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Mr. John Stevenson  
Secretary  
Ontario Securities Commission  
20 Queen Street West, 19<sup>th</sup> Floor  
Toronto, ON M5H 3S8

AND

Ms. Denise Brousseau  
Secretary  
Commission des valeurs mobilières du Québec  
800 Victoria Square, Stock Exchange Tower  
22<sup>nd</sup> Floor  
Montreal, PQ H4Z 1G3

May 23, 2002

Dear Mr. Stevenson and Ms. Brousseau:

The following letter sets out PricewaterhouseCoopers' comments on the Concept Proposal 81-402 Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers.

PricewaterhouseCoopers LLP is recognized as a leader in providing audit and audit associated services and advice to the mutual fund industry in Canada and the United States.

Our mutual fund experience is extensive and covers all aspects of the industry beyond the traditional audit services. In Canada, our Investment Management Industry Group services more mutual fund management companies, mutual and pooled funds, than any other firm. We also provide services to several venture capital and labour sponsored venture capital funds. Our mutual fund client list includes a range from the smallest to the very large mutual fund complexes.

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In summary, we are of the opinion that the renewed framework in its current state, will impose further regulation and therefore additional costs which mutual fund investors will bear and consequently, in our view, proposals on the reduction or removal of current prescriptive rules should be considered simultaneously.

We have structured our comments in response to the “Issues for Comment”, as set out in the Concept Proposal.

***Question 01***

***We see our renewed framework for regulating mutual funds as a step towards a more flexible regulatory approach, one that represents a movement away from detailed and prescriptive regulation. By streamlining our regulation, we want to create a regulatory regime that can accommodate changes within the industry and keep pace with changes in other segments of the market and global market places. What are your views on our renewed framework? Will it represent an improvement over our current model?***

**Response**

Generally speaking, we are not convinced that the renewed framework will represent an improvement over the current model. The mutual fund industry has not undergone “governance failures” and the concept proposal covers a broad range of issues, but does leave much uncertainty with respect to product regulation. To achieve the envisaged flexibility, all the factors would have to be addressed, including harmonization.

The regulation of who can act as a mutual fund manager by creating a new registration category is probably not warranted. As mutual fund managers who are not registered in any other category of registration are “market participants” and therefore come under the purview of the Securities Regulators, it is difficult to accept that further value would be added by the creation of a new registration category with conditions of registrations.

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**Question 02**

*After reading the staff research paper and the text box above, what is your opinion about the alternatives to our proposed approach? If you believe we should not change the status quo, please explain why. If you favour one or more of the alternatives we set out, please explain why. Are there other alternatives that we should consider?*

**Response**

See our response to Question 01 above. The concept proposal in its current state will impose further regulation and also additional costs which the investor will bear. Proposals on the reduction or removal of the current prescriptive rules should also be considered simultaneously.

**Question 03**

*Do you agree that labour sponsored investment funds (where applicable) and commodity pools should be subject to the same regulatory scheme as other mutual funds (considering the specialized rules that we already have for these specialized mutual funds)? If not, why?*

**Response**

Clearly, labour sponsored investment funds and commodity pools should be subject to the same higher regulatory requirements as other mutual funds, with relevant modifications considering the specialized nature of these funds. Further, it is even more important that regulation pertaining to segregated funds be harmonized with those mutual funds are subjected to.

**Question 04**

*Which parts of our renewed regulatory framework should be extended or not extended to other investment vehicles and which investment vehicles? Why do you believe the particular regulation should or should not be extended? What is the essential difference or similarity between the particular investment vehicles that mean they should be regulated differently or the same?*

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**Response**

It is our view that similar vehicles should be regulated in a similar manner, consequently, we believe four of the five pillars of proposed regulation (registration of mutual fund managers excepted), should be applied to pooled funds, hedge funds that are sold pursuant to offering memoranda, segregated funds as these products are virtually identical to the mutual fund product, exchange-traded funds listed on Stock Exchange, quasi-closed ended funds, and closed end funds. As mentioned above, harmonization is imperative among pooled investment products.

