

December 19, 2002

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

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Commission des valeurs mobilières du Québec  
c/o Denise Brosseau, Secretary  
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Dear Sirs & Mesdames:

**Re: Request for comments on Proposed National Instrument 81-106 (“NI 81-106”), Companion Policy 81-106CP and Form 81-106F1 (collectively referred to as the “Proposals”)**

We have reviewed the Canadian Securities Administrators (“CSA”) Proposals and welcome the opportunity to provide you with our comments. Our group at TD Asset Management Inc. (“TDAM”) shares the aim of the Proposals. We believe that the mutual fund industry can only benefit by providing investors and advisers with meaningful and timely financial disclosure that encourages appropriate investment decisions. We are also supportive of efforts to harmonize reporting requirements and believe that the current lack of uniformity is not in the best interests of investment funds or investors. As an ongoing business, however, we are very concerned with the impact the Proposals would have on our business and urge that the principles discussed in the Proposals be implemented in a financially prudent and effective manner.

By way of background, TDAM is one of Canada's largest managers, advisers and distributors of investment products with approximately \$113.6 billion in assets under management. TDAM provides mutual funds, pooled funds, segregated account management, and investment advisory services to individual customers, pension funds, corporations, endowments, foundations and high net worth individuals. The TD Mutual Funds division of TDAM is the fifth largest mutual fund manager in Canada managing approximately \$29 billion in retail mutual fund assets on behalf of more than 1.4 million investors. The TD Quantitative Capital division manages approximately \$33 billion in mutual and pooled fund assets, primarily in index and quantitative portfolios on behalf of institutional investors.

The following represents our central concerns with the Proposals:

1. The application of these proposals apply to all types of investment funds, including but not limited to mutual funds, labour sponsored investment funds, exchange traded funds, split share corporations, closed end funds and scholarship plans. TDAM is of the view that the Proposals should not apply to investment funds exempt from prospectus disclosure and primarily invested in by institutional and other accredited investors ("Institutional Investor Products"). Institutional Investor Products are distributed under offering memorandums to investors who have met the thresholds of the sophisticated investor. If such sophisticated investors are capable of making the decision to invest in a fund where prospectus disclosure is not required, they should also be allowed to make investment decisions based on agreed upon, rather than imposed, continuous disclosure.
2. We acknowledge that a quarterly Management Report of Fund Performance ("MRFP") may be well received by some investors. More generally, however, we believe that the majority of investors will find it to be more frequent than they desire. Investors often express to us dissatisfaction about receiving too much information. Although the MRFP is in principle a good idea, we believe it should not be prepared more often than semi-annually. Fund issuers whose client base would prefer quarterly reporting can do so provided that they are prepared in the required format. It is our view that too frequent reporting could encourage short-term investment thinking and potentially, market timing. In addition, we would not recommend that interim financial reports be prepared on a quarterly basis. The insignificant response we have received in the past from our clients with regard to receiving semi-annual reporting clearly indicates to us their lack of interest in receiving interim reports generally.
3. The timeline for filing interim financials currently poses challenges under the existing time constraints. This is particularly so for managers such as TDAM that manage a vast number of funds. With the additional requirements introduced by the Proposals, and a reduced timeline to 45 days, we can unequivocally state that the new timeline may prove particularly difficult for TDAM. We might add that the CSA should take into consideration that the production times and process to satisfy printing, delivery and fulfillment requirements are not handled exclusively by TDAM. As many

aspects of the process are outsourced, they are not directly within our ability to re-engineer. We urge the CSA to seriously consider this factor.

We would recommend that the CSA allow the industry to adjust to the new reporting requirements prior to considering a reduction in the filing and delivery timelines. While the recommended timeline for annual financial reports may be manageable with the current requirements, it is our view that, the reduction from 140 days to 90 days will be very difficult for fund managers of complex investment families to manage, with the introduction of new requirements. We suggest that the CSA explore eventually moving the proposed timeline in the future from 140 days to 120 days for the annuals to coincide the delivery and filing of the annuals with that of the quarterly financial statements. This could result in huge cost savings for the funds and ultimately, the investors.

