</p> |

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| <p>almost unanimously between industry and investor advocate commenters. Investor advocates supported the illustration.</p> <p><b><i>In favour of dollar and cent illustrations of expenses</i></b><br/>Investor advocate commenters and an SRO commenter strongly supported this approach, telling us a simple metric like the dollars and cents fees enable investors to gain a clearer understanding of the impact of those fees and expenses on potential returns.</p> <p>One investor advocate stated that information on fees and expenses is critically important for investors.</p> <p>Added a service provider of plain language communications, clarity about the costs of buying and owning a mutual fund would be significantly improved by including an example showing dollar values for each cost component.</p> <p>This commenter further suggested that it would help investors stay the course and avoid unnecessary losses if the dollar and cents example of costs showed a 1-, 5- and 10-year timeframe.</p> <p><b><i>Against dollar and cent illustrations of expenses</i></b><br/>Industry commenters, however, recommended against a dollars and cents illustration. We were told it would not add to the utility or ease of comprehension of the Fund Facts, since the existing information is sufficient to give potential investors a good sense of what they will experience as an investor, the percentage amount is easily understood, and an</p> | <p>understand the impact of fees and expenses on their potential returns. As shown in the Fund Facts template, these illustrations do not require much additional space.</p> |
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| <p>investor could easily derive the dollar amount from it.</p> <p>We were also told that including both percentage and dollar amounts would use up valuable space and add unnecessarily to the length of the Fund Facts.</p> <p>Added one industry commenter, they were not aware of any investor concerns in this regard and told us that if dollar amounts were used in lieu of percentages, this could be very confusing for investors, given purchases and redemptions are made in other than \$100 or \$1000 increments.</p> <p>It is more important, indicated one industry commenter, for the disclosure to refer to fee-based dealer fees and transactional fees for competing products, which are often negotiated with the investor to ensure that a fair comparison is made with series that charge lesser management fees.</p> |   |
| <p><b>8. We are also considering whether to require disclosure in the fund facts document of the trading expense ratio (TER), to provide investors with a more complete picture of the costs associated with an investment in a mutual fund. We request feedback on this proposal.</b></p>   |   |
| <p><i>Comments</i></p>   | <p><i>Responses</i></p>   |
| <p><b><i>Support for the TER</i></b><br/> Investor advocate commenters unanimously supported the inclusion of the TER in the Fund Facts.</p> <p>Two of these commenters remarked that trading expenses can be a key component of mutual fund costs. Disclosing the TER together with the MER would give investors a clear picture of the total costs that have impacted a mutual fund's</p>  | <p>We agree with the commenters who supported the inclusion of the TER. Accordingly, the Fund Facts Form now requires the mutual fund's TER, in addition to the MER, to provide investors a more complete picture of the costs associated with an investment in a mutual fund.</p> <p>We disagree that the TER will be a difficult concept to explain. The TER is a key ratio disclosed in a mutual fund's MRFP. We think that advisers will be</p> |



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| <p>performance.</p> <p>Added one of the investor advocate commenters, the CSA may want to further analyze the point at which disclosure of the TER of a mutual fund would be material to an investor, and add relevant guidance to the Companion Policy regarding the inclusion of disclosure of the TER in the Fund Facts where appropriate (i.e., where it exceeds a minimum threshold that would be considered material).</p> <p>These remarks were echoed by an industry commenter, a mutual fund manufacturer, who similarly supported including the TER in the Fund Facts. This commenter noted, however, that the TER can fluctuate and, at certain points in time, could be inflated due to atypical activities. Therefore, the commenter recommended that the CSA allow for a brief notation as to the potential variability of the TER similar to that of the MER.</p> <p><b><i>Against inclusion of the TER in the Fund Facts</i></b></p> <p>Most industry commenters told us that the TER will be a difficult concept to explain in simple language in the space available, and investors were unlikely to derive any meaningful information to base an investment decision from the inclusion of the TER.</p> <p>We were told the concept of the TER may be difficult for investors to understand and confusing, as it is not a well understood metric.</p> <p>Some commenters suggested identifying trading expenses be</p> | <p>able to explain and respond to investor questions about the TER.</p> |
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| <p>identified as an additional cost and that the Fund Facts refer investors to the MRFP which already sufficiently captures disclosure of the TER.</p> |  |   |   |
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| <p><b>Part 3 – Comments on the Fund Facts</b></p>  |  |   |   |
| <p><u>Issue</u></p>  | <p><u>Sub-Issue</u></p>                  | <p><u>Comments</u></p>  | <p><u>Responses</u></p>   |
| <p><b>General comments on the fund facts</b></p>   | <p><i>Support for the fund facts</i></p> | <p>As previously noted, investor advocate commenters strongly support the goal of the CSA to provide investors with clear, meaningful and simplified information, as did most industry commenters.</p> <p>All of these commenters indicated their general support of the Fund Facts as a way of providing concise, plain language information that describes key elements of the mutual fund under consideration.</p> <p>Remarked one industry commenter, the Fund Facts is well thought-out and will provide investors with a substantial amount of information in a consistent format.</p> <p>Still, a few commenters told us that the Fund Facts may actually mislead or misinform potential investors because its content is overly simplistic.</p> <p><b>For further general comments on the</b></p> | <p>The CSA appreciates the general support for the Fund Facts.</p> <p>We think the disclosure in the Fund Facts will provide investors with key information in language they can easily understand. For investors seeking more detailed disclosure, the existing prospectus and continuous disclosure materials will continue to be made available.</p> |

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|                             |                               | <b>Fund Facts, see: Part 2, I) Issues for comment in the Notice and Request for Comment.</b>  |   |
| <b>Part 1 of Fund Facts</b> |                               |   |   |
| <b>Quick facts</b>          | <i>Quick facts categories</i> | <p><i>Non-applicable categories</i><br/>We were asked by one industry commenter to clarify whether a fund manager should label and mark a field “N/A” or omit the label entirely if one or more Quick facts fields are not relevant to a particular mutual fund or series, for example, a mutual fund whose distributions are not a fundamental feature.</p> <p><i>Additional categories</i><br/>It was also suggested by both an industry and investor advocate commenter that the mutual fund’s category classification (e.g. Canadian Equity) be added to Quick facts.</p> | <p><i>Non-applicable categories</i><br/>The Fund Facts Form states that if information is not available because a mutual fund is newly established, the applicable field in “Quick Facts” should state so. Similarly, the Fund Facts Form states that distributions only have to be disclosed if they are a fundamental feature of the mutual fund.</p> <p><i>Additional categories</i><br/>We do not propose to add any categories to Quick facts. We think the section “What does the fund invest in?” adequately identifies the type of mutual fund.</p> |
|                             | <i>Total value</i>            | <p>One commenter suggested we further clarify that the requirement is to provide the total value of the entire mutual fund and not simply the series covered by the Fund Facts.</p> <p>Another industry commenter further recommended that we specify that daily NAV be used to calculate total value since the</p>   | <p>We have made it clear in the Fund Facts Form that total value is the value of the entire mutual fund.</p> <p>We have further clarified in the Fund Facts Form that the total value is based on the net asset value as at a date within 30 days before the date of the Fund</p>   |

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|                                      |   | current term used, “net assets”, is a term specific to the financial statements and MRFP and is not regularly available and for consistency with the disclosure of the percentage of NAV of the mutual fund represented by its top ten positions.   | Facts.  |
|                                      | <b><i>MER</i></b>                           | <p>One industry commenter reiterated their earlier suggestion that MER should be defined on the first page of the Fund Facts, or at a minimum, there should be a cross-reference on the first page to the definition on the second page.</p> <p>Another commenter remarked that the MER should come from the year-end financials (not the most recently filed MRFP) and should not be required to be updated.</p> | <p>We propose no change. We are satisfied that MER is a generally recognizable term and the description in the Fund Facts Form provides sufficient information.</p> <p>We disagree with the comment. We want to provide investors with the most up-to-date information available without being burdensome on the fund industry. There is no specific requirement to update the MER unless there has been a material change.</p> |
| <b>What does the fund invest in?</b> | <b><i>What does the fund invest in?</i></b> | <p>Several commenters again expressed their view that this section should include a meaningful description of the fundamental investment objective of the particular mutual fund, as well as its key investment strategies.</p> <p>One of these commenters stated it would be difficult for investors to judge the performance of a mutual fund without</p>   | <p>We do not agree that it is necessary to disclose verbatim in the Fund Facts the investment objectives and strategies set out in the mutual fund’s SP.</p> <p>The Fund Facts Form requires the disclosure under “What Does The Fund Invest In?” to be a brief description of the fundamental investment objectives</p>  |

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|  |   | <p>measuring it against its stated objective.</p> <p>Another of these commenters noted that investors are required to approve any change in investment objective and questioned how they could be expected to do so if they are never given this information.</p> <p>Still, we heard from one investor advocate commenter that the description of a mutual fund's investment objectives should be limited to information that is both meaningful and material.</p>   | <p>and strategies of the mutual fund. In this regard, the instructions to the Fund Facts Form mirror Item 6 of Form 81-101F1, Part B. While the Fund Facts Form does not specifically preclude repeating the investment objectives and strategies set out in the SP, the instructions to the Fund Facts Form specifically require information to be presented concisely and in plain language.</p> |
|  | <p><b><i>Top 10 investments, Total investments &amp; Investment mix</i></b></p> | <p>Several industry commenters questioned the relevance of the Top 10 investments and Investment mix, telling us it will always be out of date for most mutual funds and could therefore be misleading to investors. They reminded us that it was initially contemplated under NI 81-106 for MRFPs but was subsequently removed by the CSA.</p> <p>Noted a service provider of plain language communications, detail about the “current” asset mix and top holdings is irrelevant because, by owning a mutual fund, you are agreeing to have the fund manager make these decisions on your behalf.</p> <p>One of these industry commenters referred us</p> | <p>We propose no change. We are satisfied that the disclosure in this section meets its purpose of providing a snapshot of the composition of a mutual fund's investment portfolio. The Fund Facts Form requires a statement indicating that the information is subject to change. We think this sufficiently alerts investors that a mutual fund's holdings are not static.</p>                   |

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|  |  | <p>to the SEC's decision not to require similar disclosure in its Summary Prospectus, noting its limited utility and that it may not accurately represent a fund's overall holdings because the information may become stale.</p> <p>If required, this same commenter suggested that the information be taken from the mutual fund's most recently filed MRFP or quarterly portfolio disclosure (rather than at a date within 30 days of the date of the Fund Facts), and that corresponding MRFP and quarterly portfolio disclosure requirements be eliminated.</p> <p>We were reminded that during discussions with the CSA prior to finalizing NI 81-106, the industry expressed concern about having to provide quarterly portfolio disclosure reports and the CSA had agreed that it would not be necessary for mutual funds to report their holdings earlier than 60 days from any quarter-end.</p> <p>Yet, we an industry commenter and investor advocate commenter both remarked that the Top 10 investments would be more meaningful if percentages of NAV accompanied each holding, since this would give investors a much better understanding of concentration risk.</p> |  |
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| <p><b>How has the fund performed?</b></p> | <p><i>Content</i></p>             | <p>One commenter questioned the need for the Fund Facts to contain performance disclosure, given the wide availability of this information in other sources, including MRFPs and in reports readily available to dealers and sales representatives, such as Morningstar. Other industry commenters recommended modifications to the wording in the Fund Facts.</p> <p>One commenter suggested changing the phrase “Returns are after MER has been deducted” to “Returns are after all expenses have been deducted”, since returns are net of both MER and trading expenses and the concept of “all expenses” would be easier for a typical investor to understand than “MER”. It was also suggested, however, that this statement be removed, as it’s duplicative of wording under Ongoing fund expenses.</p> <p>Another commenter suggested the phrase “your actual return will depend on your personal tax situation” be replaced with “your after tax return”.</p> | <p>We have included performance disclosure in the Fund Facts in response to research that indicates investors want this information for decision-making purposes.</p> <p>In response to a commenter, we have changed the Fund Facts Form requirements to refer to returns after expenses have been deducted.</p> <p>We have also included a reference to after-tax return.</p> |
|   | <p><i>Date of information</i></p> | <p>One industry commenter found the dating of the “average return” section to be somewhat confusing since it does not correspond to the “year-by-year” data, which is presented on a calendar year basis. If, for example, the</p>  | <p>The wording in the Fund Facts template is for illustrative purposes only. The Fund Facts Form does not mandate any specific language for the disclosure of the “Average return” information.</p>  |

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|  |  | <p>Fund Facts is dated June 30 and the “Average return” data must be for the 10 year period ending May 31 of that year, there should be some clarification regarding the exact time period covered by the “Average return” data. For example, the wording could be “This section tells you how the mutual fund has performed over the past 10 years ending May 31, 2010”.</p>  | <p>Accordingly, we think the Fund Facts Form is sufficiently flexible to accommodate differently dated Fund Facts.</p>   |
|  | <p><b><i>Inclusion of a benchmark comparison</i></b></p> | <p>Investor advocate commenters stressed the importance of performance comparisons to index benchmarks as fundamental to protecting investors, detecting “closet indexing” and reducing information asymmetry.</p> <p>One of these commenters suggested that the CSA review this issue with a view to formulating a proposal for public comment to require performance comparisons to appropriate index benchmarks by June 2010.</p> <p>An industry commenter echoed this, reiterating its earlier comment that a table showing compounded annual returns for the previous 1-, 3-, 5- and 10-year periods versus the mutual fund's benchmark is more meaningful information to the investor, and suggested that this information be added to the Fund Facts.</p> | <p>After much consideration, we have concluded not to include a benchmark comparison under “How has the fund performed?”. We are concerned that this would undermine our goal of a simple and concise summary of key information. The bar graph is intended to highlight potential volatility and variability in the returns of the mutual fund. The Fund Facts Form further requires a general statement on price volatility and guarantees. Comparative information to a benchmark is available in a mutual fund's MRFP.</p> |



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|  | <p><b><i>Inclusion of disclosure of after-tax returns</i></b></p> | <p>Investor advocate commenters strongly recommended that the CSA require disclosure of after-tax returns in the Fund Facts. It also recommended that mutual funds be required to disclose the percentage, on an after-inflation basis, that is consumed by various fees and charges. They suggested that this disclosure could be provided on a before-tax basis. These inclusions we were told will help investors understand the impact of taxes and inflation on their investments.</p> <p>At a minimum, one of these investor advocates indicated that the Fund Facts should address tax issues head on and make the issue highly visible and apparent for the taxable investor.</p> | <p>We propose no change. However, in response to comments, the CSA has added a new section to the Fund Facts Form on the tax consequences of investing in a mutual fund called “A Word about Tax”.</p> |
|  | <p><b><i>Average return - Content</i></b></p>                     | <p>One industry commenter reiterated its support for the re-introduction of the “Average Return” information, which was dropped from the SP with the introduction of the MRFP. The commenter recommended that the information be shown in the form of a graph that shows not only the end amount after 10 years, but also the path followed to arrive at the end result. This commenter again suggested that this information be re-introduced in the MRFP.</p>   | <p>We propose no change to this disclosure. It is outside the scope of this project to reconsider MRFP disclosure.</p>   |

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|                                |   | <p>This same commenter also noted that the phrase “A person who invested \$1,000 in the fund 10 years ago now has \$2,705”, will be incorrect in a great many instances as it assumes that the investor has reinvested all distributions in the mutual fund.</p>   |   |
|                                | <p><i>Year-by-year returns</i><br/>- <i>Content</i></p> | <p>One industry commenter pointed out that the requirement in Part 1, item 4, instruction (4) for the x and y axes to intersect at ‘0’ conflicts with the sample Fund Facts chart which, it felt, more sensibly shows the x and y axes intersecting at a value lower than the lowest of the negative annual returns. This commenter recommended that the fund manager be given discretion with respect to this requirement.</p> <p>Another industry commenter recommended including a statement about the number of years the mutual fund made money.</p> <p>Finally, we were reminded by one commenter that past performance is no guarantee of future performance.</p> | <p>We propose no change. The Fund Facts Form clarifies that the statement under “Year-by-year returns” must indicate the number of years in which the value of the mutual fund dropped.</p> <p>We disagree with the comment to include a statement about the number of years the mutual fund made money. The bar graph clearly indicates the years in which a mutual fund has had positive performance. In requiring disclosure of negative performance, we are seeking to highlight volatility and risks to investors. We expect a mutual fund’s positive performance to be presented.</p> |
| <p><b>How risky is it?</b></p> |   | <p><b>For comments on the Risk section, see Part 2, III) Issues for comment on Form</b></p>  |   |

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|                              |                             | <b>81-101F3 – questions 3, 4, 5 &amp; 6.</b>  |  |
| <b>Who is this fund for?</b> | <i>Content</i>              | <p>We were told by one industry commenter that the instructions to the Fund Facts Form should not focus the disclosure on who the mutual fund is not suitable for, as this is negative. Instead, we were asked to conform the requirement with that required by segregated funds, which focuses on the type of investor the mutual fund is suitable for.</p> <p>Another industry commenter remarked on the wording in the sample Fund Facts that the mutual fund is suitable for investors who can handle ups and downs of the stock market. This statement, stated the commenter, goes to investor psychology rather than to the mutual fund itself and should not be included here.</p> | <p>We disagree with these comments. The content in this section is consistent with the disclosure currently required in a mutual fund’s SP. The instructions to the Fund Facts Form mirror Item 10 of Form 81-101F1, Part B.</p> |
| <b>Part 2 of Fund Facts</b>  |                             |   |  |
| <b>Sales charges</b>         | <i>Initial sales charge</i> | <p>An individual commenter recommended that for greater clarity, we change the disclosure from “Up to 4% of the amount you buy” to “Fully negotiable from 0% to 4%”.</p> <p>Still other commenters suggested the disclosure identify that no sales charge is a real option, recommending the disclosure say</p>   | <p>We have revised the instructions to the Fund Facts Form under the Initial Sales Charge option to refer to a range that can be charged.</p>  |

