



Peter Bowen
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September 27, 2002

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

Dear Mr. Stevenson:

Re: Proposed Rule 13-502 – Fees

We are writing in response to the request for comments on Proposed Rule 13-502 (the "Rule"), released on June 28, 2002. We provided comments on the Concept Proposal to Revise Schedule I (the "Proposal") in our letter of June 15, 2001. While we are not satisfied that those comments (nor those of other commenters) have been adequately addressed, we have confined our current comments to two matters that we view as particularly important.

Please note that we support the comments in IFIC's letter of September 26, 2002.

The following comments are in order of priority.

Burden of Fees

The Rule proposes a significant shifting of the burden of regulatory fees from mutual funds to the mutual fund company, thus, changing the economics of the industry. The impact of this change has not been adequately considered, and comes at a time when the industry is under significant economic pressure.

Staff's responses to comments on the Proposal relating to the burden of fees are not realistic. Staff notes that "the fact that fund managers would absorb the participation fee is offset by the fact that their management fee will be calculated on a higher NAV because there will be no distribution fee to reduce an investment fund's NAV"; in fact, the additional management fee (net of costs) resulting from the elimination of the distribution fee is de minimus – something in the neighbourhood of \$500 for a \$100,000 fee. Further, Staff suggestion that "there is nothing to prevent fund managers from recouping participation fees by seeking unitholder approval to increase the management fees ..." is not realistic – the costs of unitholder meetings alone preclude this as a suitable step.

We strongly urge the Commission to reconsider allowing the participation fees to be charged to the mutual funds, which benefit from participating in the markets.

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. This model is detrimental to mutual fund companies that are Ontario-based, and we question why an Ontario-based regulator would design policy in such a fashion. Further, such a methodology does not lend itself to harmonization with other regulators. We recommend that this methodology be reconsidered to be neutral in effect – for instance, by basing the allocation on the proportion of assets under management that are owned by Ontario residents.

In closing, we urge the Commission to reconsider the above matters. That said, 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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