Another consideration should be, aside from logistical concerns, that the timeline reduction, the added requirement to prepare MRFPs and the need for board approval of interim statements would create additional costs that may not be balanced with the perceived benefit of these measures to the average Canadian mutual fund investor.

4. While the MRFP may serve a useful purpose, we believe the proposed content to be too detailed. It is our view that too much detail may obscure useful information for unitholders. In fact, some of the proposed content may well be too sophisticated even for the experienced investor. In our opinion, the focus should be on providing unitholders with useful, appropriate information rather than detailed information. Mutual fund investors pay for managed services and though they are becoming more and more sophisticated, they still typically lack time, resources or the knowledge required to oversee such management. We believe this is one of the reasons why the CSA has proposed an independent board under the Fund Governance proposals.

We respectfully suggest that the CSA give further consideration to the relevance of the contents of these reports. It is our view that the proposed forward-looking disclosure could result in the exposure of proprietary intellectual property and the inclusion of some of the required information that relates to factors that portfolio managers may not consider in their investment decision making process, could be redundant.

Our response is divided into three parts. In the first part we respond to specific questions raised by the CSA on the proposal. Part II includes comments directly addressing the substance of the Proposals and offers recommendations as to how the Proposals can be improved. The final section summarizes our conclusions.

## **I. Specific Questions of the CSA Concerning the Proposals**

### **i. Management Reports of Fund Performance**

- (a) Will quarterly management reports of fund performance achieve the goals that they are intended to achieve?

TDAM is of the view that quarterly MRFPs will not achieve their intended goals because the level of detailed information in the quarterly reports may well bury the information that is most useful to an investor. Our investors have repeatedly expressed that they receive too much paper and information, adding that they would prefer to receive less, but more useful, information. In the attached Appendix A, we have outlined the sections that we find impractical and/or redundant accompanied by our comments.

- (b) Should there be more or less frequent disclosure of fund performance information and why?

TDAM's experience as one of Canada's largest managers, advisers and distributors of investment products has already been outlined above. Based on our experience with investors requesting delivery of interim financial statements, we would firmly conclude that investors are generally not interested in receiving semi-annual financial statements. If semi-annual information is not in demand, it follows that quarterly reports will also raise little interest among investors. We believe that the current frequency of reporting provides investors with sufficient access to information required and that the existing regulatory framework is adequate to give fund companies the autonomy to implement disclosure practices that best suit their investors' needs.

The preparation of financial statements is a very involved, timely and costly process, requiring coordinated input from not only the financial reporting divisions, but also from various marketing and product management divisions. Regardless of the opt-in process for the delivery of financial statements and reports, unitholders will still have to bear the costs of the preparation and filing of these documents, including those for which there is no evidence of a demand.

We strongly believe that one of the fundamental principles of mutual fund investing is to invest for the long term while avoiding market timing. It is our view that more frequent disclosure may encourage and increase the risk of inappropriate practices by investors such as adopting short-term investment strategies. Also, sophisticated fund outsiders may well take the opportunity to 'free-ride' on the proposed information to be supplied by fund companies.

- (c) Should there be quarterly reporting for all investment funds?

TDAM is of the view that there should not be quarterly reporting for all investment funds. The Proposals, as currently drafted, are applicable to an extremely broad range of funds ranging from retail mutual funds to institutional investment funds. While we question the usefulness and demand for quarterly reports of fund performance as a general proposition quarterly reports are clearly not appropriate in a number of specific contexts.

The most obvious examples of where quarterly reports are not appropriate are for index funds and exchange-traded funds (“ETFs”). While ETFs have proven to be an invaluable investment tool, their investment objective is to track a designated index and there is no discretion with respect to holdings. We do not see the value of quarterly MRFPs as index performance is widely available and the portfolio manager’s function is limited to ensuring accurate tracking.

