Outreach Session for Investment Fund Managers

Merzana Martinakis, Senior Accountant, Investment Fund Manager Team

Estella Tong, Senior Accountant, Investment Fund Manager Team

June 24, 2014 (webinar)
June 26, 2014 (in-person meeting)
Disclaimer

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Agenda

Part 1
• Investment Fund Manager (IFM) team - Who we are

Part 2
• IFM compliance deficiencies
  ▪ NI 81-105 - Mutual Fund Sales Practices
  ▪ Expenses charged to funds and allocation of fund expenses
  ▪ Oversight of service providers
  ▪ Issues related to IFM organizational structures

Part 3
• NI 31-103 – Proposed IFM related amendments

Part 4
• Investment Funds and Structured Products Branch – regulatory updates
  ▪ CSA Mutual Fund Fees Review
  ▪ Stage 3 of the CSA Point of Sale Disclosure Project
Part 1 - IFM Team – Who we are
Who we are

• We are part of the Compliance and Registrant Regulation Branch at the OSC

• Our branch is responsible for registration of firms and individuals

• Our team is dedicated to investment fund managers

• We consider exemptive relief applications

• We lead and participate in policy initiatives

• We conduct compliance reviews
Overview of CRR Branch

Director
Debra Foubert

Team 1
Portfolio Manager

Team 2
Investment Fund Manager

Team 3
Dealer

Team 4
Registrant Conduct

Team 5
Compliance Strategy & Risk Analysis

Team 6
Registration
Overview of IFM team

Manager
Felicia Tedesco

Admin Assistant
Cheryl Anne Pereira

Senior Accountant
Noulla Antoniou
Jessica Leung
Merzana Martinakis
Estella Tong

Accountant
Dena Di Bacco
Alizeh Khorasanee
Jeff Sockett

Senior Legal Counsel
Robert Kohl
Maye Mouftah
Jeff Scanlon

Legal Counsel
Yan Kiu Chan
Part 2 - IFM compliance deficiencies
IFM compliance deficiencies

Common IFM deficiencies

• Sales practices under NI 81-105
• Expenses charged to funds
• Allocation of fund expenses
• Oversight of service providers

Other IFM deficiencies

• IFM organizational structures:
  ▪ Payment of management fees to unregistered entities
    • IFM registration issues
    • Participation fees
NI 81-105 – Mutual Fund Sales Practices
Primary purpose

- The main challenges for assessing primary purpose relate to the following:
  - Content – provision of educational information
    - permitted topics vs. non-permitted topics
  - Time - % of time spent on permitted vs. non-permitted topics
## NI 81-105 – Mutual Fund Sales Practices
### Assessing Primary Purpose – Content & Time example

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Total Time</th>
<th>Registration, meals &amp; breaks</th>
<th>Compliant content</th>
<th>Non compliant content</th>
<th>Free time activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30 – 9:00 am</td>
<td>Breakfast &amp; Welcome</td>
<td>30 minutes</td>
<td>30 minutes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:00 – 9:30 am</td>
<td>Opening remarks</td>
<td>30 minutes</td>
<td></td>
<td>30 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:30 – 10:00 am</td>
<td>Chief Investment Officer, XYZ Investments Inc.</td>
<td>30 minutes</td>
<td></td>
<td>30 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10:00 – 10:30 am</td>
<td>Break</td>
<td>30 minutes</td>
<td></td>
<td>30 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10:30 – 11:30 am</td>
<td>Mutual funds in today's environment, Joe Smith, PM, XYZ Investments Inc.</td>
<td>60 minutes</td>
<td></td>
<td>60 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11:30 – 12:30 pm</td>
<td>How to grow your clientele</td>
<td>60 minutes</td>
<td></td>
<td></td>
<td>60 minutes</td>
<td></td>
</tr>
<tr>
<td>12:30 – 1:30 pm</td>
<td>Lunch</td>
<td>60 minutes</td>
<td></td>
<td>60 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1:30 – 3:30 pm</td>
<td>Breakout sessions – all geared to mutual funds</td>
<td>120 minutes</td>
<td></td>
<td>120 minutes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3:30 – 4:30 pm</td>
<td>Free time</td>
<td>60 minutes</td>
<td></td>
<td></td>
<td></td>
<td>60 minutes</td>
</tr>
</tbody>
</table>

