GGOF GUARDIAN GROUP OF FUNDS

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May 31, 2002

Canadian Securities Administrators
c/o John Stevenson, Secretary
20 Queen Street West
19th Floor Box 55
Toronto Ontario
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Denise Brousseau, Secretary
Commission des valeurs mobiliéres du Québec
P.O. Box 246, 22nd Floor
Montreal Quebec
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Re: Comments on CSA Mutual Fund Governance Concept Proposal

We are members of the Investment Funds Institute of Canada ("IFIC") and we have participated in IFIC's process of obtaining industry responses to the Concept Proposal and we have reviewed IFIC's letter to the CSA.

We are fundamentally in agreement with IFIC's response but we offer some specific additional or clarifying comments from our perspective that we felt warranted further emphasis:

Alignment of Interests – Fund Managers and Fund Investors

One of the pervasive "themes" underlying the Concept Proposal is that there is an inherent conflict of interest between those of the manager and those of the investors in that manager's funds. In reality there is usually a great deal of alignment between the interests of the manager and the interests of investors. In Canada's highly competitive mutual fund industry, good fund performance, reasonable costs and efficient administration and reporting are very important to investors which will result in better fund sales and asset retention resulting in higher fees for the manager.

Mutual Fund investors choose to invest in a fund either because they want to invest in funds within a particular fund family and/or because they favour a particular fund. In any event, investors are always free to exercise their redemption rights and move their money elsewhere. It is impractical to give anybody (a governance agency, board of directors or the unitholders themselves) the ability to fire the manager. Such an act would give rise to too many issues around how to transfer management of the fund to another manager. In addition, we believe this would be a form of expropriation of the manager's property interest in the fund(s) stream of management fees. This is conceptually unacceptable.

Costs versus benefits

In our view, the costs associated with the proposed governance structure significantly outweigh the benefits to investors. As discussed in IFIC's response, we believe that the economic analysis set out in the Concept Proposal substantially underestimates the total cost associated with the adoption of the initiatives set out in the Concept Proposal. We believe that the demands placed on the members of the Governance Agency will force them to increase their use of outside consultants over-time, significantly increasing the projected costs of maintaining the Governance Agency. These costs will be passed on to the investors who have a great deal of interest in fund performance (net of fees and expenses) but few have significant concerns with existing fund governance structures. We question whether any mutual fund investors would support the concept of the proposed governance regime given this cost-benefit trade-off.

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All "five pillars" must be assessed together
A meaningful assessment of any proposal for a "new" governance regime for mutual funds can only be made within the context of the complete regulatory environment within which that governance regime operates. We can only properly evaluate proposals for mutual fund governance within a proposed framework that thoroughly considers all five pillars that support mutual fund regulation since all five pillars must support the overall objectives of a mutual fund regulatory/oversight regime rather than introduce multiple levels of duplication or an excessive oversight burden on fund managers and investors.

We also strongly support IFIC's suggestion that a single, national regulator would significantly reduce the enormous burden of dealing with 13 separate regulatory authorities.

Issues Relating to Investor Rights
Many mutual fund managers manage a family or families of mutual funds. Most managers will manage all such funds within the fund family(ies) in the same way for all funds - the same fund accounting system and process will be adopted as will a single system for unitholder reporting, etc. Thus governance really occurs at the "manager level" while investors are at the "fund level". Some fund families have a large number of funds and hundreds of thousands or even millions of individual investors. Communicating with all investors is a very costly exercise and asking them to vote on any given issue is a very expensive and administratively complex exercise. It should only be in very rare and extreme circumstances that all fund investors are asked for approval of a particular "governance-related" matter.

Trade-Offs
For the reasons outlined above and more fully explained in IFIC's response, we cannot endorse the governance regime as contemplated in the Concept Proposal. However, we are amenable to considering a more reasonable and less costly fund governance regime. In this regard, we fully support IFIC's contention that ".....as an industry, we cannot endorse or otherwise support this initiative in any form unless it is accompanied by a concurrent relaxation of the regulatory restrictions that a system of fund governance would render either moot or redundant." Specifically, we would expect a significant relaxation or the abolishment of the rules dealing with

a) Fund of Funds;
b) events that require applications for exemptions that are routinely granted that incur significant direct and indirect costs; and
c) the current conflict of interest rules.

An Alternative?
While we do not support enhanced duties for auditors within the context of the proposed Governance Agency, we may support such an initiative as an alternative to the need for a Governance Agency.

A regime built around the requirement for auditors to produce detailed "Specified Procedures" reports would be much more effective than the Governance Agency regime as proposed in the Concept Proposal. We believe that most mutual fund investors would have little interest in the type of Governance Agency annual report described in the Concept Proposal. They may be interested in the effective operation of certain internal controls that affect the management of their investments. Such a report could cover the operation of specified internal controls and could be expanded to cover other areas such as expense and cost allocations between the manager and the funds and amongst the funds, portfolio valuation, brokerage allocation, etc. The industry could work to develop a set of uniform/ best practice procedures that would be important to investors. This report could be made available to investors rather than the reporting specified in the Concept Proposal.

This option, while costly, would likely be more cost effective than developing a whole Governance Agency infrastructure as proposed.

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We would be pleased to discuss any of our comments with you or to participate in additional industry consultation that may be warranted following the CSA's receipt of response to the Concept Proposal.

Yours truly,

[Signed: Steven Rostowsky]

Steven Rostowsky
Chief Financial Officer

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