Another concern arises with regard to the level of complexity that may result from quarterly reporting for fund of fund programs. It is not clear what the Proposals require with regard to such programs, as there is no direction as to whether the level of reporting would be at the top fund level or at the level of the underlying funds. As an issuer of a Fund of Fund program, we wonder whether third party fund companies participating in our program would be obligated to provide us, as manager, with the required information, regardless of whether or not their reporting periods coincide with that of our top fund, so we may meet our disclosure obligations under the Proposals. On the other hand, as a provider of funds to third party fund of fund programs, would TDAM be obligated to provide the required information to the third party managers to fulfil their requirements under the Proposals, even though our respective reporting periods may not coincide. In both cases, this could result in additional work for the fund company and related costs for investors. Further clarification of the requirements for fund of fund programs is required.

TDAM would also like to add that holders of other investment products, which cater to high net worth or institutional investors, are provided with personalized quarterly reporting based on their own particular investment portfolio by their advisers. Such investors are already receiving quarterly reports on their portfolios and we see no demand for further reporting, which would be repetitive with no added value but added costs to investors.

(d) Does the proposed type of information allow an investor or an adviser to make informed investment decisions?

TDAM is of the view that the type of information suggested by the Proposals to be included in MRFPs does not allow an investor or an adviser to make informed investment decisions. For example, NI 81-106 F1 Part B 1.2(h) requires a discussion of how the portfolio advisers or the manager of the investment fund voted on matters relating to issuers of portfolio assets of investment funds, other than routine business of those issuers. TDAM is supportive of disclosing its proxy voting policy to our unitholders. However, we do not believe the average investor desires this information.

The information required by the Proposals is, in many instances, too detailed, thus obscuring relevant information. The CSA should also consider that references to forward-looking information are transient and should not form the basis of investment decisions by investors. An appropriate investment decision is based on the investors’ ‘know your client’ information in conjunction with the investment objectives, strategy and performance of the fund. As the portfolio manager’s beliefs about what the future

holds are not static, capturing them in a quarterly, semi-annual or annual report may well result in inappropriate investment decisions by mutual fund investors.

The forward-looking information component of the MRFP is troubling to TDAM as it is very risky due to the obvious element of error in forecasting. Further, it is our belief that such a requirement, if implemented, should be accompanied by a regulatory waiver of liability for fund managers in the event that their perception of the future was proven inaccurate. One possible consequence of requiring this type of information is that to avoid reporting on potentially inaccurate visions, portfolio managers may lean to producing very generic reports, which would not be useful to the investors. It is also contrary to the many prescribed disclosures, which must include that "past performance is not indicative of future performance". There would be, in effect, a tremendous amount of ambiguity when a sales representative is presenting or discussing forward-looking information with their clients and at the same time enforcing that past performance is not indicative of future performance.

## **2. Financial Statements**

- (a) Will the financial statement requirements set out in the Proposals meet the needs of users of the financial statements?

Although TDAM supports any effort to create uniformity in financial statement content, it is our belief that the content changes set out in the Proposals do not effectively meet the needs of users of the financial statements. Certain of the requirements result in a duplication of information and many have been included without due regard to materiality. For an example of the former case there is overlap in the information to be included in both the Summary of Portfolio Investments and Statement of Investment Portfolio. We are of the view that a higher level of quality information, rather than simply an abundance of information, may be more useful to, and understandable by, investors.

Please refer to the attached Appendix A for a more detailed breakdown of our comments regarding the contents of the financial statements.

- (b) Does the amount of detail provided in the Proposals assist with the preparation, consistency and comparability of the financial statements?

The detail provided in the Proposals is largely consistent with regulation 1015 and the Canadian Institute for Chartered Accountants (CICA) recommendations and does, to some extent, assist with the preparation, consistency and comparability of financial statements. However, the Proposals provide inadequate direction with respect to what is 'material'. This term is notoriously difficult to interpret and further guidance in this respect would be helpful if financial statements are to be truly consistent and comparable.