**TOTAL TIME**

| 480 minutes | 120 minutes | 240 minutes | 60 minutes | 60 minutes | 60 minutes |
## NI 81-105 – Mutual Fund Sales Practices

### Assessing Primary Purpose – Content & Time example

<table>
<thead>
<tr>
<th>Time Assessment</th>
<th>Total Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total time for all categories</td>
<td>480 minutes</td>
</tr>
<tr>
<td>Total time for registration, meals &amp; breaks</td>
<td>120 minutes</td>
</tr>
<tr>
<td>Total time for analysis</td>
<td>360 minutes</td>
</tr>
<tr>
<td>Total time for compliant content</td>
<td>240 minutes</td>
</tr>
<tr>
<td>Compliant content as a % of total time for analysis</td>
<td>67%</td>
</tr>
<tr>
<td>Total time for non-compliant content &amp; free time activity</td>
<td>60 minutes + 60 minutes = 120 minutes</td>
</tr>
<tr>
<td>Non-compliant and free time activity as a % of total time for analysis</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Conclusion:** Conference meets primary purpose based on content and time.
Reasonability of costs

• The two major findings relating to reasonability of costs were:
  1. Inadequate process to ensure that the provision of non-monetary benefits were not extravagant and were consistent with the spirit of Part 5 of NI 81-105
     • Inadequate process and factors considered to determine reasonability of costs
  2. The payment of prohibited expenses
     • transportation costs
     • accommodation costs
     • personal incidental expenses
Q: The details of a mutual fund sponsored conference (section 5.2 of NI 81-105) are as follows:

Attending representatives: 100
Duration: 3 days
Location: Phoenix, AZ

The dinner costs* are as follows:
1) Day 1: $25,000 – dinner at the hotel
2) Day 2: $30,000 – dinner at a golf course
3) Day 3: $85,000 – dinner on an island requiring rental of boats for transportation
   *dinner cost includes transportation to dinner (if required), set up, decoration, entertainment, staffing, and other ancillary costs

The entertainment cost s are as follows:
1) Day 1: $25,000 – golf or spa
2) Day 2: $25,000 – golf or spa
3) Day 3: $60,000 – golf or spa

Total cost of the conference is $325,000

When assessing the reasonability of the costs of this conference, can we conclude that the dinner and entertainment costs are reasonable?
### Dinner assessment

<table>
<thead>
<tr>
<th></th>
<th>Day 1</th>
<th>Day 2</th>
<th>Day 3</th>
<th>Total</th>
<th>Comments</th>
<th>Compliant?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In total</strong></td>
<td>$25,000</td>
<td>$30,000</td>
<td>$85,000</td>
<td>$140,000</td>
<td>May appear excessive – need to analyze on different levels</td>
<td><strong>Maybe</strong> – further analysis required</td>
</tr>
<tr>
<td><strong>Per rep</strong></td>
<td>$250</td>
<td>$300</td>
<td>$850</td>
<td>$1,400</td>
<td>Day 1 and 2 seem reasonable; Day 3 appears extravagant based on cost &amp; location; Day 2 &amp; 3 are offside transportation prohibition</td>
<td><strong>Yes</strong> – Days 1 &amp; 2 for cost; <strong>No</strong> – Day 3 re cost; <strong>No</strong> – Day 2 &amp; 3 for transportation to dinner</td>
</tr>
</tbody>
</table>

| **% of total event costs** | $25,000/ $325,000 = 8% | $30,000/ $325,000 = 9% | $85,000/ $325,000 = 26% | $140,000/ $325,000 = 43% | Same conclusion as above – transportation costs to dinner are strictly prohibited | **Yes** – Days 1 & 2 for cost; **No** – Day 3 re cost; **No** – Day 2 & 3 for transportation to dinner |

