

Point of Sale Stage 3 Final Ruling - Executive Summary

December 12, 2014, TORONTO - The Canadian Securities Administrators (CSA) released the final rule amendments on Point of Sale Disclosure for Mutual Funds: Pre-Sale Delivery of Fund Facts (POS 3) on December 11, 2014. The rule can be found on the Ontario Securities Commission's web site or by [clicking here](#). Below please find an Executive Summary of the Amendments and the corresponding features of our InvestorPOS repository and delivery solution we have in place today to meet the requirements (*in italics*). We launched the InvestorPOS Fund Facts solution over 3 years ago (in October 2011) in anticipation of this Stage 3 pre-sale delivery requirement.... we're ready to help you!

Effective Date

- The Amendments will come into effect on May 30, 2016
- *There is no restriction or exemptive relief required for early adoption of pre-sale delivery, so dealers can start taking advantage of our compliant front office solution for pre-sale delivery of Fund Facts immediately, saving substantial post-trade print/mail costs.*

Pre-Sale Delivery Requirement

- The delivery requirement applies to all purchases, without any distinction based on the type of mutual fund security or distribution channel. This means that pre-sale delivery of the Fund Facts will apply to both full service accounts and order execution-only accounts.
- Delivery of Fund Facts is not required if the purchaser has already received the most recently filed Fund Facts.
- *For execution-only accounts, InvestorPOS tracks purchase history and will provide the investor with the updated Fund Facts prior to trade execution if there is a new or amended document since last purchase.*

Promoting E-delivery

- The amendments expressly allow the Fund Facts to be delivered to the purchaser in the form of an email attachment or a hyperlink.
- For online transactions related to order execution service accounts, pre-sale delivery can be executed through the use of a "pop-up" window in the web browser that directs the investor to the relevant Fund Facts or by requiring the purchaser to "click through" the Fund Facts before the purchase order is accepted.
- *This is the first time that the CSA has actively promoted e-delivery in their rules and policies!*
- *We have a fully compliant solution in place for order execution-only accounts that delivers the most current Fund Facts from our InvestorPOS repository containing the universe of most recently filed and receipted Fund Facts. A "pop-up" screen presents the relevant Fund Facts and the investor must acknowledge receipt before the purchase order is accepted.*

Exception Process

- The Amendments allow for an exception to pre-sale delivery of the Fund Facts in limited circumstances where the purchaser indicates that they want the purchase to be completed immediately, or by a specified time, and it is not reasonably practicable for the dealer to complete the pre-sale delivery of the Fund Facts within the timeframe specified.

- In these instances, a verbal summary of some main disclosure elements is required. The Amendments do not elaborate on the “main disclosure elements” other than including rights of withdrawal or rescission.
- Post-sale delivery of the Funds Facts is required under these circumstances, either electronically or print/mail within 2 days of purchase.
- *InvestorPOS’ compliance tracking includes a verbal disclosure checkbox to record these exceptions. Fund Facts will be automatically sent within 2 days of purchase.*

Exception for Pre-Authorized Purchase Plans

- For pre-authorized purchase plans, the requirement for pre-sale delivery of the Fund Facts will not apply to subsequent purchases of a mutual fund if an initial notice is sent indicating that the purchaser will not receive Fund Facts for subsequent purchases under the plan unless they specifically request it, and that they will not have the right of withdrawal for those subsequent purchases. The most recently filed Fund Facts for the applicable class or series must accompany the initial notice.
- A subsequent annual notice must be sent to the purchaser that includes information on how to access and request the Fund Facts. The Amendments do not state that updated Fund Facts must accompany the annual notice to pre-authorized purchase plan holders.
- The Amendments contain a provision that allows pre-authorized purchase plans that have received exemptive relief (the PPP Relief) to continue with their current annual notice delivery schedule.
- *InvestorPOS offers a fully managed solution to deliver the initial notices to pre-authorized purchase plan holders, offering them a choice to opt in for e-delivery. Subsequent annual notices can be sent electronically to opt-in responders, saving substantial print/mail costs.*