(c) Is the proposed National Instrument too detailed? Is more detail or specific direction necessary?

As previously indicated above, TDAM is of the view that the Proposals are too detailed in nature. We have received clear indications from our unitholders that in general they are not interested in excessive information. We believe that investors may prefer the format of the proposed MRFP but they are ultimately looking for a higher level of information. Investors usually do not use financial reports for their investment decision making process and we are of the view that an intricate financial report together with a detailed MRFP will add to the impression that mutual fund reporting is too complex. This information could well become overwhelming. While better disclosure is desired, we urge the CSA to differentiate between the quality of disclosure and the quantity of disclosure. "More is not always better".

It is our view that the aim should be to provide investors with relevant information that is useful to assist them in making investment decisions. We would suggest statements of major holdings, rates of return, management expense ratios and high level commentaries from the portfolio managers. TDAM supports useful, understandable disclosure, however, we believe the level of detail in the Proposals could overwhelm unitholders, making it less, rather than more useful as a result. The benefit would therefore not substantiate the costs, which the investor would ultimately bear.

### **3. Disclosure of Risk and Volatility**

(a) Should alternatives to the Proposals be used to disclose the risk and volatility of an investment (i.e. Should there be disclosure of a 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?

The prospectus currently details the varying risks associated with each investment fund and investors expect fund managers to manage the portfolios within those risks. At this time there is no consensus in the industry on risk measurements and how they should be interpreted and as such, we are of the view that a requirement to disclose risk and volatility of an investment would not be appropriate. In any event, we would not recommend any risk measure that is short term in nature due to the long-term investment strategies of mutual funds.

## **II. General Comments and Observations**

### **1. The Range of Products to which the Proposals apply**

i. The Inclusion of Institutional Investor Products

TDAM is of the view that the range of products to which the Proposals apply should not include Institutional Investor Products. Such products are distributed to sophisticated investors whose continuous disclosure needs are very different from those of retail clients. In addition, their access to financial information also differs from the retail client. We see no benefit in accruing additional costs to meet the requirement to disclose retail information to institutional investors where such information is neither needed nor wanted. Sophisticated investors are capable of deciding whether or not to invest in Institutional Investor Products based on whether or not they are satisfied with the continuous disclosure promised in the offering circular.

## **2. Annual and Quarterly Management Reports of Fund Performance**

### **i. Contents of Annual and Quarterly Management Reports**

The content requirements for the MRFP as set out in the Proposals raise concerns regarding the disclosure of proprietary intellectual property, reliance by investors on forward-looking information and concerns regarding materiality.

TDAM is concerned that adherence to the requirements set out in the proposed form 81-106F1 result in the disclosure of the ‘intellectual property’ of the portfolio manager. In the annual MRFP, portfolio managers are asked to discuss strategic positions of the funds going forward and known material trends or events that might reasonably affect the funds. We believe this type of information to be intellectual property of the firm, because it is meant to be used for the benefit of the unitholders who pay the management fee to have access to our expertise. Disclosing this opens the funds to potential abusive/opportune practices such as ‘front-running’/‘free-riding’ by sophisticated outsiders. Further, where sub-advisers are required to make more frequent or detailed disclosure in Canada than in their local jurisdiction, they may be reluctant to advise Canadian funds, fearing negative impacts on their core business/funds by such disclosure in Canada. This information needs to be protected, not publicized, in order to protect its value to the fund and its unitholders.

Depending on the type of fund, disclosing this information could result in competitors taking advantage of the strategies used by other portfolio managers and / or using this information to prejudice the positions of the disclosing fund. Consider the example of a quantitative manager where positions are often based on mathematical formulas or the portfolio manager’s strategic plans. This information is generally considered confidential and our experience is that portfolio managers are justifiably concerned about strategic information becoming publicly known. We at TDAM feel strongly that portfolio managers are entitled to keep this type of information confidential.