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|                              |                               | “From 0 to x%”.   |   |
|                              | <i>Deferred sales charges</i> | <p>A few commenters suggested we add disclosure for low load and no load options.</p> <p>One of these commenters recommended adding text indicating that with the DSC or low load option, your entire amount is invested immediately.</p> <p>The other commenter recommended that for no load funds, text should be added to clarify there are no sales or redemption charges for these mutual funds.</p>   | <p>The presentation in the Fund Facts is for illustrative purposes only. The instructions to the Fund Facts Form require a mutual fund to disclose all sales charge options that apply to the class or series described in the Fund Facts. If a mutual fund does not have any sales charges, the instructions to the Fund Facts Form require the mutual fund to replace the introductory statement and the sales charge table with a general statement that no sales charges apply.</p> |
| <b>Ongoing fund expenses</b> | <i>Content</i>                | <p>One industry commenter told us we should eliminate the breakdown between “management fee” and “operating expenses”, since some fund companies include many operating expenses such as custodian fees, registration fees, audit fees, etc. in their calculation of management fee, while others separate them out as operating expenses. This commenter suggested alternative wording, which included listing the specific costs that make up the MER.</p> <p>Another industry commenter remarked that the sentence immediately under the title Operating fund expenses “You don’t pay these expenses directly. They affect you</p> | <p>We have removed the reference to “operating expenses” in the Fund Facts Form. Upon review, we determined that the presentation of MER and TER with explanations of what these ratios capture is sufficient. We think that specific ratios, rather than a breakdown of expenses, are simpler for investors to understand and address the ongoing costs of holding a mutual fund.</p>  |

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|  |                           | because they reduce the return you get on your investment”, is not similarly mandated for the segregated fund version of the Fund Facts. For competitive reasons, these words should be deleted from the Fund Facts.   |   |
|  | <i>Management Fee</i>     | We heard from some industry commenters that the instructions to the Fund Facts Form should not require the management fee percentage to correspond to the fee table in the SP, since this will be misleading for fund managers who show in the SP the maximum annual management fee, but in fact charge a lower amount.  | We propose no change to the disclosure in this section. The content in this section is consistent with the disclosure currently required in the mutual fund’s SP. The instructions to the Fund Facts Form mirror Item 8 of Form 81-101F1, Part A.   |
|  | <i>Operating expenses</i> | <p>One industry commenter suggested we change the phrase “You don’t pay these expenses directly” to “These fees are deducted from the Fund”.</p> <p>A number of commenters, both industry and investor advocates, recommended that the Fund Facts specifically reference the GST and Ontario’s proposed HST. Noted one of these commenters, taxes (particularly the GST and the proposed HST) make up an increasingly significant component of a mutual fund’s MER.</p> <p>Among the suggestions from these commenters were:</p> | As noted above, we have decided to remove the reference to “operating expenses” in the Fund Facts Form. We do not propose to include disclosure regarding GST/HST because it is one of many expenses captured in the MER and additional disclosure would add complexity. Furthermore, disclosure regarding the HST may be included in the SP. |

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|  |   | <ul style="list-style-type: none"> <li>• set out the specific costs, for possible rebating,</li> <li>• change the wording under Operating expenses to read “These are the costs of the fund, <u>including taxes such as GST/HST, but other than trading costs</u>”, and</li> <li>• consider adding a third separate item after Management Fee and Operating expenses for taxes, which all equal the MER.</li> </ul> <p>Still other industry commenters told us that that the fund manager should have the discretion to break down the different types of operating expenses as line items in the Fund Facts.</p> |   |
|  | <p><b><i>Management Expense Ratio</i></b></p> | <p>We were told by an investor advocate commenter that given high Canadian MERs, these fees need to be highlighted and clearly exposed not just in percentage terms but also in dollars and cents.</p> <p>Several industry commenters further remarked that the Fund Facts Form should provide more flexibility to present a more meaningful breakdown of the mutual fund’s MER, given that many fund managers now</p>  | <p>We have considered the comments and decided not to proceed with a breakdown of the components of MER. We think that disclosing certain components of MER in a manner that suggests MER is the total of these components is potentially misleading and inaccurate because the fund manager may waive management fees or absorb operating expenses. Therefore, we have moved away from the “plug-in”</p> |

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|                             |  | <p>charge a fixed administration.</p> <p>Still another industry commenter told us that it is inaccurate and potentially misleading to arrive at the Operating expenses by subtracting the Management fee from the MER, particularly where the fund manager is waiving management fees or absorbing operating expenses. This commenter told us that the Management fee, Operating expenses, and MER should each be calculated discretely and accompanied by a footnote that the MER may not equal the sum of the management fee and the operating expenses because of waived fees and absorbed expenses.</p> | <p>approach to disclosing the different elements of MER and focused on the actual final calculation. We think that this is a more technically accurate and consistent method of disclosing MER to investors. We also think that specific ratios are simpler for investors to understand and address the ongoing costs of holding a mutual fund.</p> <p>We note that a more detailed explanation of the operating expenses of the mutual fund is available in other disclosure documents, such as the annual financial statements.</p> |
|                             | <i>Trailing commission</i>               | <p>An investor advocate commenter suggested the word “Ongoing” should be added to the heading “Trailing commission” to stress that sales commissions are not one-time payments and to combat the misconception of many retail investors that advice is free and free of any conflict-of-interest.</p>   | <p>We propose no change. We are satisfied that the statement in the Fund Facts Form that the trailing commission is paid for as long as the investor owns the mutual fund sufficiently conveys it is not a one-time payment.</p>  |
| <b>For more information</b> | <i>Strengthening Cautionary Language</i> | <p>We also were told by a number of commenters to strengthen the cautionary language contained in this section, to make it clear that the Fund Facts does not have all information.</p>   | <p>In response to this comment, we have moved some of the information previously found under “For More Information” to an introductory header that emphasizes that the Fund Facts may not contain all of the information an</p>   |

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|  |  | <p>A few industry commenters, including a national trade association, recommended replacing the existing wording “This Fund Facts may not have all the information you want” with “Much more information is available to you and you will be deemed to have read that information even if you choose not to do so.”</p> <p>One of these commenters suggested that the section should refer to the availability of the other documents, in addition to the SP, and should refer the reader to the website where this information is posted.</p> <p>Investor advocate commenters told us the existing wording does not properly suggest significant details have been left out, particularly concerning the risks associated with the mutual fund. One commenter recommended replacing it with “This document is an abbreviated summary of important information. You can ask for a copy of the mutual fund’s SP which provides more details on risks, sales commissions and other factors”.</p> <p>These investor advocates recommended moving the cautionary language to the beginning of the Fund Facts.</p> | <p>investor may want and that investors can find more information in the SP. We are satisfied that the language of the header appropriately highlights that the Fund Facts contains key information and the availability of more detailed information.</p> |
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|                                      | <b><i>Adding Dealer Contact Info</i></b> | One industry commenter noted that this section only includes contact information for the mutual fund company. Given that it is the responsibility of the dealer to provide the Fund Facts to the investor, this commenter suggested including a reference to the fact that the investor can get more information about the mutual fund through their dealer.   | We expect that apart from the mutual fund, an investor's key contact will be their adviser. To add dealer information may add complexity.  |
| <b>Other fund facts comments</b>     |  |  |  |
| <b>Overall content of fund facts</b> | <b><i>Risk of stale information</i></b>  | <p>A few industry commenters remarked that we may be creating new risks with the Fund Facts because, for portions of a year, certain disclosure may become outdated. We were reminded that the intent of NI 81-106 was to provide investors with more timely and meaningful ongoing financial and non-financial information about a mutual fund.</p> <p>One commenter suggested that disclosure that is subject to constant change should be minimized, to minimize the need to update the Fund Facts.</p> | The data contained in the Fund Facts Form is intended to be a snapshot at a specific point in time. Investors will always have the option of referring to continuous disclosure documents mandated by NI 81-106, which provide more current and detailed data. We think that annual updates to the Fund Facts meet the policy goals of the POS initiative. |
|                                      | <b><i>Order of information</i></b>       | While a number of industry commenters agreed that comparability between mutual funds would be facilitated by the requirement the Fund Facts contain only information that is specifically mandated or permitted, some  | The instructions to the Fund Facts Form allow a degree of flexibility to enable mutual funds to customize the format of the disclosure, but we do not agree that the order of the information should be  |

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|  |  | <p>suggested that the items in the Fund Facts be arranged in a manner that consolidates information common to all series of the same mutual fund in one place (some stated preferably on the first page) and all information that is variable or specific to a certain series separately (some stated preferably on the second and third pages).</p> <p>These commenters noted that this would assist with developing a common template that fund managers could use for each mutual fund regardless of the number of series offered by the mutual fund.</p> <p>Investor advocate commenters told us that research has shown that the number one piece of information investors want is fees and expenses and that they continue to use performance as the dominant or sole decision element. Added one of these commenters, the fact that studies find investor bias overemphasizes past performance versus expense information is all the more reason not to present returns data ahead of fees and expenses.</p> <p>Still other industry commenters recommended that fund managers have the ability to organize the information required by the Fund Facts Form in a fashion that they determine is</p> | <p>rearranged. The order of the items is intended to assist investors in understanding the information and to help ensure comparability between mutual funds.</p> <p>The instructions to the Fund Facts Form require disclosure to be presented in a format that assists in readability and comprehension. The actual formatting is not mandated by the Fund Facts Form.</p> |
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|   |   | most functional and user friendly.   |  |
|   | <i>Emphasis should be on investment management</i>  | One industry commenter told us that choosing a mutual fund is purchasing portfolio management, and the facts that are critical to choosing a mutual fund relate primarily to assessing the investment management behind the mutual fund, rather than the securities the mutual fund invests in.  | We propose no change. The Fund Facts Form requires disclosure of the name of the portfolio manager. The mutual fund manager can choose to include the names of specific individuals responsible for portfolio selection.   |
|   | <i>Re-evaluate content following implementation</i> | Finally, an investor advocate commenter told us that the CSA should carefully review Fund Facts upon implementation of the POS initiative, with a view to ensuring that the disclosure provided to investors is further improved and clarified.  | While we are satisfied that the Fund Facts meets our policy objectives, we expect that the disclosure will evolve over time.   |
| <b>Recommendations for additional content</b> | <i>Emphasize tax consequences</i>                   | <p>As previously noted, investor advocate commenters strongly urged the CSA to include additional tax information in the Fund Facts, since a substantial portion of mutual fund holdings are not held in tax-sheltered vehicles such as RRSPs.</p> <p>These commenters recommended disclosing after-tax returns under the heading How has the fund performed. At a minimum, we were told the Fund Facts should address tax issues head on and make the issue highly visible.</p> | <p>In response to comments, we have added a section on tax to highlight the potential tax consequences of investing in a mutual fund. The disclosure is general in nature because each person's tax situation will be different. Please see "A Word About Tax" in the revised Fund Facts Form.</p> <p>We do not propose any specific disclosure of the impact of sales taxes. This disclosure can be included in the SP in the context of discussing the</p> |

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|                                       |  | A few industry commenters agreed with emphasizing tax costs, recommending that the GST and Ontario's proposed HST be specifically referenced under Ongoing fund expenses, as taxes make up an increasingly significant component of a mutual fund's MER.   | components of all expenses charged to the mutual fund.  |
|                                       | <i>Need for abbreviated index disclaimer</i> | One industry commenter noted index providers generally require a lengthy disclaimer to be included in the SP relating to the use of the index and suggested the CSA mandate the shorter version is of this disclaimer, currently used in marketing materials. Noted this commenter, if index providers do not agree to the use of the shorter disclaimer in the Fund Facts, the page length restriction cannot be met. | We propose no change. As the Fund Facts is incorporated by reference into the SP, it is not yet clear to us whether the index disclaimer will be necessary in the Fund Facts if it remains in the SP. We will consider the issue on a case-by-case basis. |
|                                       | <i>Hedging policy</i>                        | As previously noted, investor advocate commenters told us that mutual funds with significant exposure to currency fluctuations should be required to state their hedging policy.   | We propose no change. We have, however, included in "How Risky Is It?" a cross-reference to the mutual fund's SP if investors want information about the specific risks of investing in the mutual fund.  |
| <b>Companion Guide for Fund Facts</b> |  | We were told by investor advocate commenters that the CSA should prepare a Companion Guide to explain the Fund Facts and key terms, similar to the online guide prepared by the U.S. Securities and  | As we stated in the Joint Forum's Initial Framework published on June 15, 2007, while we agree that investor education is a key aspect of investor protection, we do not think it is necessary to create a  |

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|   |  | <p>Exchange Commission.</p> <p>One of these commenters stated that the Fund Facts should refer to the guide, which should be available free online and in hard copy upon request. Simultaneously, the CSA should develop a communication program to educate investors about the Fund Facts, dealer and adviser obligations as well as cancellation rights.</p>  | <p>consumers' guide as part of this project. After testing the Fund Facts, the Joint Forum decided not to create a consumer guide as part of the POS project because investors indicated in the Research Report that they would go elsewhere if they wanted more information. It was also concluded there are already many excellent sources of general educational material in the marketplace about mutual funds. For example, you can find investor brochures on the OSC website.</p> |
| <p><b>Preparation of fund facts</b></p> | <p><i>Variety of dates prescribed for presenting information</i></p> | <p>A number of industry commenters told us that there are too many different dates prescribed for presenting information in the Fund Facts, creating unnecessary complexity and confusion.</p> <p>To improve the consistency of information contained in the Fund Facts and in other disclosure documents, these commenters recommended extracting information from and using the same "as at" date of the most recently filed MRFP. They said that this would also help avoid the requirement that data be generated "off-cycle".</p> <p>Still another industry commenter suggested that the Fund Facts should have a harmonized presentation date (e.g., December 31), except</p> | <p>To the extent possible, we have sought to mandate information already contained in a mutual fund's SP, AIF and continuous disclosure documents. In some cases, information is required as of a date within 30 days of the Fund Facts to minimize the staleness of the information. We have also revised the instructions to the Fund Facts Form to allow, for example, the "as of" date of the MER.</p>   |

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|  |   | <p>when there is a material change.</p> <p>One commenter highlighted that as currently drafted, with the Fund Facts requiring performance information for calendar years whereas the MRFPs require the similar performance information for financial years, it is possible for the performance data in a Fund Facts filed later in the year for a mutual fund with, for example, a March 31 fiscal year end, to pre-date the similar performance information in the MRFP for the mutual fund.</p> <p>At a minimum, indicated another commenter, the CSA should not require disclosure of the Top 10 Holdings in as little time as 30 days before the date of the Fund Facts. The commenter suggested that disclosure within the previous quarter would be more in keeping with investor protection standards on portfolio disclosures.</p> |  |
|  | <b><i>Time allotted for preparation of fund facts</i></b> | <p>A number of industry commenters remarked that, especially given the number of Fund Facts that a large complex would have to prepare, the requirement to present much of the content of the Fund Facts (top 10 investments, investment mix, performance data and total net assets) within 30 days of the document date is too short of a period to permit the compilation, translation, review</p>   | <p>We have considered this comment and have included a transition period in the Instrument before the effective date to allow mutual funds time to implement systems to capture the necessary data to complete the Fund Facts. We note that the 30-day period is consistent with the requirement that existed in Form 81-101F1 when top 10 information and</p> |

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|  |                              | <p>and approval procedures necessary for producing an offering document. In some cases, noted one commenter, 30 days may be a shorter period than currently permitted under a mutual fund's portfolio dissemination policy.</p> <p>Commenters told us that the preparation of the Fund Facts and the information to be included in it should be aligned with the processes, procedures and approvals of the existing MRFP and SP.</p> <p>Some industry commenters recommended that information in the Fund Facts not be prescribed within any period less than 60 days, in order to provide sufficient time for the necessary compilation and approvals. Another commenter suggested a requirement 45 days from the end of the period, which would be consistent with the requirements for performance data in sales communications.</p> | <p>performance data were included in the SP. We are aware that many fund companies already provide similar information on a monthly basis in fact sheets posted on their web sites. As a result, we propose no change.</p>                              |
|  | <i>Level of prescription</i> | <p>We were told by one commenter that fund managers must have some flexibility to prepare the Fund Facts in ways that make sense for their mutual funds. This commenter was of the view that excessive prescription would run the risk of making all Fund Facts appear the same (which</p>   | <p>We are satisfied that the Fund Facts Form and its instructions strike the right balance of flexibility and prescription, to allow investors to easily compare mutual funds and to allow fund managers to describe their mutual funds accurately.</p> |

