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Financial Regulatory Disclosure: Embracing New Communications Channels

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Key Conclusions

- Canadian financial regulators have introduced a new disclosure document for mutual and segregated funds called "Fund Facts." The document is intended to provide investors with information in a simple, accessible, and comparable format.
- The disclosure regime for Fund Facts is too prescriptive, particularly in its format requirements, as it is designed in a size best suited for a paper document in an environment where people are more frequently digesting information using new communications channels, namely, mobile devices such as smart phones.
- Canadian securities regulators have signaled their intent to develop rules requiring the Fund Facts documents to be delivered before or when a transaction takes place between an investor and an advisor, despite the potential for disrupting transactions that may be in the investor's interest.
- A better approach would be to create the conditions in which technology and market forces will move the industry standard towards this objective in a competitive environment. This can be done by introducing more flexibility into the formats the industry can use.
- Building more flexibility into this regulation allows for the integration of financial literacy into mandated disclosure.

Précis

Canadian financial regulators have introduced a new disclosure document for mutual and segregated funds called "Fund Facts." The document is intended to provide investors with information in a simple, accessible, and comparable format.

However, the disclosure regime for Fund Facts is too prescriptive, particularly in its format requirements, as it is designed in a size best suited for a paper document. But people are shifting away from paper documents and now frequently digest information using new communications channels, namely, mobile devices such as smart phones.

Canadian securities regulators have signaled their intent to develop rules requiring the Fund Facts documents to be delivered before or when a transaction takes place between an investor and an advisor, despite the potential for disrupting transactions that may be in the investor's interest. A better approach would be to create the conditions in which technology and market forces will move the industry standard towards this objective in a competitive environment. This can be done by introducing more flexibility into the formats the industry can use to present the information that must be disclosed. Building more flexibility into this regulation allows for the integration of financial literacy into mandated disclosure.

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Executive summary

Canadian financial regulators have introduced a new disclosure document for mutual and segregated funds called "Fund Facts." The document is intended to provide investors with information in a simple, accessible, and comparable format. Regulators introduced Fund Facts when they realized that investors have trouble finding and understanding the information they need to make investment decisions because it is buried in prospectuses and other long and complex documents.

However, the disclosure regime for Fund Facts is too prescriptive, particularly in its format requirements, as it is designed in a size best suited for a paper document. But people are shifting away from paper documents and now frequently digest information using new communications channels, namely, mobile devices such as smart phones.

Canadian securities regulators have signaled their intent to develop rules requiring the Fund Facts documents to be delivered for mutual funds, and possibly other investment products, before or when a transaction takes place between an investor and an advisor despite the potential for disrupting transactions that may be in the investor's interest.

A better approach to mandating the delivery of Fund Facts before or at point of sale would be to create the conditions in which technology and market forces will move the industry standard towards this objective in a competitive environment. This can be done by introducing more flexibility into the formats that the industry can use to present the information that must be disclosed. That flexibility would enable the industry to take into consideration their customers' preferences in addition to other factors, such as business models and costs.

A significant benefit of the model described above is that it would allow regulatory disclosures to fulfill policy objectives in financial literacy. Building more flexibility into disclosure regulation allows for the integration of financial literacy into mandated disclosure. For example, an individual reading Fund Facts over a smart phone or tablet could click on words and phrases for clarification, more information, or to flag questions they might wish to ask their advisors.

Introduction

Canadian financial regulators have taken a step toward recognizing the weakness in current financial disclosures for investment products. Acknowledgement of the weakness is best described in the following 2007 statement by the Joint Forum of Financial Market Regulators (JFFMR), a coordination mechanism consisting of insurance, pension, and securities regulators: "Many investors have trouble finding and understanding the information they need because it is buried in these long and complex documents (JFFMR, 2007)." By long and complex documents, the JFFMR was referring to standard disclosure documents, such as mutual fund prospectuses intended to provide investors with full, true and plain disclosure of information on the mutual funds that they purchase.

The channels of communication through which Canadians digest information are changing with the emergence of smart phones and tablets. However, the disclosure requirements of Canadian financial regulators continue to be prescriptive not only in content but also in format. For example, Canadian financial regulators have introduced a short disclosure document called "Fund Facts," intended to provide investors in mutual or segregated funds with simple, meaningful information. However, while the prescribed format is suitable for paper or a desktop format which displays PDF most adequately, it is less than ideal for smart phones and other small electronic devices through which people are increasingly digesting information.

