CANADIAN BANKERS ASSOCIATION

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

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario M5H 3S8

And to:

Denise Brosseau, Secretary
Autorité des marchés financiers
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Montreal, Quebec H4Z 1G3
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Dear Sirs and Madames:

Re: National Instrument 81-107 – Independent Review Committee ("IRC") for Mutual Funds

The Canadian Bankers Association ("CBA") appreciates this opportunity to comment on Proposed National Instrument 81-107, IRC for Mutual Funds (the "Instrument").

We believe this Canadian Securities Administrators initiative is a positive step that, if adopted with appropriate modifications, would contribute to improved mutual fund governance in the interest of investors.

We have the following comments:

Independent Review Committee

Part 2 of the Instrument sets out the requirement that a mutual fund must have an IRC. It would be helpful for the commentary to clarify that a mutual fund is not restricted to establishing one IRC, and may if it wishes establish multiple IRCs.

Composition of IRC

Some mutual funds currently have boards of governors or similar structures, whose members are paid fees by the fund or the fund manager. The Instrument would not permit these individuals, who could bring their experience in fund governance, to serve on an IRC. We would submit that such individuals, who have provided governance-related services to the fund, should be eligible to serve on the IRC.

We would suggest removing 'mutual fund' from the first paragraph of the commentary concerning Section 2.4, Independence. We also would suggest revising the commentary or the Instrument, as appropriate, to provide that individuals who have received fees from the fund or fund manager for their service as a member of a board of governors or in a similar capacity, will not be ineligible to serve as a member of an IRC.

Term of office of IRC members

Section 2.3 of the Instrument, which provides in subsection (2) for a term of office of not less than two years and not more than 5 years, does not expressly limit the number of terms that an IRC member may serve. We believe that it would be inappropriate for any person to be a member of an IRC for a period in excess of 10 years.

Business conflicts

The Commentary concerning Part 3.1, Conflicts of Interest, sets out a lengthy list of possible "business conflicts" that may arise "when a manager might experience a conflict between its best interests and its duty to act in the best interests of the mutual fund."

The range of business conflicts that are possible is endless. On an ongoing basis, mutual fund managers make decisions concerning the allocation of costs, correction of errors, allocation of securities among funds and other matters that require the manager to resolve potential business conflicts. We submit that it would not be practical to require the manager to refer to the IRC for their review and recommendation, every transaction where the possibility of a business conflict can be identified. In most cases possible conflicts are addressed by managers' applying sound business judgment and best practices, and following established policies and procedures.

We would suggest that the Commentary should be revised to include a positive statement to the effect that it will not usually be necessary to refer every possible business conflict to the IRC for review and recommendation, and that it will generally be sufficient for the IRC to review and approve the fund's policies and procedures concerning possible business conflicts.

Commentary too specific

We believe the commentary concerning Section 3.1, Conflicts of Interest, is overly specific, and as a result there is a risk that the commentary could be taken to set out mandatory standards and processes and will fetter the discretion of the IRC. In our view, the rule should be principles-based and should leave it to the IRC to establish its own process for identifying business conflicts. The commentary should not suggest the specific process that the IRC is to follow. We also consider that the list of business conflicts that is set out in the commentary is too specific, and instead the commentary should at most refer to situations that are currently considered legal conflicts.

Decision-making standard for the IRC

We believe that it would be appropriate to provide additional guidance with regard to the CSA's expectations as to the role, obligations and functions of the IRC. While each IRC in implementing its mandate would not necessarily be constrained by such guidance, reliance on the industry to develop its own standards could lead to uncertainty and confusion in the short term. Further, the adoption of excessively high standards by a single manager could be affirmed by courts as a high water mark of "best practice" that other managers would be expected to mirror. That would only add to the cost of the IRC, which would be paid for by the owners of the funds.

We anticipate that standards that are typical of a public board of directors (quarterly meetings together with ad hoc meetings where appropriate, approval of policies and procedures, receipt of confirmation of compliance with such procedures and/or discussion of exceptions) should be the norm.

Proposals to increase fees

The Instrument would require the mutual fund to call a meeting of securityholders in order to approve certain proposed changes to the mutual fund, including changes that would result in increased fees.

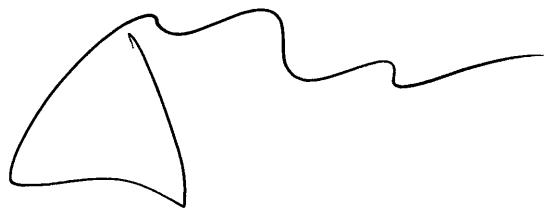
We do not believe that fee increases should require approval of securityholders at a meeting. Securityholder meetings are costly and ineffective. In our view, it should be sufficient if those securityholders who are not satisfied with the fee increase that is approved by the IRC are permitted to redeem their investment without being required to pay the redemption fees that would otherwise be payable. We also note that a requirement to convene a meeting of securityholders in order to obtain securityholder approval for fee increases would place mutual fund managers at a competitive disadvantage *vis a vis* other pooled investment vehicles such as wrap programs and segregated funds.

The new format

We commend the CSA on the format of the Instrument, which integrates Commentary with the rule. This format makes the Instrument relatively straightforward and "user-friendly", and is a welcome innovation.

We have appreciated the opportunity to express our views regarding the Instrument. We would be pleased to answer any questions that you may have about our comments.

Yours truly,



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