**Question 05**

*Although we do not address the fifth pillar of our proposed framework, we invite you to give us your ideas on how we could better carry out our role as regulator.*

**Response**

The relatively recent audits of mutual fund managers as market participants by the Ontario Securities Commission, serves to illustrate the constructive role that a regulator can play, even without the registration of the mutual fund manager. The real issue is to provide a level playing field to all types of pooled investment vehicles, such as segregated funds and in this regard, the harmonization of the regulation of mutual funds and segregated funds, is of paramount importance. Regulation is however, costly and due to the lack of a single national regulator, it will be extremely difficult for there to be an enhanced regulatory presence in a cost effective manner.

**Question 06**

*As you read this section of the concept proposal, please consider whether you believe our approach will result in mutual funds being monitored by a governance agency that:*

- *effectively oversees the management of the mutual funds*
- *has real powers and real teeth and*
- *adds value for investors.*

*If you agree or disagree that our proposals will meet these goals, please tell us why. What do we need to change in order to achieve them?*

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**Response**

We are of the view that governance is important, however, the governance agency as described will not add much where current fund manager boards which have a majority of independent members, provide this oversight.

The introduction of governance agencies will add significant costs which will be borne by the investors, and there is much uncertainty that the costs incurred thereby will be commensurate with the benefits obtained.

From a practical point of view, it is difficult to envision that many individuals will accept appointment as an independent governance agency member, without there being a statutory cap on their liability.

Here again, harmonization is an issue, as it would not be fair to burden mutual funds with increased costs of a governance agency whilst like products such as segregated funds do not have this requirement.

***Question 07***

***We kept Canadian corporate governance practices in mind as we developed our proposals. Have we omitted an important principle of corporate governance that you think should apply to mutual fund governance?***

**Response**

We believe that the proposals regarding mutual fund governance practices as set out in the Concept Proposal are complete, and cover all the important aspects of governance, such as independence, the size of the governance agency, its roles, specific responsibilities, appointment of members, compensation, dispute resolution and reporting to investors.

***Question 08***

***Having read the Stevens legal research paper, do you believe a flexible approach to fund governance is preferable to a single legal model, such as a board of trustees for all mutual fund trusts? Why or why not? Do you see any practical difficulties with the legal options presented in that paper? Are there any other options we should consider? Do you agree with the analysis of Québec civil law?***

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**Response**

We believe that a flexible approach to mutual fund governance is preferable to a single legal model.

We have no comments with respect to the analysis of Quebec civil law.

**Question 09**

*David Stevens writes about structural and situational conflicts in a mutual fund context. Do you agree with David Stevens' description of the conflicts? We agree with him that serious conflicts arise when the boards of directors of a fund manager or its shareholder(s) propose to act as the governance agency for a mutual fund and we propose to prohibit this. Do you agree with this conclusion? Please explain your answer.*

**Response**

We concur that structural and situational conflicts in a mutual fund context could, and do, arise, and we agree with David Steven's description of such conflicts.

Serious conflicts whether perceived or real, do arise when the Board of Directors of a fund manager act as a governance agency for a mutual fund. It is clear that by definition, a governance agency oversees the manager in the best interests of the mutual fund investor. Consequently, members of the governance agency of the mutual fund should not have either situational conflicts, nor structural conflicts in their role as a member of the governance agency.

**Question 10**

*Do you agree with our proposals and our analysis of owner-operated mutual funds? If not, please explain.*

**Response**

We concur that the interest of the fund manager and the investors in a mutual fund are aligned in an owner-operated structure. However, if it is deemed undesirable for the Board of Directors of a fund manager to act as a governance agency for non-owner operated structures, we believe that the same provisions should apply to owner-operated structures. All fund

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managers compete with each other for the same investors. Consequently, the same level of protection should be provided by all Funds. While we believe that the specific responsibility covered in the concept proposal are comprehensive, we are of the view that one size does not fit all, and the specific responsibilities may be over-bearing and too costly with respect to the smaller mutual fund complexes..

