**BACKGROUND SUMMARY**
**PROPOSED FRAMEWORK 81-406; POINT OF SALE DISCLOSURE**
**FOR MUTUAL FUNDS AND SEGREGATED FUNDS**

The current disclosure regime for mutual funds and segregated funds does not give investors meaningful information when they need it most—before they make their decision to buy a fund.

The Proposed Framework document describes the elements of the Joint Forum's proposed point of sale disclosure system, including a new mandatory fund summary document called Fund Facts, to be delivered to investors before they buy into a fund, and a new simplified "cooling off" right for an investor to cancel a purchase. It reflects the ideas of the regulators that are members of the Joint Forum and its member associations. It does not necessarily represent the views of any government.

The Joint Forum developed this plain language document format to give investors the basic information necessary for them to understand the potential benefits, risks and costs of investing in a fund.

## AUDIENCE

The primary audience for mutual funds and segregated funds disclosure is adult Canadians who have money to invest.

To connect with this audience, the point of sale disclosure document was written according to the following principles:

- Avoid legal or financial jargon.
- Use simple examples, tables and graphics to illustrate concepts.
- Use bold headings and white space to make the document easier to read and navigate.
- Write at a Flesch-Kincaid grade level of 5.0.
- Recognize the role of the adviser in the sales process.

## CONTENT

The central document in the disclosure system is the Fund Facts, which highlights key information that is important to investors. The information in the Fund Facts fits on both sides of one page and is organized in a way that makes sense to investors. It uses a question-and-answer format that makes it easy for investors to find information. It contains statements that help investors understand the risks of investing in a fund.

## WHEN FUND FACTS MUST BE DELIVERED

Dealers and insurers will have to deliver the Fund Facts for:

- initial purchases
- subsequent purchases, except for pre-authorized payment plan purchases
- switches, except for switches under asset allocation services

For segregated funds, the initial purchase takes place when an investor signs the application for the insurance contract and selects one or more funds.

We propose that investors will not have the option to waive receipt of the Fund Facts.

**DELIVERY OF FUND FACTS**

We propose that Fund Facts be directly delivered to each investor by hand, fax, mail, or electronically.

It would not be sufficient to make the information available on the internet and leave it to investors to find it. Nor would it be sufficient to describe the document orally without delivering it.

**INVESTOR RIGHTS**

Investors have rights under the proposed framework including a new cooling off right.

Investors in mutual funds and segregated funds will have a cooling-off right that allows them to cancel their purchase. Investors will have two business days to exercise this right by providing written notice to the dealer or insurer that they intend to exercise their cooling-off right.

The investor will get back the lesser of:

- the amount of their original investment and
- the value of the fund on the day they exercise the cooling-off right

**REGULATORY REQUIREMENTS**

Once the proposed framework is finalized and implemented, content and delivery of Fund Facts would be subject to the regulatory requirements relevant to the product. For example, Fund Facts for mutual funds would fall within the jurisdiction of the securities regulators while segregated funds would fall within the jurisdiction of the insurance regulators.

**JOINT FORUM OF FINANCIAL MARKET REGULATORS**

The Joint Forum of Financial Market Regulators (Joint Forum) consists of representatives from

- Canadian Association of Pension Supervisory Authorities (CAPSA),
- Canadian Council of Insurance Regulators (CCIR) and
- Canadian Securities Administrators (CSA).

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.