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|  |  | <p>would not help inspire investors to read them, since their importance would be muted and could conceivably easily confuse readers) and of requiring a fund manager to include disclosure about a mutual fund that it thinks is inappropriate or misleading.</p>   |  |
|  | <p><b><i>Readability of fund facts</i></b></p> | <p><b><i>Mandated Flesch-Kincaid (FK) grade level</i></b><br/>         While many industry commenters told us they were in favour of jargon-free plain language, a number of them expressed concerns with applying the FK metric of a grade level of 6 or less which, we were told, was much too prescriptive.</p> <p>Among the concerns identified with applying the FK metric of a grade level of 6 or less were:</p> <ul style="list-style-type: none"> <li>• a grade 6 level may not be appropriate for Canadian investors the vast majority of whom are adult and literate,</li> <li>• a grade 6 level may be too low a level for accurate description of some of the financial concepts requiring disclosure,</li> <li>• it will not be conducive to shorter explanations, which will make adherence to the length restrictions more difficult,</li> <li>• there is considerable uncertainty around the standard,</li> <li>• different versions of Microsoft Word and non-Microsoft Word programs display</li> </ul> | <p><b><i>Mandated FK grade level</i></b><br/>         While the Fund Facts is still required to be written in plain language, as a result of some of the concerns expressed by commenters (particularly the lack of a French language equivalent), we are no longer mandating the use of the FK scale. Instead, we have included guidance in the Companion Policy that we will generally consider a grade level of 6.0 or less on the FK grade level scale to indicate that a Fund Facts is written in plain language.</p> |



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|  |  | <p>different FK levels for the same document,</p> <ul style="list-style-type: none"> <li>• the FK grade level tests are not available for languages other than English,</li> <li>• a FK requirement will double the work effort since it will be necessary to maintain the content of the Fund Facts in Microsoft Word as well as in “design format”, and</li> <li>• it is problematic for translated documents, as the English version of a translated document typically registers at a lower FK level than its corresponding French version.</li> </ul> <p>One commenter also expressed a concern that the names of the sector categories and individual security names may bump up the grade level, forcing it to simplify the rest of the language even more, and asked that the CSA confirm sector categories and individual security names could be excluded from the FK metric.</p> <p>Still another industry commenter stated that complying with the FK requirement would pose a unique problem for index mutual funds, since index providers generally require a lengthy disclaimer to be included in the SP relating to the use of the index.</p> <p>We were also told by commenters who</p> |  |
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|  |  | <p>remarked on the FK metric as too prescriptive that the metric was arbitrary and goes far beyond any previous guidance regarding transaction-related disclosure documents.</p> <p>These industry commenters recommended changing the Instrument so that the Fund Facts would be drafted in plain language, consistent with the existing disclosure regimes in place for other transaction-related documents, and that the Companion Policy specify that the fund manager will, on a best efforts basis, achieve a standard of readability equivalent to a 6.0 grade level subject to any mandated constraints such as required sections and wording.</p> <p>One commenter stated that the Companion Policy could further state that fund managers will be expected to implement systems that test for compliance with plain language requirements and the FK metric could be used as one example for fund managers to consider, among others.</p> <p><b>Font Size</b><br/>To assist the readability of the document for seniors, two commenters, an investor advocate and an SRO, suggested mandating a minimum font size of 10 for the Fund Facts.</p> <p><b>Reader-Friendly Conversion to PDF</b></p> | <p><b>Font Size</b><br/>The instructions to the Fund Facts Form do not mandate a specific font size. Rather, the instructions require that the font size be legible. We think this is sufficient.</p> |
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|  |                                   | A commenter remarked that when the Fund Facts is converted to PDF, care should be taken to ensure that it is still reader-friendly.   | <b><i>Reader-Friendly Conversion to PDF</i></b><br>We have included instructions in the Fund Facts Form to require information to be presented in a way that can be printed in a readable format. We think this is sufficient.   |
|  | <b><i>Filing requirements</i></b> | One industry commenter remarked that currently multi-fund prospectuses are filed under the same SEDAR project identification number. For a large mutual fund complex, if a single identification number is contemplated, <u>each</u> SEDAR profile would show multiple (possibly hundreds) of line items for that Fund Facts filing. However, if separate identification numbers are contemplated, it would take much longer to complete the filings. This commenter asked the CSA for clarification. | We think that Fund Facts should be filed under the same SEDAR profile for all mutual funds in the prospectus. While we appreciate that this will create multiple entries, it is consistent with the practice of filing documents related to the applicable prospectus under the same SEDAR profile. We note, however, that for filing purposes, the Instrument permits a single document containing all relevant Fund Facts to be filed. |
|  | <b><i>Length of document</i></b>  | A few industry commenters remarked that the lengthy disclaimer that index providers require to be included in index fund prospectuses could severely affect a fund manager's ability to meet maximum length restrictions. They recommended that these disclaimers be exempt from the 3-page limit and plain language requirements for the Fund Facts.   | As noted above, the Fund Facts Form does not contemplate the inclusion of any disclaimer language for index funds.   |

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| <p><b>Creating a new class or series of a mutual fund</b></p> |  | <p><b><i>Filing preliminary Fund Facts</i></b><br/> One industry commenter recommended that the creation of a new class or series of securities should not require the filing of a preliminary Fund Facts since this would require a full comment and clearance process with the CSA, thereby significantly adding to the time and effort to launch. Instead, this commenter suggested that an amended Fund Facts could be filed along with the amended SP and AIF.</p> <p>Noted another industry commenter, notwithstanding the prescribed currency dates for Fund Facts in the Fund Facts Form, in the case of a new series added by amendment to an SP, the mutual fund issuer should be permitted to use the information contained in the other Fund Facts of the mutual fund (such as total assets, MER, top holdings) for the Fund Facts of the new series. This would lessen potential confusion arising from having multiple official documents in circulation with different data points.</p> | <p><b><i>Filing preliminary Fund Facts</i></b><br/> We disagree with the comment that the creation of a new class or series of securities should not require the filing of a preliminary Fund Facts. The Fund Facts will be reviewed under existing timelines for an amended SP. We are satisfied this review will occur in a timely way consistent with any amendment.</p> <p>We propose no change. For the purposes of this stage of the initiative, we continue to think that one Fund Facts for each class or series is appropriate.</p> |
| <p><b>Guidance on what constitutes a material change</b></p>  |  | <p>We were asked by one investor advocate commenter to provide further guidance on what would constitute a material change to the information contained in the Fund Facts.</p>   | <p>We think that the guidance in the CP to the Instrument provides sufficient detail on what would constitute a material change to the disclosure in the Fund Facts.</p>   |

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| <p><b>Liability for incomplete or inaccurate information</b></p> |  | <p>One commenter reiterated their earlier remarks that the theory behind giving investors a simple two-page document should be that the document is deemed to incorporate by reference all of the other permanent disclosure documents, so that, in effect, investors are deemed to receive the other documents when they receive the Fund Facts. As a result, this commenter recommended that the SP, AIF and other continuous disclosure documents be incorporated by reference into the Fund Facts, and that a statement of this incorporation be included in the Fund Facts, notwithstanding that some may find this statement too legalistic.</p> | <p>We have added a cross-reference in the Fund Facts to the SP. The Fund Facts also refers to other disclosure documents which together with the Fund Facts comprise a mutual fund's disclosure documents. We propose no further changes at this time.</p>   |
| <p><b>Rationalization of disclosure requirements</b></p>         |  | <p>As previously noted, while industry commenters told us they were pleased that the CSA is planning to review the overall disclosure regime for mutual funds to reduce unnecessary duplication, many of these commenters told us that without a simultaneous review of the existing disclosure regime (including the elimination of redundant disclosure requirements), there will be an enormous strain on the time, effort and resources of firms for the compilation, editing, translation and approval of Fund Facts.</p> <p>We were told to not simply layer the Fund</p>  | <p>As stated in the June 2009 publication of the Instrument, as a second phase of the CSA's implementation, we intend to review the overall disclosure regime for mutual funds to reduce unnecessary duplication. In particular, we intend to explore the development of a single foundation document to replace the current SP and AIF.</p> |

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|  |  | <p>Facts on top of the existing disclosure regime for mutual funds, and were urged not to implement the Instrument before the overall disclosure regime is reviewed in its entirety.</p> <p>One commenter stated that adding the Fund Facts to the existing disclosure regime will create a very document intensive, duplicative and potentially very confusing disclosure framework. This commenter told us that, under the Proposed Instrument, it expects that it will have to prepare and maintain approximately 1,000 separate English-language Fund Facts alone.</p> <p>Some industry commenters suggested a rationalization of the existing disclosure regime could include:</p> <ul style="list-style-type: none"> <li>• rationalizing the MRFPs so that their content would be divided between the prospectus and Fund Facts to be updated annually, and</li> <li>• rationalizing the non-POS non-financial disclosure documents (the current SP and AIF) into a base document (similar to the foundation document for a mutual fund described in the CSA’s consultation paper released in 2003), and similarly rationalizing the existing financial disclosure documents (financial</li> </ul> |  |
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|  |  | statements and the MRFP) into a separate base document, for use primarily by regulators, analysts, advisers and sophisticated investors.  |  |
| <b>Scope of Instrument</b>             | <i>Application to accredited investors, institutional investors and discretionary managed accounts</i> | A few industry commenters reiterated their view that the Instrument should exclude securities of mutual funds not available through a retail investment fund dealer (such as securities of funds that are only available for purchase by other mutual funds through a fund-of-funds structure, by insurance companies for use as the underlying investment in a segregated fund product, registered pension funds or other qualified institutional investors).  | A reconsideration of the current prospectus filing requirements under securities legislation is outside the scope of this initiative. Where an obligation to file a mutual fund's SP exists, the amendments to the Instrument require a mutual fund to prepare and file a Fund Facts and make it available on the mutual fund's or mutual fund manager's website.  |
| <b>One fund facts per series/class</b> | <i>Cost and logistical implications</i>  | <p>As previously noted, most industry commenters reiterated that logistical and cost implications remain for a fund manager in having to prepare a Fund Facts for each series or class of units of a mutual fund at least once a year in English and also in French (if the mutual funds are sold in Quebec).</p> <p>Remarkably one commenter, the sheer volume of documents produced would lead to administrative difficulties at the fund manager level.</p> <p>If the Fund Facts is required, industry</p> | <p>While we asked for submissions of sample Fund Facts that demonstrate multiple series or class information presented in a manner consistent with the Framework principles, we do not propose to make any change at this time to the Fund Facts Form. As we move forward toward implementing POS delivery we will continue to consider this issue.</p> <p>We think the transition period set out in the Instrument should provide sufficient time to make any changes to compliance</p> |

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|  |   | commenters remarked that the 3 templates for multi-series Fund Facts submitted by industry commenters would be preferable to having separate Fund Facts for each class.<br><br><b>For further comments on multi-series Fund Facts, see: Part 2, III) Issues for comment on Form 81-101F3.</b>   | and operational systems that are necessary to produce, file and post the Fund Facts to a website.  |
| <b>Part 4 – Investor rights comments</b> |   |   |  |
| <b><u>Issue</u></b>                      | <b><u>Sub-Issue</u></b>                     | <b><u>Comments</u></b>  | <b><u>Responses</u></b>  |
| <b>Investor rights</b>                   | <b><i>Harmonized cancellation right</i></b> | Investor advocate commenters were unanimous in their recommendation to maintain the status quo and to retain the existing withdrawal rights where investors can cancel the contract and receive the return of their investment. In the alternative, we were told, any new cooling off/cancellation right should allow an investor to obtain the benefit of the upside if they are exposed to downside risk.<br><br>Remarked one investor advocate, “we have spoken with IFIC and some leading mutual fund companies and have been advised that (i) they have not lobbied to change the existing withdrawal rights and (ii) the existing withdrawal rights have not been abused. Therefore, it appears that the CSA is | We have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further. |



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|  |  | <p>reducing investor rights to address a problem that does not exist”.</p> <p>These investor advocates noted that under the proposed cancellation right, an investor is left with less than their original investment when exercising the right in a case where the value of the mutual fund investment has fallen. In the reverse situation of an increase in the value of the investment, however, the consumer is not permitted to share in the upside. Investors, we were told, should not be penalized for cancelling a purchase.</p> <p>An industry commenter further added that the new cancellation right leaves considerable uncertainty for the fund industry and investors alike. Noted this commenter, the Instrument does not specifically address liability for failure to provide a Fund Facts.</p> <p>Another industry commenter remarked that it would be appropriate to have harmonized investor rights across Canada.</p> <p>Still another commenter remarked the CSA should ensure there are harmonized investor rights that cover all of the following areas:</p> <ul style="list-style-type: none"> <li>• damages for misrepresentations in the primary disclosure documents (which include the continuous disclosure</li> </ul> |  |
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|  |   | <p>documents incorporated by reference),</p> <ul style="list-style-type: none"> <li>• rights of investors to rescind or cancel their purchase based on net asset value at the time the right is exercised, and</li> <li>• rights of investors when a disclosure document is not delivered when it is required to be.</li> </ul> <p>This commenter added the rights should clearly delineate which entity is responsible to the investors and in what circumstances and suggested that a detailed discussion paper on these issues be prepared for comment once the various rights are decided upon by the members of the CSA and the ability of the CSA to vary securities legislation is determined.</p> |   |
| <b>Part 5 – Comments on the Instrument</b>                             |   |   |   |
| <b><u>Issue</u></b>  | <b><u>Sub-Issue</u></b>                                     | <b><u>Comments</u></b>  | <b><u>Responses</u></b>   |
| <b>Comments on NI 81-101</b><br><br><b>Part 2 Disclosure Documents</b> | <i>Paragraph 2.1(1)(d) - Filing of disclosure documents</i> | <p>Some commenters told us not to require a preliminary Fund Facts when a mutual fund is adding a new class or series by way of amendment. One of these commenters noted that some of the information in the Fund Facts for the new series will not be new and therefore the same level of review</p>   | <p>If a mutual fund files a new class or series, we expect that the mutual fund will file an amendment to the SP and file a new Fund Facts for each class or series. The CSA will review the Fund Facts under the same timelines as those today for the SP. In such instances, we</p> |

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|  |  | <p>for a preliminary Fund Facts of a new mutual fund is not needed.</p> <p>Others remarked that having to create a preliminary Fund Facts would add significant additional work when launching a new series across several funds.</p>   | <p>will focus our review on areas of the Fund Facts that are different from existing classes or series.</p>  |
|  | <p><b><i>Paragraph 2.2.1<br/>Amendments to a<br/>Preliminary Simplified<br/>Prospectus</i></b></p> | <p>One commenter suggested that additional guidance would be advisable on the notion of “material adverse change”, since it is different from the “material change” notion found at paragraph 2.2.3.</p>  | <p>We have decided not to proceed at this time with this and other amendments that relate to pre-sale delivery of the Fund Facts. We continue to specify that amendments will be required based on a “material change”, which mirrors the requirement in paragraph 11.2(1)(d) of NI 81-106. As we move forward with implementation of POS delivery, we will consider this issue further.</p> |
|  | <p><b><i>Section 2.3 -<br/>Amendments to<br/>disclosure documents</i></b></p>                      | <p><b><i>Requiring a letter specifying FK level</i></b><br/>A number of industry commenters told us that requiring the certification of the FK grade level for every Fund Facts filed would be onerous and could delay the timely updating of Fund Facts. These commenters recommended dropping the certification requirement.</p> <p>An alternative, indicated one commenter, is to ask industry to confirm the FK level as part of the renewal or filing process.</p> | <p><b><i>Requiring a letter specifying FK level</i></b><br/>As previously indicated, we are no longer mandating a FK grade level. Accordingly, the requirement to file a letter certifying the FK level has been removed from the Instrument.</p>  |

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|  |  | <p>We were told that as long as there is a statutory requirement that the Fund Facts be provided in plain language, fund managers will have to comply with that requirement and a certification should not be necessary.</p> <p><b><i>Requiring the Fund Facts to be black-lined</i></b><br/>Some industry commenters also remarked that requiring the Fund Facts when filed to be blacklined against the most recently filed version is inconsistent with the requirement to file a final SP and AIF blacklined against the preliminary or pro forma version.</p> | <p><b><i>Requiring the Fund Facts to be black-lined</i></b><br/>We propose no change. Consistent with the filing requirements for <i>pro forma</i> SPs and AIFs, we think a blacklined <i>pro forma</i> FF will assist the CSA in our review.</p>  |
|  | <b><i>Section 2.3.1 - Voluntary updating of Fund Facts</i></b> | <p>We were asked to clarify whether this subsection applies to updating pro forma Fund Facts.</p> <p>Another commenter asked whether the fund manager could choose to update a Fund Facts on an ad hoc basis and at irregular intervals.</p>   | <p>The Instrument only requires mutual funds to file a Fund Facts annually, or if a material change occurs that relates to the information contained in the Fund Facts. The Instrument, however, does allow a fund manager the flexibility to file an amended Fund Facts more frequently if they choose.</p> |
|  | <b><i>Section 2.3.2 - Websites</i></b>                         | <p>A few industry commenters suggested that the requirement to post the Fund Facts to the website should be amended to require posting as soon as reasonably practicable following the issuance of a receipt for the</p>   | <p>In response to comments, the Instrument has been revised to specify that the Fund Facts must be posted to the website as soon as practicable, but in any event within 10 days after the document is</p>   |