***Question 11***

***We do not currently propose to specify the maximum number of mutual funds that may be overseen by a governance agency. Is there a practical limit to the number of mutual funds that one governance agency can oversee effectively? Are mutual funds managed in ways that are sufficiently common to all mutual funds so that one governance agency can oversee all mutual funds in a related family? Should we provide guidance to the industry on the scope of oversight for a governance agency?***

**Response**

It is our view that a prescribed maximum number of Funds which may be overseen by a governance agency is not required; however, it is imperative that members of the governance agency are properly qualified to act as such, and that they understand investment objectives of each of the Funds, their structure and the overall process used by the fund manager to manage and administer the mutual funds. In addition, the number of funds to be overseen by a governance agency must be manageable in a practical sense to be effective and should be at the discretion of the fund manager and the governance agency. It would also be very helpful and ensure uniformity if guidance on the scope of oversight for a governance agency as well as their role and responsibilities were provided.

***Question 12***

***Do you think fund families will find it difficult to recruit qualified members for a governance agency at a reasonable cost? Do you have any experience with trying to recruit members of a governance agency?***

**Response**

It is our view that it will not be easy to recruit suitably qualified members for mutual fund governance agencies at a reasonable cost. Mutual funds are becoming increasingly complex,

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as does the infrastructure supporting mutual funds. In addition, the liability to which members of the governance agency are exposed will be a deterrent.

***Question 13***

***Does the definition of independent members make sense to you? Will it be easy to apply to potential governance agency members? If not, can you suggest an alternate definition or the clarifications you think are necessary? What do you think about whether or not we should require a majority or all members to be independent?***

**Response**

We concur with the definition of “independent members” being individuals who are free from any interest and any business or other relationship which could, or could reasonably be perceived to be a material influence on the member’s oversight of the mutual funds. However, as with corporations, not all governance agency members need be independent of management. Management participation in these governance agencies will assist the governance agency in executing its roles and responsibilities effectively and efficiently. The governance agency should be required to consist of a majority of independent members.

***Question 14***

***Are the responsibilities we describe appropriate for a governance agency? If not, please explain why. Have we neglected to mention any responsibilities that should be ascribed to the governance agency? For example, should the governance agency review or approve mutual fund disclosure documents?***

**Response**

- While it is important that the governance agency has access to senior officers of the mutual fund manager, such access should be on an ad hoc basis and not necessarily on prescribed dates.
- There should not be a mandated obligation for governance agencies to report non-compliance to the regulatory authorities. Guidance should be provided as to what non-compliance would have serious implications for the funds and investors.
- The governance agency should only be required to ensure that the fund manager has policies and procedures in place to monitor the Funds’ performance against benchmarks as set out in the Funds’ Simplified Prospectus.



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- Members of the governance agency will only be able to monitor that the mutual funds are managed according to their stated investment objectives and strategies, if they have the requisite knowledge and experience in this area. They should however, receive and review reports prepared by the fund manager with respect to compliance with investment strategies and objectives.
- The governance agency will not establish a charter setting out its responsibilities and operating procedures, as this should be provided to them at the outset, requiring adherence until such time as the governance agency resolves to change either its responsibilities or operating procedures.

**Question 15**

***Can you think of any other policies and procedures the governance agency should review and approve? For example, should the governance agency review policies on the use of derivatives?***

**Response**

The governance agency should review policies relating to the use of derivatives and receive a periodic report of compliance by management with those policies. In addition, the governance agency has oversight of investment performance, and in this regard should:

- Monitor the Funds' performance on a regular basis;
- Ensure that published investment performance information and statistics are accurate and timely;
- Receive periodic reports on the managers business in general terms, including recent or planned changes, as well as the managers' current financial condition; and
- Review policies and procedures regarding:
  - All material compliance matters
  - Sales communications and incentive plans
  - Changes to portfolio management teams
  - Fund mergers
  - New fund launches

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**Question 16**

***Do you believe the independent members of the governance agency will be effective in their audit committee role?***

**Response**

As with any corporate Audit Committee, members of the governance agency, if suitably qualified and properly prepared, should be effective in their Audit Committee role.