This study will examine the case for less prescriptive disclosure requirements in order to provide flexibility in how information can be delivered, not only through current new channels, but also channels that will emerge in the future. The study focuses on the new Fund Facts disclosure template for mutual and segregated funds, but intends to draw conclusions more generally for disclosure documents with similar objectives. It will also examine how flexibility can facilitate financial literacy objectives.

The study describes the existing mutual funds regime, the emergence of Fund Facts including issues related to the delivery of the document, and discusses how it meshes with modern communications technologies. A disclosure model incorporating more flexibility is presented as an alternative before the study concludes.

Mutual fund disclosure

Mutual funds pool money from individual investors, and then invest in securities such as stocks and bonds on behalf of those investors.

Canadian securities regulation requires mutual fund companies to file and provide a number of disclosure documents to investors on a periodic basis, including performance reports and audited financial statements.

New investors are required to receive a prospectus, which is intended to provide investors with full, plain, and true disclosure so that they can make informed choices. There is a requirement that the prospectus be delivered within two days of purchase. In some provinces, investors can cancel an agreement to buy mutual funds within two business days of receiving the prospectus. Mutual fund prospectuses fall into the category of documents acknowledged by Canadian financial regulators to be long and complex thereby making it difficult for investors to find the information they are looking for (JFFMR, 2008). To address this issue, the regulators have initiated the point-of-sale initiative described next.

The Joint Forum of Financial Market Regulators point-of-sale initiative

In October 2008, the JFFMR published a framework for point-of-sale disclosure. The framework was intended to articulate a shared set of concepts and principles agreed upon by insurance and securities regulators for a more meaningful and effective disclosure regime (JFFMR, 2008). The publication of the framework followed public consultations originating in 2003 when a paper was released outlining a comprehensive disclosure system for segregated and mutual funds (JFFMR, 2003). Segregated funds are an investment product offered by life insurers that include features such as principal guarantees. Part of this disclosure system was a fund summary of one or two pages (Fund Facts). The 2003 paper was followed by the release of another consultation paper in 2007 that focused primarily on point-of-sale disclosure (JFFMR, 2007).

The 2008 framework described three general principles:

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

Appendix A includes the Fund Facts template set out in securities regulation. It covers information including what the fund invests in, historical performance, risk profile, and costs.

The concept of point-of-sale disclosure in Canada is consistent with developments in securities regulatory disclosure for mutual funds internationally. Box 1 describes an initiative of an international organization of securities regulators called the International Organization of Securities Commissions (IOSCO) and developments in the US.

The JFFMR point-of-sale framework prompted serious concerns with how the delivery of the Fund Facts document would affect transactions, which are described below.

Delivery issues

The delivery requirements outlined in the JFFMR's 2007 consultation paper proved to be contentious for industry. The consultation paper stated that the Fund Facts document will be delivered to investors before or at the point of sale for initial purchases, subsequent purchases (except for pre-authorized payment plan purchases), and switches (except for switches under asset allocation services). Methods of delivery included: by hand, fax, mail, and electronically (sending a copy of the document directly to the investor). The rationale behind the delivery requirements was the principle described above regarding provision of information before investors make their decision to buy.

Box 1: Point-of-sale developments internationally

In February 2011, the International Organization of Securities Commissions (IOSCO), a body representing securities regulators from jurisdictions around the world, released a report outlining principles for point-of-sale disclosure. The principles (outlined in Appendix B) describe key information that should be included and state information should be delivered or made available to investors prior to sale.

The US Securities and Exchange Commission has implemented a rule consistent with the concepts behind point-of-sale disclosure. Beginning January 1, 2011, mutual fund prospectuses in the US require risk and return summary information. The information must also be available on fund websites, and be in a format that can be downloaded into a spreadsheet, analyzed using commercial off-the-shelf software, and used within investment models in other software formats (SEC, 2011).

A key issue for industry was that the delivery requirements had the potential to disrupt the sales process. A comment letter by Investment Funds Institute of Canada (IFIC) describes the problems (IFIC, 2007). Two significant channels of transactions that take place after an account is opened (subsequent sales and switches) are telephone and in-home sales. For telephone transactions, a disruption could occur if the sales person cannot fulfill the customer's instructions immediately because the customer has not received the Fund Facts document. A similar problem could occur where an advisor is visiting a client in person at their residence. Based on the discussion that takes place, a recommendation could materialize that cannot be implemented immediately because the advisor does not have the relevant Fund Facts document on hand.