The proposed form 81-106F1 also requires portfolio managers, in many cases, to engage in general prognostication. Examples of this include the requirement in subsection 1.2(c), which requires a discussion of “unusual trends” and the effect of these on the investment fund. Similarly subsection 1.2(f) states that portfolio managers must discuss risks, events, uncertainties, trends and commitments likely to have a material effect on

future performance. Section 1.5 requires a discussion of “unusual or infrequent events” that affected fund performance. Predictions by portfolio managers on such matters received after the fact, is an unreliable basis for investors to make investment decisions due to the timeliness of the information. A portfolio manager’s future outlook can change at any time and to capture this in an annual or quarterly report could be a disservice to the investor. This type of reporting may result in investors overreacting to information that is, in some cases, outdated.

The final concern of TDAM with respect to the content of the MRFP is that there should be more consideration as to materiality or usefulness of the information to the investor, for whom the report is supposedly being prepared. This issue has already been discussed above in response to the first question posed by the CSA and is further elaborated in the attached Appendix A. We would recommend, as previously stated, that statements of major holdings, rates of return, management expense ratios and high level commentaries from the portfolio managers be supplied to unitholders.

## **2. Financial Statement Requirements**

### **i. Contents**

TDAM fully supports the direction in which the CSA is moving by removing financial information from the prospectus.

In Appendix A to this letter we provide comments regarding a number of the requirements of the proposed contents of both the annual and interim statements.

We understand that the CSA has already acknowledged that the comparative period for the interim Statement of Net Assets is not consistent with the requirements of General Accepted Accounting Principles (GAAP). We believe it is important that the comparative information be consistent with GAAP.

### **ii. Approval of Financial Statements**

There is no mention of evidence of signatures to signify the approval of the financial statements. Section 93 of Regulation 1015, which would be revoked under the Proposals, included this requirement. Please clarify this discrepancy.

### **iii. Statement of Portfolio Transactions**

We would appreciate if you could confirm the CSA’s intent to eliminate the requirement of statements of portfolio transactions under section 87 of regulation 1015, which is being revoked under the Proposals.

## **3. Filing and Delivery Requirements**

### **i. Time Period For Filing Financial Statements**

One of the key features of the Proposals is the reduction in the amount of time a fund has to file both the interim and annual financial statements. TDAM, as one of Canada's largest managers, advisers and distributors of investment products believes that the proposed new timelines may pose a challenge, particularly with regard to the interim financials. As previously stated above, we urge the CSA to seriously consider that the production times and processes to satisfy printing, delivery and fulfillment requirements are not handled exclusively by TDAM and involve many suppliers.

Given the existing requirements it may have been possible to adhere to the reduction of the current filing time for the annual statements. However, the addition of a MRFP, requirements for board approval and to some extent the proposed changes to the contents of the financial statements, make reducing the filing times for the interim financial statements particularly difficult for large organizations. We consider the MRFP as described in the Proposals to be a significant undertaking that will require a detailed review and considerable resources.

ii. Delivery of Financial Statements

The binding restrictions set out in the Proposals add another level of complexity that further makes it difficult to work within the proposed time frame. Section 8.1(3) of the NI 81-106 prohibits the binding of MRFPs for more than one fund together. This may result in collating, sorting and mailing complications which we anticipate will cause additional delays and costs in the filing of the financial statements.

TDAM believes that the manner in which documents are bound together should be left to the discretion of the Manager. The binding requirements should indicate what must be done to achieve the objective of the proposal and not how it should be done. Fund companies should be allowed the flexibility to be able to work within the parameters of existing distribution capabilities in this regard. From our experience, investors are concerned more with minimizing the costs of operating the funds and reducing the volume of information that they receive. Arbitrary restrictions on packaging reports together with other reports or delivering them in a specified format, which may be more cost-effective or personalized to the specific clientele of the fund, are not in the best interests of unitholders.

