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September 11, 2012

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services
Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission

Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities,
Newfoundland and Labrador
Superintendent of Securities,
Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission (OSC)
20 Queen Street West, 19th Floor, Box 55
Toronto, ON M5H 3S8
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers (AMF)
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs and Madams:

Re: *Implementation of Stage 2 of Point of Sale (POS) Disclosure for Mutual Funds: Proposed Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, Form 81-101F3 and Companion Policy 81-101CP Mutual Fund Prospectus Disclosure and Consequential Amendments – Second Publication (the Stage 2 POS Mutual Fund Proposals)*

We are writing to provide comments on behalf of the Investment Industry Association of Canada (IIAC) with respect to the implementation considerations associated with the Stage 2 Proposals published on June 21, 2012. As outlined in our previous submissions on this issue, we support the intent of the proposals, that is, delivering short, relevant, simple – in a word, usable – disclosures to investors on a timely basis. We have additional comments regarding the nature of disclosures and the delivery elements of the Stage 2 Proposals, in two cases due to new information.

Canadian Securities Administrators (CSA)
Re: Stage 2 POS Mutual Fund Disclosure
September 11, 2012

1. Simplicity and Clarity of Disclosure

We understand that a number of responses will state a strong preference for maintaining the current brevity of the Fund Facts document, consistent with the CSA's research findings, as well as for the use of neutral language. In this respect, we believe we share an interest in promoting financial literacy through objective information that helps investors think about risks, but does not discourage them from investment in products suitable for their age, assets, and personal profile at a time when very low interest returns alone will not provide the average investor with the savings accumulation needed to achieve personal financial goals up to and including for retirement. Specifically, guaranteed investment certificates (GICs) may be a misleading benchmark when compared to the investment strategy of all funds and therefore lead to an inappropriate comparison of risks. As well, potentially inappropriate conclusions could be reached and confusion could be caused by adding only four risks, a one-year GIC comparison, and the worst three-month performance metric without some ability to provide context.

We believe that the simplicity and neutrality of the original disclosures should be retained.

2. Consistency of Disclosure

We are concerned that there will be inconsistencies between the required mutual fund disclosures, including after proposed changes to Fund Facts, with proposed disclosures for the federally legislated Pooled Registered Pension Plans (PRPPs). PRPPs are to be implemented in 2013 based on legislation enacted this year and regulations that are just being issued for comment now. While called pension plans, and to some extent like defined contribution plans, PRPPs are functionally one to six administrator-offered investment funds. To date, despite strong recommendations to the federal government that PRPP disclosure be consistent with mutual fund disclosure, this is almost certainly not to be the case. Quebec has introduced comparable legislation, as yet not passed, and at least some other provinces are expected to follow suit.

We believe that it would be preferable for the CSA, through its membership in the Joint Forum of Financial Market Regulators, to reach agreement on a single model for fund-related disclosures before introducing what could be a series of changes.

3. Timetable

There are changes and clarifications required, which are in the investors' interests, however these changes will require systems changes and an implementation schedule that, based on what we now know, may not be met in the prescribed six-month timeline. Specifically, these changes are ones that would be a step towards investors being able to receive one communication with all relevant information supporting a single interaction with their advisor or when making an online purchase. This includes permitting the consolidation of mutual fund trade and disclosure documents with other security-type trade and disclosure documents, as requested in our previous comment letter.

Canadian Securities Administrators (CSA)
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Allowing more documents to be included with Fund Facts in the Stage 2 Proposals has systems implications for those in the trade-through-intermediary-through-vendor transaction chain. Implementation can be a challenge given the significant amount of legislated and regulatory change currently under way. While the securities commissions are important stakeholders for IIAC members, within IIAC member firms, and among IIAC firm service provider clients, there are conflicting projects. These entities all are juggling regulatory projects of the securities regulators with other North-American and non-North-American regulators, each of which sees its issues as important and many of which continue to change. Attached is a list of all of the changes currently at some stage of the systems development life cycle. They range from the simple to the extremely complex. The magnitude of complexity amplifies to the extent that there are certain single points of contact. And unforeseen challenges can arise at any point (for example, a long-dormant regulatory initiative can be unexpectedly re-activated as has just happened).

Also, the suitability and conflict-of-interest aspects of the new client relationship model (CRM) requirements are key complements to Fund Facts for those investors using advisors, and for do-it-yourself investors, tools are available online. This alone might suggest that implementation of some of the proposed changes could be delayed to allow for the consistency requested in 2. above, as well as a longer period of stabilization.