The JFFMR's 2008 version of the framework included revisions that partially addressed delivery issues. For instance, if an investor directs an advisor to make a transaction, the investor would have the option of receiving Fund Facts with the delivery of the trade confirmation. However, where the advisor makes a recommendation, other than for a money market fund, Fund Facts would have to be delivered prior to or at the point of sale.

Despite modifications to the framework, industry continued to make the case that the delivery requirements were problematic for mutual fund distribution. Based on feedback that requiring the Fund Facts to be delivered before every purchase would present operational and compliance concerns, the securities regulators decided to modify the way the document was delivered (CSA, 2010b).

CSA implementation

Canadian provincial securities regulators commonly act jointly on new initiatives through an umbrella organization called the Canadian Securities Administrators (CSA).

The CSA has chosen to implement point-of-sale disclosure in stages. Stage One is the production of Fund Fact documents, which must be made available on a mutual fund's or mutual fund manager's website. The document must also be sent to investors upon request. This stage came into force at the beginning of 2011.

Stage Two consists of allowing delivery of the Fund Facts document to satisfy the existing requirement that a prospectus be delivered to an investor purchasing a mutual fund. The CSA has proposed delivery of the Fund Facts document within two days of the purchase of a mutual fund.

Stage Three will include the more contentious issue of point-of-sale delivery requirements for mutual funds and other types of investment funds, such as exchange-traded funds.

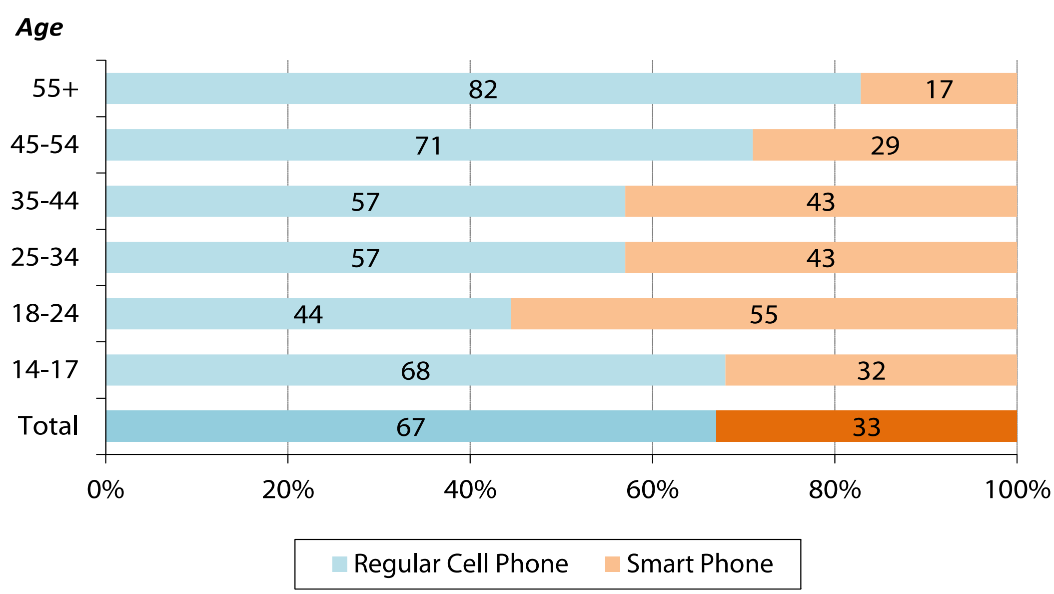
Fund Facts: The format problem

As noted earlier, the framework behind Fund Facts included the principle of providing the information in a simple, accessible, and comparable format. However, the disclosure regime for Fund Facts is at odds with how people are digesting information as the document is designed in a size best suited for paper printout. People are not only shifting away from paper documents, but also personal computers in favour of mobile devices.

The shift

Figure 1 gives the results of a 2011 Quorus survey asking about the usage of smart phones relative to regular cell phones. A third of mobile phone users have a smart phone. Across age groups, the lowest percentage (17 percent) of people with a smart phone are those in the over-55 segment, while the highest percentage of smart phone ownership is among those aged 18 to 24.

Figure 1: Of those who have cellphones, what proportion have smart phones vs. regular phones?