**Conclusion:** The dinner costs for day 3 are not reasonable having regard to the purpose of the conference. The payment of transportation costs are prohibited.
## Entertainment assessment

<table>
<thead>
<tr>
<th></th>
<th>Day 1</th>
<th>Day 2</th>
<th>Day 3</th>
<th>Total</th>
<th>Comments</th>
<th>Compliant?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In total</strong></td>
<td>$25,000</td>
<td>$25,000</td>
<td>$60,000</td>
<td>$110,000</td>
<td>May appear excessive – need to analyze on different levels</td>
<td><strong>Maybe</strong> – further analysis required</td>
</tr>
<tr>
<td><strong>Per rep</strong></td>
<td>$250</td>
<td>$250</td>
<td>$600</td>
<td>$1,100</td>
<td>Day 1, 2 seem reasonable taking into account the cost of a round of golf or a spa visit in Ontario and section 7.3 of NI 81-105CP; Day 3 is extravagant in comparison</td>
<td><strong>Yes</strong> – Day 1 &amp; 2</td>
</tr>
<tr>
<td><strong>% of total event costs</strong></td>
<td>$25,000/ $325,000 = 8%</td>
<td>$25,000/ $325,000 = 8%</td>
<td>$60,000/ $325,000 = 18%</td>
<td>$110,000/ $325,000 = 34%</td>
<td>Same conclusion as above</td>
<td><strong>Yes</strong> – Day 1 &amp; 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>No</strong> – Day 3</td>
</tr>
</tbody>
</table>

### Conclusion:
The entertainment costs for day 3 are not reasonable having regard to the purpose of the conference.

### In summary:
The IFM is compliant based on content and time (refer to slide 13). The IFM is not compliant based on the provision of transportation to dinner, the reasonability of some dinner costs and some entertainment costs; the cost of dinner and the entertainment on day 3 and the transportation to dinner on day 2 and 3 must be changed to ensure the entire conference is on side with section 5.2 of NI 81-105.
Expenses charged to funds & allocation of fund expenses
IFM Expenses vs. Fund Expenses

IFM expenses
• Expenses related to the operations and conduct of an IFM should be borne by the IFM and **should not** be allocated to the funds. These include:
  ▪ maintaining proper registration for the firm, the UDP and the CCO
  ▪ developing a system of compliance and controls, along with on-going monitoring and supervision
  ▪ ensuring compliance with securities law and meeting regulatory obligations
  ▪ establishing the firm’s infrastructure and hiring qualified personnel
  ▪ entering into agreements with service providers
  ▪ establishing a distribution network & providing dealers with required information
  ▪ promoting the investment funds

Expenses of an investment fund
• Only expenses that are related to the daily operation of the investment funds should be allocated to the investment funds
IFM Expenses vs. Fund Expenses

- Do the expenses pertain to the IFM’s business activities or its regulatory obligations?
  - Yes: IFM pays for the expenses
  - No: Is the type of expense related to the daily operations of the funds?
    - Yes: IFM pays for the expenses
    - No: Is the amount of the expense reasonable and justifiable to charge to the funds?
      - Yes: IFM pays for the expenses
      - No: Is the invoice for the expense billed directly to the relevant fund(s)?
        - Yes: Applicable fund pays for the expense
        - No: Allocate expense to the funds using relevant and appropriate allocation methodology
# IFM Expenses vs. Fund Expenses

<table>
<thead>
<tr>
<th>Nature of expense</th>
<th>IFM Expense</th>
<th>Fund Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits of staff fully dedicated to providing services to the fund</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Salaries and benefits of compliance/ HR staff</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>System changes to enhance back office services for funds</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>System changes to enhance portfolio management system</td>
<td>No. PM is already compensated through an advisory fee paid from the management fee.</td>
<td>No. PM is already compensated through an advisory fee paid from the management fee.</td>
</tr>
<tr>
<td>System changes to produce CRM 2 required information</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
Allocation of Fund Expenses

- **Direct expenses:** expenses that are directly linked to the funds. In most cases the invoices are provided on a fund-by-fund basis e.g. audit fees, custodial fees, legal fees.

