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Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario M5H 3S8

Dear Mr. Stevenson:

Re: Concept Proposal to Revise Schedule I (Fees) to the Regulation to the <i>Securities Act</i> (Ontario)
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We are writing in response to the request for comments on the Concept Proposal to Revise Schedule I (Fees) to the Regulation to the *Securities Act* (Ontario) (the "Proposal"), released on March 30, 2001.

Let us say at the outset that we are pleased that the Ontario Securities Commission is considering amending its fee schedules. As you are aware, the mutual fund industry has long been of the view that it pays a disproportionate amount of fees.

There are, however, a number of issues that we believe need further consideration and/or clarification. Our comments follow.

Method of Provincial Allocation

The percentage of revenue attributable to Ontario for the reported year end is to be the provincial allocation rate used in the most recently filed tax return. We submit that this is an unfair model, particularly for mutual fund companies that are Ontario based. In many cases mutual fund companies have a rate that allocates all or substantially all of their taxable income to Ontario even though they may do business across the country. Thus, Ontario based mutual fund companies will pay fees to Ontario that are inappropriately high, while still being required to pay fees to other provinces that are based on net or gross mutual fund sales. We recommend that the allocation method be harmonized across all provinces, and that for each province it be based on revenues generated from the investors in that province.

Burden of Fees

The Economic Analysis Overview (Appendix F to the Proposal) does not consider significant changes to the parties that bear the fees. Currently, significant fees are paid by mutual funds. The Proposal contemplates the bulk of fees being charged to the mutual fund company. We would like to point out that it is unclear as to whether there is any basis to charge such fees to the mutual funds it manages. If this is to be determined on a case-by-case basis based on the mutual fund's constituting documents or on the terms of its contracts with the mutual fund company, then this should be clarified. If the intent is that these fees may not be charged to the mutual fund, then there will be a significant shifting of the burden of regulatory fees from mutual funds to the mutual fund company, thus, changing the economics of the industry. We urge the Commission to fully consider the impact of this on the industry.

Prospectuses For Multiple Mutual Funds

In many cases, a single prospectus covers a number of mutual funds. This should significantly reduce the amount of work required to review the prospectus on a per-fund basis, but there is no recognition of this in the Proposal. We recommend that some form of discount be available where a single prospectus covers a number of funds.

Complex Corporate Structures

For business reasons, a number of related corporations may be registered, instead of carrying on all registerable businesses within a single corporation. Although the fee schedule is "tiered", a complex corporate structure will result in significantly greater fees being paid than if such activities were all carried out in a single corporation. As a simple example, two corporations that each generate \$600 million would pay \$1,000,000 in fees, whereas a single corporation generating \$1.2 billion in fees would pay only \$600,000. We recommend that a "consolidated" fee schedule be available, at least in circumstances where there are no outside shareholders for related companies.

Deduction of Fees Payable to Securitization Vehicles

Many mutual fund companies have financed the commissions payable to dealers for the sale of deferred sales charge units of mutual funds through securitization vehicles, such as limited partnerships. Such vehicles are not registrants. While the revenue may initially show on the mutual fund company's income statement, it is then paid to the securitization vehicle. Accordingly, there should be a deduction for the amounts payable to securitization vehicles.

Deduction of DSC Commissions

While a deduction from gross revenues is available for sub-advisory and trailer fees paid to other Ontario registrants, no deduction has been provided for commissions payable by mutual fund companies to dealers for the sale of deferred sales charge units of mutual funds. Such commissions will be included in the gross revenue of those registrants, and a deduction should be provided in order to eliminate the double counting that otherwise arises.

Deduction of Administration Fees

Note 3 of "Notes and Instructions – Part III" provides a deduction for administration fees. We agree with this approach, as such fees clearly relate to non-registerable activities and could alternatively be provided by either a third party or a non-registered subsidiary without becoming subject to fees.

However, the wording creates some concern about the deductibility where there is a profit or loss element built into the provision of such services. Note 3 refers to fees “limited solely to those that represent the recovery of costs”. The deduction should, we submit, be for those fees charged to the mutual funds, whether or not there is an element of profit involved. Note that fees charged by a third party would clearly include an element of profit, and this deduction is, we believe, designed to place mutual fund companies on the same basis that they would be if the provision of such services was contracted out.

In addition, we are unclear as to when rent and advertising would ever be charged to a mutual fund, other than (at least in the case of rent) as part of transfer agent charges. Transfer agent charges are separately noted, and we are unclear as to why rent would be specifically mentioned; many other costs relate to transfer agent functions, including salaries, systems costs etc.

Deduction of Trailer Fees

Note 5 of “Notes and Instructions – Part III” provides a deduction for trailer fees paid to other Ontario registrants. We assume that because trailer fees are paid to the dealer corporation, rather than the individual advisor, any fees paid to any dealer corporation that is registered in Ontario are deductible, notwithstanding the fact that the individual advisor or the end investor may be in another jurisdiction. Please confirm.

Again, we are pleased that the Commission has recognized the need for a more fair allocation of fees across all market players including mutual funds. If you wish to discuss any of the above points in more detail, please contact me.

Yours very truly,

Peter Bowen
Vice President & Fund Treasurer

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