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|  |   | <p>related SP. These commenters told us that for a large fund complex with hundreds if not thousands of Fund Facts, it may not be possible to post each Fund Facts on the same day without undertaking a significant technological investment.</p> <p>We were also told the section must be clarified to indicate that it is the final Fund Facts that required to be filed.</p> <p>Posting the final Fund Facts to a website before it is received, stated a number of industry commenters, would (i) expose fund managers to liability since advisers could send the posted version to an investor before the regulator requests changes, and (ii) be inconsistent with the requirements for the SP and AIF.</p> | <p>filed. It is intended that only the received Fund Facts will be posted to the website.</p>   |
|  | <p><b><i>Section 2.9 – Cancellation Right</i></b></p> | <p>One industry commenter expressed concern with the lack of uniformity among provinces arising from the exceptions in section 2.9. Although the differences are minor, this commenter stated that they will cause an ongoing compliance headache.</p> <p>We also heard from an investor advocate commenter who asked us to clarify who gets the benefit from the “upside” if the value of the investment has increased from the</p>   | <p>As indicated above, we have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further.</p> |

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|                           |   | original investment.  |   |
| <b>Part 5 – Packaging</b> | <b><i>Section 5.1 – Combinations of documents</i></b> | <p>A number of industry commenters asked for clarification on how sections 5.1(3) – documents that may be attached to a SP – interacts with 5.4(4) – documents attached to the Fund Facts.</p> <p>We were told that as drafted, these sections both seem to require either the SP or the Fund Facts to be the first document in any packaging. Suggested one commenter, we insert “Notwithstanding any other section or subsection of this Instrument,” at the beginning of subsection 5.4(4), to specify that when a Fund Facts is bound with other documents, it always is the first document.</p> <p>Another commenter, a service provider of fulfillment services to industry, provided us with a number of comments related to the combination and ordering of documents in a package. These included:</p> <ul style="list-style-type: none"> <li>• clarification on section 5.1(1) that SPs must not be consolidated unless “substantially similar”;</li> <li>• the suggestion to permit the binding of a Fund Facts in another language with the Fund Facts in English and French for the purpose of delivery to investors; and</li> <li>• clarification on the binding restrictions in</li> </ul> | <p>For this stage of implementation, we have dealt with binding as follows:</p> <ul style="list-style-type: none"> <li>• for posting a Fund Facts to a website, each class or series of a mutual fund must be separately posted;</li> <li>• for SEDAR filings, a mutual fund must file all Fund Facts related to the SP or multiple SP as one filing; and</li> <li>• if a Fund Facts is bound with the SP for delivery to an investor, the Fund Facts must be the first document in the package.</li> </ul> <p>We expect to further consider the packaging of documents as we move forward with implementation of POS delivery.</p> |

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|                         |  | section 5.4(2) for electronic delivery of Fund Facts.  |  |
|                         | <b><i>Section 5.4 – Combinations of Fund Facts</i></b>                               | <p>An industry commenter asked if the trade confirmation may precede the Fund Facts when they are bound together under subsection 5.4(4).</p> <p>A SRO commenter submitted that no bundling should be allowed as it would deter from the intention to provide clear information to investors. If any bundling is to occur, the commenter suggested that the maximum of 10 documents should be integrated in this section, not in the Companion Policy.</p> <p>Finally, industry commenters asked us to confirm that subsection 5.4(5) permits all of the Fund Facts for all series contained in the same SP to be filed in a single document on SEDAR.</p> | As noted above, the Instrument now requires the Fund Facts to be the first document when bound with other documents for the purposes of delivery.  |
| <b>Part 6 Exemption</b> | <b><i>Section 6.2 – Evidence of Exemption by Securities Regulatory Authority</i></b> | One industry commenter remarked that they think relief from the Instrument should be by approval letter on SEDAR, rather than by evidence of receipt of the SP, to avoid any doubt as to whether an exemption has been granted.  | <p>We propose no change. The process of evidencing relief by way of issuance of a receipt is consistent with the requirements today for form and content relief for the SP and AIF.</p> <p>As this process is not a change, we have concluded to remove this section from the Instrument. The issue of</p> |

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|   |   |   | transparency for form and content relief from the disclosure forms for investment funds and corporate issuers is outside the scope of this initiative. The CSA continues to consider how best to address this issue.  |
| <b>Part 7 Effective Date and Transition</b> | <i>Section 7.2 &amp; 7.3 Transition and Transitional delivery of the Fund Facts</i> | <p>A few industry commenters requested a further one year transition period be added for the production and filing of Fund Facts.</p> <p>We were also asked by a couple of commenters for greater clarity of:</p> <ul style="list-style-type: none"> <li>• when a mutual fund not in distribution on the effective date is required to file a Fund Facts with its preliminary disclosure documents;</li> <li>• the first date by which any renewal filings for mutual funds already in distribution would have to be accompanied by the corresponding Fund Facts; and</li> <li>• the date on which the current withdrawal and rescission rights are replaced with the harmonized cancellation right for mutual funds already in distribution.</li> </ul> <p>Still another commenter suggested it would be helpful if the transition section were broken out into (i) effective date of the Instrument, (ii) mutual fund</p> | <p>There are three key points in the implementation schedule (i) the publication date, (ii) the in-force date, and (iii) the effective date. We are of the view that the implementation schedule in the Instrument will allow mutual funds sufficient time to ensure compliance with the rule.</p> <p>We confirm that a mutual fund that is not in distribution on the effective date of the Instrument is not required to file a Fund Facts with its preliminary disclosure documents.</p> |



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|  |   | <p>compliance date (the date by which any pro forma renewal filings would have to be accompanied by the Fund Facts), and (iii) dealer compliance date (the date by which dealers would be required to comply with delivery).</p> <p>This commenter suggested that the Instrument could provide that any mutual fund not in distribution on the effective date is required to file a Fund Facts along with its preliminary disclosure documents and any mutual funds wishing to early adopt could file a Fund Facts after the effective date.</p> <p>A further suggestion made by this commenter was that the withdrawal and rescission rights could be replaced following the implementation of delivery.</p> |  |
| <p><b>Comments on Companion Policy 81-101CP to NI 81-101</b></p> <p><b>Part 2 Purpose and general approach of the Instrument</b></p> | <p><i>Section 2.1 – Purpose of the Instrument</i></p> | <p>One industry commenter remarked we should replace the word “permits” in paragraph 2.1(3)3 of the Companion Policy with the word “requires”, since “permit” is a permissive word which is inappropriate for a mandatory requirement.</p>  | <p>We will address this comment when preparing amendments to the Instrument to implement delivery of the Fund Facts.</p> |
|  | <p><i>Section 2.7 –</i></p>                           | <p>We were told by an industry commenter</p>  | <p>We do not propose any change. The</p>   |

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|   | <i>Amendments</i>                        | <p>that the use of the word “generally” in subsection 2.7(2) in describing scenarios that will not trigger a material change to the content of the Fund Facts implies that there are instances where changes to those items would be considered material changes. We were told to remove the word “generally” and provide further guidance.</p> <p>One SRO commenter suggested that the content of the Fund Facts should be updated to allow investors to have all necessary information available to them when making an investment decision.</p> | <p>Companion Policy is intended to be guidance. We note that the determination of a material change rests with a mutual fund.</p> <p>We propose no change to require more frequent updating of the Fund Facts through amendments, beyond a material change. The Instrument allows a fund manager the flexibility to file an amended Fund Facts more frequently if they choose. We will monitor the development of the Fund Facts to determine whether additional information is necessary.</p> |
| <b>Part 3 Plain Language and Presentation</b> | <i>Section 3.2 – Presentation</i>        | An SRO commenter suggested that a minimal font size should be imposed, the proposed minimal size should be 10 points Bookman Old Style.  | We propose no change. The instructions to the Fund Facts Form require that the font size be legible. We think that this is sufficient guidance.  |
| <b>Part 10 Cancellation Rights</b>            | <i>Section 10.2 – Cancellation Right</i> | We were told by an SRO commenter that disclosure in the Fund Facts should include wording that replicates part of paragraph 2 concerning the absence of charges or fees (such as sales charges or redemption fees) when exercising the cancellation right.   | As indicated above, we have concluded not to proceed with a harmonized rescission and withdrawal right at this time. As implementation of POS delivery progresses, we may consider this issue further.   |

**Part 6 – List of commenters**

- Advocis
- AGF Management Limited
- Anderson, James
- Banque Nationale Groupe Financier
- BMO (Guardian Group of Funds Ltd.)
- BMO Investments Inc.
- Board of Governors for CI Investments Inc. and United Financial Corporation
- Borden Lardner Gervais LLP
- Brandes Investment Partners
- Broadridge Investor Communication Solutions, Canada
- Canadian Bankers Association
- Canadian Foundation for Advancement of Investor Rights
- Capital International Asset Management (Canada), Inc.
- Chambre de la sécurité financière
- CI Financial Group
- CIBC
- Durnin, James S.
- Fédération des caisses du Québec - Desjardins
- Fidelity Investments Canada ULC
- Franklin Templeton Investments Corp.
- Gauthier, Jean-Francois
- Harvey, Ronald P.
- Horan, Chris
- Independent Financial Brokers
- Independent Planning Group Inc.
- Invesco Trimark Ltd.

- Investment Funds Institute of Canada
- Investment Industry Association of Canada
- Investment Planning Counsel, IPC Investment Corporation, IPC Securities Corporation
- Investors Group Inc.
- Keybase Financial Group Inc.
- Killoran, Joe (investorism.com)
- Mackenzie Financial Corporation
- Manulife Securities, Manulife Investments Mutual Funds
- MGI Financial Inc.
- MGI Funds Inc.
- MGI Securities Inc.
- Miller Thomson LLP
- Mouvement d'éducation et de défense des actionnaires
- PFSL Investments Canada Ltd.
- Qtrade Financial Group
- Quirt Brown, Jeanie
- RBC Asset Management Inc., Phillips, Hager & North Investment Management Ltd.
- RBC Dominion Securities Inc. Royal Mutual Funds Inc, Philips, Hager & North Investment Funds Ltd.
- RESP Dealers Association of Canada
- RocheBanyan
- Rogers Group Financial
- Scotia Securities Inc.
- Simplified Communications Group Inc.
- Small Investor Protection Association
- TD Bank Financial Group
- Tradex
- VAULT Solutions Inc.
- Williams, Bill

**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***
  - a. ***replacing “National Instrument 81-102” with “that Instrument” in paragraph (b) of the definition of “commodity pool”;***
  - b. ***adding the following definition after the definition of “financial year”:***  
  

*“fund facts document” means a completed Form 81-101F3 Contents of Fund Facts Document;;*
  - c. ***repealing the definition of “NI 81-107”;***
  - d. ***replacing “National Instrument 81-102” in the definition of “precious metals fund” with “National Instrument 81-102 Mutual Funds”.***
3. ***Section 1.2 is amended by replacing “National Instrument 81-102” with “National Instrument 81-102 Mutual Funds”.***
4. ***Section 2.1 is replaced with the following:***
  - 2.1 ***Filing of Disclosure Documents – (1) A mutual fund***
    - (a) that files a preliminary prospectus must file the preliminary prospectus in the form of a preliminary simplified prospectus prepared in accordance with Form 81-101F1 and concurrently file
      - (i) a preliminary annual information form prepared and certified in accordance with Form 81-101F2; and
      - (ii) a preliminary fund facts document for each class or series of securities of the mutual fund prepared in accordance with Form 81-101F3;
    - (b) that files a *pro forma* prospectus must file the *pro forma* prospectus in the form of a *pro forma* simplified prospectus prepared in accordance with Form 81-101F1 and concurrently file
      - (i) a *pro forma* annual information form prepared in accordance with Form 81-101F2; and

- (ii) a *pro forma* fund facts document for each class or series of securities of the mutual fund prepared in accordance with Form 81-101F3;
- (c) that files a prospectus must file the prospectus in the form of a simplified prospectus prepared in accordance with Form 81-101F1 and concurrently file
  - (i) an annual information form prepared and certified in accordance with Form 81-101F2; and
  - (ii) a fund facts document for each class or series of securities of the mutual fund prepared in accordance with Form 81-101F3;
- (d) that files an amendment to a prospectus must
  - (i) file an amendment
    - (A) to the simplified prospectus and concurrently file an amendment to the related annual information form, or
    - (B) to the related annual information form if changes are made only to the annual information form;
  - (ii) if the amendment relates to the information contained in a fund facts document, concurrently file an amendment to the fund facts document; and
  - (iii) if the amendment relates to a new class or series of securities of the mutual fund that is referable to the same portfolio of assets, concurrently file a fund facts document for the new class or series; and
- (e) must file an amendment to a fund facts document, if a material change occurs that relates to the information contained in the fund facts document, as soon as practicable and, in any event, within 10 days after the day the change occurs.
- (2) A mutual fund must not file a prospectus more than 90 days after the date of the receipt for the preliminary prospectus that relates to the prospectus..

**5. Section 2.2 is amended by**

- a. replacing “shall” in subsection (2) with “must”;**

- b. replacing “shall” in subsection (3) with “must”;*
  - c. adding the following after subsection (3):*
    - (4) An amendment to a fund facts document must be prepared in accordance with Form 81-101F3 without any further identification and dated as of the date the fund facts document is being amended..
- 6. Section 2.3 is amended by**
- a. replacing “shall” in subsection (1) with “must”;*
  - b. replacing the portion of paragraph (1)(a) preceding subparagraph (i) with the following:*
    - (a) file with a preliminary simplified prospectus, a preliminary annual information form and a preliminary fund facts document for each class or series of securities of the mutual fund;
  - c. replacing the portion of paragraph (1)(b) preceding subparagraph (i) with the following:*
    - (b) at the time a preliminary simplified prospectus, a preliminary annual information form and a preliminary fund facts document for each class or series of securities of the mutual fund are filed, deliver or send to the securities regulatory authority;
  - d. replacing “shall” in subsection (2) with “must”;*
  - e. replacing the portion of paragraph (2)(a) preceding subparagraph (i) with the following:*
    - (a) file with a *pro forma* simplified prospectus, a *pro forma* annual information form and a *pro forma* fund facts document for each class or series of securities of the mutual fund;
  - f. replacing the portion of paragraph (2)(b) preceding subparagraph (i) with the following:*
    - (b) at the time a *pro forma* simplified prospectus, a *pro forma* annual information form and a *pro forma* fund facts document for each class or series of securities of the mutual fund are filed, deliver or send to the securities regulatory authority;
  - g. adding the following after subparagraph (2)(b)(ii):*

- (ii.1) a copy of the *pro forma* fund facts document for each class or series of securities of the mutual fund, blacklined to show changes, including the text of deletions, from the latest fund facts document previously filed,;
- h. replacing “shall” in subsection (3) with “must”;***
- i. replacing the portion of paragraph (3)(a) preceding subparagraph (i) with the following:***
  - (a) file with a simplified prospectus, an annual information form and a fund facts document for each class or series of securities of the mutual fund;
- j. adding the following after subparagraph (3)(b)(ii):***
  - (ii.1) a copy of the fund facts document for each class or series of securities of the mutual fund, blacklined to show changes, including the text of deletions, from the preliminary or *pro forma* fund facts document,;
- k. replacing “2.3(1)(b)(ii) or 2.3(2)(b)(iv)” in subparagraph (3)(b)(iii) with “(1)(b)(ii) or (2)(b)(iv)”;***
- l. replacing “shall” in subsection (4) with “must”;***
- m. striking out “and” at the end of subparagraph (4)(a)(iii);***
- n. adding the following after subparagraph (4)(a)(iii):***
  - (iii.1) if the amendment relates to the information contained in a fund facts document, an amendment to the fund facts document, and;
- o. adding the following after subparagraph (4)(b)(ii):***
  - (ii.1) if an amendment to a fund facts document is filed, a copy of the fund facts document, blacklined to show changes, including the text of deletions, from the latest fund facts document previously filed,;
- p. replacing “2.3(1)(b)(ii), 2.3(2)(b)(iv) or 2.3(3)(b)(iii)” in subparagraph (4)(b)(iii) with “(1)(b)(ii), (2)(b)(iv) or (3)(b)(iii)”;***
- q. replacing “shall” in subsection (5) with “must”;***
- r. striking out “and” at the end of subparagraph (5)(a)(iii);***
- s. adding the following after subparagraph (5)(a)(iii):***
  - (iii.1) if the amendment relates to the information contained in a fund facts



document, an amendment to the fund facts document, and;

*t. replacing “2.3(1)(b)(ii), 2.3(2)(b)(iv) or 2.3(3)(b)(iii)” in subparagraph (5)(b)(i) with “(1)(b)(ii), (2)(b)(iv) or (3)(b)(iii)”;*

*u. replacing “; and” with “,” at the end of subparagraph (5)(b)(ii);*

*v. adding the following after subparagraph (5)(b)(ii):*

(ii.1) if an amendment to a fund facts document is filed, a copy of the fund facts document, blacklined to show changes, including the text of deletions, from the latest fund facts document previously filed, and; **and**

*w. adding the following after subsection (5):*

(5.1) A mutual fund must

(a) file the following documents with an amendment to a fund facts document unless subsection (4) or (5) applies:

(i) an amendment to the corresponding annual information form, certified in accordance with Part 5.1,

(ii) any other supporting documents required to be filed under securities legislation; and

(b) at the time an amendment to a fund facts document is filed, deliver or send to the securities regulatory authority

(i) details of any changes to the personal information required to be delivered under subparagraph (1)(b)(ii), (2)(b)(iv) or (3)(b)(iii), in the form of the Personal Information Form and Authorization, since the delivery of that information in connection with the filing of the simplified prospectus of the mutual fund or another mutual fund managed by the manager,

(ii) a copy of the amended and restated fund facts document blacklined to show changes, including the text of deletions, from the most recently filed fund facts document; and

(iii) any other supporting documents required to be delivered or sent to the securities regulatory authority under securities legislation..