- **Indirect expenses:** expenses that are not charged on a fund-by-fund basis e.g. fees paid to service providers for outsourced functions or expenses incurred for functions performed in-house and other overhead expenses.
  - The IFM will need to allocate these costs to the funds using an appropriate cost driver.

<table>
<thead>
<tr>
<th>Type of Expense</th>
<th>Allocation methodology used/ cost driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund accounting</td>
<td>Assets under management</td>
</tr>
<tr>
<td>Trust accounting</td>
<td>Assets under management</td>
</tr>
<tr>
<td>Transfer agency</td>
<td>Number of securityholders</td>
</tr>
<tr>
<td>Securityholder reporting</td>
<td>Number of securityholders</td>
</tr>
<tr>
<td>Legal expenses</td>
<td>• Per fund if specific to a fund</td>
</tr>
<tr>
<td></td>
<td>• Assets under management if applicable to all funds</td>
</tr>
</tbody>
</table>
Other points to consider

• Disclosure in offering documents:
  - Disclosure made in the offering documents on fees and expenses should be clear and contain an appropriate level of detail
  - IFMs should avoid using general or collective terms such as “administration costs” or “operating costs” to describe a group of expenses

• Independent review committee (IRC):
  - IRC approval should be obtained for the types of expenses charged as well as for the allocation methodology used
  - IRC approval should be obtained for expenses paid to an affiliate
  - Provide adequate level of detail to the IRC to allow the IRC to make an informed decision
  - Ensure that IRC is aware of all updates and changes relating to expenses charged to the funds and allocation methodology used
Oversight of service providers
Major IFM Operational Functions

Functions can be outsourced or performed in house

- Investment Fund Manager
  - Fund Accounting
  - Trust Accounting
  - Transfer Agency
Outsourcing of IFM functions to service providers

Use of service providers

• Additional guidance under Part 11 of the Companion Policy to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103CP)

• Key aspects of the oversight process to ensure compliance with securities legislation

• Third party service providers vs. affiliated entities:
  ▪ An affiliate that is part of the same global conglomerate providing transfer agency, trust accounting and fund accounting services to investment fund
  ▪ What is the expectation regarding oversight of the affiliate by the IFM?
## Outsourcing of IFM functions to service providers

<table>
<thead>
<tr>
<th>Function</th>
<th>Service provider responsibility</th>
<th>Examples of oversight:</th>
</tr>
</thead>
</table>
| **Transfer Agency** | - Process subscription and redemption requests | - Review unitholder reconciliation report for timely and accurate processing of transactions  
                              |                                   | - Review of fund unit position reconciliations  
                              |                                   | - Review of non-financial changes to unitholders |
## Outsourcing of IFM functions to service providers

<table>
<thead>
<tr>
<th>Function</th>
<th>Service provider responsibility</th>
<th>Examples of oversight:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust Accounting</td>
<td>- Reconcile money flowing in/out of fund trust account with transfer agent activity</td>
<td>- Review reconciliation of each fund’s trust account to ensure:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• no commingling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• proper interest distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ensure only valid transactions take place</td>
</tr>
<tr>
<td>Fund Accounting</td>
<td>- Perform net asset value (NAV) calculation including pricing of individual securities, processing of corporate actions, reconciling cash and security positions held by the fund with custodial records</td>
<td>- Review NAV reporting package detailing all components of the NAV calculation to ensure:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• timely review of cash and fund security positions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• proper reconciliation of fund positions to custodial report</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• accurate pricing of securities including review and approval of manually-priced securities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• complete and accurate processing of corporate actions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• rectify NAV errors as required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• re-calculate on a sample basis management fees, other fund expenses and NAV</td>
</tr>
</tbody>
</table>
Issues related to IFM organizational structures
IFM organizational structures

