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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 John Stevenson
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

- and -

Denise Brosseau, Secretary
Commission des valeurs mobilieres du Quebec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Quebec H4Z 1G3
E-mail: consultation-en-cours@cvmq.com

Dear Sirs/Mesdames:

Re: Proposed National Instrument 81-106 (the "Proposal") Investment Funds Continuous Disclosure

We are writing in response to the request for comments on the proposed National Instruments 81-106 - Investment Fund Continuous Disclosure, which would implement a new regulatory regime governing the investment fund continuous disclosure.

Fidelity Investments Canada Limited is one of the largest managers of mutual funds in Canada, with more than $28 billion under management in Canada. It is part of a global organization that manages a total of more than $900 billion in more than 275 mutual fund portfolios and other institutional accounts around the world.

Please note that we support IFIC's comments on the Proposal.

General Comments

We support the initiative taken by the CSA in proposing a regulatory regime intended to provide investors and advisers with timely and useful ongoing financial and non-financial information about investment funds. In our opinion, however, there are several areas of concern that must be addressed before the Proposal will represent a solution that is in the best interests of investors, each of which is discussed below.

We strongly support the fundamental change proposed in NI 81-106 that gives the investor the choice to receive any or all of a fund's financial statements and Management Reports of Fund Performance ("MRFP"). This change will result in significant savings to the funds in both terms of reduced costs and environmental impact associated with delivery of these reports.

While encouraged by these potential cost savings, we are concerned that the contemplated increased frequency of reporting of portfolio holdings would significantly increase the costs of reporting with minimal, if any, benefit to investors. Furthermore, increased frequency of portfolio holdings disclosure will lead to abusive practices such as "front running" by sophisticated outside parties, which will harm investors in the funds.

In addition, in our view, a portfolio management's record of proxy voting should not be a required disclosure. It is not useful to investors or advisers in making investment decisions, nor do we feel that the vast majority of investors or advisers desire it.

The Proposal also contemplates accelerated delivery of annual and semi annual reports to investors. While we agree with the concept of providing timely information to investors, we believe that these timelines are unrealistic due to the amount of work involved with the preparation of the reports, much of which is performed by parties unrelated to fund managers. We are most concerned with the proposed reduction of the semi annual financial statements timeline to 45 days, as we feel it will result in a deadline that we will have difficulty meeting. In addition it would provide enhanced opportunities for front runners. For these reasons, we recommend that the deadline be kept at its current 60 days, and that such timing be utilized for the MRFP.

Finally, we submit that the regulations are far too prescriptive and do not properly consider materiality. We would encourage the CSA to review the specific requirements with a view to eliminating mandatory items that do not add value for investors. The current form of the rules would create information overload, resulting in the loss of important and meaningful information in the clutter.

Specific Responses

Question

1. Should there be more or less frequent disclosure of fund performance information and why? Should there be quarterly reporting for all investment funds? Does the proposed type of information allow an investor or an adviser to make informed investment decisions?

Response

In our view, disclosure of detailed information should be limited to semi-annual disclosure. There has not been any clear evidence that investors will benefit from more frequent disclosure, and in fact such disclosure will harm investors. We note that mutual funds are unique in that for the vast majority of funds, performance information is in fact disclosed *daily* via the NAV per unit/share.

We are concerned that the frequent reporting of portfolio holdings contemplated in the Proposal will significantly increase the cost of reporting to funds. These costs are ultimately borne by the investor through increased fees charged to the funds. Further, the CSA has not considered the costs of abusive practices such as "front running". This issue has been the subject of much scrutiny in the United States. In its July 17, 2001 submission to the Securities and Exchange Commission, the Investment Company Institute ("ICI") indicated that requiring mutual funds to disclose portfolio holdings more than twice per year would subject the average mutual fund investor to serious potential for harm as a result of an increase in abusive/opportunistic trading practices by fund outsiders. The ICI made reference to analysis and data compiled in a research study that it commissioned ("The Potential Effects of More Frequent Portfolio Disclosure on Mutual Fund Performance") and from a survey of its members ("Survey of Fund Groups' Portfolio Disclosure Policies"). As one of the world's largest investors, we are particularly concerned about the potential negative impact that front running can cause. We agree with the findings of the ICI and submit that the CSA should take this into consideration when determining the frequency of disclosing portfolio holdings. We urge the CSA to protect investors from such practices, and strongly recommend that disclosure only be required on a semi-annual basis.