**7. The following section is added after section 2.3:**

### 2.3.1 Websites

- (1) If a mutual fund or the mutual fund's family has a website, the mutual fund must post to at least one of those websites a fund facts document filed under this Part as soon as practicable and, in any event, within 10 days after the date that the document is filed.
- (2) A fund facts document posted to the website referred to in subsection (1) must
  - (a) be displayed in a manner that would be considered prominent to a reasonable person; and
  - (b) not be attached to or bound with another fund facts document.
- (3) Subsection (1) does not apply if the fund facts document is posted to a website of the manager of the mutual fund in the manner required under subsection (2)..

### 8. *Section 3.1 is amended by*

- a. replacing the first reference to “shall” with “must” and deleting the second reference to “shall”; and*
- b. adding the following after paragraph 1:*
  - 1.1. The most recently filed fund facts document for each class or series of securities of the mutual fund, filed either concurrently with or after the date of the simplified prospectus..

### 9. *Sections 3.3, 3.4 and 3.5 are amended by replacing “shall” with “must” wherever it occurs.*

### 10. *Section 4.1 is amended by*

- a. replacing subsection (1) with the following:*

**4.1 Plain Language and Presentation** – (1) A simplified prospectus, annual information form and fund facts document must be prepared using plain language and in a format that assists in readability and comprehension.;
- b. replacing “shall” with “must” wherever it occurs in subsection (2); and*
- c. adding the following after subsection (2):*
  - (3) A fund facts document must

- (a) be prepared for each class and each series of securities of a mutual fund in accordance with Form 81-101F3;
- (b) present the items listed in the Part I section of Form 81-101F3 and the items listed in the Part II section of Form 81-101F3 in the order stipulated in those parts;
- (c) use the headings and sub-headings stipulated in Form 81-101F3;
- (d) contain only the information that is specifically required or permitted to be in Form 81-101F3;
- (e) not incorporate any information by reference; and
- (f) not exceed four pages in length..

**11. Section 4.2 is replaced with the following:**

**4.2 Preparation in the Required Form** - Despite provisions in securities legislation relating to the presentation of the content of a prospectus, a simplified prospectus, an annual information form and a fund facts document must be prepared in accordance with this Instrument..

**12. Subsections 5.1(1) and (2) are amended by replacing “shall” with “must”.**

**13. Section 5.2 is amended by**

**a. replacing “shall” with “must” in paragraphs (1)(a) and (b); and**

**b. adding the following after subsection (1):**

(1.1) Despite subsection (1), if attached to or bound with a single SP or multiple SP, the fund facts document must be the first document contained in the package..

**14. Paragraph 5.3(2)(a) is amended by replacing “shall” with “must”.**

**15. Subsections 5.4(1) and (2) are amended by replacing “shall” with “must”.**

**16. The following section is added after section 5.4:**

**5.5 Combinations of Fund Facts Documents for Filing Purposes** –For the purposes of section 2.1, a fund facts document may be attached to or bound with another fund facts document of a mutual fund in a simplified prospectus or, if a multiple SP, another fund facts document of a mutual fund combined in the multiple SP..

**17. Section 5.1.2 is replaced with the following:**

**5.1.2 Date of Certificates** – The date of the certificates required by this Instrument must be within 3 business days before the filing of the preliminary simplified prospectus, the simplified prospectus, the amendment to the simplified prospectus, the amendment to the annual information form or the amendment to the fund facts document, as applicable.

18. *Part 6 is replaced with the following:*

## **PART 6 EXEMPTIONS**

- 6.1 Grant of Exemption** – (1) The regulator or the securities regulatory authority may grant an exemption from the provisions of this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.
- (3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.
- 6.2 Evidence of exemption** – (1) Subject to subsection (2) and without limiting the manner in which an exemption may be evidenced, the granting under this Part of an exemption from any form or content requirements relating to a simplified prospectus, annual information form or fund facts document, may be evidenced by the issuance of a receipt for a simplified prospectus and annual information form, or an amendment to a simplified prospectus or annual information form.
- (2) The issuance of a receipt for a simplified prospectus and annual information form or an amendment to a simplified prospectus or annual information form is not evidence that the exemption has been granted unless
- (a) the person or company that sought the exemption sent to the regulator or securities regulatory authority a letter or memorandum describing the matters relating to the exemption and indicating why consideration should be given to the granting of the exemption:
- (i) on or before the date of the filing of the preliminary or *pro forma* simplified prospectus and annual information form;
- (ii) at least 10 days before the issuance of the receipt in the case of an amendment to a simplified prospectus or annual information form;  
or
- (iii) after the date of the filing of the preliminary or *pro forma*

simplified prospectus and annual information form and received a written acknowledgement from the regulator or securities regulatory authority that the exemption may be evidenced in the manner set out in subsection (1); and

- (b) the regulator or securities regulatory authority has not before, or concurrently with, the issuance of the receipt sent notice to the person or company that sought the exemption, that the exemption sought may not be evidenced in the manner set out in subsection (1)..

**19. Form 81-101F1 Contents of Simplified Prospectus is amended**

**(a) in Item 3 of Part A by:**

**(i) replacing the third bullet under section 3.1 with the following:**

- Additional information about the Fund is available in the following documents:
  - the Annual Information Form;
  - the most recently filed Fund Facts;
  - the most recently filed annual financial statements;
  - any interim financial statements filed after those annual financial statements;
  - the most recently filed annual management report of fund performance;
  - any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as a part of this document. You can get a copy of these documents, at your request, and at no cost, by calling [toll-free/collect] [insert the toll-free telephone number or telephone number where collect calls are accepted, as required by section 3.4 of the Instrument], or from your dealer.; **and**

**(ii) replacing the third bullet under section 3.2 with the following:**

- Additional information about each Fund is available in the following documents:
  - the Annual Information Form;
  - the most recently filed Fund Facts;
  - the most recently filed annual financial statements;
  - any interim financial statements filed after those annual financial statements;

- the most recently filed annual management report of fund performance;
- any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this document, which means that they legally form part of this document just as if they were printed as a part of this document. You can get a copy of these documents, at your request, and at no cost, by calling [toll-free/collect] [insert the toll-free telephone number or telephone number where collect calls are accepted, as required by section 3.4 of the Instrument], or from your dealer..

**(b) in Item 14 of Part A by:**

**(i) replacing the first bullet under subsection 14(2) with the following:**

- Additional information about the Fund[s] is available in the Fund['s/s'] Annual Information Form, Fund Facts, management reports of fund performance and financial statements. These documents are incorporated by reference into this Simplified Prospectus, which means that they legally form part of this document just as if they were printed as a part of this document.;  
**and**

**(ii) replacing subsection 14(3) with the following:**

(3) For a multiple SP in which the Part A section is bound separately from the Part B sections, state, in substantially the following words:

A complete simplified prospectus for the mutual funds listed on this cover consists of this document and any additional disclosure document that provides specific information about the mutual funds in which you are investing. This document provides general information applicable to all of the [name of mutual fund family] funds. When you request a simplified prospectus, you must be provided with the additional disclosure document..

**(c) in Part B by adding the following after Item 9:**

**Item 9.1: Investment Risk Classification Methodology**

(1) Briefly describe the methodology used by the manager for the purpose of identifying the investment risk level of the mutual fund as required by Item 5(2) in Part I of 81-101F3.

- (2) State how frequently the investment risk level of the mutual fund is reviewed.
- (3) Disclose that the methodology that the manager uses to identify the investment risk level of the mutual fund is available on request, at no cost, by calling [toll-free/collect call telephone number] or by writing to [address].

**INSTRUCTION:**

*Include a brief description of the formulas, methods or criteria used by the manager of the mutual fund in identifying the investment risk level of the mutual fund..*

**(d) in Item 10 of Part B by:**

**(i) replacing Instruction (1) with the following:**

*(1) In responding to the disclosure required by this Item, indicate the level of investor risk tolerance that would be appropriate for investment in the mutual fund.; and*

**(ii) by adding the following after Instruction (1):**

*(1.1) Briefly describe how the manager has determined the level of investor risk tolerance that would be appropriate for investment in the mutual fund..*

**20. Form 81-101F2 Contents of Annual Information Form is amended by:**

**(a) in Item 19 by replacing subsection 19(1) with the following:**

**(1) Include a certificate of the mutual fund that states:**

**(a) for a simplified prospectus and annual information form,**

“This annual information form, together with the simplified prospectus and the documents incorporated by reference into the simplified prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus, as required by the securities legislation of [insert the jurisdictions in which qualified] and do not contain any misrepresentations.”

**(b) for an amendment to a simplified prospectus or annual information form that does not restate the simplified prospectus or annual information form,**

“This amendment no. [specify amendment number and date], together with the [amended and restated] annual information form dated [specify], [amending and restating the annual information form dated [specify],] [as amended by (specify prior amendments and dates)] and the [amended and restated] simplified prospectus dated [specify], [amending and restating the simplified prospectus dated [specify],] [as amended by (specify prior amendments and dates)] and the documents incorporated by reference into the [amended and restated] simplified prospectus, [as amended,] constitute full, true and plain disclosure of all material facts relating to the securities offered by the [amended and restated] simplified prospectus, [as amended,] as required by the securities legislation of [insert the jurisdictions in which qualified] and do not contain any misrepresentations.”, and

(c) for an amendment that amends and restates a simplified prospectus or annual information form,

“This amended and restated annual information form dated [specify], amending and restating the annual information form dated [specify] [,as amended by (specify prior amendments and dates)], together with the [amended and restated] simplified prospectus dated [specify] [, amending and restating the simplified prospectus dated [specify]] [,as amended by (specify prior amendments and dates)] and the documents incorporated by reference into the [amended and restated] simplified prospectus, [as amended,] constitute full, true and plain disclosure of all material facts relating to the securities offered by the [amended and restated] simplified prospectus, [as amended,] as required by the securities legislation of [insert the jurisdictions in which qualified] and do not contain any misrepresentations.”.

**(b) in Item 22 by replacing the portion of subsection 22(1) before the Instruction with the following:**

(1) Include a certificate of the principal distributor of the mutual fund that states:

“To the best of our knowledge, information and belief, this annual information form, the financial statements of the fund [specify] for the financial period ended [specify] and the auditors’ report on those financial statements, together with the simplified prospectus and the fund facts document dated [specify], constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus and do not contain any misrepresentation.”; **and**

**(c) in Item 24 by replacing the first bullet under subsection 24(2) with the following:**



- Additional information about the Fund[s] is available in the Fund['s/s'] Fund Facts, management reports of fund performance and financial statements..

**21. The following form is added after Form 81-101F2 Contents of Annual Information Form:**

**National Instrument 81-101  
Mutual Fund Prospectus Disclosure  
Form 81-101F3  
Contents of Fund Facts Document**

**GENERAL INSTRUCTIONS:**

*General*

- (1) *This Form describes the disclosure required in a fund facts document for a mutual fund. Each Item of this Form outlines disclosure requirements. Instructions to help you provide this disclosure are in italic type.*
- (2) *Terms defined in National Instrument 81-101 Mutual Fund Prospectus Disclosure, National Instrument 81-102 Mutual Funds, National Instrument 81-105 Mutual Fund Sales Practices or National Instrument 81-106 Investment Fund Continuous Disclosure and used in this Form have the meanings that they have in those national instruments.*
- (3) *A fund facts document must state the required information concisely and in plain language.*
- (4) *Respond as simply and directly as is reasonably possible. Include only the information necessary for a reasonable investor to understand the fundamental and particular characteristics of the mutual fund.*
- (5) *National Instrument 81-101 Mutual Fund Prospectus Disclosure requires the fund facts document to be presented in a format that assists in readability and comprehension. This Form does not mandate the use of a specific format or template to achieve these goals. However, mutual funds must use, as appropriate, tables, captions, bullet points or other organizational techniques that assist in presenting the required disclosure clearly and concisely.*
- (6) *This Form does not mandate the use of a specific font size or style but the font must be legible. Where the fund facts document is made available online, information must be presented in a way that enables it to be printed in a readable format.*
- (7) *A fund facts document can be produced in colour or in black and white, and in portrait or landscape orientation.*

(8) *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.*

(9) *A fund facts document must not contain design elements (e.g., graphics, photos, artwork) that detract from the information disclosed in the document.*

#### *Contents of a Fund Facts Document*

(10) *A fund facts document must disclose information about only one class or series of securities of a mutual fund. Mutual funds that have more than one class or series that are referable to the same portfolio of assets must prepare a separate fund facts document for each class or series.*

(11) *The fund facts document must be prepared on letter-size paper and must consist of two Parts: Part I and Part II.*

(12) *The fund facts document must begin with the responses to the Items in Part I of this Form.*

(13) *Part I must be followed by the responses to the Items in Part II of this Form.*

(14) *Each of Part I and Part II must not exceed one page in length, unless the required information in any section causes the disclosure to exceed this limit. Where this is the case, a fund facts document must not exceed a total of four pages in length.*

(15) *A mutual fund must not attach or bind other documents to a fund facts document, except those documents permitted under section 5.4 of National Instrument 81-101 Mutual Fund Prospectus Disclosure.*

#### *Consolidation of Fund Facts Document into a Multiple Fund Facts Document*

(16) *Fund facts documents must not be consolidated with each other to form a multiple fund facts document, except as permitted by section 5.4 of National Instrument 81-101 Mutual Fund Prospectus Disclosure. When a multiple fund facts document is permitted under the Instrument, a mutual fund must provide information about each of the mutual funds described in the document on a fund-by-fund or catalogue basis and must set out for each mutual fund separately the information required by this Form. Each fund facts document must start on a new page.*

#### *Multi-Class Mutual Funds*

(17) *As provided in National Instrument 81-102 Mutual Funds, a section, part, class or series of a class of securities of a mutual fund that is referable to a separate portfolio of assets is considered to be a separate mutual fund. Those principles apply to National Instrument 81-101 Mutual Fund Prospectus Disclosure and this Form.*

## **PART I      INFORMATION ABOUT THE FUND**

### **Item 1:      Introduction**

Include at the top of the first page a heading consisting of:

- (a) the title “Fund Facts”;
- (b) the name of the manager of the mutual fund;
- (c) the name of the mutual fund to which the fund facts document pertains and, 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;
- (d) the date of the document; and
- (e) a brief introduction to the document using wording similar to the following:

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

#### *INSTRUCTION:*

*The date for a fund facts document that is filed with a preliminary simplified prospectus or simplified prospectus must be the date of the certificate contained in the related annual information form. The date for a fund facts document that is filed with a pro forma simplified prospectus must be the date of the anticipated simplified prospectus. The date for an amended fund facts document must be the date of the certificate contained in the related amended annual information form.*

### **Item 2:      Quick Facts**

Under the heading “Quick Facts”, include disclosure in the form of the following table:

|  |  |
|--|--|
| <b>Date fund created:</b> (see instruction 1)              | <b>Portfolio manager:</b> (see instruction 4)  |
| <b>Total value 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) |

#### *INSTRUCTIONS:*

- (1) *Use the date that the securities of the class or series of the mutual fund described in the fund facts document first became available to the public.*
- (2) *Specify the net asset value of the mutual fund as at a date within 30 days before the date of the fund facts document. The amount disclosed must take into consideration all classes or series that are referable to the same portfolio of assets. For a newly established mutual fund, simply state that this information is not available because it is a new mutual fund.*
- (3) *Use the management expense ratio (MER) disclosed in the most recently filed management report of fund performance (MRFP) for the mutual fund. The MER must be net of fee waivers or absorptions and, despite section 15.1(2) of National Instrument 81-106 Investment Fund Continuous Disclosure, need not include any additional disclosure about the waivers or absorptions. For a newly established mutual fund that has not yet filed a management report of fund performance, state that the MER is not available because it is a new mutual fund.*
- (4) *Specify the name of the company or companies providing portfolio management services to the mutual fund. The mutual fund may also include the name of the specific individual(s) responsible for portfolio selection.*
- (5) *Include disclosure under this element of the “Quick Facts” only if distributions are a fundamental feature of the mutual fund. Disclose the expected frequency and timing of distributions. If there is a targeted amount for distributions, the mutual fund may include this information.*
- (6) *Specify both the minimum amount for an initial investment and for each additional investment. This can include minimum amounts for pre-authorized contribution plans.*

**Item 3: Investments of the Fund**

- (1) Briefly set out under the heading “What does the fund invest in?” a description of the fundamental nature of the mutual fund, or the fundamental features of the mutual fund that distinguish it from other mutual funds.
- (2) For an index mutual fund,
  - (a) disclose the name or names of the permitted index or permitted indices on which the investments of the index mutual fund are based, and
  - (b) briefly describe the nature of that permitted index or those permitted indices.
- (3) Include an introduction to the information provided in response to subsection (4) and subsection (5) using wording similar to the following:

The charts below give you a snapshot of the fund's investments on [insert date]. The fund's investments will change.

