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Gavin Foo, CA

Vice-President, Financial &

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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Government of Yukon
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

c/o Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19^{th} Floor, Box 55
Toronto, ON M5H 3S8

Dear John:

Please find attached our response to Proposed National Instrument 81-106.

Sincerely,

"*Gavin Foo*"

GF/ml

Attachment

We applaud the intent of the Canadian Securities Administrators to strengthen continuous disclosure relating to investment funds, and attempting to have them follow similar regulations relating to other reporting issuers. However, we believe some of the proposals go too far, the impact of which will overburden fund companies from both a time and cost point of view.

We also believe that the proposal will impact small fund companies to a greater extent than the larger companies, thus creating an economic disadvantage for the smaller companies and a potential barrier to entry.

Our responses are in the same order as the parts presented.

Part 2.1 Filing of Annual Financial Statements – the shortening from 140 days to 90 days for filing the annual financial statements is too extreme. A small mutual fund company such as Clarington, which has 40 mutual funds, will find it extremely difficult to meet this deadline without incurring significant costs. A timeframe somewhere in-between, such as 120 days, is more realistic and acceptable. In addition to the financial statements, the proposal will dramatically increase the amount of information to be prepared, printed and available for delivery. The result of the proposal is to increase workload and shorten the time in which to do it. This means that additional resources, and hence cost, must be expended to meet the requirements.

Parts 2.2 & 3.2 Delivery of Annual and Interim Financial Statements – we agree with the proposal to only send the annual and interim financial statements to investors upon request. We would also suggest that the proposal allow for the electronic delivery of information for investors that choose to receive it in that manner.

Parts 2.3 & 3.3 Contents of Annual and Interim Financial Statements – the summary of portfolio investments does not provide any more meaningful information than the accompanying statement of investment portfolio. Clarington already breaks down its fund portfolios into subgroups (by industry and geographic location). We believe that the new requirement is unnecessary and redundant, adding no additional value to investors.

Part 3.1 Filing of Interim Financial Statements – the shortening from 60 days to 45 days for filing the interim financial statements is also too extreme, and would be very difficult for Clarington to meet. This is especially true given that the interim financial statements have to be translated into French, and printed and mailed also, by the deadline.

Parts 5.1 & 6.1 Filing of Annual and Quarterly Management Report of Fund Performance – the same comments for Parts 2.1 & 3.1 above apply here. The new deadlines are too tight, and very difficult to meet, especially given the new management reports that are required.

Parts 5.2 & 6.2 Delivery of Annual and Quarterly Management Report of Fund Performance – we agree with the proposal to only send the management report of fund performance to investors upon request.

Parts 5.3 & 6.3 Contents of Annual and Quarterly Management Report of Fund Performance – a preponderance of new information is proposed, some of which are useful, others less so. For example, how important is it to an investor to know how the fund manager voted proxies and on other matters? Additionally, a potential change in strategy of portfolio managers is required to be disclosed. We believe this to be competitive information which portfolio managers will be very reluctant to disclose.

The requirement for increased disclosure could result in a litany of useless information for funds with a large number of holdings. The increased disclosure requirements for portfolio managers will make it more difficult to attract high quality managers to Canada.

However, the overriding caveat is that the markets change constantly on a daily basis. The proposed information will be outdated when they reach the investors' hands, so what's the point? Untimely information is useless information! A wealth of more timely information and statistics about fund performance, top holdings, etc, are already available through third parties such as Morningstar, Globe Hysales, the Fund Library, etc. They are also available on most fund company web sites. Investors have access to this information shortly after each month-end.

There is also excessive duplication proposed. For example, the annual financial highlights table is required to be disclosed in the funds annual report. Why does it need to be repeated in the management report of fund performance? The same comment applies to the summary of portfolio investments.

In our view, the quarterly financial highlights do not provide useful information. Quarterly performance is too short a time frame to assess a fund's track record. Mutual funds are bought for the long-term, not short-term. The report, when finally available to investors, will be outdated! We believe investors will ignore this report, as they know it's stale-dated, and will look elsewhere for information, such as fund companies' web-sites, Morningstar, etc.

Complying with all the proposed disclosure requirements will only add more costs to the fund companies, hence driving up fund MERs. Additionally, since the auditor will have the same responsibilities for the annual management report on fund performance as they do for the fund annual report, audit fees will no doubt increase, again putting upward pressure on MERs.

Part 8.1 Binding of Financial Statements – the requirement that the annual and quarterly management reports on fund performance must be printed as separate documents is totally beyond comprehension. It will just add more layout, design and printing costs.

Many items that would only be required to be mentioned once if the reports were bound together, must now be repeated for each fund. In addition, our portfolio advisers are all external, and several of them manage more than one fund. A lot of their discussion regarding risks, events, uncertainties, trends and commitments applies to more than one fund. Why does this need to be repeated over and over? Clarington currently has 11 funds that are structured as "fund on funds". Again, unnecessary duplication as many of the explanations pertaining to results of operations, risk, performance, recent developments and forward-looking information will be repeated for these funds.

Conclusion

Finally, we believe that the proposals do not achieve the desired objectives. While there may be some cost savings due to reduced mailing of annual and semi-annual financial statements, we believe that the additional costs required to prepare and distribute annual and quarterly financial information would be significantly more.

For the larger fund companies, these additional costs can be passed onto the funds in the form of higher MERs. For the smaller companies, such as Clarington, where MERs are capped due to the relative small size of our funds, the costs would have to absorbed. This result must concern the regulators - higher MERs for investors and financial burden for smaller companies!

The proposal also assumes that investors <u>want</u> more information. It is our experience that the average investor is not interested in detailed information, and furthermore would have a lot of difficulty understanding the proposed documents. In addition, we believe that it will be considered useless because the markets and the funds would have changed by the time the information is received.

Our experience has been that most of the investors in our funds use the services of a financial advisor. The investor relies on this expert advice to make decisions about their portfolios as part of their investment, tax and estate planning. Most would not use the proposed information to make decisions as they would delegate this responsibility to their advisers.