Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

December 17, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Commission des valeurs mobilières du Québec
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 John Stevenson, Secretary
Ontario Securities Commission
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E-mail: jstevenson@osc.gov.on.ca

- and -

Denise Brosseau, Secretary
Commission des valeurs mobilieres du Quebec
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Montreal, Quebec H4Z 1G3

E-mail: consultation-en-cours@cvmq.com

Re: Proposed National Instrument 81-106 – Investment Funds Continuous Disclosure

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The Canadian Life and Health Insurance Association ('CLHIA') would like to take this opportunity to comment on the Canadian Securities Administrators ('CSA') proposed National Instrument 81-106 Investment Fund Continuous Disclosure ('NI 81-106'). The CLHIA represents the life and health insurance industry in Canada and the vast majority of companies engaged in the sale of individual variable insurance contracts (more commonly known as 'segregated funds').

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Although the proposals are directed at the form of financial reporting of investment funds subject to securities laws, we feel it is important for us to express both our positive comments and concerns regarding the proposals in light of the on-going efforts of the Joint Forum of Financial Market Regulators to achieve harmonization of result in the rules governing segregated funds and mutual funds.

We strongly support the concept that customers must request paper copies of continuous disclosure statements rather than requiring companies to deliver paper copies to all clients. We also believe that, with the public's high and increasing comfort level with the internet, customers should have primary access to financial statements through issuers' web sites.

Our main comments focus on the provision of quarterly management reports and forward-looking commentary, as well as the shorter time frames for reporting interim and annual financial results.

In this respect it is worth noting that the assets of the mutual fund industry are approximately ten times the size of the segregated fund industry. While the proposals represent the provision of more detailed financial information on a more frequent basis, we question whether the majority of mutual fund unitholders will find this information useful or relevant. We strongly encourage you to do focus testing as a basis for the formulation of your regulatory policy, to determine the number of customers who will actually use quarterly management information and then consider the substantial additional cost that will be required to produce this information. We would be happy to assist in the focus testing process to obtain relevant data, and suggest that you extend the testing to sales representatives to determine if they would use quarterly management reporting on a consistent basis.

Our specific comments follow:

1. We understand that the mutual fund industry is concerned that the emphasis on frequent, short-term, financial reporting will encourage investors to adopt a short-term investment strategy at the expense of a sound financial plan based on diversification and risk tolerance. We would add that this concern is even more problematic for the segregated fund industry since the product's maturity guarantee is applicable after the deposit has been held for a minimum of 10 years.

2. Although financial statements are technically not required to be produced on a quarterly basis, in fact these will need to be prepared to support the information needed for the quarterly management reports.

3. Quarterly management reports will be available 45 days after the end of the financial quarter, whereas if a customer was interested in more timely reporting he or she could follow the daily net asset value listings, which reflect unit value on a more immediate and accurate basis than would be the case of the shares of a reporting issuer, whose value may not be impacted until a release of actual or forthcoming earnings or sales figures.

4. In addition, a considerable number of customers rely on fund manager information, including individual portfolio manager's expertise and investment style. These customers are less likely to be influenced by the disclosure of short-term price variations which your proposals will enhance.

5. We also question whether 45 days is a sufficient amount of time to produce management reports if they must be based on quarterly financial statements. In addition, the majority of segregated fund product is a fund-of-fund structure with underlying mutual funds – most mutual funds are reluctant to release their financial information to third parties before it is public information and this has created significant time pressures under existing time requirements which are substantially longer than the proposed time periods of 45 and 90 days.

6. Regarding forward-looking commentary, funds should not be subject to the same standards that apply to individual companies that provide products or services in specific markets. While forward-looking commentary may be appropriate for a beer or lumber company, this information will be very difficult to predict for a fund that holds a range of companies, each with its own products, markets, financial strength and strategy. Fund managers possess the expertise to select holdings they determine are most likely to increase in value, but obviously other extraneous factors, such as terrorism, accounting scandals or company strategy may adversely influence these predictions. In addition to the difficulty fund companies would encounter in providing accurate forward-looking commentary, such a requirement would expose them to increased liability. Considering the potential liability that would attach to such commentary, disclosure would become diluted and boiler-plate and not useful.

7. More frequent quarterly reporting of fund performance does not assist clients who make deposits on a regular basis, since fund performance is not equivalent to personal rate of return.

If you would like to discuss any aspects of our submission with representatives of the life insurance industry, we would be pleased to meet with you at your convenience.

Yours truly,

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