• Payment of management fees to unregistered entities
  ▪ Registration implications:
    • Who is the IFM? Who directs the business, operations or affairs of the fund?
  ▪ Participation fee implications:
    • Participation fee does not capture all revenue attributed to registerable activities

![Diagram](image-url)
IFM organizational structures

Disclosure regarding an unregistered entity performing IFM duties and responsibilities

• Examples of financial statement disclosure:
  ▪ Pursuant to the terms of agreements, the fund pays management and advisory fees to Company XYZ, Registrant A’s parent company.
  ▪ Company XYZ then pays a fee to Registrant A for services rendered on behalf of the investment fund.

• Examples of disclosure in management agreements and offering documents
  ▪ Company XYZ is:
    • responsible entering into agreements on behalf of the fund
    • allocated an amount of income and the performance bonus allocation
    • acts as transfer agent and registrar
    • calculates the value of each portfolio’s assets
Part 3 – NI 31-103 – Proposed IFM related amendments
Proposed IFM related amendments

Proposed on-going amendments to NI 31-103:

• CSA published proposed amendments to NI 31-103 in December 2013

• CSA proposed amendment impacting IFMs:
  ▪ Section 12.14(2)(c) – Net Asset Value (NAV) adjustment
  ▪ Introduction of new Form 31-103F4 *Net Asset Value Adjustments*
  ▪ The intention of the change is to provide additional details on the cause of the NAV adjustment
Part 4 – Investment Funds and Structured Products Branch regulatory updates
CSA Mutual Fund Fees Review: Regulatory Update

Chantal Mainville, Senior Legal Counsel
Investment Funds and Structured Products Branch
Published for comment December 13, 2012;

Goal was to:

- Discuss investor protection and fairness issues we think arise from mutual fund fee structure
- Set out a range of potential regulatory options to address issues identified
- Use paper as a platform to begin a discussion of the issues and possible solutions
Regulatory Issues Arising from Mutual Fund Fee Structure in Canada

- Lack of investor understanding and control of advisor compensation
- Potential conflicts of interests at both the mutual fund manufacturer and advisor levels
- Lack of alignment of advisor compensation and services
- Lack of low-cost options for DIY investors
Potential options proposed in 81-407

• Prescribe advisor services to be provided in exchange for trailing commissions
• Offer low-cost fund series for DIY investors
• Charge/disclose trailing commission component as separate asset-based fee
• Cap commissions
• Implement best interest duty for advisors
• Ban conflicted advisor remuneration
Status Report on Consultation

• On December 17, 2013, published CSA Staff Notice 81-323 providing status report on mutual fund fees consultation

• Identified key themes emerging from comment process and subsequent in-person consultations

• Themes split between industry and investor viewpoints.
Key themes from industry stakeholders

• There is no evidence of investor harm that warrants a change to the mutual fund fee structure in Canada

• A ban on embedded compensation will:
  ▪ Reduce access to advice for small retail investors
  ▪ Eliminate choice in how investors may pay for advice, and
  ▪ Create an unlevel playing field among competing products and opportunities for regulatory arbitrage

• Should observe and assess the impact of domestic and international reforms before moving ahead with further proposals.
Key themes from investor stakeholders

• Embedded advisor compensation causes a misalignment of interests which impacts investor outcomes and should be banned
• Investors should at a minimum have the true choice to not pay embedded commissions
• Need to apply a best interest duty to advisors
• Need to increase advisor proficiency and regulate the use of titles
Next Steps: Research

• CSA will obtain *quantitative* information to inform its policy decision

• Issued RFP on April 7, 2014 inviting proposals for two independent pieces of research to evaluate the extent, if any, to which:
  
  i. Sales and trailing commissions influence fund sales

  ii. The use of fee-based vs. commission-based compensation changes the nature of advice and investment outcomes over the long term.
Timing