**Question 17**

***The Fund governance Committee of The Investment Funds Institute of Canada (IFIC) recommends that we limit the liability of a governance agency member for breaches of the standard of care to \$1 million. In part because members of boards of directors of corporate mutual funds will not have this limitation on their liability we do not propose to regulate any limits on liability. Also, we are not convinced such a limitation is in the public interest. What are your views?***

**Response**

As the role of the governance agency is different from that of a Board of Directors of a corporation, a limitation on the liability of a governance agency member to \$1,000,000 makes both practical and economic sense.

**Question 18**

***Will a regulatory statement on the standard of care for governance agency members allow potential members to assess their personal exposure in so acting? Will potential qualified members be deterred from sitting on governance agencies?***

**Response**

A regulatory statement on the standard of care for governance agency members is helpful if it is accompanied by a detailed definition of the standard. It is our concern that certain individuals who are qualified to be members will be deterred from becoming governance agency members, if the standard of care imposes unreasonable fiduciary obligations on them.

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**Question 19**

*If you have experience with a governance agency for your mutual funds, how have you analyzed their liability under common law or otherwise? Have you obtained insurance coverage for the members of your governance agency?*

**Response**

No Comment.

**Question 20**

*Are there alternatives to the appointment-election conundrum we outline? Is there another practical way for members to be appointed to fund governance agencies?*

**Response**

*Initial appointment*

We agree with the proposal that the appointment of the first members of the governance agency be made by the manager or elected by the investors. However, due to the cost of holding unitholder meetings, it would be more practical and cost-efficient for the manager to make the initial governance agency appointment.

*Subsequent appointments*

As in the corporate world, where management often proposes directors, we are of the view that the fund manager is in a better position to identify and recommend qualified candidates for the governance agency. Existing members of the governance agency should then ratify and approve the appointment of these new members.

**Question 21**

*What do you think about the issues associated with fund managers appointing governance agency members? Are these real or theoretical? If you act on a governance agency and were appointed by the fund manager, please share your experience with us.*

**Response**

In an industry which has seen little if any disasters, and the fact that mutual fund trusts are not required to hold annual meetings, it is only practical that the initial appointment of governance

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agency members be made by the fund manager. This will not have a negative impact on the mutual fund provided the members are suitably qualified and the majority are independent.

***Question 22***

***Should investors who do not like the elected/appointed governance agency members be allowed to exit without penalty? Do we need to give any guidelines for qualifications of prospective members of a governance agency?***

**Response**

We do not believe that the establishment of governance agencies and the appointment or election of their members should provide investors to exit without penalty.

There is no need for comprehensive guidelines for qualifications of prospective members of a governance agency to be provided by the regulator. However, it is necessary for the regulator to describe the scope, role and responsibilities of governance agency members and the governance agency body itself.

***Question 23***

***Some people are concerned about the lack of checks and balances on the governance agency setting its own compensation. We do not currently propose to place any limits on the amount or kind of compensation that may be paid to governance agency members. Should we set limits to give guidance to the industry? Should the mutual fund manager be involved in the process of setting the governance agency's compensation or not? Would the independence of governance agency members be compromised if the mutual fund manager set and paid their compensation directly? What do you think about our proposal that the fund manager be given veto power via the ability to call a special meeting to have investors consider any compensation that the fund manager believes is unreasonable?***

**Response**

The fact that the governance agency sets its own compensation is a good feature of being independent from management. However, this should be subject to the fund manager's approval. No guidance is given on corporate directors compensation, and accordingly, we do not believe guidance should be given with respect to the compensation of governance agency members in a mutual fund context. After a period of time, surveys will be conducted that will

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establish governance agency member remuneration benchmarks to be measured against. Consistent with the corporate world, we believe the mutual fund manager should be involved in the process of setting the governance agency's compensation and again, similar to the corporate world, we do not believe that the independence of the governance agency members would be compromised if the mutual fund manager sets their compensation directly.

