



June 7, 2002

Denise Brousseau, Secretary  
Commission des valeurs mobilières du Québec  
800 Victoria Square, Stock Exchange Tower  
P.O. Box 246, 22<sup>nd</sup> Floor  
Montreal, Québec  
H4Z 1G3

Dear Ms. Brousseau:

**Re: Concept Proposal 81-402 Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers**

We at McLean Budden Limited (MB) have reviewed the “Concept Proposal 81-402 Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers”, and have elected to respond to questions we feel are directly related to our firm and its business functions.

- 1 MB is in favour of the CSA’s proposal to create a more flexible regulatory approach and to move from a detailed to a more prescriptive regulation. Our concerns are:
  - not all provincial regulatory bodies will adhere to this proposal in unison, thus leading to confusing and additional regulations, which is precisely what this proposal is supposed to reduce.
  - It will be very difficult to recruit members of the governance agency
  - The costs associated with the proposals will be prohibitive for smaller mutual fund firms.
  
- 4 MB does not feel that the proposal should be expanded to include any investment vehicles other than Mutual Funds. We believe that to extend this proposal to pooled funds would be counterproductive. Our pooled funds were designed as a lower cost alternative to more expensive segregated money management for sophisticated high-net worth individuals or entities that have more than \$150,000 to invest. These clients want an investment vehicle that is more cost effective than mutual funds.

We have a direct relationship between ourselves as the investment manager of the fund and our client. In addition, most institutional pooled clients have intelligent,

informed investment boards to formulate professional decisions. Many pooled fund clients also rely on the expert advice of an investment consultant. Clients are kept informed and up-to-date on all happenings in the funds with regular meetings and reports.

If similar proposals were to be placed on current pooled fund unitholders, it is our belief that the benefits associated with owning pooled funds (ie. low administrative costs) would be reduced or eliminated.

6. MB currently absorbs all administrative costs of its mutual funds. MB believes that the cost of the Governance Agency will be so high that MB will be forced to charge the new costs to the funds. In MB's opinion, the inclusion of the fees outlined in the Concept Proposal along with various additional expenses (explained in the response to question # ), can only increase costs to investors. Fees for smaller companies that have a lower investment base upon which to spread the new costs will increase the most. This may well serve to reduce the number of funds available to investors and reduce the revenue for securities commissions which will in turn increase fees to the remaining firms.
12. MB anticipates great difficulty involved in recruiting qualified members for a governance agency. The pool of qualified persons is relatively small, many being retired individuals. Few will be willing to perform the duties **and** accept the personal liability for other than large salaries. We believe that such people will insist upon being covered by large insurance policies with attendant large premiums that must be passed on to investors. In addition we expect that these individuals will be interested in hiring high priced advisors to help them understand and monitor the business. A more precise description of the governance agency members responsibilities is essential in the process of recruitment.
13. We would like to see a more detailed definition of an 'independent member'. Specifics regarding members being current unitholders, ex-employees, members being on other Governance Agencies etc., would help in determining possible candidates.
- 14 The Proposal outlines the duties and responsibilities required by the governance agency members. MB's internal structure is designed so that MB's Board of Directors and internal committees currently perform all of these duties. An insistence upon having a Governance Agency that will essentially perform these same duties would create a duplication of duties in most areas.
- 16 MB does not feel it necessary for the Agency to act as an audit committee as well as performing the other specified duties. The requirement of potential agency members to perform this duty will necessitate them having detailed knowledge of the audit function. This additional requirement will make it much more difficult

- to recruit agency members and will add to the costs involved in setting up the Governance agency.
- 17 MB believes that there must be a limit placed on the liability for a Governance Agency member. Without the limit, the costs associated with the executive search and the cost of insuring each agency member will be increased to a point where the agency will no longer add value to the unitholder.
  - 23 All compensation arrangements are probably best left to the Fund Managers Board of Directors and the Governance Agency to determine. If the compensation set out by the CSA is too low, firms will have a difficult time finding appropriate executives to fill the Governance Agency's rolls. On the other hand if the compensation set by the CSA is too high, the amount will not be in the unitholders best interest.
  - 28 The governance agency members are already going to require various professional qualifications and expertise, therefore we do not feel additional courses or training are necessary. It would also make the recruitment of Governance Agency members an even tougher endeavour.
  - 29 MB is currently registered as an Investment Council / Portfolio Manager and Limited Market Dealer. It is our opinion that adding another category of registration will not be beneficial to unitholders and will only create additional expenses.
  - 31 MB believes that for the protection of unitholders a minimum capital requirement is necessary but views the amount suggested by the CSA as too high. The limitations this amount will place on small and new firms will make it nearly impossible for their survival/start-up.
  - 39 MB believes that the costs outlined in the proposal **will** exceed the benefits that unitholders will see. Unitholders will not find value in the inevitable increase in their MER's, if they, like the vast majority of our clients are content with the level of service and management they are receiving from the investment firm.

It is MB's opinion that additional costs have been overlooked by the CSA's Proposal, such as the cost of insurance will undoubtedly rise from the stated figures. Smaller firms with no internal legal council will see their legal fees rise with the onset of the new regulations, the legal contracts with Governance Agency members, and continuous legal consultations regarding all aspects of the regulations.

Overall MB would like to commend the CSA for their handling of this immense project, but fear that unless all provincial Securities Commissions pursue the same set of

principles and guidelines concurrently and find a way to reduce costs associated with these proposals, the beneficial effects of this project will be lost.

Yours truly,

A handwritten signature in blue ink, appearing to read "Grant Patterson", with a long, sweeping horizontal stroke extending to the right.

Grant Patterson  
McLean Budden Limited