- Conduct research: summer and fall 2014
- Staff notice setting out key findings and status will be published by early 2015
- Recommendation on policy direction submitted to CSA Chairs early 2015.
Stage 3 of the CSA Point of Sale (POS) Disclosure Project: Regulatory Update

Stephen Paglia, Senior Legal Counsel
Investment Funds and Structured Products Branch
Project Background

• **Purpose:**
  - provide investors with more meaningful information about a mutual fund at a time that is most relevant to their investment decision

• **Fund Facts:**
  - in plain language, no more than two pages double-sided and highlights key information that is important to investors.
Staged Approach to Implementation

- June 18, 2010 notice outlined the CSA’s decision to proceed with a staged implementation.

- Stage 1 (completed) – mandates the production, filing and posting of the Fund Facts to a website.

- Stage 2 (completed) – allows delivery of the Fund Facts to satisfy current prospectus delivery requirements.
  - Fund Facts required to be delivered as of June 13, 2014

- Stage 3 (under way)
Stage 3 of Point of Sale Project

• Three concurrent work streams:
  ▪ proposed amendments aimed at implementing pre-sale delivery of the Fund Facts,
  ▪ the development of a CSA mutual fund risk classification methodology
  ▪ the development of a summary disclosure document for exchange-traded mutual funds (ETFs)
## Pre-Sale Delivery

<table>
<thead>
<tr>
<th>Type of account</th>
<th>Type of trade</th>
<th>Type of fund</th>
<th>Time of delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Initial purchase</td>
</tr>
<tr>
<td><strong>2009 Proposal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full service</td>
<td>Adviser recommended</td>
<td>All funds other than money market funds</td>
<td>Before or at point of sale</td>
</tr>
<tr>
<td></td>
<td>Money market funds</td>
<td></td>
<td>Before or at point of sale OR With trade confirmation</td>
</tr>
<tr>
<td></td>
<td>Investor initiated</td>
<td>All funds</td>
<td></td>
</tr>
<tr>
<td>Order execution only</td>
<td>All trades</td>
<td>All funds</td>
<td>With trade confirmation</td>
</tr>
<tr>
<td><strong>Current Proposal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full Service</td>
<td>All trades</td>
<td>All funds</td>
<td>Before a dealer accepts an instruction for the purchase of a security of a mutual fund OR Within 2 days of purchase in limited circumstances subject to conditions</td>
</tr>
<tr>
<td>Order execution only</td>
<td>All trades</td>
<td>All funds</td>
<td></td>
</tr>
</tbody>
</table>
Current Pre-Sale Delivery Proposal

Proposed pre-sale delivery requirements simplified
• for all mutual fund securities purchases, Fund Facts is required to be delivered or sent to purchaser before a dealer accepts instruction

Limited exceptions to pre-sale delivery
• where pre-sale delivery impracticable
• for pre-authorized purchase plans
Exceptions to Pre-Sale Delivery

- **Where Pre-Sale Delivery Impracticable**
  - the purchaser indicates that mutual fund purchase has to be completed immediately or within a specified time
  - it is not reasonably practicable for dealer to complete pre-sale delivery of the Fund Facts
  - the dealer informs the purchaser of:
    1. existence and purpose of the Fund Facts, and
    2. dealer’s obligation of pre-sale delivery of Fund Facts
  - the dealer provides a verbal overview of the Fund Facts, including investor rights
  - the purchaser consents to receiving the Fund Facts after entering into the purchase
  - the Fund Facts is required to be delivered or sent to the purchaser within 2 days of purchase
  - no standing instructions for post-sale delivery
Exceptions to Pre-Sale Delivery

• For Pre-Authorized Purchase Plans

  ▪ the Fund Facts is not required to be delivered for subsequent purchases of a mutual fund

  ▪ the dealer must provide initial and subsequent annual notices to the purchaser with the following information:
    ▪ how to access and request the Fund Facts
    ▪ purchaser does not have a right to withdrawal