If however, the mutual fund manager paid the compensation of the governance agency members directly, we believe that the independence of the governance agency members could be compromised.

On the basis that we believe the mutual fund manager should be involved in the process of setting the governance agency's compensation, we do not see the need for the fund manager to be given power of veto via their ability to call a special meeting to have investors consider any compensation that the mutual fund manager believes is unreasonable, as such action to call this special meeting is impractical and certainly very costly.

**Question 24**

***Will the governance agency have sufficient powers in the event of a dispute with a fund manager? Will it be able to discharge its functions properly? If not, can you suggest alternatives for effective dispute resolution? If you do not agree with our discussion on the powers to terminate the fund manager, please explain why you disagree.***

**Response**

In theory, we concur with the processes as set out in the Concept Proposal to deal with dispute resolution. If disputes arise, as they do in the corporate environment, the governance agency must be suitably qualified to deal with these disputes and at the same time, to function properly. However, in practice, the costs of calling the dispute resolution meetings would generally be high and not add value for investors.

**Question 25**

***What do you think about our suggested approach for dealing with non-performing fund governance agencies or individual members? Do investors or fund managers need any additional powers or information?***

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**Response**

Again, in theory, we appreciate the suggested approach for dealing with non-performing fund governance agencies or individual members where dispute has arisen, thereby giving investors the power to make their decision. This however, is impractical and is very costly. The governance agency should be empowered to deal with individual members and as a last resort fund managers could call a meeting of investors to terminate the majority of governance agency members and elect new members.

***Question 26***

***What information do you think investors should receive about the governance agency in addition to, or in substitution for, the information we outline?***

**Response**

The information provided to investors about the governance agency are comprehensive in our view.

We have the following comments with respect to the section on reporting to investors and what investors will receive:

- That the detailed information regarding the name and background of each governance agency member, the compensation paid to the members and their responsibilities be included not in the Simplified Prospectus but in the Annual Information Form.
- With respect to Annual Reports, it is doubtful whether the governance agency will be able to objectively articulate its assessment of its performance and it is not clear what value such disclosure would add.

***Question 27***

***How much time do you think we should allow mutual fund managers to develop their governance agencies?***

**Response**

The development of governance agencies by mutual fund managers will be a major undertaking. The development of education programmes for governance agency members, guidelines relating to roles and responsibilities etc. will take time. In our view, this will be an evolving process which will take two to three years to be fully introduced. After this period of

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time, the governance and governance agency structure should evolve in a normal manner. Staggered implementation should be considered by the regulators.

**Question 28**

*What kind of training programs do you think will be necessary for fund governance agency members?*

**Response**

Depending on the qualifications of the potential governance agency members, the training requirements for these members could be very extensive as they could require a detailed training program covering all aspects of a mutual fund operations and business.

**Question 29**

*What are your views on registration of mutual fund managers? People have told us that they are concerned our proposals will introduce an additional bureaucratic registration system. If you share these concerns, please feel free to share them with us. However, please understand that our aim is to ensure that the mechanics of registration are as streamlined as possible. We are most interested in your views on our proposals about the conditions of registration of fund managers.*

**Response**

As mentioned at the outset, we do not believe there is a requirement for the registration of mutual fund managers. Securities regulators currently have the oversight power over non-registered mutual fund managers as they are market participants. However, if these managers are not registered as advisors or dealers, there is some merit in introducing the “manager” category and requiring registration as managers.