It is our view that, in an effort to minimize costs to investors, it should be permissible for the MRFP to be bound with those of other funds and other financials. The duplication of the Summary of Portfolio Investments would then be avoided, again reducing costs to the unitholders. In any event, we would deliver all of the reports and financials for the various holdings that an investor requires as one package and it is not apparent what difference it would make whether the reports and financials are themselves bound together or not.

ii. Option to Receive Reports

We commend the decision to allow investors to choose what financial statements and reports they would like to receive each year. One comment with respect to this issue is that management companies should be given some autonomy on how securityholders are canvassed each year in order to reduce the costs that would be associated with a separate 'request form'.

TDAM would like to add that we expect the public to perceive this proposal as a very positive step towards the industry becoming more environmentally friendly. We see that a Mutual Fund Manager has already been given relief to proceed with the opt-in process and there is no doubt that investors would be much better served by not requiring a full mailing of financial statements, which they may not desire.

#### **4. Other**

##### **i. Annual Information Form (AIF) – Part 10 NI 81-106**

Part 10.1 (2) (a) of the proposed NI 81-106 is not clear. It states that an investment fund is not required to file an AIF as long as it has a current prospectus prepared and filed under NI 81-101. Part 3.1 of National Instrument 81-101 ("NI 81-101") states that the AIF is incorporated by reference into, and forms part of a simplified prospectus. We are not aware of a proposed amendment to Part 3.1 of NI 81-101. Please clarify.

Under Part 10.2 NI 81-106, an AIF required to be filed under Part 10.1, must be filed no later than 90 days after the end of the fund's most recently completed financial year. In accordance with NI 81-101 part 2, it is required that an AIF be filed concurrently with the simplified prospectus. Assuming that the AIF under NI 81-106 is the same AIF referred to in NI 81-101, there appears to be an inconsistency here and we would appreciate clarification.

The requirement that the AIF may not be consolidated, combined or bound with an AIF for another fund, as governed by Part 10.3(3) is a drastic departure from NI 81-101F2. This will cause a large increase on legal fees. Again, we believe there is need for clarification with regard to Part 10.1(2), as if an AIF is not required to be filed, Part 10.3(3) will not apply.

##### **ii. Change of Auditor – Part 14 NI 81-106**

TDAM is of the view that a change of auditors should not be subject to a unitholders' vote. In our experience less than 5% of unitholders actually participate in this process. Investors have clearly indicated that they prefer not to be involved with such decisions of the fund. They purchase mutual funds because they wish to invest their money while being able to delegate the administrative and management aspect of their investment to professionals. Holding a unitholders' meeting for the change of auditors eliminates the fund's ability to obtain the most competitive price for audit services which is not in the best interest of the unitholders. In the case of TDAM, we believe we could save several hundred thousand dollars by consolidating our audit providers. We are prohibited from

pursuing this goal as it would cost several million dollars to execute the voting process. We would encourage the CSA to make the appropriate changes to permit mutual funds to change auditors without requesting a unitholders' vote. Full disclosure of the change would be made to unitholders.

### **III. Conclusions**

In conclusion, TDAM is very supportive of many of the continuous disclosure proposals and feels that the changes represent progress for mutual funds, mutual fund managers and in particular investors.

While we are of the opinion that certain proposals require further consideration, we are very pleased with the general principle and would be happy to provide any further explanations or submissions regarding the matters raised above. We would also be very willing to make ourselves available for any further dialogue relating to the Proposals.

