

July 2, 2002

Mr. John Stevenson
Secretary
Ontario Securities Commission
P.O. Box 55, 19th Floor
20 Queen Street West
Toronto, Ontario
M5H 3S8

Dear Mr. Stevenson:

**Re: Striking a New Balance:
A Framework for Regulating Mutual Funds & their Managers**

MD Management is pleased to have the opportunity to respond to the Canadian Securities Administrators' Concept Proposal 81-402, dated March 1, 2002 (the "Proposal") concerning the above. We read the Proposal with interest and offer the following for the CSA's consideration.

The regulators' initiatives to improve the investment environment for all Canadians is an important mandate and as an active participant in the financial services industry in Canada, we welcome this chance to provide input to assist in developing policy in this important field.

In general, MD Management sees no pressing need for an added layer of additional mutual funds' governance regulations as recommended in the Proposal. In our view, the manner in which Canadian mutual funds are currently governed is certainly not trending towards a crisis situation and therefore does not warrant such sweeping regulatory reform. Having said that, we believe the Proposal contains some positive recommendations but not sufficient to justify implementing the Proposal, as presented. Improving the mutual fund governance framework and planning for future eventualities is a laudable objective. Therefore, we are amenable to the implementation of changes to the current system provided it leads to a more simplified and appropriate mutual funds' governance regime in Canada.

As indicated, MD Management has strong reservations with respect to the Proposal in general. Some of our specific issues are discussed herein.

Support for Response Submitted by Borden Ladner Gervais LLP, June 12, 2002

Borden Ladner Gervais, (“BLG”) has been corporate legal counsel to the CMA Holdings Group of Companies, including MD Management, for the past 12 years. BLG kindly provided us with a copy of their submission to the CSA on this important matter. We support the BLG presentation in all material aspects. Therefore, we will not take your time to repeat the well-developed comments included in their response but wish to highlight the following.

Existing Regulatory Inefficiencies

We believe that the Canadian mutual funds industry is currently heavily regulated, probably to an extreme, and there are inherent inefficiencies and unnecessary duplication in the system from one jurisdiction to another. In our view, this can and does lead to inconsistent interpretations and resulting confusion. Improved harmonization among the 13 different regional regulators should therefore be a major goal of the mutual funds’ regulatory system in this country, in order to mitigate such inconsistencies.

Standardize Regulatory Initiatives on a National Basis

MD Management believes that any initiatives relating to improved mutual funds’ governance must be effectively integrated into the existing regulatory regime so that the resulting program is more streamlined and unified. The Proposal refers to reforming the current regulatory framework, which we applaud. If implemented correctly, enhancements to the current system will result in a simpler, reduced and more functional regulatory environment.

Redundancy

Many of our concerns about the current mutual funds’ regulatory regime stem from the lack of an appropriate mutual fund governance framework. While the Proposal puts forward an argument for such a regime, we feel it’s imperative that many of the current regulatory restrictions would become redundant and immediately unjustifiable, including the added costs, discussed below.

Therefore, MD Management is unable to support the Proposal unless it is supplemented with a concurrent relaxation of existing regulatory restrictions that an appropriate system of mutual funds’ governance would render duplicative and excessive.

Intrusion into Management’s Purview

MD Management believes that the powers of the governance agency are too extensive and intrude directly into management’s purview. The ability of this agency to unilaterally incur costs, without limitation, and initiate the replacement of a Fund manager, destroys the assurance of the manager’s business. It would logically impair their ability to raise capital at attractive prices or realize on the franchise value they have built. Further, the responsibility of a governance appointment is so onerous that the CSA, in your Proposal, has seen the need to consider limiting their liability. To us, it doesn’t suggest a good balance.

Investor Duty

We believe in a certain level of investor responsibility to research their investments and to monitor their performance. MD supports full and complete disclosure to enable this to occur, but fundamentally believes that 24 hour liquidity, and the right to quickly opt out, is

a measure of security in itself, assuming the investor fulfills his/her responsibility. No regulation can protect the investing public who doesn't take responsible steps to protect themselves. Excessive regulation simply becomes a burden that negatively impacts MERs and potentially creates a false sense of security among investors.

“Owner Operated” Mutual Fund Companies

MD Management believes that owner operated mutual fund companies should be exempt from the requirement of a governance agency. As an organization that can be defined as “owner operated”, we are confident that today we have a comprehensive, “best of class” governance program in place. As well, we have Boards and Committees that are dominated by independent members. As well, MD Management's President & CEO is not a member of the organization's Business Conduct Review Committee or the Audit Committee and each issue of a “conflict” nature requires passage through these Committees before Board consideration.

Proposal Costs

We believe that the costs of the Proposal must be re-examined. We also feel the costs outlined in the Proposal are underestimated. Expressing the Proposal costs in terms of assets under management is questionable. It obscures the fact that industry assets are distributed with disparity among small and large firms. Therefore, the smaller firms will have to pay a disproportionately larger amount of the cost as a proportion of assets managed.

We further believe that since the Canadian mutual funds industry currently lacks a coordinated and uniformly administered regulatory regime, implementing any of the Proposal's initiatives has the potential to greatly increase transactional expenses that would ultimately be borne by the investing public. Additional investor expenses are unacceptable to MD Management.

Minimum Capital Requirement

The capital requirement is unjustified and we take strong issue with the Proposal's suggested need for a minimum capital requirement. If it is designed to be a barrier to entry, then it's inappropriate. If it's intended to ensure that sufficient funds are available to conduct unitholder meetings, at the call of the governance agency, then it's excessive. Investment management relies on client confidence and trust with 24 hour liquidity rights. No amount of capital will increase the security or claim by unitholders. The unitholders will be faced with higher costs and therefore lower returns, with no discernable benefit.

Further, excess capital that must be invested in liquid investments carries a cost amounting to the difference between the liquid investment's return and the implied cost of the equity by virtue of equity trading value. The consequence is higher MERs, at the expense of investors. Again, no amount of capital can secure the difference between the potential consequences of dishonest acts and insurance. Demands for higher insurance translate into higher investor costs. Similarly, the need for higher D&O insurance coverage, due to the high levels of responsibility of the governance agency, will also increase investor costs.

Fund Auditors

A Fund's external auditors will naturally comment to the Board on the quality of the manager's and the Fund's internal controls. The consequences of poor controls are high audit bills or no audit opinion, both of which are clearly not in the best interests of the Fund's manager. Providing comment on internal controls, or lack thereof, to a sophisticated body like a regulator that can properly interpret them, has some merit in our view.

Unitholder Meetings

MD Management believes that unitholder meetings are inappropriate mechanisms for resolving fund manager/governance agency issues. Such meetings are costly and the investors will have difficulty bringing sufficient expertise to adequately understand the issues under review. We contend that investors invest their money in mutual Funds because they want to delegate the administrative and management aspects of the Funds to professionals. Indeed, investors pay, through management fees, to have such issues addressed on their behalf. We suggest investors will be ill-equipped to become involved in such matters.

MD Management's unique market orientation and existing governance structure effectively achieves the objectives we believe are behind many of the recommendations in the Proposal.

I would be pleased to discuss our comments with you in greater depth at your convenience.

Yours truly,

F. Robert Hewett
President and Chief Executive Officer
MD Management Limited