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BY MAIL & E-MAIL

April 8, 2004

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Re: Canadian Securities Administrators Proposed National Instrument 81-107 - *Independent Review Committee for Mutual Funds*

We are pleased to provide the responses of The Investment Funds Institute of Canada ("IFIC") to the Request for Comment Proposed National Instrument 81-107 - *Independent Review Committee for Mutual Funds* (the "proposed Instrument") published by the Canadian Securities Administrators ("CSA").[1] IFIC is the member association of the investment funds industry in Canada. IFIC's membership comprises 71 fund management companies sponsoring 1902 mutual funds, 80 dealer firms selling mutual funds, and 54 affiliates representing law, accounting and other professional firms providing services to industry members. IFIC

[1] (2004) 27 OSCB 468.

Member funds manage $466.2 billion in assets (representing nearly 100% of all open-end mutual funds in the country) in over 51 million investor accounts.[2]

1. General Comments:

IFIC recognizes that the CSA's approach to fund governance, as set out in the proposed Instrument, has clearly evolved since the release of Concept Proposal 81-402[3] - the predecessor to the proposed Instrument. The duties of the Independent Review Committee ("IRC"), as proposed in Part 3 of the proposed Instrument have been focused on the review of all conflicts of interest between the fund manager's own commercial and business interests, and its fiduciary duty to manage its mutual funds in the best interests of those funds and their securityholders.

IFIC and its Members continue to support any initiative that will increase real investor protection in a practical and efficient manner and, subject to the specific comments set out below, are of the view that a focused IRC is an appropriate mechanism to achieve this. However, we do have a number of outstanding concerns that we wish to bring to your attention. These concerns are discussed in detail in the following paragraphs:

2. Specific Comments:

"Better", rather than "increased", regulation

Today, mutual fund management in Canada is a mature and highly transparent industry with practices that are well established. Our industry, nonetheless, remains burdened by an onerous regulatory regime that is far more costly and complex than the regulatory structures applicable to any other retail financial product offered today to Canadian investors. For the IRC to be a net benefit to Canadian investors, it must not represent an added layer of regulation. The IRC must be introduced as a streamlined and efficient replacement to those parts of our regulatory regime that currently address legal conflicts of interest.

As the CSA have correctly pointed out in their articulation of the rationales for fund governance[4], the existing prohibition-based approach to the regulation of conflicts of interest is simultaneously too restrictive in its prohibition of innocuous transactions or those that would operate to the benefit of investors, and not inclusive enough as it deals only with certain prescribed transactions.

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[2] As at March 10/2004.

[3] Concept Proposal 81-402 *Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers* (released March 1, 2002 at (2002) 25 OSCB 1227).

[4] (2004) 27 OSCB 468, at 469.

The CSA, in the introductory discussion of the content of the proposed Instrument, state that the regulatory restrictions contained in the various Provincial securities acts and National Instrument 81-102 *Mutual Funds* ("NI 81-102") that address self-dealing and conflicts of interest would be repealed and effectively replaced by the discretion of the IRC. From our discussions with staff of certain CSA-member jurisdictions, we understand that restrictions on both mutual funds and portfolio managers (in relation to mutual funds) would be repealed. However we note that the proposed Instrument fails to identify in any comprehensive way those current restrictions that will be repealed. We would appreciate the opportunity to discuss in greater detail the provisions that the CSA is proposing to repeal.

Similarly, we strongly urge the CSA, that it would be in the interest of mutual fund investors to introduce the IRC and contemplated repeal of conflict of interest restrictions contemporaneously so as to limit the negative impact of the additional costs that accompany any major regulatory change and ensure that from the outset that the IRC is, and is seen as being, something "better" instead of just something more.

Costs

While our Members anticipate and are not hesitant to bear costs associated with establishment of the IRC, we note that smaller fund managers, who are less likely to be related to other financial service providers and thus have fewer legal conflicts, will benefit less from the mandatory imposition of an IRC. It is essential that the CSA remain cognizant of the need for the additional costs occasioned by the requirement for an IRC to remain proportionate to the net benefits that would accrue to both large and small fund managers while also remaining sensitive to the fact that the cumulative impact of mounting cost pressures will result in higher costs to investors and only serve to reduce the overall competitiveness of the industry.[5]

The CSA have suggested that the industry will experience significant cost savings from the repeal of regulatory restrictions on related party transactions (referred to *supra*) and the decreased need to take matters to a vote of a fund's securityholders. We query whether these anticipated savings will adequately offset the total costs of establishing an IRC (as envisaged in the proposed Instrument) and providing services and making resources available to IRC members on an ongoing basis. Aside from the compensation paid directly to IRC members in retainers and per meeting fees, our Members anticipate

[5] Investors will now ultimately have to pay:

- Administration costs of the fund (normal cost of doing business)
- Audit/legal fees (as a result of continuous disclosure requirements)
- Management fees (normal cost of doing business)
- IRC fees and expenses (new regulatory requirements)
- Advisory fees for the IRC (new regulatory requirements)

that they will incur significant indirect costs in the form of independent legal and financial advice fees, travel costs and Directors and Officers ("D&O") insurance.

In addition, we are also concerned that prospective IRC candidates may gravitate to firms that offer higher direct compensation and that have the most resources available for IRC members. This may result in a bidding-up of both direct and indirect costs which in turn would render the IRC more costly. These factors are of concern to the entire industry, and are of particular concern for smaller fund complexes that, in many cases, would benefit the least from the corresponding relaxation of current regulatory restrictions.

In our view, significant cost savings and reduction of redundancy in function could be achieved by adopting a different definition of independence, which we discuss in greater detail below, and by allowing an IRC to be created from, and not in addition to, the board of directors or board of governors where these already exist in a fund complex.