Source: Quorus Consulting Group, *2011 Consumer Attitudes Study*.

The financial reporting of mobile phone service providers indicates there is high growth in smart phones relative to regular phones. The 2011 first quarter report of TELUS states that smart phones represented 54 percent of postpaid gross additions compared to 33 percent in the previous quarter (TELUS Corporation, 2011). BCE reported that as of March 31, 2011, smart phone users represented 34 percent of the postpaid subscriber base compared to 20 percent one year earlier (BCE Inc., 2011). Rogers Communications reported similar results with smart phones representing 45 percent of its postpaid subscriber base at the end of March 2011, compared to 33 percent a year earlier (Rogers Communications Inc., 2011).

The 2011 Quorus survey also covered tablet ownership and the use of mobile phones for banking, payments, and monitoring financial information. Five percent of mobile phone users also have a tablet. Twenty-two percent of smart phone users do some of their banking or pay for products and services from their phone. Five percent of mobile users who use the internet browser on their handset access financial information and stock quotes.

Deloitte Canada has predicted that in 2011 sales of smart phones and tablets will exceed those for personal computers (Deloitte Canada, 2011). The Deloitte Canada prediction is consistent with a Bloomberg article on the global trend towards displacement of home computers. Bloomberg attributes a plunge in first-quarter 2011 consumer purchases of personal computers to the sales of Apple iPads (Ricadela and Bass, 2011).

Disclosure requirements: Format not necessarily ideal for new devices

Table 1 includes a selection of the instructions required for preparing Fund Facts documents. These instructions are clearly intended for a document designed for paper

Table 1: Contents of Fund Facts Document—Selection from General Instructions

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

Source: Ontario Securities Commission Implementation of Stage 1 of Point-of-sale Disclosure for Mutual Funds (October) Volume 33, Issue 40 (Supp-4) (2010), 33 OSCB
http://www.osc.gov.on.ca/documents/en/Securities-Category8/rule_20101008_81-101_pos-disc-3340-supp4.pdf

Table 2: Screen Sizes of Portable Communications Devices

Device	Diagonal Size (Inches)
Smart phones	
Apple Iphone 4	3.5
Blackberry Torch	3.18
Tablets	
Apple Ipad 2	9.7
Blackberry Playbook	7
E-readers	
Amazon Kindle 3G Wireless	6
Kobo Wireless Ereader	6

Source: Various company web sites.

(i.e., it must be prepared on letter-size paper). The order of the information is prescribed in a manner that is designed for letter-sized paper.

Table 2 describes the diagonal screen sizes of a selection of the devices through which people are increasingly digesting information. None of the screen sizes are consistent with a letter-sized document. Screen sizes differ across devices and smart phone screens are significantly smaller than other hand-held electronic devices.

For people who prefer to digest information on a portable communications device, Fund Facts could be delivered through that device. However, if information is formatted for letter-sized paper, it could be difficult to review on smaller devices. While electronic devices such as smart phones can now read some software and reconfigure the information in a user friendly format, this would not meet the delivery requirements outlined in securities rules.

While size is less of an issue for devices with larger screens, such as tablets, these devices have capabilities that may make other information delivery formats more suitable. For example, the various segments of Fund Facts could be shown screen by screen, thus allowing the investor to flip through a set of screens rather than attempt to scroll around the letter sized pages of Fund Facts. For instance, the section of the document entitled "Quick Facts," could be followed by a screen explaining what the fund invests in, which in turn could be followed by a screen showing its top 10 investments.

The right model for the future

Recognition by financial regulators that disclosure documents, such as prospectuses, were not being read by retail investors was a step forward. However, the paper-based orientation and layout in the regulation for Fund Facts documents will discourage investors from getting to the information through their preferred channel in the friendliest possible format.

Regulators could amend their rules to set standards for disclosing information through existing new electronic devices. However, this approach would be problematic for a number of reasons, starting with the challenge of creating regulatory standards to fit all existing electronic devices.

However, the most significant problem is that amending rules is time-consuming. For instance, the rule-making process in Ontario requires the Ontario Securities Commission to provide the public with at least one comment period of 90 days to consider a proposed rule. Further comment periods are required if material amendments are made to a proposed rule. Once finalized, a rule must be submitted to the minister of finance for review over a 60-day period. Hence, once a new technology is introduced into the marketplace, a significant period of time would pass before securities rules could be amended to accommodate that technology in the delivery of disclosures.