**Conditions of registration**

The organization of mutual fund managers range from complex companies with a large stable of funds and many employees who provide internally all of the services required for the business to small companies which act mainly as wholesalers, outsourcing fund administration and investment management to unrelated third parties and trading only through other registered dealers or, alternatively, as portfolio advisers and outsourcing fund administration and most aspects of fund distribution.

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The registration requirements for fund managers should therefore be structured with enough flexibility to permit different business models. If this flexibility does not exist, these requirements could impose significant, and unnecessary, barriers to entry.

### **Senior Management Positions**

Although it is not clear, the Concept Proposal seems to suggest that registered fund managers have four senior management positions, even though there is no such requirement for other categories of registrants.

In our view, a registered fund manager should not be required to have four separate individuals serve as chief operating officer, chief financial officer, senior administrative officer and senior compliance officer and that multiple roles should be permitted.

We agree that the functional responsibilities of a CEO, CFO, senior administrative officer and senior compliance officer are part of the business of all fund managers. However, depending on the particular circumstances, including the ability to outsource and size of a fund manager, a single individual could justifiably and practically fill multiple roles.

### **Minimum Proficiency**

The Concept Proposal would require all directors and officers of a registered manager to satisfy certain proficiency requirements. We have the following comments with respect to the proposed requirements..

#### *1. Outside directors*

While we agree that satisfying experience and educational proficiency requirements should be necessary for the inside directors and the officers of a fund manager, we do not agree that these should be imposed on the outside directors.

#### *2. Officers*

We do agree that all officers should complete a stipulated partners, directors and officers examination. However, we do not believe the minimum experience requirement to be necessary and could be difficult to obtain in practice.



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**Question 30**

***The Fund governance Committee of IFIC recommends that the fund governance agency be responsible for considering the qualifications and proficiency of management. If the governance agency does not believe the fund manager has the right people to undertake the task of managing the funds, it should require changes. If the fund governance agency has this power, the Committee submits that we do not need to impose regulatory standards.***

***We do not agree with the assertion that the fund governance agency should take on this role. Our registration system for advisers and dealers sets out standards for their officers and directors and we think similar requirements should apply to fund managers. We think the governance agency should be responsible for overseeing the management of mutual funds, not for assessing the adequacy of senior management and the directors of the fund manager. Do you have any thoughts on this matter?***

**Response**

It would be appropriate for the CSA to determine proficiency requirements for registration, but these requirements should be flexible to recognize that various types of experience may be appropriate for a senior position in a mutual fund management company. The governance agency, which has direct exposure to the senior executives of the fund manager and their management teams, should be given the responsibility to determine the suitability of officers of the fund manager and their relative proficiency.

**Question 31**

***Do you believe a minimum capital requirement is justified? What do you think about the three options that have been recommended to us? Can you suggest an alternative option?***

**Response**

We believe the proposed formula for minimum capital requirement is not appropriate. The same can be said for the approaches recommended by the Stromberg Report and the Steering Group Report. Capital adequacy requirements are meant to guard against certain risks that investors or counterparties might be exposed to. Since the assets of investors are in the funds, they are not exposed to the operational risks that may be inherent in the investment manager. As a result, the capital requirements for managers should be de minimus, consistent with the

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approach in well-regulated major jurisdictions. Given the nature of the industry, and the current regulatory requirements, such as the need for an independent custodian leads us to believe that a minimum capital requirement based on a percentage of net assets managed, is not a valid assumption.

The current advisor capital requirements which are not based on assets under management is appropriate.

***Question Number 32***

***Is our list of insurable risks complete? We will need to determine the appropriate minimum levels of coverage for the insurable risks. Can you offer us any guidance on this matter?***

**Response**

We believe that the list of insurable risks appears to be complete.

***Question Number 33***

***Is our list of essential internal controls complete? Do you think our proposal for an auditor review of internal controls is necessary? Why or why not? Do fund managers today routinely ask their auditors to conduct this review?***

**Response**

The list of internal controls should be extended to include the standard internal controls relating to the investment management industry covering four areas: nature of business, governance, operations and compliance.