Exception for Managed Accounts and Permitted Clients

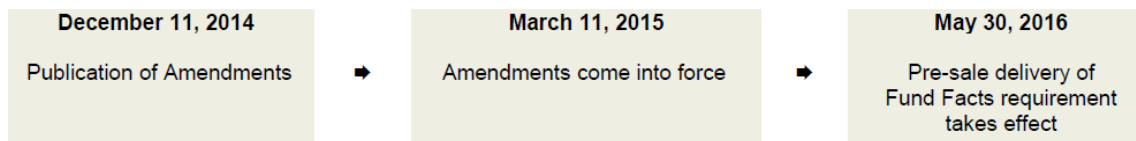
- The Amendments allow for exceptions to the pre-sale delivery requirement of Fund Facts for purchases of mutual fund securities made in managed accounts or by permitted clients that are not individuals.
- For these purchases, the Fund Facts would be required to be delivered or sent to the purchaser post-trade, within two days of buying the mutual fund.
- *InvestorPOS offers post-trade e-delivery or print/mail of Fund Facts combined with trade confirms for these accounts. Substantial cost savings can be realized by taking advantage of e-delivery for these accounts.*

No Effect on Investor Rights

- The Amendments do not change existing investor rights under securities legislation.
- Investors’ rights of rescission for failure of pre-sale delivery of the Fund Facts are the same rights as current legislation for failure to deliver the Fund Facts within 2 days of purchase.
- Investors’ right of withdrawal within 2 business days after receiving the Fund Facts remains unchanged. Depending on the timing of delivery of the Fund Facts and timing of the trade, the investor may or may not have the right of withdrawal of purchase. In other words, there is no specified timeframe as to how far in advance the Fund Facts can be delivered pre-trade.
- *InvestorPOS tracks pre-sale delivery events and ties them to the trade execution date for all mutual fund securities. We establish business rules to set an expiry date and deliver the applicable Fund Facts for any trades that did not receive pre-sale delivery of Fund Facts within a specified period (i.e., 1 month prior to trade execution date).*

Transition Time

- The Amendments come into effect on May 30, 2016.
- From time of publication, mutual fund dealers have approximately 18 months to make changes to their compliance and operational systems and to arrange for necessary training to provide pre-sale delivery to its investors.



- *For large firms with complex internal systems, multiple back office providers and lines of business, a 12-18 month timeline is realistic. However small to mid-size firms have the opportunity to implement pre-sale e-delivery of Fund Facts **today** and start realizing substantial cost savings over traditional post-trade delivery.*
- *Our clients who have implemented a front-office solution for stage 2 are now POS stage 3 compliant! The CSA promotes and supports implementing POS 3 solutions today. There is no need to wait 18 months to start saving!*

Anticipated Costs and Benefits

- Overall, the CSA continues to believe that the benefits associated with moving to pre-sale delivery of Fund Facts are proportionate to the costs of making the change.
- The CSA was responsive to the comments received regarding the time needed to change compliance and operational systems as well as for training.
- *For most major banks and large firms, the internal costs to reconfigure operational systems from post-trade to pre-sale are substantial, with vendor implementation costs representing only a small portion of that cost.*
- *We are currently engaged with many of the major banks and large firms to help architect a point of sale solution that works within their unique environments. This can be as simple as providing web service calls to our InvestorPOS repository to access the universe of most recently receipted Fund Facts and as complex as providing fully integrated multi-channel delivery solutions that include trade confirm composition and compliance tracking.*
- *We have a reputation for being nimble, flexible, working with firms to understand their business needs and developing a solution that fits within their framework.*
- *InvestorCOM believes that the cost savings associated with pre-trade delivery of Fund Facts are substantial, especially if firms take advantage of e-delivery. Some of our clients have enjoyed cost savings of up to 90% over their previous post-trade delivery.*

Next Steps

- Please contact us at info@InvestorCOM.com or 1-855-859-1865 if you have any questions or to schedule a meeting.
- Watch for our next series of webinars scheduled for January 12 and 14, 2015 to learn more about our POS Stage 3 pre-sale delivery solutions.