  ▪ purchaser has right of action for rescission or for damages if there is a misrepresentation in the prospectus or Fund Facts
Risk Rating Methodology

• CSA Notice 81-324 and Request for Comment – Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts
  ▪ Published December 12, 2013
  ▪ Developed in response to stakeholder concerns regarding lack of standardized risk disclosure

• Proposal sets out a proposed risk classification methodology for use by mutual fund managers in the Fund Facts.
  ▪ Methodology based on 10-year standard deviation
  ▪ 6 category risk scale ranging from low to very high
  ▪ Intended to provide a consistent and comparable basis for measuring the risk of different mutual funds

• Comment period ended on March 12, 2014
Summary Disclosure Document for ETFs

• CSA granted exemptive relief orders in August 2013 introducing an alternative delivery regime for ETFs
  ▪ Requires delivery of a summary disclosure document with the trade confirmation for all ETF purchases as of September 2013
• Exemptive relief orders cover all ETF manufacturers and bank-owned dealers, which account for approximately 80% of ETF trades
• CSA currently developing and testing a summary disclosure document similar to Fund Facts for ETFs called ETF Facts
• Will publish proposals to implement ETF Facts and codify alternative delivery regime introduced through exemptive relief orders
Next Steps

• Pre-sale Delivery of Fund Facts
  ▪ Publication of final rules Fall 2014
  ▪ Final implementation date to be determined

• Risk Classification Methodology
  ▪ Publication for comment early 2015

• ETF Facts
  ▪ Publication for Comment late 2014
References
References & web links

• IFM Common deficiencies
  ▪ OSC Staff Notice 33-742 – 2013 OSC Annual Summary Report for Dealers, Advisers and Investment Fund Managers
  ▪ OSC Staff Notice 33-738 - 2012 OSC Annual Summary Report for Dealers, Advisers and Investment Fund Managers
  ▪ OSC Staff Notice 33-743 (to insert website hyperlink once published) - Guidance on sales practices, expense allocation and other relevant areas developed from the results of the targeted review of large investment fund managers (OSC Staff Notice 33-743)

• Mutual Fund Sales Practices
  ▪ Assessing primary purpose
    ▪ Part 5 of National Instrument 81-105 Mutual Fund Sales Practices (NI 81-105)
    ▪ Part I – Sales Practices Assessing primary purpose section i) and ii) of OSC Staff Notice 33-743
References & web links

• Mutual Fund Sales Practices
  ▪ Assessing reasonability of costs
    ▪ Section 7.1 and 7.3 of the Companion Policy to NI 81-105 (NI 81-105CP)
    ▪ Part I – Sales Practices *Reasonability of Costs*, section i) and ii) of OSC Staff Notice 33-743
    ▪ OSC Staff Notice 11-760

▪ Promotional items and business promotion activities
  ▪ Definitions included in Part 1 of NI 81-105
  ▪ Part 5 of NI 81-105
  ▪ Section 7.3 and 7.6 of NI 81-105CP
  ▪ Part I – Sales Practices *Reasonability of Costs*, section i) and ii) of OSC Staff Notice 33-743
  ▪ OSC Staff Notice 11-760
References & web links

• Expenses charged to funds & allocation of fund expenses
  ▪ Part II of OSC Staff Notice 33-743
  ▪ OSC Staff Notice 11-760

• Outsourcing of service providers
  ▪ Part 11 of NI 31-103CP
  ▪ Part V of OSC Staff Notice 33-743

• IFM organizational structure
  ▪ Section 7.3 of NI 31-103CP
  ▪ Section 2.8 of the Companion Policy to OSC Rule 13-502 Fees

• Proposed NAV Form 31-103F4 Net Asset Value Adjustments
  ▪ Proposed Amendments to NI 31-103 and related rules and forms published December 5, 2013
Questions

RegistrantOutreach@osc.gov.on.ca