Desjardins Fiducie Desjardins

Montréal, October 17, 2002

CANADIAN SECURITIES ADMINISTRATORS
c/o Mme Denise Brosseau
Commission des valeurs mobilières du Québec
Tour de la Bourse
800, Square Victoria
C.P. 246, 22e étage
Montréal (Québec)
H4Z 1G3

Dear Mrs Brosseau :

Re : Proposed Amendment to National Instrument 81-102 and Companion Policy 81-102CP Mutual Funds and to National Instrument 81-101 Mutual Fund Prospectus Disclosure and Form 81-101F1 Contents of Simplified Prospectus and Form 81-101F2 Contents of Annual Information Form

Pursuant to the Notice published in the Bulletin of the Commission of July 19, 2002 (the "Notice") we are pleased to submit our comments regarding the aforesaid proposed amendments.

First of all we wish to state that we agree with all the objectives of the proposed amendments as they are specified in the Introduction to the Notice. We also agree with the *Principle of The Proposed Approach* and are particularly pleased with the proposed *Active Management of Bottom Funds* which, if adopted, will enable the portfolio manager of the top fund to make investment decisions in accordance with the investment objectives and strategies of the top fund without having to give a 60 day notice to the securityholders and make an amendments to the prospectus each time a bottom fund is changed or its holding in the top fund varied.

1. Qualification of the bottom fund in the local jurisdiction :

We are of the opinion that a top fund should be allowed to invest in a bottom fund as long as the bottom fund is qualified in any of the local jurisdiction in Canada and complies with the provisions of NI 81-102 and NI 81-101.

We do not believe that the local jurisdiction needs to have direct jurisdiction over the bottom fund. Its jurisdiction on the top fund should be sufficient to require a change of bottom fund in the event of wrongdoing by the bottom fund or the person that manages it where the bottom fund is not prospectus qualified in the local jurisdiction.

This power of the securities administrators, when applicable, could be disclosed in the prospectus of both the top fund and the bottom fund, and could be exercised only after prior notice of at least a thirty days has been given to the manager of the top fund enabling it to put pressure on the manager of the bottom fund to remedy, in a timely fashion, any wrongdoing that can be remedied.

2. Investments in funds other than those to which NI 81-101 and NI 81-102 apply :

We are of the opinion that the investment options for a top fund should be expanded to include other types of mutual funds and investment funds such as pooled funds or commodity pools.

There should be no limitation to the investment a top fund can make in such other types of mutual funds as long as they can be considered as liquid assets. The question of considering a bottom fund to be or not a liquid asset, is a question of fact which should be related to the importance of its net asset value and to the type of investments it makes and not to the fact that it is or not subject to the application of NI 81-101 and NI 81-102.

Therefore, where a bottom fund is not prospectus qualified, it should be considered an illiquid asset only when its net asset value is under a determined level considered sufficient to execute redemption orders in the normal course of business. This determined level could vary from one fund to another depending on the type of securities the fund is invested in. For example, this level should be higher for a growth fund than for a balanced fund.

To allow the top fund to invest in other types of mutual funds and investment funds such as financial advisors pooled funds would certainly be advantageous to the top fund in circumstances where, for example, the assets of the top fund are not sufficient to allow the constitution of a diversified portfolio in specialised securities (EAEO, hightech, biotech, etc.) or when the direct investment in such securities is to expensive for the top fund (EAEO, other foreign funds, etc.).

3. Requirement to be a Top Fund and removing the existing 10% investment provision in section 2.5 of NI 81-102 :

For the reasons explained in the last paragraph of item 2. above, we are of the opinion that the existing 10% limit should be retained for all mutual funds which would not qualify as top fund under the proposed definition.

As you put it : “One benefit of the existing regime is that mutual funds that occasionally determine it would be appropriate for the fund to achieve its investment objectives by investing a portion of its portfolio into other mutual funds, can do so, so long as they do not invest more than 10% of the fund’s net assets...”

Therefore why deprive the mutual funds of this benefit ? Why can’t we have top funds taking advantage of and complying with the proposed amendments, and mutual funds that may, when they deem it appropriate, invest up to 10% of their net assets in other mutual funds without having to disclose it in their prospectus as it is the case under the actual regime ? We submit to you that such double regime exists for mutual funds investing in mortgages where NP 29 applies only to mutual funds having 10% or more of their portfolio invested in mortgages or hypothecs.