Yours truly,

Robert F. MacLellan

## Appendix A

### Comments regarding Contents of Annual and Interim Financial Statements/Management Report on Fund Performance.

| Recommended Content   | Comment   |
|---|---|
| Part 2 NI 81-106<br>2.3 – requires both a statement of investment portfolio and a summary of portfolio investments... | <p>This results in unnecessary duplication. Most mutual funds currently break down the statements of investment portfolio into the most meaningful subgroups, and show the percentage of market value at least at the subgroup level. Given this level of disclosure, providing an additional summary in the financial statements would be redundant.</p> <p>TDAM wonders whether any consideration has been given to the CICA's 1997 Research Report, which recommended that a condensed summary of investments be provided <b>instead</b> of the detailed portfolio listings. Detailed portfolio listings could be made available upon request.</p>   |
| Part 3 NI 81-106<br>3.3 – Contents of Interim Financial Statements  | <p>Section 3.3 is contrary to GAAP (CICA Handbook section 1751) which requires that the comparative period be as at the end of the immediately preceding fiscal year. We understand that the CSA is aware of this contradiction.</p>  |
| Part 4 NI 81-106<br>Financial Disclosure Requirements.  | <p>The disclosure requirements listed here are for the most part reasonable, however we wish to list a few areas that may be misleading or cause undue confusion to investors</p> <p>Disclosing revenue from securities lending in the statement of operations – in many cases this is immaterial. Generally for each line item, consideration as to the materiality of the amounts to be disclosed must be made, as otherwise, we risk overloading the investor with too much detail, of questionable value.</p> <p>'Amounts that would have been payable had amounts not been waived, etc', this amount generally refers to a hypothetical situation "if the management company did not waive or absorb expenses." It is our opinion that the</p> |

actual expenses that were paid by the fund should be reported on the Statement of Operations. Currently, note disclosures of the fact that the management company may have waived or absorbed expenses and has the right to discontinue such activities without notice, are already disclosed. Additional ratios that indicate what the MER would have been had the fund manager not waived or absorbed expenses are also produced. TDAM is of the view that this is entirely satisfactory and should not require any further disclosure. We believe that showing the dollar amount does nothing for the unitholders as it is the additional MER that is truly relevant.

Part 7 NI 81-106  
7.6 – Trailing Commissions

For traditional mutual funds, sales commissions and trailing commissions are not fund expenses. The fund does not pay those expenses to the advisers, the fund manager does. As such, these figures have no bearing on a fund financial statement. Some distinction needs to be made here between such funds that pay trailer commissions to advisers directly out of fund assets, or by the fund manager or principal distributor out of its own revenues (which may include management fees which are disclosed separately). TDAM already discloses the percentage of management fees paid as commissions to dealers in the simplified prospectus. We do not see why an investor should be entitled to see the breakdown of expenses that TDAM pays out of its management fees as this information is confidential and should only be for our shareholders. It is our view that the necessity for another level of disclosure in this regard is not warranted.

Form 81-106F1  
Part B– Item 2 Financial Highlights

This provides a much more detailed breakdown of financial results (e.g. separate disclosure of realized gain, unrealized gain and foreign exchange gain (loss) on a per-unit basis)

The basis for distribution calculations is the number of units outstanding at a point in time

and the basis for net income, realized gain, etc. calculations is average number of units outstanding. This can render the data extremely variable, especially for young funds or funds that are experiencing significant inflows or outflows during a period. We recognize that the intent is to allow comparability of operating results between periods similar to that provided by public companies. However, because of the way mutual funds are continuously distributed and redeemed by fund companies, such measures can often have less consistency between periods and between funds with similar objectives.

We believe that the proposed additions to financial highlights showing the impact of foreign exchange and realized/unrealized gains on a per unit basis offer little added value over the current practice of disclosing these items grouped together in the statement of financial

Form 81-106F1  
Part B and Part C – Item 4\* Summary of  
Portfolio Investments

Some of the disclosures which are of questionable value include:

The current value of securities in any one issuer if more than one percent of the aggregate net asset value of the investment fund is invested in securities of that issuer

The number of securities held that individually comprise more than one percent of the aggregate net asset value of the investment fund.

\*Note: In some instances, item 4 is inadvertently referred to as item 3 in the body of the Proposals.

For the majority of actively managed mutual funds in Canada, this would require disclosure of almost all of the issuers/investments contained in an investment portfolio. Many investors find such long lists of securities to be of little value. The Top 10 or Top 15 investments would be more brief, and if combined with disclosure of the percentage of total net assets invested in the top 10 securities, would give investors more useful information about the concentration of the fund's securities without the need for voluminous disclosure.

To: The Canadian Securities Administrators  
Date: December 19, 2002

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