We would appreciate meeting with the CSA to discuss the objective and requirements of additional internal control reviews by auditors and the feasibility of performing such reviews, as well as the value they would add. Such reviews have proven to be very beneficial to both fund manager and investors but can be costly.

Currently, except for reliance purposes, fund managers do not routinely request auditors to conduct internal control reviews above and beyond that which is necessary for the auditors to opine on the financial statements of the Funds or the fund manager.

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***Question Number 34***

***It has been suggested to us that the CICA provisions respecting Section 5900 Reports may be of assistance in discharging regulatory obligations of the fund manager to satisfy itself, and demonstrate on an ongoing basis, that a third party service provider is competent to fulfil the functions in question. Independent external auditors would perform this audit and the report would be filed with the manager and regulators. Do you believe a Section 5900 Report would be useful in this context? Why or why not?***

**Response**

Many third party service providers to the investment management industry currently engage auditors to conduct engagements to express an opinion on the design and existence of control procedures or on the design, effective operation and continuity of control procedures at the service organization. The primary users of these opinions would be the service organization and/or users of its services and their auditors.

We therefore do not believe that it would be unreasonable to require third party service providers having Section 5900 engagements conducted.

***Question Number 35***

***Can you think of any other minimum standard that should apply to fund managers as a condition of registration?***

**Response**

We are not aware of any other minimum standard that should apply to fund managers as a condition of registration.

***Question Number 36***

***Please provide us with your views on how we can best achieve our objectives of re-evaluating product regulation. What changes are most important to you and why are they important? What aspects of product regulation do you think cannot be changed?***

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**Response**

It is our view that if the new framework is introduced, product regulation should be considered simultaneously. The introduction of an independent governance agency would immediately introduce oversight over conflicts of interest. Consequently inter-fund trading, fund-on-fund structures, principal trading rules and related party underwriting rules could be removed and left for the review and approval by the governance agency.

***Question Number 37***

***Is it realistic to expect that the governance agency will ensure the manager complies with its policies on such matters as related-party transactions? Can this approach replace the current conflicts of interest rules?***

**Response**

Our view is that similar to corporate boards, the governance agency will be able to provide the oversight to be reasonably assured that the fund manager complies with its policies on such matters as related party transactions. We are also of the view that this form of oversight will be more beneficial to investors than regulatory restrictions which currently exist. The governance agencies will have detailed knowledge of the mutual fund manager and its related parties and will be aware of conflict of interest issues and will be able to act quickly and decisively to remedy any such issues which arise.

***Question Number 38***

***What are your views on the specific areas that we are re-considering? Are there other changes we should consider in the area of investor rights in light of our proposed renewed framework? Do we need to consider defining additional rights for investors?***

**Response**

Our experience in attending ad hoc mutual fund unitholder meetings is that they are poorly attended and generally speaking, investors accept the status quo or “vote with their feet” mainly due to performance. For this reason, the governance agency and its oversight role should be sufficient in watching over investor rights.

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Investors should however, retain the right to approve changes where a new, non-related mutual fund company, assumes the contract to manage the relative mutual funds.

***Question Number 39***

***Upon reading the staff research paper, what are your views on the costs of our proposals versus the benefits? Should we take into account other costs? Other benefits?***

**Response**

The costs of the proposals in the concept document will be significant. We therefore believe that a detailed study be conducted to ensure these costs will be commensurate with the benefit obtained by investors.

The benefits to investors of investing in mutual funds are obvious – diversification; choice (spreading of risk); access to markets; professional asset management; liquidity; flexibility, and above all, allowing the average investor to participate in the capital markets. If the costs borne by mutual funds increase substantially, investment in mutual funds could become less attractive to those people who as investors benefit from their existence.

Yours very truly,

**(Signed) “PricewaterhouseCoopers LLP”**

Barry J. Myers, FCA