We are also concerned about proposed proxy voting disclosure. We believe the portfolio manager is in the best position to make a decision in the best interests of a fund and its investors. We do not, however, believe that a portfolio manager's record of proxy voting is useful to investors in making investment decisions and we are not aware of any

significant evidence that investors or advisers desire it. Such disclosure would impose inordinate burdens and costs without advancing any real interests of fund investors that cannot be advanced through disclosure of proxy voting policies instead of actual votes. Further, since public disclosure cannot be limited to a fund's investors, mandatory disclosure of proxy votes would have the pernicious result of assisting individuals and special interest groups whose agendas and interests deviate from – and often conflict with – the interests of fund investors who invest for economic reasons, rather than political or social ones. Finally, the proposal would strip mutual funds of a right that companies, in accordance with principles of good corporate governance, are increasingly extending to their shareholders – the right to cast confidential proxy votes and thereby minimize the potential for coercion or retaliatory action by management when votes are cast in opposition to management's recommendations. We would be happy to expand on these issues if the CSA would like, and are willing to meet or provide additional submissions for such purpose.

In the event that – contrary to our submissions above - the CSA does determine that a portfolio manager's record of proxy voting should be publicly disclosed, we submit the requirement should be subject to a materiality threshold; e.g. only if the security represented more than 5% of total value of the portfolio of the fund should the proxy vote be disclosed.

Finally, we would encourage the CSA to re-visit the requirement to disclose all holdings greater than 1% of a fund's net asset value; for some funds, this could easily run to thirty or forty holdings. As an alternative, we suggest disclosing the top ten holdings plus any holdings comprising more than 5% of net asset value. In addition, we believe that the percentage of net assets is more relevant to investors than current value.

Question

2. Do the financial statement requirements set out in the proposed Rule meet the needs of the users of the financial statements? Does the amount of detail provided in the proposed National Instrument assist with the preparation, consistency and comparability of the financial statements? Is the proposed National Instrument too detailed? Is more detail or specific direction necessary?

Response

As already noted, we are concerned about the Proposal's requirement for delivery of semi-annual reports to investors that would see a reduction in the required delivery of reports from the existing 60 days to 45 days. We agree that investors should be provided with timely information regarding their investments, but believe that these timelines are unrealistic and too aggressive. The preparation of financial statements is labour intensive involving a coordinated effort between several departments within a mutual fund company and unrelated organizations. The current regulated timelines provide significant challenges to successful delivery. Any reduction to them will place an undue

burden on our resources with little, if any, corresponding benefit to investors. Just as importantly, investors will be harmed by more effective front running to the detriment of the funds if disclosure is made in 45 rather than 60 days. We strongly recommend that the deadline be kept at its current 60 days, and that such timing be utilized for the MRFP.

We also reiterate that the regulations are far too prescriptive and do not properly consider materiality. We encourage the CSA to review the specific requirements with a view to reducing mandatory items that do not add value for investors. We are anxious to avoid the "information overload" that currently exists in today's regime of financial disclosure.

Question

3. Should alternative methods of disclosing risk and volatility be used? For example, should there be disclosure of the fund's best and worst quarter returns or disclosure of the correlation of the fund to a benchmark index? Is there additional disclosure that would provide useful information to the investors and advisers?

Response

Alternative methods of disclosing risk and volatility will invariably become problematic and will fail to provide investors with useful information for making investment decisions. There is a lack of industry – and, indeed, academic - consensus regarding risk and volatility measures and we feel that additional required disclosure will only serve to confuse investors.

Conclusion

Although Fidelity Canada has a number of concerns with respect to the Proposal, we believe that the Proposal represents a significant step forward. We urge you to consider the concerns we have raised in this letter and our proposals for dealing with those concerns.

We appreciate the opportunity to comment on the Proposal, and look forward to a continuing dialogue regarding the implementation of Investment Funds Continuous Disclosure that best serves the interests of investors.

Yours very truly,

[signed] "Peter S. Bowen"

Peter S. Bowen
Vice-President & Fund Treasurer
Chief Compliance Officer
Fidelity Investments Canada Limited