For these reasons, we believe that a transition period that allows appropriate testing between relevant parties and a concurrent launch of the new disclosure packages is required and provision should be made for a longer transition period (12 months) than what may have appeared to have been needed for a content change (six months).

We believe that there is every incentive for individual firms to move to the desired end goal as quickly as possible due to the potential for net cost savings, however, given limited resources and the spread of key resources (coding, testing, bring-on, etc.) among various projects, a longer transition will allow for all firms to implement and reduce project risk from excessively hasty changes.

Conclusion

Thank you for providing our Members with an opportunity to comment. We would be pleased to discuss our input in greater detail with you. Should you have any questions or wish to discuss these comments, please contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Sharon".

Regulatory Projects Currently Under Way for IIROC Member Firms

Note: The status of these projects range from preliminary regulatory analysis to scoping, budgeting, resource planning, business requirements, functional and systems analysis, systems development, unit testing, integration testing, optimization, stabilization, implementation, etc.).

Investment Industry Regulatory Organization of Canada (IIROC) and/or Canadian Securities Administrators (CSA)

- Over-the-counter (OTC) securities confirmation disclosure – requirements to disclose yield, remuneration and add notations of “callable” and “the coupon rate may vary” require changes to the security master file and other functionality
- Client relationship model – time horizon for suitability
 - New accounts/onboarding system
 - Client account/client master (reference data systems)
 - Order management system
- Client relationship model – suitability monitoring
 - Product master/security master (new fields, screens and reports)
 - Client account/client master (new fields, screens and reports)
 - Order management system (new fields, screens and processes)
- Other IIROC/CSA notices out for comment or expected require analysis and response
 - Borrowing for investment purposes – suitability and supervision
 - Derivatives
 - Shareholder communications
 - Account, fee and performance reporting
 - Point of sale, Stage 2

Montreal Exchange Regulatory Division

- Weekly option expiry – changing option expiry from the Saturday following the third Friday after batch processing to same-day
- Large open position reporting – MX wants clients to determine beneficial owners on all non-individual accounts, then aggregate those accounts majority-owned by one individual or the same entity and if in aggregate they have a large position, disaggregate the positions for reporting, reporting the last four digits of SINs or other identifier

Federal Requirements

- Deposit-type instruments disclosure (potential)
- Anti-money laundering (potential)

Canada Revenue Agency

- Non-resident tax reporting changes effective January 1, 2013 (NR301/302/303, blended rates)
- Consequential changes to allow transmission of client non-resident entitlement information to preferential treaty rates

Canadian Securities Administrators (CSA)
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- RRSP/RRIF anti-avoidance changes from 2011 budget – phased in:
 - Ability to report non-qualified reporting both on a 1% of book value per month and one-time 50% of market value basis
 - Identification, slip and XML reporting of prohibited investments
- Other changes typically are announced in the fall of the year for almost immediate implementation
- T5008 (possible)

Agence de revenu du Québec

- Reporting of amend/cancel
- Foreign capital gains and income on a country-by-country basis (RL15 and RL16)
- Other changes typically are announced in the fall of the year for almost immediate implementation
- Quebec sales tax changes – removal of tax on tax and move to a variation on a harmonized sales tax to affect RRSP administrative charges and other services

British Columbia

- Changes necessary to return to the PST/GST regime

U.S. Internal Revenue Service

- Real-time withholding systems for gross proceeds and FDAP/income
- Non-resident aliens tax (Internal Revenue Code chapter 3) systems
- Back-up tax withholding or qualified intermediary tax (chapter 61) systems
- New items required for 1099 slips
- Foreign Account Tax Compliance Tax Act (FATCA)
 - New accounts/onboarding systems
 - Client account/client master (reference data systems)
 - Product master/security master (reference data systems)
 - Withholding systems for FDAP/income
 - Tax reporting systems

Other related requirements

- *FundSERV* – Annual ESG standards changes, version 23, including for large XML implementation and CRA non-resident tax changes
- *Omgeo* – changes to TradeSuite for SEC rule 10B-10
- *CDS and/or CDCC* – support for derivatives and other 2008 and consequential financial-crisis regulatory changes
- *CDS* – annual T3/T5/T5013 facility and report file updates for 2013 reporting on 2012 tax year, corporate actions with additional tax focus (possible)