Building flexibility into disclosure rules

A better model would be for regulators to stop prescribing standards for the structure of regulator disclosures and allow industry more flexibility in the ways they can present them. In other words, regulators need to move away from the requirements outlined in Table 1, including page size and where precisely each piece of information should go.

Industry should also have the flexibility to consider information delivery methods it feels will best serve its customers, in addition to business models and costs.

A more flexible approach is consistent with the Principle Protected Notes Regulations introduced by the federal government in 2008. Principal Protected Notes are financial instruments for which financial institutions guarantee the invested principal and offer returns linked to underlying investment products. The regulations include point-of-sale disclosure requirements that specify information that must be delivered in writing or orally, but do not prescribe the format or order of that information. Instead, the requirements stipulate that that disclosure must be made in clear, simple language conveyed in a manner that is not misleading. The Regulatory Impact Analysis Statement included in the regulations note that a more principles-based approach to regulation meets the goals of that regulation while being flexible enough to adapt to changes in the marketplace (Canada Gazette, 2008).

Possible concerns with moving towards more flexibility

Some regulators may believe that introducing the flexibility described here into financial disclosures could tempt some in the industry to use that flexibility to downplay information that a firm would prefer not to disclose. However, in the existing regulatory regime, disclosure documents, including Fund Facts, must be filed with the regulators. Doing so gives regulators the chance to review the documents and ask for changes where they see a disclosure document as deficient.

Regulators may also be concerned that more flexibility in information presentation will adversely affect document comparability. As noted earlier, Fund Facts is intended to provide investors with key information about a fund in a simple, accessible, and comparable format. The regulators could argue that a prescribed format provides the consistency that investors need to compare information about funds. However, the reality is that using Fund Facts to compare information across mutual funds would be a cumbersome process, particularly with existing tools. In order for an investor to do so, he or she would have to extract information from several separate documents. For example, if an investor is comparing balanced funds (funds that include a mix of equities and fixed income securities) through Fund Facts, the investor would have to create comparative charts by hand on paper or a spreadsheet in order structure the information in a digestible form.

In contrast, investors can now compare fund information through websites such as Morningstar or Globefund. These sites include tools that enable investors to filter mutual funds by type, performance, management expense ratios, and their own proprietary ratings. These websites do not provide the same information as Fund Facts. For instance, they do not include the trading expense ratio, and measurement of risk is folded into their own ratings systems. However, ease of use will likely ensure that these sites remain a first choice for investors wanting to compare funds. To determine what information they will provide, the companies operating these websites monitor and respond to investor preferences. Given the popularity of these sites and the lack of interest in regulatory disclosure documents, it could be argued that the private sector has been more effective in distributing information that allows investors to make informed decisions, including information available through disclosures required by regulators.

Although prescribing the format for Funds Facts disclosure may make comparing funds slightly easier, the benefit to investors is marginal at best. The introduction of flexibility would not be make information any less simple, but would ensure greater accessibility.

A further advantage of a more flexible model: Financial literacy

The move to a more flexible regulatory disclosure model will also fulfill financial literacy policy objectives. Appendix C describes the interest financial regulators and policy makers have taken in financial literacy.

Building more flexibility into the regulations enables financial literacy to be integrated into mandated disclosure. For example, an individual reading Fund Facts over a smart phone or tablet could click on words and phrases for clarification or more information. Boxes 2, 3, and 4 provide illustrations. An investor might click on the "How risky is it?" section of Fund Facts and would be taken to a standard web page that provides further explanation (box 2). The web page could also provide an example (box 3).

This illustration not only meets regulators' objectives to help consumers make more informed decisions, but also shows consumers the benefit of using financial advisors. This latter role is consistent with a CSA statement that notes that Fund Facts may help investors discuss their financial objectives with their advisors (OSC, 2011). Box 2 includes a link that directs consumers to a selection of questions they can consider asking their advisors, as shown in box 4.

A CSA-commissioned survey on performance reporting and cost disclosure found that some of the terminology in Fund Facts documents is not always widely understood. Weinstein (2010) found that few common investment terms were understood by more than two-thirds of investors. For instance, the term "management expense ratio" was only understood by three out of ten respondents. Although a basic explanation of this term exists within Fund Facts, greater elaboration and illustration may be helpful to investors if easily accessible.