- (4) Include under the sub-heading "Top 10 investments [date]" a table disclosing:
- (a) the top 10 positions held by the mutual fund;
  - (b) the total number of positions; and
  - (c) the percentage of net asset value of the mutual fund represented by the top 10 positions.
- (5) Under the sub-heading "Investment mix [date]" include at least one, and up to two, charts or tables that illustrate the investment mix of the mutual fund's investment portfolio.

**INSTRUCTIONS:**

- (1) *Include in the information under "What does this fund invest in?" a description of what the mutual fund primarily invests in, or intends to primarily invest in, or that its name implies that it will primarily invest in, such as*
- (a) *particular types of issuers, such as foreign issuers, small capitalization issuers or issuers located in emerging market countries;*
  - (b) *particular geographic locations or industry segments; or*
  - (c) *portfolio assets other than securities.*
- (2) *Include a particular investment strategy only if it is an essential aspect of the mutual fund, as evidenced by the name of the mutual fund or the manner in which the mutual fund is marketed.*
- (3) *If a mutual fund's stated objective is to invest primarily in Canadian securities, specify the maximum exposure to investments in foreign markets.*
- (4) *The information under "Top 10 investments" and "Investment mix" is intended to give a snapshot of the composition of the mutual fund's investment portfolio. The information required to be disclosed under these sub-headings must be as at a date within 30 days before the date of the fund facts document. The date shown must be the same as the one used in Item 2 for the total value of the mutual fund.*
- (5) *If the mutual fund owns more than one class of securities of an issuer, those classes should be aggregated for the purposes of this Item, however, debt and equity securities of an issuer must not be aggregated.*

- (6) *Portfolio assets other than securities should be aggregated if they have substantially similar investment risks and profiles. For instance, gold certificates should be aggregated, even if they are issued by different financial institutions.*
- (7) *Treat cash and cash equivalents as one separate discrete category.*
- (8) *In determining its holdings for purposes of the disclosure required by this Item, a mutual fund must, for each long position in a derivative that is held by the mutual fund for purposes other than hedging and for each index participation unit held by the mutual fund, consider that it holds directly the underlying interest of that derivative or its proportionate share of the securities held by the issuer of the index participation unit.*
- (9) *If a mutual fund invests substantially all of its assets directly or indirectly (through the use of derivatives) in securities of one other mutual fund, list the 10 largest holdings of the other mutual fund and show the percentage of the other mutual fund's net asset value represented by the top 10 positions. If the mutual fund is not able to disclose this information as at a date within 30 days before the date of the fund facts document, the mutual fund must include this information as disclosed by the other mutual fund in the other mutual fund's most recently filed fund facts document, or its most recently filed management report of fund performance, whichever is most recent.*
- (10) *Indicate whether any of the mutual fund's top 10 positions are short positions.*
- (11) *Each investment mix chart or table must show a breakdown of the mutual fund's investment portfolio into appropriate subgroups and the percentage of the aggregate net asset value of the mutual fund constituted by each subgroup. The names of the subgroups are not prescribed and can include security type, industry segment or geographic location. The mutual fund should use the most appropriate categories given the nature of the mutual fund. The choices made must be consistent with disclosure provided under "Summary of Investment Portfolio" in the mutual fund's MRFP.*
- (12) *In presenting the investment mix of the mutual fund, consider the most effective way of conveying the information to investors. All tables or charts must be clear and legible.*
- (13) *For new mutual funds where the information required to be disclosed under "Top 10 investments" and "Investment mix" is not available, include the required sub-headings and provide a brief statement explaining why the required information is not available.*

**Item 4: Past Performance**

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

This section tells you how the fund has performed over the past [insert the lesser of 10 years or the number of completed calendar years] years. Returns are after expenses have been deducted. These expenses reduce the fund's returns.

It's important to note that this doesn't tell you how the fund will perform in the future. Also, your actual after-tax return will depend on your personal tax situation.

- (2) Under the sub-heading "Average return" show
  - (a) the final value, of a hypothetical \$1,000 investment in the mutual fund as at the end of the period that ends within 30 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;and
  - (b) the annual compounded rate of return that would equate the initial \$1,000 investment to the final value.
- (3) Under the sub-heading "Year-by-year returns" 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
  - (a) each of the 10 most recently completed calendar years; and
  - (b) each of the completed calendar years in which the mutual fund has been in existence and which the mutual fund was a reporting issuer.
- (4) Provide an introduction to the bar chart indicating
  - (a) that the bar chart shows the mutual fund's annual performance for each of the years shown; and
  - (b) for the particular years shown, the number of years in which the value of the mutual fund dropped.

#### *INSTRUCTIONS*

- (1) *In responding to the requirements of this Item, a mutual fund must comply with the relevant sections of Part 15 of National Instrument 81-102 Mutual Funds as if those sections applied to a fund facts document.*

- (2) *Use a linear scale for each axis of the bar chart required by this Item.*
- (3) *The x-axis and y-axis for the bar chart required by this Item must intersect at 0.*
- (4) *A mutual fund that distributes different classes or series of securities that are referable to the same portfolio of assets must only show performance data related to the specific class or series of securities being described in the fund facts document.*
- (5) *If the information required to be disclosed under this Item for “Average return” and “Year-by-year returns” is not reasonably available, include the required sub-headings and provide a brief statement explaining why the required information is not available. Information under “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. Information under “Year-by-year returns” will generally not be available for a mutual fund that has been distributing securities under a simplified prospectus for less than one calendar year.*
- (6) *The dollar amount shown under “Average return” may be rounded up to the nearest dollar.*
- (7) *The percentage amounts shown under “Average return” and “Year-by-year returns” may be rounded up to the nearest decimal place.*

**Item 5: Risks**

- (1) Under the heading “How risky is it?” provide an introduction using wording similar to the following:

When you invest in a fund, the value of your investment can go down as well as up. [Insert name of the manager of the mutual fund] has rated this fund’s risk as [insert rating on the scale in Item 5(2)].

For a description of the specific risks of this fund, see the fund’s simplified prospectus.

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

|     |               |        |                |      |
|-----|---------------|--------|----------------|------|
| Low | Low to Medium | Medium | Medium to High | High |
|-----|---------------|--------|----------------|------|

**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 5(2) and highlighting the applicable category on the scale.*



(2) *Where the mutual fund is a newly established mutual fund and it is not possible for the manager of the mutual fund to apply its investment risk classification methodology to the mutual fund, include a statement explaining that it is a new mutual fund and use the chart to indicate the investment risk level that the manager of the mutual fund would expect for the mutual fund.*

**Item 6: Guarantee**

(1) Under the heading “Are there any guarantees?”, if the mutual fund has an insurance or guarantee feature protecting all or some of the principal amount of an investment in the mutual fund:

- (a) identify the person or company providing the guarantee or insurance;
- (b) provide a brief description of the material terms of the guarantee or insurance, including the maturity date of the guarantee or insurance.

(2) If the mutual fund does not have any guarantee or insurance, state in wording similar to the following:

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

**INSTRUCTION:**

*If applicable, state that the guarantee or insurance does not apply to the amount of any redemptions before the maturity date of the guarantee or before the death of the securityholder and that redemptions before that date would be based on the net asset value of the mutual fund at the time.*

**Item 7: Suitability**

(1) Provide a brief statement of the suitability of the mutual fund for particular investors under the heading “Who is this fund for?”. Describe the characteristics of the investor for whom the mutual fund may or may not be an appropriate investment, and the portfolios for which the mutual fund is and is not suited.

(2) State in bold font in wording similar to the following:

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

**INSTRUCTION:**

*If the mutual fund is particularly unsuitable for certain types of investors or for certain*

*types of investment portfolios, emphasize this aspect of the mutual fund. Disclose both the types of investors who should not invest in the mutual fund, with regard to investments on both a short- and long-term basis, and the types of portfolios that should not invest in the mutual fund. If the mutual fund is particularly suitable for investors who have particular investment objectives, this can also be disclosed.*

### **Item 8: Impact of Income Taxes on Investor Returns**

Under the heading “A word about tax” provide a brief explanation of the income tax consequences for investors using wording similar to the following:

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.

## **PART II COSTS, RIGHTS AND OTHER INFORMATION**

### **Item 1: Costs of Buying, Owning and Selling the Fund**

#### **1.1 Introduction**

(1) Under the heading “How much does it cost?”, state using wording similar to the following:

The following tables show the fees and expenses you could pay to buy, own and sell [name of the class or series of securities covered in the fund facts document] [units/shares] of the fund.

(2) If applicable, state that

- the mutual fund has other classes or series of securities;
- the fees and expenses for each class or series of securities of the mutual fund are different; and
- the investor should ask about other classes or series of securities that may be suitable for the investor.

#### **1.2 Illustrations of Different Sales Charge Options**

(1) For a mutual fund with multiple sales charge options, include an introduction under the sub-heading “Sales charges” using wording similar to the following:

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

(2) Provide information about the sales charges payable by an investor under the available sales charge options in the form of the following table:

| Sales charge option | What you pay        |                     | How it works        |
|---------------------|---------------------|---------------------|---------------------|
|                     | in per cent (%)     | in dollars (\$)     |                     |
| (see instruction 1) | (see instruction 2) | (see instruction 3) | (see instruction 4) |

(3) If the mutual fund has only one sales charge option, replace the introductory statement required in paragraph (1) above with a statement highlighting the sales charge option applicable to the mutual fund.

(4) If the mutual fund does not have any sales charges, replace the introductory statement and the table required in paragraph (1) and paragraph (2) above with a general statement explaining that no sales charges apply.

**INSTRUCTIONS:**

(1) *The mutual fund must disclose all sales charge options (e.g., initial sales charge, deferred sales charge) that apply to the class or series being described in the fund facts document. It is not necessary to disclose sales charge options that do not apply to the series or class to which the fund facts document relates.*

(2) *Specify each sales charge option as a percentage. For an initial sales charge, include a range for the amount that can be charged, if applicable. For a deferred sales charge, provide the full sales charge schedule.*

(3) *Specify each sales charge option in dollar terms. For an initial sales charge, include a range for the amount that can be charged on every \$1,000 investment, if applicable. For a deferred sales charge, include a range for the amount that can be charged on every \$1,000 redemption.*

(4) *Provide a brief overview of the key elements of how each sales charge option works including:*

- *whether the amount payable is negotiable;*
- *whether the amount payable is deducted from the amount paid at the time of purchase or from the amount received at the time of sale;*
- *who pays and who receives the amount payable under each sales charge option.*

*In the case of a deferred sales charge, the disclosure must also briefly state:*

- *any amount payable as an upfront sales commission;*
- *who pays and who receives the amount payable as the upfront sales commission;*
- *any free redemption amount and key details about how it works;*
- *whether switches can be made without incurring a sales charge; and*
- *how the amount paid by an investor at the time of a redemption of securities is calculated, for example, whether it is based on the net asset value of those securities at the time of redemption or another time.*

### 1.3 Fund expenses

(1) Under the sub-heading “Fund expenses” include an introduction using wording similar to the following:

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

(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><br>This is the total of the fund’s management fee and operating expenses. (see instruction 1) | (see instruction 2)                             |
| <b>Trading expense ratio (TER)</b><br>These are the fund’s trading costs.   | (see instruction 3)                             |
| <b>Fund expenses</b>  | (see instruction 4)                             |

(3) Unless the mutual fund has not yet filed a management report of fund performance, above the table required under subsection (2), include a statement using wording similar to the following:

As of [see instruction 5], the fund’s expenses were [insert amount included in table required under subsection (2)]% of its value. This equals \$[see instruction 6] for every \$1,000 invested.

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

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

(5) If the mutual fund pays an incentive fee that is determined by the performance of the mutual fund, provide a brief statement disclosing the amount of the fee and the circumstances where the mutual fund will pay it.

(6) If the manager of the mutual fund or another member of the mutual fund's organization pays trailing commissions, include a brief description of these commissions under the sub-heading "Trailing commission".

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

The trailing commission is paid out of the management fee. The trailing commission is paid for as long as you own the fund.

**INSTRUCTIONS:**

(1) *If any fees or expenses otherwise payable by the mutual fund were waived or otherwise absorbed by a member of the organization of the mutual fund, despite section 15.1(2) of National Instrument 81-106 Investment Fund Continuous Disclosure, only include a statement in substantially the following words:*

*[Insert name of the manager of the mutual fund] waived some of the fund's expenses. If it had not done so, the MER would have been higher.*

(2) *Use the same MER that is disclosed in Item 2 of Part I of this Form.*

(3) *Use the trading expense ratio disclosed in the most recently filed management report of fund performance (MRFP) for the mutual fund.*

(4) *The amount included for fund expenses is the amount arrived at by adding the MER and the trading expense ratio. Use a bold font or other formatting to indicate that fund expenses is the total of all ongoing expenses set out in the chart and is not a separate expense charged to the fund.*

(5) *Insert the date of the most recently filed management report of fund performance.*

(6) *Insert the equivalent dollar amount of the ongoing expenses of the fund for each \$1,000 investment.*

(7) *The percentage disclosed for the management fee must correspond to the percentage shown in the fee table in the simplified prospectus.*

(8) *The description of trailing commissions must briefly and concisely explain the purpose of the commission, how the commissions are paid and the range of the rates of the commission for each sales charge option. In addition to the percentage amount of the commission, this description must also set out the equivalent dollar amount for each*

*\$1,000 investment.*

#### **1.4 Other Fees**

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

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

(2) Provide information about the amount of fees, other than sales charges, payable by an investor when they sell or switch units or shares of the mutual fund, substantially in the form of the following table:

| <b>Fee</b>          | <b>What you pay</b> |
|---------------------|---------------------|
| (see instruction 1) | (see instruction 2) |

#### **INSTRUCTIONS:**

(1) *Under this Item, it is only necessary to include fees that apply to the particular series or class of the mutual fund. Examples include short-term trading fee, switch fee and change fee. If there are no other fees associated with selling or switching units or shares of the mutual fund, replace the table with a statement to this 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.*

#### **Item 2: Statement of Rights**

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

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

- withdraw from an agreement to buy mutual fund units within two business days after you receive a simplified prospectus, 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 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.

**Item 3: More Information About the Fund**

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

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

(2) State the name, address and toll-free telephone number of the manager of the mutual fund. If applicable, also state the e-mail address and website of the manager of the mutual fund.

**22. Transition**

(1) *A mutual fund must, on or before July 8, 2011, file a 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) *Subsection (1) does not apply in respect of a class or series of securities of a mutual fund for which a fund facts document was, on or before July 8, 2011, filed under section 2.1.*

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

(4) *Until April 8, 2011,*

(a) *the requirement to file a fund facts document under subparagraph 2.1(1)(a)(ii), (b)(ii), (c)(ii), (d)(ii) or (iii) of National Instrument 81-101 Mutual Fund Prospectus Disclosure does not apply to a mutual fund, and*

(b) *section 2.3 applies to a mutual fund except to the extent that section imposes requirements relating to a fund facts document.*

**23. This Instrument comes into force on January 1, 2011.**

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

**1. Companion Policy 81-101CP To National Instrument 81-101 Mutual Fund Prospectus Disclosure is amended by this Instrument.**

**2. Section 1.1 is amended by:**

- a. replacing the first instance of “Canadian securities regulatory authorities” with “Canadian Securities Administrators (CSA or we)”;**
- b. replacing the second instance of “Canadian securities regulatory authorities” with “CSA”.**

**3. Section 2.1 is replaced with the following:**

**2.1 Purpose of the Instrument**

(1) The purpose of the Instrument is to ensure that the offering disclosure regime for mutual funds provides investors with disclosure documents that clearly and concisely state information that investors should consider in connection with an investment decision about the mutual fund, while recognizing that different investors have differing needs in receiving disclosure.

(2) The disclosure regime for mutual funds is built on two main principles:

- providing investors with key information about a mutual fund; and
- providing the information in a simple, accessible and comparable format.

(3) We use the following approaches in the Instrument to achieve the principles referred to in subsection (2):

1. The Instrument has been designed so that fund companies prepare offering disclosure documents that investors would find helpful in making investment decisions.

2. The Instrument contemplates the use of three disclosure documents by a mutual fund:

- a simplified prospectus;
- an annual information form; and



- a summary document called the ‘fund facts’, which contains key information about a mutual fund.

Together with the financial statements, the management reports of fund performance and other documents incorporated by reference, these documents contain full, true and plain disclosure about the mutual fund.

3. Subsection 4.1(1) of the Instrument requires that the simplified prospectus, annual information form and fund facts document be prepared using plain language and in a format that assists in readability and comprehension. The Instrument and related forms provide detailed requirements on the content and format of these documents.

(4) Mutual funds, managers and participants in the mutual fund industry should prepare disclosure documents and carry out delivery in a manner that is consistent with the spirit and intent of the Instrument..

#### **4. *The following is added after section 2.1:***

##### **2.1.1 Fund Facts Document**

(1) The Instrument requires that the fund facts document be in plain language, be no longer than 4 pages in length, and highlight key information important to investors, including performance, risk and cost. The fund facts document is incorporated by reference into the simplified prospectus.

(2) The Instrument and Form 81-101F3 set out detailed requirements on the content and format of a fund facts document, while allowing some flexibility to accommodate different kinds of mutual funds. The requirements are designed to ensure that the information in a fund facts document of a mutual fund is clear, concise, understandable and easily comparable with information in the fund facts document of other mutual funds.