Also we are of the opinion that in certain circumstances, any mutual fund that is not a top fund under the proposed definition, should be allowed to address the securities administrators for

exemption of the 10% limit as it is the case now, but only to remedy a temporary situation of the type described in the last paragraph of item 2. above, that usually happen at the inception of a new fund.

4. Control of the bottom fund by the top fund :

i) Removal of the concentration and control restrictions

We are of the opinion that no limit should be imposed on the top fund as to the percentage of its assets it can invest in the securities of one or more bottom funds. And no limit should apply to the percentage of voting, or equity, securities the top fund may hold in the bottom fund. However amendments should be brought to NI 81-102 to provide that where any of these percentages may exceed 25%, a general disclosure to this effect is made in the prospectus of the top fund and in the prospectus of the bottom fund with sufficient explanation of the consequences that may result from such holdings for the securityholders of the top fund and the securityholders of the bottom fund.

ii) Massive redemption

We agree that sufficient delay should be given to the bottom funds to execute massive redemption orders. However, no time limit or delay should be determined or imposed in NP 81-102 as agreements between the top funds and their bottom funds usually have provisions regarding massive redemption and specify delays for their execution.

However, absent of such provisions, NP 81-102 could provide an automatic five working day delay to allow the bottom fund to apply to the concerned securities administrators for an order suspending redemption. During this five day delay, and for any period of time thereafter should the securities administrators deem it appropriate, all redemption orders in the normal course of the business of the bottom fund (to be defined) could continue to be executed subject to the application of insider trading rules.

5. Prohibition against Sales and Redemption Charges :

We are of the opinion that these prohibitions are necessary and should be maintained whether the top fund and its bottom fund are related or not.

Subscription fees are usually paid to the dealer and do not profit the mutual fund or its securityholders. Redemption fees are usually paid to the manager of the mutual fund to reimburse it of commissions paid to the dealer who sold the redeemed units to the securityholder. So redemption fees do not profit the mutual fund or its securityholders.

Usually, no dealer intervenes in the subscription of the units of a bottom fund by a top fund other than the manager of the top fund or a dealer related to it. We fail to see how to repeal the aforesaid prohibition would serve the interest of the bottom fund or the top fund or their securityholders.

6. Voting rights of top fund securityholders in bottom fund matters :

i) We agree with the proposed approach in cases where the manager of the top fund is not related to the manager of the bottom fund. However it is our opinion that where the manager of the top fund is related to the manager of the bottom fund, existing decisions to pass the voting rights attached to the securities of the bottom fund to the securityholders of the top fund in

order to vote on fundamental changes, should be continued in the future.

ii) We agree with your statement that precluding a related manager of a top fund from voting securities of a bottom fund would be detrimental to its securityholders or the securityholders of the bottom fund since an important portion of the voting rights may not be exercised, unless i) above.

May we suggest you take this opportunity to bring amendments to NI 81-102 to replace the meeting of securityholders to approve fundamental changes by a vote procedure through the mail or other means of communication (telephone, fax, e-mail, etc.). This should ensure better democracy for the securityholders as the mutual fund managers should be less shy to perform changes requiring securityholders meeting. One good example of this is a change of auditor. Securityholders meeting of large mutual funds can be very costly to organize for the mutual fund and ultimately for its securityholders.

7. Active management and prospectus disclosure :

We find this situation no more problematic than that of mutual funds investing directly in securities other than securities of mutual funds. Eventhough under the proposed amendments the top fund will be able to hold important positions in a bottom fund, it must be taken into account that the bottom fund as defined in the proposed amendments cannot be itself a top fund. Therefore investment of the top fund in the bottom fund are ultimately diversified through the portfolio of the bottom fund.

Except for a passively managed top fund (the present situation), the prospectus of an actively managed top fund should not be amended or a notice provided to securityholders each time an important bottom fund is changed or its percentage substantially varied. It is our opinion that such requirements would greatly impair the anticipated benefits of the proposed amendments allowing for actively managed top fund.

Further more, any worry you may have regarding disclosure to the securityholders of updated holdings of the top fund should be largely remedied by your eventual adoption of NI 81-106.

We thank you very much for allowing us to express our views on the proposed amendments. We are at your disposal should you have any question or wish to discuss with us of the above subjects or others.

Yours truly

(signed)”Louis Chartrain”
Louis Chartrain
Assistant -Secretary