Box 2: Investment risk classification

Risk means you can't be sure what you'll make when you invest. It also means that you may lose money. The fund has been classified on a scale measuring risk on the basis of its historical volatility. In other words, it has been measured on the frequency and size of its returns over time.

The investment risk classification is based on historical information. There is no guarantee future returns will follow similar patterns.

The investment risk classification only measures risk of the fund on a stand-alone basis. It does not measure how the fund contributes to the overall risk of your portfolio of investments.

The investment risk classification is based strictly on volatility. It does not measure risk factors such as business risk or political risk.

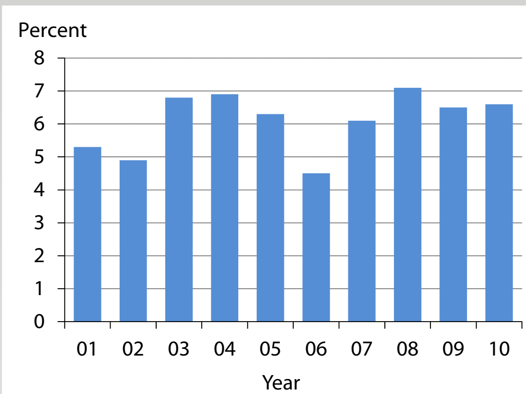
Click here for an example

Click here for questions you may wish to ask your advisor.

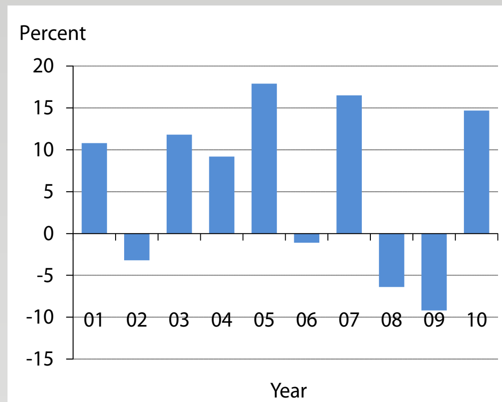
Box 3: Example

Fund A and Fund B have both provided investors with an average annual return of 6.1 percent over a ten-year period. The charts below show the one-year returns for both funds. Fund B has experienced larger and more frequent swings in annual returns. Hence, Fund B is considered riskier under the investment risk classification.

Fund A: Rates of Return



Fund B: Rates of Return



Weinstein (2010) noted that even when people say they understand a term, they may not do so to a level that a regulator might desire. To demonstrate this, Weinstein cites the response to a question on the principle of risk-return. Although almost two-thirds of investors said that they understood the principle of risk-return, when asked which of a group of comparable funds had the lowest risk, six out of ten chose the fund with the highest return and the greatest variability over a five-year span.

As noted in table 1, advisors or salespeople are restricted from binding other documents in with Fund Facts, which could also discourage them from embedding links to electronic documents that have an educational value.

Box 4: Questions you may wish to ask your advisor

- How does this security contribute to the overall risk of my portfolio?
- What is your view of the riskiness of this security? Have there been any market developments that may make this security riskier in the future?
- Is the level of risk consistent with my investment objectives?

Conclusions

The way individuals digest information is changing. Regulatory financial disclosures have always been hard to sell, not just to investors, but to all consumers of financial products. Securities regulators themselves have now acknowledged that their existing disclosure documents are unfriendly to investors and have responded not by eliminating or fixing unhelpful documents, but by introducing a new one. Thus, Fund Facts in fact adds to the regulatory burden for disclosure.

Securities regulators continue to insist that Fund Fact documents will be required to be delivered to consumers before or when they are being sold an investment product. In other words, a transaction cannot be completed unless the investor has already been given a letter-sized paper, or an electronic document formatted to letter-sized paper. This requirement can be detrimental to investors by potentially disrupting a transaction that the investor favours.

Investors would be better served if regulators simply created the conditions in which technology and market forces could move towards this objective. This can be done by allowing industry more flexibility in the way it presents mandatory disclosure information. To the extent that investors find the required information useful, they will appreciate it being delivered quickly and in a convenient format. Industry will have the incentive to respond to such preferences in a competitive environment.

This study examines regulatory disclosure for financial products in the context of one specific disclosure document: Fund Facts. However, financial regulators are considering extending the concepts behind Fund Facts to other investment products (CSA, 2010b). Hence, the concept of more flexibility that will allow disclosure through the channels that financial consumers prefer may have broader applicability.