(3) To help write the fund facts document in plain language, mutual fund companies can use the Flesch-Kincaid methodology to assess the readability of a fund facts document. The Flesch-Kincaid grade level scale is a methodology that rates the readability of a text to a corresponding grade level and can be determined by the use of Flesch-Kincaid tests built into commonly used word processing programs. The CSA will generally consider a grade level of 6.0 or less on the Flesch-Kincaid grade level scale to indicate that a fund facts document is written in plain language. For French-language documents, mutual fund companies may wish to consider using other appropriate readability tools.

(4) Although the Instrument does not require delivery of the fund facts document, the CSA encourages the use and distribution of the fund facts document as a key part of the sales process in helping to inform investors about mutual funds they are considering for investment..

5. *Section 2.2 is replaced with the following:*

**2.2 Simplified Prospectus**

(1) The Instrument contemplates that all investors in a mutual fund will receive a simplified prospectus, which is designed to provide an investor with the necessary information to make an informed investment decision. The Instrument requires the delivery only of a simplified prospectus to an investor in connection with a purchase, unless the investor also requests delivery of the annual information form or any of the other documents incorporated by reference into the simplified prospectus, including the fund facts document.

(2) The Instrument and Form 81-101F1 set out detailed requirements on the content and format of a simplified prospectus. The requirements enable the information about a mutual fund to be clear, concise, understandable, well-organized and to easily compare one mutual fund with another..

6. *Section 2.3 is replaced with the following:*

**2.3 Annual Information Form**

(1) The Instrument requires that a supplemental disclosure document, the annual information form, be provided to any person on request. The annual information form is incorporated by reference into the simplified prospectus.

(2) Information contained in the related simplified prospectus will generally not be repeated in an annual information form except as necessary to make the annual information form comprehensible as an independent document. In general, an annual information form is intended to provide disclosure about different matters than those discussed in the fund facts document and simplified prospectus, such as information concerning the internal operations of the manager of the mutual fund, which may be of assistance or interest to some investors.

(3) The Instrument and Form 81-101F2 allow for more flexibility in the preparation of an annual information form than is the case with a simplified prospectus and fund facts document. The requirements for the order of disclosing information are less stringent for an annual information form than for a fund facts document or a simplified prospectus. An annual information form may include information not specifically required by Form 81-101F2..

7. *Section 2.4 is replaced with the following:*

**2.4 Financial Statements and Management Reports of Fund Performance** – The Instrument requires that the mutual fund’s most recently audited financial statements, any interim statements filed after those audited statements, the mutual fund’s most recently

filed annual management report of fund performance and any interim management report of fund performance filed after that annual management report be provided upon request to any person or company requesting them. Like the fund facts document and the annual information form, these financial statements and management reports of fund performance are incorporated by reference into the simplified prospectus. The result is that future filings of these documents will be incorporated by reference into the simplified prospectus, while superseding the financial statements and management reports of fund performance previously filed..

**8. *Section 2.5 is replaced with the following:***

**2.5 Filing and Delivery of Documents**

(1) Section 2.3 of the Instrument distinguishes between documents that are required by securities legislation to be “filed” with the securities regulatory authority or regulator and those that must be “delivered” or “sent” to the securities regulatory authority or regulator. Documents that are “filed” are on the public record. Documents that are “delivered” or “sent” are not necessarily on the public record. All documents required to be filed under the Instrument must be filed in accordance with National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*.

(2) Section 1.1 of the Instrument defines “business day” as any day other than a Saturday, Sunday or a statutory holiday. In some cases, a statutory holiday may only be a statutory holiday in one jurisdiction. The definition of business day should be applied in each local jurisdiction in which a prospectus is being filed. For example, section 5.1.2 of the Instrument states that the date of the certificate in a simplified prospectus must be within 3 business days before the filing of the simplified prospectus. The certificates in the simplified prospectus are dated Day 1. Day 2 is a statutory holiday in Québec but not in Alberta. If the simplified prospectus is filed in both Alberta and Québec, it must be filed no later than Day 4 in order to comply with the requirement in section 5.1.2 of the Instrument, despite the fact that Day 2 was not a business day in Québec. If the simplified prospectus is filed only in Québec, it could be filed on Day 5..

**9. *Subsection 2.6(2) is replaced with the following:***

(2) Subsection 2.3(6) of the Instrument permits certain material contracts to be filed with certain commercial or financial information deleted in order to keep this information confidential. For example, specific fees and expenses and non-competition clauses could be kept confidential under this provision. In these cases, the benefits of disclosing the information to the public are outweighed by the potentially adverse consequences to mutual fund managers and portfolio advisers. However, the basic terms of these agreements must be included in the contracts that are filed, such as provisions relating to the term and termination of the agreements and the rights and responsibilities of the parties to the agreements..

**10. *Section 2.7 is replaced with the following:***

## 2.7 Amendments

(1) Paragraph 2.1(1)(d) of the Instrument requires an amendment to an annual information form to be filed whenever an amendment to a simplified prospectus is filed. Similarly, subsection 2.3(5.1) of the Instrument requires an amendment to an annual information form to be filed whenever an amendment to a fund facts document is filed. If the substance of the amendment to the fund facts document or to the simplified prospectus would not require a change to the text of the annual information form, the amendment to the annual information form would consist only of the certificate page referring to the mutual fund to which the amendment to the fund facts document or the simplified prospectus pertains.

(2) Paragraph 2.1(1)(e) of the Instrument requires a mutual fund to file an amendment to a fund facts document when a material change to the mutual fund occurs that requires a change to the disclosure in the fund facts document. This mirrors the requirement in paragraph 11.2(1)(d) of National Instrument 81-106 *Investment Fund Continuous Disclosure*. We would not generally consider changes to the top 10 investments, investment mix or year-by-year returns of the mutual fund to be material changes. We would generally consider changes to the mutual fund's investment objective or risk level to be material changes under securities legislation.

(3) A commercial copy of an amended and restated simplified prospectus and annual information form can be created by reprinting the entire document or by putting stickers on an existing document that provide the new text created by the amendment. If stickers are used, one sticker will be required for the substance of the amendments and a separate sticker will be required for the cover page of the document that describes the type and date of the document, as applicable.

(4) Subsection 2.2(4) of the Instrument requires that any amendment to a fund facts document can only take the form of an amended and restated fund facts document. Accordingly, the commercial copy of an amended and restated fund facts document can only be created by reprinting the entire document.

(5) The requirements in section 2.2 of the Instrument apply to an amendment to a full simplified prospectus and to an amendment only to a Part A or Part B section of a simplified prospectus in cases where the Part A and Part B sections are bound separately. Section 2.2 of the Instrument requires amendments to various parts of a multiple SP to be evidenced as follows:

1. **Multiple SP with Part A and the Part B sections bound together.** An amendment to either or both of the Part A or Part B sections could be in the form of a free standing amending instrument that would be delivered to investors with the rest of the multiple SP. The amending instrument would be identified, in accordance with subsection 2.2(3) of the Instrument, as "Amendment No. [insert number], dated [date of amendment] to the simplified prospectus document for the [name of funds] dated [date of

original document]”. Or, the amendment could be in the form of a restated and amended multiple SP document, identified as such in accordance with subsection 2.2(3).

2. **Multiple SP with Part A and the Part B sections bound separately.** If there is an amendment to the Part A section of the document but not to a Part B section, the amendment could be in the form of an amending document or an amended and restated Part A document. An amending document could be identified as “Amendment No. [insert number], dated [date of amendment], to the Part A section of the simplified prospectuses of the [name of funds] dated [original date of multiple SP]”, and the amended and restated Part A document could be identified as “Amended and Restated Simplified Prospectuses dated [date of amendment] of the [name of funds], amending and restating the Simplified Prospectuses dated [original date of document].”.

3. In the circumstances described in paragraph 2 above, no amendment is required to be made to the Part B sections of the multiple SP. The footer that is required by Item 1 of Part B of Form 81-101F1 to be on the bottom of each page of a Part B section will continue to show the date of the original Part A document. For this reason, the amended Part A document must be identified in a way that shows the date of the amendments and the original date of the document so that investors know that it relates to the corresponding Part B sections.

4. If there is an amendment to a Part B section of a multiple SP with Part A and Part B sections bound separately the amendment must be made by way of an amended and restated Part B document, whether or not an amendment is being made to the Part A section. If no amendment to the Part A section is being made, no amendment is required to the Part A document. The amended and restated Part B document will include a statement in the footer required by Item 1 of Part B of Form 81-101F1 that identifies the document as a document that amends and restates the original Part B document.

(6) Subsection 2.2(4) of the Instrument requires an amendment to a fund facts document to be in the form of an amended and restated fund facts document. An amended fund facts document does not have to be otherwise identified, except for the date of the amendment.

(7) An amendment to a prospectus of a mutual fund, even if it amends and restates the prospectus, does not change the date under Canadian securities legislation by which the mutual fund must renew the prospectus. That date, which is commonly referred to as the “lapse date” for the prospectus, remains that date established under securities legislation. An amendment to a fund facts document will also not change the lapse date for a prospectus.

(8) Securities legislation says that a person or company must not distribute securities, unless a preliminary prospectus and a prospectus have been filed and receipts have been issued by the securities regulatory authority or regulator. This requirement also applies to mutual funds. If a mutual fund adds a new class or series of securities to a simplified prospectus that is referable to a new separate portfolio of assets, a preliminary simplified

prospectus must be filed, together with a preliminary annual information form and preliminary fund facts document. However, if the new class or series of securities is referable to an existing portfolio of assets, the new class or series may be added by an amendment to the simplified prospectus. In this case, a preliminary fund facts document for the new class or series must still be filed, as set out in subparagraph 2.1(1)(d)(iii) of the Instrument..

**11. *The following is added after section 2.7:***

**2.8 Websites** – Section 2.3.1 of the Instrument requires a mutual fund to post its fund facts document to the website of the mutual fund, the mutual fund’s family or the manager of the mutual fund, as applicable. A fund facts document should remain on the website at least until the next fund facts document for the mutual fund is posted. A fund facts document must be displayed in an easily visible and accessible location on the website. It should also be presented in a format that is convenient for both reading online and printing on paper..

**12. *Section 3.1 is replaced with the following:***

**3.1 Plain Language** – Subsection 4.1(1) of the Instrument requires that a simplified prospectus, annual information form and fund facts document be written in plain language. The reason for using “plain language” is to communicate in a way that the audience could immediately understand what you tell them. The plain language approach focuses on the needs and abilities of the audience to ensure that the content of a communication is relevant, the organization of the information is logical, the language is appropriate and the presentation is visually appealing.

Mutual funds should consider the following plain language techniques in preparing their documents:

- Organize the document into clear, concise sections, paragraphs and sentences.
- Use:
  - common everyday words
  - technical, legal and business terms only when unavoidable and provide clear and concise explanations for them
  - the active voice
  - short sentences and paragraphs
  - a conversational and personal tone
  - examples and illustrations to explain abstract concepts.
- Avoid:
  - superfluous words
  - unnecessary technical, legal and business jargon
  - vague boilerplate wording

- glossaries and defined terms unless they aid in understanding the disclosure
- abstractions by using more concrete terms or examples
- excessive detail
- multiple negatives..

**13. Section 3.2 is replaced with the following:**

**3.2 Presentation**

(1) Subsection 4.1(1) of the Instrument requires that a simplified prospectus, annual information form and fund facts document be presented in a format that assists in readability and comprehension. The Instrument and related forms also set out certain aspects of a simplified prospectus, annual information form and fund facts document that must be presented in a required format, requiring some information to be presented in the form of tables, charts or diagrams. Within these requirements, mutual funds have flexibility in the format used for simplified prospectuses, annual information forms and fund facts documents.

The formatting of documents can contribute substantially to the ease with which the document can be read and understood. Mutual funds should consider using the following formatting ideas when preparing their documents:

- reasonably-sized, easy-to-read typefaces
- headings that are clearly differentiated from the body text
- bulleted or numbered lists
- margins, boxes or shading to highlight information or for supplementary information
- tables, graphs and diagrams for complex information
- “question and answer” format to organize information
- sufficient white space on each page
- images, colour, lines and other graphical elements
- avoiding the use of upper-case, bold, italic or underlining in blocks of text
- avoiding full-justified margins.

(2) We think documents would be easier to read and understand with the use of the design features set out in subsection (1). The use of logos and pictures that accurately

depict aspects of the mutual fund industry, the mutual fund or mutual fund family or products and services offered by the mutual fund family may also aid in comprehension and readability. However we think that an excessive use or crowding of design features might make the documents more difficult to read or understand.

(3) On occasion, we have seen amendments to simplified prospectuses prepared in highly legal and technical styles. For example, some amendments merely reference specific lines or sections of a simplified prospectus that are being amended, without providing the reader with a restated section or an explanation for the changes. In addition, some amendments have been presented in the form of photocopies of some other documents, such as meeting materials, with the word “amendment” written on the top of the photocopy. We think that these approaches are inappropriate ways of amending a simplified prospectus or annual information form under the Instrument.

Material changes to mutual funds must be described in a format that assists in readability and comprehension, as required by subsection 4.1(1) of the Instrument. Amendments should be expressed clearly, and in a manner that enables the reader to easily read and understand both the amendment and the revised sections of the relevant document. This manner of expression may require the preparation of either an amended and restated simplified prospectus or annual information form or a clearly worded amendment insert for the existing simplified prospectus or annual information form. Any amendment to a fund facts document must be in the form of an amended and restated fund facts document..

**14. Section 4.1 is amended**

**a. by replacing subsection (1) with the following:**

(1) A consolidated “simplified prospectus” pertaining to a number of mutual funds is in law a number of separate simplified prospectuses, one simplified prospectus for each mutual fund. Further, a receipt issued by the securities regulatory authority or regulator in connection with a consolidated “simplified prospectus” in law represents a separate receipt for the simplified prospectus pertaining to each mutual fund. The Instrument and Form 81-101F1 make clear that a simplified prospectus under the Instrument pertains to one mutual fund and use the term “multiple SP” to refer to a document that contains more than one simplified prospectus.;

**b. in subsection (3) by**

- i. replacing “shall” with “must”;**
- ii. replacing “In the view of the Canadian securities regulatory authorities,” with “We think”;**
- iii. replacing “between” with “among”; and**



- iv. *replacing “the SP form” with “Form 81-101F1”;*
  - c. *in subsection (4) by*
    - i. *inserting “mutual” before “fund-specific”; and*
    - ii. *inserting “mutual” before “funds in which the investor is interested”;*
  - d. *by replacing subsection (5) with the following:*

(5) The Instrument contains no restrictions on how many simplified prospectuses can be consolidated into a multiple SP.;
  - e. *by deleting subsection (6).*
15. *Section 4.2 is amended*
- a. *in subsection (1) by replacing “It is noted that, as with NP 36, mutual” with “Mutual”;*
  - b. *by replacing subsection (2) with the following:*

(2) A new mutual fund may be added to a multiple SP that contains final simplified prospectuses. In this case, an amended multiple SP and multiple AIF containing disclosure of the new mutual fund, as well as a new fund facts document for each class or series of the new mutual fund would be filed. The preliminary filing would constitute the filing of a preliminary simplified prospectus, annual information form and fund facts document for the new mutual fund, and a draft amended and restated simplified prospectus and annual information form for each existing mutual fund. The final filing of documents would include a simplified prospectus, annual information form and fund facts document for the new mutual fund, and an amended and restated simplified prospectus and annual information form for each previously existing mutual fund. An amendment to an existing fund facts document would generally not be necessary.; *and*
  - c. *in subsection (3) by replacing “As noted under subsection 2.7(4) of this Policy, an” with “An”.*
16. *The following part is added after Part 4:*

#### **PART 4.1 THE FUND FACTS DOCUMENT**

**4.1.1 General Purposes** – The general purposes of the offering disclosure regime for mutual funds and of the fund facts document are described in section 2.1 of this Policy.

This Part provides guidance to preparers of the fund facts document in meeting those purposes.

A sample fund facts document is set out in Appendix A to this Policy. The sample is provided for illustrative purposes only.

**4.1.2 Multiple Class Mutual Funds** – The purpose for the requirements on the content and format of a fund facts document is to give investors the opportunity to easily compare the key information of one mutual fund to another. For many mutual funds, the class or series may affect not only the management expense ratio and performance, but a number of other considerations as well, such as minimum investment amounts, distributions, suitability, dealer compensation and sales charge options. For this reason, the Instrument requires a fund facts document to be prepared for each class and each series of a mutual fund that is referable to the same portfolio of assets.

#### **4.1.3 Filings**

(1) Section 2.1 of the Instrument requires that a fund facts document for each class and series of the securities of a mutual fund be filed concurrently with the mutual fund's simplified prospectus and annual information form.

(2) The most recently filed fund facts document for a mutual fund is incorporated by reference into the simplified prospectus under section 3.1 of the Instrument, with the result that any fund facts document filed under the Instrument after the date of receipt for the simplified prospectus supersedes the fund facts document previously filed.

(3) Section 2.3.2 of the Instrument requires a fund facts document filed under Part 2 of the Instrument to be posted by the mutual fund to the website of the mutual fund, the mutual fund's family or the manager of the mutual fund. Only a final fund facts document filed under the Instrument should be posted to a website. A preliminary or pro forma fund facts document, for example, should not be posted.

