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Dear Sirs,

I would like to submit the following as a comment on NI 81-107.

I believe that the proposal will be ineffective in mitigating or even in mitigating many conflicts of interest that are currently present in the Canadian Financial Services Industry in general and the mutual fund industry in particular. Further I believe that eliminating rules and/or regulations that are currently in place and that are designed to deal with some of these conflicts of interests is ill advised, given the objective of protecting the interests of investors.

With respect to this last comment, I am concerned about the conflicts of interest that will be evident in the event that mutual funds are allowed to transact with 'related parties'. In this instance, I use the term related parties to include other financial institutions and conglomerates and their respective associates and affiliates who own or exercise control or direction over entities that own the manager of the mutual fund. The concentration of ownership present in the Canadian Financial Services Industry makes this a common event for many of the mutual funds in Canada and most of the assets under administration of those mutual funds.

For example, many of the larger mutual fund managers are owned by banks, which also own the largest brokerages in the country. There are numerous opportunities for the brokerages and the mutual fund managers to work together to enhance the combined profits of the two and the overall profits of the bank in question. The current regulatory environment prohibits a large number of these activities. NI 81-107 would allow many of these activities to occur. While some of these activities could be of benefit to both the bank and the mutual fund investor, many of these activities would be of benefit to the bank but would be detrimental to the interests of the mutual fund investor. Since the overriding concern of the regulator should be the interest of the

investor, it appears that the proper balance in this matter would be to maintain and enhance the rules and regulations protecting the investor, not to remove them.

An example of an activity that would be detrimental to the interests of the investor, that is currently prohibited, and that would not be prohibited if NI 81-107 were to be adopted, is a brokerage selling securities in its cache to its related mutual fund. While NI 81-107 generally comments on the need to do transactions at the prevailing market price, this is one instance where this requirement might not be fulfilled. Clearly, the brokerage will have an incentive (for several reasons) to sell securities sitting on its shelf and to sell them at a price that the brokerage is in a position to control.

As I mentioned in my introductory paragraph, I believe that the proposal will be ineffective in mitigating many conflicts of interest that are currently present in the industry. The IRCs as proposed in NI 81-107 can only review matters forwarded to them by management, do not have any authority to impose decisions or penalties, and are not explicitly authorized to forward concerns that they might have to regulatory bodies. Each one of these concerns is probably sufficient to nullify any value that the IRC might have in protecting the interests of the investing public. In combination, these concerns render the IRC impotent in the extreme.

While NI 81-107 sets out a list of items that should be referred to the IRC and more generally states that any matter that involves a conflict of interest (COI) should be referred to the IRC, I see no penalty for non-referral, and of course, management has great latitude as to what constitutes a COI. Further, no monitoring process is suggested to ensure that management upholds its obligations to refer COIs and potential COIs to the IRC. In these circumstances, I question whether management will ever approach the IRC with matters where the IRC might make a decision that was unfavorable towards management.

In the event that management does refer a potential COI to the IRC, and in the event that the IRC makes a decision that encourages management to alter its proposed behavior, I see little reason why management would adopt this decision. The only two arguments in favor of management adopting the IRC's decision would be that management recognizes the potential benefit to the investing public from adopting the IRC decision and/or that management believes that its direct interests will be harmed if it does not adopt the IRC decision. The latter can only be based on the provision in NI 81-107 that requires the IRC recommendations to be published in publicly available documents published by the mutual fund (a prospectus and continuing disclosure documents). These two arguments in favor of management adopting the IRC's decision are not strong. As for the first argument, the reason why we have rules and regulations and the reason why we have improprieties is because management clearly does not always act in the best interests of the investing public. As for the second argument, the reputational effect occasioned by public disclosure may be very limited. A limited number of investors would be aware of the public disclosure in such a matter, few would attempt to effect a change in management or management behavior, and fewer still would succeed in doing so.

To sum up my concern in this matter, I suspect that few issues of concern to the investing public will be put forward to the IRC and that even if some are, the decisions rendered by the IRC will not be effective in altering the behavior of management.

In addition to the increase in the conflicts of interest that will occur due to the adoption of this policy, I am concerned about the message that we are sending to the investing public at a time when confidence in the system is seemingly low. Further, I am concerned that the potential increase in the number of improprieties that may be seen in the sector due to the adoption of this policy will in the future further tarnish the reputation of the industry and further reduce confidence in the system. In addition, I am concerned that future regulatory changes that might allow further concentration in the financial services industry (for ex. bank mergers or bank acquisitions of insurance companies) will only lead to increased conflicts of interest based on NI 81-107. While such future regulatory changes are far from a sure thing, we should be forward looking in our planning, not reactive.

While I recognize that the current rules and regulations may at times restrict activities that could be beneficial to mutual fund companies and their owners, without being detrimental to the investing public, I believe that relaxing these rules in the manner envisioned by NI 81-107 would be more detrimental to the public than it would be beneficial to the industry and the public. For all of the above reasons, I would suggest that the entire scope and thrust of NI 81-107 will not serve the best interests of the investing public, and more generally, the changes contemplated in NI 81-107 should not be implemented in any form.

Sincerely Yours

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