Appendix A: Sample Fund Facts document

XYZ Mutual Funds

FUND FACTS

XYZ Canadian Equity Fund – Series A
June 30, 20XX

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

Date fund created:	January 1, 1996	**Portfolio manager:**	Capital Asset Management Ltd.
Total value on June 1, 20XX:	$1 billion	**Distributions:**	Annually, on December 15
Management expense ratio (MER):	2.25%	**Minimum investment:**	$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.

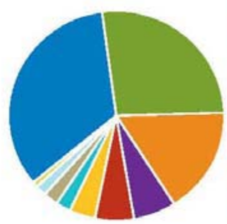
Top 10 investments (June 1, 20XX)

1. Royal Bank of Canada
2. Encana Corp.
3. Petro-Canada
4. Alcan Inc.
5. Canadian National Railway Company
6. Goldcorp Inc.
7. Extendicare 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)



Industry	
Financial services	34.0%
Energy	26.6%
Industrial goods	16.5%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

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.

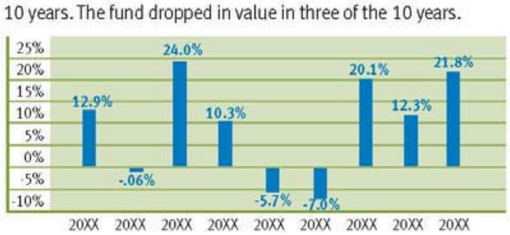
It's important to note that this doesn't tell you how the fund will perform in the future. Also, your actual after-tax return will depend on your personal tax situation.

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.

Low	Low to medium	**Medium**	Medium to high	High

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.

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series A

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 ($)	
Initial sales charge	0% to 4% of the amount you buy		$0 to $40 on every $1,000 you buy	• You and your adviser decide on the rate. • The initial sales charge is deducted from the amount you buy. It goes to your investment firm as a commission.
Deferred sales charge	**If you sell within:**		$0 to $60 on every $1,000 you sell	• The deferred sales charge is a set rate. It is deducted from the amount you sell. • 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. • You can sell up to 10% of your units each year without paying a deferred sales charge. • 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.
	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		

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series A

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

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Source: Canadian Securities Administrators (2010a).

Appendix B: IOSCO point-of-sale principles

Principle 1

Key information should include disclosures that inform the investor of the fundamental benefits, risks, terms, and costs of the product and the remuneration and conflicts associated with the intermediary through which the product is sold.

Principle 2

Key information should be delivered, or made available, for free, to an investor before the point of sale, so that the investor has the opportunity to consider the information and make an informed decision about whether to invest.

Principle 3

Key information should be delivered or made available in a manner that is appropriate for the target investor.

Principle 4

Disclosure of key information should be in plain language and in a simple, accessible, and comparable format to facilitate a meaningful comparison of information disclosed for competing CIS products.

Principle 5

Key information disclosures should be clear, accurate, and not misleading to the target investor. Disclosures should be updated on a regular basis.

Principle 6

In deciding what key information disclosure to impose on intermediaries and product producers, regulators should consider who has control over the information that is to be disclosed.

Source: IOSCO (2011).

Appendix C: Financial literacy

Financial literacy is an issue that has gained significant interest in Canada and internationally. In June 2009, the federal government established the Task Force on Financial Literacy to make recommendations to the Minister of Finance on a national strategy to improve financial literacy in Canada. Their definition of financial literacy was "having the knowledge, skills, and confidence to make responsible financial decisions" (TFFL 2010). The Task Force noted that clear communication is empowering and can motivate Canadians to become more actively involved in their personal financial affairs (TFFL, 2010).

Canadian provincial and federal financial regulators have actively supported financial literacy. For example, the Ontario Securities Commission has established the Investor Education Fund, which develops and promotes independent financial information, programs, and tools to help consumers make better financial and investing decisions. It is funded by settlements and fines from OSC enforcement proceedings.

The Financial Consumer Agency of Canada is the federal financial consumer protection regulator. In addition to providing regulatory oversight, the FCAC's mandate includes "expanding consumer education and financial literacy so that consumers have the information and skills they need to make informed financial decisions and actively participate in the financial sector" (FCAC, 2010). The agency's objectives include enhancing consumer knowledge of financial products and services, and building consumer skills and confidence so that investors can better manage their financial affairs (FCAC, 2010).

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