**4.1.4 Additional Information** – Paragraph 4.1(3)(d) of the Instrument requires a fund facts document to include only information that is specifically mandated or permitted by the required Form 81-101F3.

**4.1.5 Format** – The Instrument requires a mutual fund to use the headings and sub-headings stipulated in the Instrument and Form 81-101F3..

#### **17. Section 5.1 is replaced with the following:**

**5.1 General Purposes** – The general purposes of a simplified prospectus are described in section 2.1 of this Policy. This Part provides guidance to preparers of simplified prospectuses in meeting those purposes..

#### **18. Section 5.2 is replaced with the following:**

**5.2 Catalogue Approach** – The Instrument requires that a multiple SP must present the fund-specific, or Part B, disclosure about each fund using a catalogue approach. That is, the disclosure about each mutual fund must be presented separately from the disclosure about each other mutual fund..

**19. *The following section is added after section 5.2:***

**5.2.1 Accessibility of a Simplified Prospectus** – Mutual funds, managers, and dealers should encourage investors who want more information about a mutual fund to request and read the simplified prospectus and any of the documents incorporated by reference into the simplified prospectus. The Instrument requires that a simplified prospectus or any of the documents incorporated by reference be sent within three business days of a request..

**20. *Section 5.3 is amended***

*a. in subsection (1) by*

*i. replacing “shall” with “must” wherever it occurs; and*

*ii. replacing “the required form” with “Form 81-101F1”;*

*b. by deleting subsection (2); and*

*c. by deleting “National” in subsection (3).*

**21. *Section 5.4 is replaced with the following:***

**5.4 Inclusion of Educational Material**

(1) Paragraph 4.1(2)(e) of the Instrument permits educational material to be included in a simplified prospectus. There are no requirements on the location of any educational material. However, the CSA thinks that educational material will be more useful if placed close to mandated disclosure to which it substantively relates.

(2) Educational material contained in a simplified prospectus is subject to the general requirements of the Instrument and should be presented in a manner consistent with the rest of the simplified prospectus. That is, the educational material should be concise, clear and not detract from the clarity or presentation of the information in the simplified prospectus.

(3) The definition of “educational material” contained in section 1.1 of the Instrument excludes material that promotes a particular mutual fund or mutual fund family, or the products or services offered by the mutual fund or mutual fund family. A mutual fund, mutual fund family or those products or services may be referred to in

educational material as an example if the reference does not promote those entities, products or services. Mutual funds should ensure that any material included within, attached to or bound with a simplified prospectus is educational material within the meaning of this definition..

**22. Section 5.5 is replaced with the following:**

**5.5 Format** – A simplified prospectus must use the headings and specified sub-headings exactly as they are set out in the Instrument. If no sub-headings are specified, a simplified prospectus may include additional sub-headings under the required headings..

**23. Section 6.1 is replaced with the following:**

**6.1 General Purposes** – The general purposes of an annual information form are described in section 2.1 of this Policy. This Part provides guidance to preparers of annual information forms in meeting those purposes.

**24. Section 6.2 is deleted.**

**25. Subsection 6.4(2) is replaced with the following:**

(2) If a mutual fund includes additional information, such as educational material, in an annual information form, that material should not be included primarily for purpose of promotion. An annual information form is designed to be easily understandable to investors and less legalistic in its drafting than traditional prospectuses, but it still constitutes part of a prospectus under securities legislation..

**26. Section 7.1 is amended by**

**a. replacing subsection (1) with the following:**

(1) The Instrument contemplates delivery to all investors of a simplified prospectus in accordance with the requirements in securities legislation. It does not require the delivery of the documents incorporated by reference into the simplified prospectus unless requested. However, the CSA encourages mutual funds and dealers to adopt the practice of also routinely providing investors or potential investors with the fund facts document. Mutual funds or dealers may also provide investors with any of the other documents incorporated by reference into the prospectus.;

**b. replacing subsection (2) with the following:**

(2) The CSA encourage mutual funds, managers, and dealers to make disclosure documents, particularly the fund facts document, available to potential investors as soon as possible in the sales process, in advance of any requirements

contained in the Instrument or securities legislation, either directly or through dealers and others involved in selling mutual fund securities to investors.;

**c. *adding the following subsection after subsection (2):***

(2.1) Nothing in the Instrument prevents the simplified prospectus, annual information form or fund facts document from being prepared in other languages, provided that these documents are delivered or sent in addition to any disclosure document filed and required to be delivered in accordance with the Instrument. We would consider such documents to be sales communications.;

**d. *replacing subsection (3) with the following:***

(3) We do not consider the requirements of section 3.4 of the Instrument to be exclusive. Mutual funds and managers of mutual funds are encouraged to inform investors about using their websites and e-mail addresses to request further information and additional documents..

**27. The following section is added after section 7.1:**

**7.1.1 Electronic Delivery**

(1) A simplified prospectus, or any document incorporated by reference into the simplified prospectus, that is required to be delivered or sent under the Instrument may be delivered or sent by means of electronic delivery. Electronic delivery may include sending an electronic copy of the relevant document directly to the investor as an attachment or link, or directing the investor to the specific document on a website.

(2) In addition to the requirements in the Instrument and the guidance in this section, mutual funds, managers and dealers may want to refer to National Policy 11-201 *Delivery of Documents by Electronic Means* and, in Québec, *Notice 11-201 relating to the Delivery of Documents by Electronic Means* for additional guidance..

**28. Section 7.2 is amended by replacing “Canadian securities regulatory authorities” with “CSA”.**

**29. Section 7.4 is amended by:**

**a. *replacing “or the” with “and”; and***

**b. *replacing “and annual information form” with “or annual information form”.***

**30. Section 8.1 is replaced with the following:**

**8.1 Investment Disclosure** – Form 81-101F1 requires detailed disclosure concerning a number of aspects of the investment approach taken by a mutual fund, including

disclosure concerning fundamental investment objectives, investment strategies, risk and risk management. Form 81-101F3 also contains a summarized form of this disclosure. For many mutual funds, the best persons to prepare and review the disclosure would be the portfolio advisers of the mutual fund and we think mutual funds should generally involve them in preparing and reviewing this disclosure..

**31. Section 8.2 is replaced with the following:**

**8.2 Portfolio Advisers** – Form 81-101F2 requires disclosure concerning the extent to which investment decisions are made by particular individuals employed by a portfolio adviser or by committee. Section 10.3(3)(b) requires certain information about the individuals principally responsible for the investment portfolio of the mutual fund. Part 11 of National Instrument 81-106 *Investment Fund Continuous Disclosure* requires a simplified prospectus to be amended if a material change occurs in the affairs of the mutual fund that results in a change to the disclosure in the simplified prospectus and fund facts document. Section 7.1 of Companion Policy 81-106CP *Investment Fund Continuous Disclosure* discusses when a departure of a high-profile individual from a portfolio adviser of a mutual fund may constitute a material change for the mutual fund. If the departure is not a material change for the mutual fund, there is no requirement to amend a simplified prospectus, as long as the simplified prospectus contains full, true and plain disclosure about the mutual fund..

**32. Section 9.1 is amended**

**a. in subsection (1) by**

- i. replacing “Canadian securities regulatory authorities” with “CSA”;**
- ii. replacing “and” with “,”;**
- iii. inserting “and fund facts document” after “annual information form”;**  
**and**
- iv. inserting “,” after “refiling”;**

**b. in subsection (2) by**

- i. replacing “It should be noted that the” with “The”;**
- ii. replacing “and” with “,”; and**
- iii. inserting “and fund facts document” immediately after “annual information form”.**

**33. The following Part is added after Part 9:**

## **PART 10      EXEMPTIONS**

**10.1 Applications Involving Novel or Substantive Issues** – Section 6.2 of the Instrument allows exemptive relief from form and content requirements for a simplified prospectus, an annual information or a fund facts document to be evidenced by way of issuance of a receipt. In cases where the CSA thinks that an application for exemptive relief raises novel and substantive issues, or raises a novel policy concern, the CSA may request that such applications follow the process set out in National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions*. This will likely be the case for applications seeking exemptive relief from the form and content requirements of the fund facts document..

**34.      *The following Appendix is added after Part 10:***

### **Appendix A – Sample Fund Facts Document**



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

### Quick facts

|  |                 |                            |                                |
|--|-----------------|----------------------------|--------------------------------|
| <b>Date fund created:</b>              | January 1, 1996 | <b>Portfolio manager:</b>  | Capital Asset Management Ltd.  |
| <b>Total value 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 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.

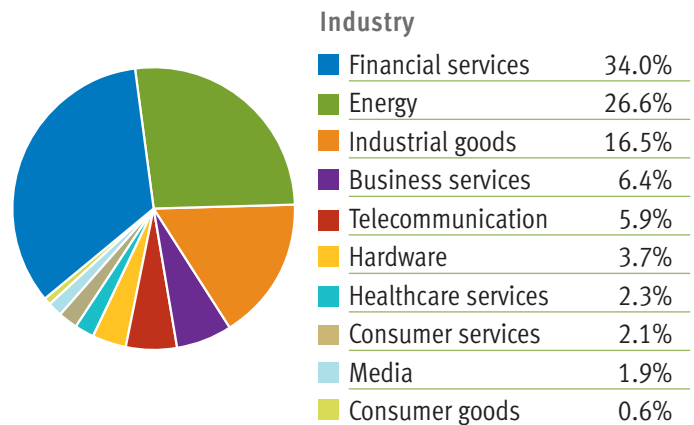
#### Top 10 investments (June 1, 20XX)

1. Royal Bank of Canada
2. Encana Corp.
3. Petro-Canada
4. Alcan Inc.
5. Canadian National Railway Company
6. Goldcorp Inc.
7. Extencicare Inc.
8. Husky Energy
9. Open Text
10. Thomson Reuters Corp.

**Total investments** 126

**The top 10 investments make up 32% of the fund.**

#### Investment mix (June 1, 20XX)



### How has the fund performed?

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

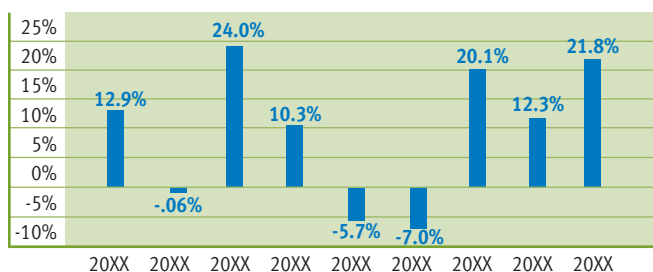
It’s important to note that this doesn’t tell you how the fund will perform in the future. Also, your actual after-tax return will depend on your personal tax situation.

#### Average return

A person who invested \$1,000 in the fund 10 years ago now has \$2,705. This works out to an annual compound return of 10.5%.

#### Year-by-year returns

This chart shows how the fund has performed in each of the past 10 years. The fund dropped in value in three of the 10 years.



### How risky is it?

When you invest in a fund, the value of your investment can go down as well as up. XYZ Mutual Funds has rated this fund’s risk as medium.

For a description of the specific risks of this fund, see the fund’s simplified prospectus.



### Are there any guarantees?

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



## Who is this fund for?

### Investors who:

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

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

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

## A word about tax

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

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

## How much does it cost?

The following tables show the fees and expenses you could pay to buy, own and sell Series A units of the fund.

The fees and expenses are different for each series. Ask about other series that may be suitable for you.

### 1. Sales charges

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

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

## 2. Fund expenses

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

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

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

### Management expense ratio (MER)

This is the total of the fund's management fee and operating expenses. XYZ Mutual Funds waived some of the fund's expenses.

If it had not done so, the MER would have been higher. 2.25%

### Trading expense ratio (TER)

These are the fund's trading costs. 0.05%

**Fund expenses** **2.30%**

### Trailing commission

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

The trailing commission is paid out of the management fee. The rate depends on the sales charge option you choose:

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

## 3. Other fees

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

| Fee                           | What you pay   |
|-------------------------------|--|
| <b>Short-term trading fee</b> | 1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.        |
| <b>Switch fee</b>             | Your investment firm may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.    |
| <b>Change fee</b>             | Your investment firm may charge you up to 2% of the value of units you switch to another series of the fund. |

### What if I change my mind?

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

- withdraw from an agreement to buy mutual fund units within two business days after you receive a simplified prospectus, or
- 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 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 adviser for a copy of the fund's simplified prospectus and other disclosure documents. These documents and the Fund Facts make up the fund's legal documents.

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)

35. *This Instrument becomes effective on January 1, 2011.*

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

1. ***National Instrument 81-102 Mutual Funds is amended by this Instrument.***
2. ***Section 1.1 is amended by adding the following after paragraph (b)2 in the definition of “sales communication”:***
  - 2.1. A fund facts document or preliminary or *pro forma* fund facts document.
3. ***Section 3.3 is amended by adding "preliminary fund facts document" after "preliminary annual information form," by replacing “or” with "," after "initial simplified prospectus" and by adding "or fund facts document" after "annual information form".***
4. ***Section 5.6 is amended by***
  - a. ***replacing subparagraph (1)(f)(ii) with the following:***
    - (ii) the current simplified prospectus or the most recently filed fund facts document;
  - b. ***replacing subparagraph (1)(f)(iii) with the following:***
    - (iii) a statement that securityholders may obtain, in respect of the reorganized mutual fund, at no cost a simplified prospectus, an annual information form, the most recently filed fund facts document, the most recent annual and interim financial statements, and the most recent management report of fund performance that have been made public, by contacting the reorganized mutual fund at an address or telephone number specified in the statement, or by accessing the documents at a website address specified in the statement;.
5. ***Section 5.7 is amended by replacing paragraph (1)(d) with the following:***
  - (d) if the application relates to a matter that would constitute a material change for the mutual fund, a draft amendment to the simplified prospectus and, if applicable, to the fund facts document of the mutual fund reflecting the change; and
6. ***Section 15.2 is amended by***
  - a. ***replacing paragraph (1)(b) with the following:***

- (b) include a statement that conflicts with information that is contained in the preliminary simplified prospectus, the preliminary annual information form, the preliminary fund facts document, the simplified prospectus, the annual information form or the fund facts document
  - (i) of a mutual fund, or
  - (ii) in which an asset allocation service is described..

**7. *This Instrument comes into force on January 1, 2011.***

**Amendments to  
Companion Policy 81-102CP To National Instrument 81-102 Mutual Funds**

1. ***Companion Policy 81-102CP To National Instrument 81-102 Mutual Funds is amended by this Instrument.***
2. ***Section 13.1 is amended by***
  - a. ***replacing subsection (3) with the following:***
    - (3) An advertisement that presents information in a manner that distorts information contained in the preliminary prospectus or prospectus, or preliminary simplified prospectus, preliminary fund facts document and preliminary annual information form or simplified prospectus, fund facts document and annual information form of a mutual fund or that includes a visual image that provides a misleading impression will be considered to be misleading.;
  - b. ***replacing subsection (5) with the following:***
    - (5) Paragraph 15.2(1)(b) of the Instrument provides that sales communications must not include any statement that conflicts with information that is contained in, among other things, a simplified prospectus or fund facts document. The Canadian securities regulatory authorities are of the view that a sales communication that provides performance data in compliance with the requirements of Part 15 of the Instrument for time periods that differ from those shown in a prospectus, fund facts document or management report of fund performance does not violate the requirements of paragraph 15.2(1)(b) of the Instrument. ;
3. ***This Instrument becomes effective on January 1, 2011.***

**Amendments to  
National Instrument 81-106 *Investment Fund Continuous Disclosure***

1. *National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this Instrument.*
2. *Section 11.2 is amended by replacing paragraph (1)(d) with the following:*
  - (d) file an amendment to its prospectus, simplified prospectus or fund facts document that discloses the material change in accordance with the requirements of securities legislation.
3. *This Instrument comes into force on January 1, 2011.*

**Amendments to  
Companion Policy 81-106CP  
To National Instrument 81-106 Investment Fund Continuous Disclosure**

1. *Companion Policy 81-106CP To National Instrument 81-106 Investment Fund Continuous Disclosure is amended by this Instrument.*
2. *Subsection 10.1(1) is amended by replacing it the following:*
  - 10.1 Calculation of Management Expense Ratio** – (1) Part 15 of the Instrument sets out the method to be used by an investment fund to calculate its management expense ratio (MER). The requirements apply in all circumstances in which an investment fund circulates and discloses an MER. This includes disclosure in a sales communication, a prospectus, a fund facts document, an annual information form, financial statements, a management report of fund performance or a report to securityholders..
3. *This Instrument comes into force on January 1, 2011.*



**Amendments to  
National Instrument 13-101 System for Electronic Document  
Analysis and Retrieval (SEDAR)**

1. *National Instrument 13-101 System for Electronic Document Analysis and Retrieval (SEDAR) is amended by this Instrument.*
2. *Appendix A – Mandated Electronic Filings is amended*
  - (a) *in Part I A. by*
    - (i) *replacing Item 1 with the following:*
      1. Preliminary Simplified Prospectus, Annual Information Form and Fund Facts;
    - (ii) *replacing Item 2 with the following*
      2. Pro Forma Simplified Prospectus, Annual information Form and Fund Facts;
    - (iii) *replacing Item 3 with the following*
      3. Final Simplified Prospectus, Annual Information Form and Fund Facts; *and*
    - (iv) *adding the following after Item 6*
      7. Initial Fund Facts.
3. *This Instrument comes into force on January 1, 2011.*