On this latter point, the CSA should strive to ensure that investors obtain the fullest value possible for the expenses that they bear. Investors in many funds already pay for the services provided by a fund board of directors or board of governors. We submit that it would be an unnecessary duplication of costs for some investors by requiring the creation of a separate IRC where its functions are being fulfilled by an existing body.

Paragraph 4 of Commentary 2 to section 2.1 notes that nothing in the proposed Instrument prevents fund managers from sharing an IRC.

We acknowledge that, in concept, this suggestion is helpful from a cost perspective, particularly for mangers of smaller fund families. However, due to issues of confidentiality and competition, we submit that it will prove impractical for unrelated fund managers to share an IRC. It is also possible that independent companies will form for the sole purpose of providing IRCs to smaller fund managers. Given that the mandate of these companies will be to make a profit, we have concerns as to the quality of IRC members and service that these organizations will provide.

We ask that these considerations be kept in mind as part of the CSA's cost/benefit analysis. We encourage the CSA to work with the industry through IFIC to canvass alternatives as to how the costs of staffing and providing services to support an IRC might be kept within reasonable bounds and proportionate to the anticipated benefits for fund complexes with different reporting/organizational structures and mutual funds of various sizes.

Use of Commentary in the Proposed Instrument

The Introduction to the proposed Instrument indicates that it contains Commentary that, while reflecting the views of the CSA, is not legally binding.

We are concerned that large portions of the proposed Instrument are included in the Commentary sections and not in the actual rule, for example - section 2.1 - Commentary on structure and composition of IRC; section 2.4 - Commentary on concept of independence; section 2.8 - Commentary on liability issues; and section 3.1 - Commentary on transactions that constitute business conflicts or related party transactions.

The inclusion of substantive portions of the proposed Instrument in the Commentary reflects a departure from the past practice of the CSA in regulating mutual funds and may give rise to legal issues as to the status of the Commentary sections. For example, will reliance by a fund manager on Commentary sections in matters relating to its IRC be sufficient for compliance with the mandatory portions of the proposed Instrument?

We submit that it would be more appropriate to move significant sections of the Commentary into the actual rule, with the remaining sections included in a Companion Policy. This approach would create greater certainty for managers and their IRCs with respect to conduct required for compliance with the proposed Instrument and would also be more consistent with the existing practice of the CSA in other rules relating to mutual funds.

To the extent that the CSA wishes to provide guidance or direction, consideration could also be given to including a “definitions” section. We note that use of plain language renders much of the Commentary somewhat imprecise and submit that this imprecision introduces ambiguity and the potential for divergent interpretations that are likely to result in variances in governance standards which may ultimately operate as an impediment to efficient markets.

Initial Appointment of the IRC

Section 2.2 provides that the fund manager must appoint the first members of the IRC who will thereafter appoint their successors.

In our view, given that the responsibility for acting in the best interests of the fund ultimately lies with the fund manager, it is the fund manager that should appoint all IRC members and not just initial members.

Independence of IRC Members

Section 2.4 of the proposed Instrument sets out the independence requirements applicable to IRC members. Commentary 4 to section 2.4 of the proposed Instrument closely tracks the concept of independence in proposed Multilateral Instrument 52-110 - *Audit Committees* ("MI 52-110"), albeit tailored somewhat for the mutual fund context. We query whether the concept of independence deemed applicable to audit committees is appropriate for an IRC.

As an initial comment, we urge the CSA to bear in mind that the many fund managers in Canada will be looking, at the same time, for individuals to fill roles on their respective IRCs. This demand, both in and of itself and in the context of Canada's relatively small population and even smaller class of "unrelated", financially literate individuals, will make it challenging to recruit qualified people. We urge the CSA not to further constrain an already limited applicant pool by adopting an unnecessarily onerous definition of independence.

More specifically, an audit committee has a defined statutory role relating to the financial statements of a reporting issuer, which involves taking proactive steps to request information and asking questions relating to those financial statements. In the proposed Instrument, we submit that the IRC's contemplated role is clearly less proactive and more to review transactions referred to it by the fund manager in accordance with pre-approved policies. In this context, we are of the view that a less restrictive concept of independence would be appropriate and, to this end, recommend the following changes:

A prospective IRC member with an investment in a mutual fund, especially a large investment, may be considered to have a "material relationship" with the fund's manager and could therefore be disqualified under sections 2.4(2) and 2.4(3). We suggest that an otherwise appropriate and qualified IRC member should not be disqualified from serving solely on the basis of an investment in the fund(s), if no other relevant factors are present that would disqualify such person.

Prospective IRC members are viewed by the CSA as not being independent if they have a family member who is an employee of the manager, the mutual fund or an entity related to the manager. While it may be appropriate to deem IRC members with a family member who is a director or officer of such entities to not be independent, we suggest that including lower level employees in the deeming provision goes too far (especially if associates are also caught) and could pose a problem for many managers, particularly those who are part of a Canadian financial institution's group of companies. Given the small size of the Canadian economy and the significance of Canadian financial institutions as employers, many potential IRC members could be disqualified by this approach to independence.

Consultants/advisors that provide services to the investment funds industry represent a relatively concentrated group whose services are frequently used by the industry as a whole. It will, in our view, be difficult for these individuals to qualify as being independent unless the concept of independence in the proposed Instrument is modified. To this end, we submit that there should be a *de minimis* threshold put on consulting, advisory or other compensatory fees received, directly or indirectly, from the manager, the mutual fund or an entity related to the manager. Otherwise, small retainers that would not create the situation of a material relationship (the test in section 2.4(2)) would be included and would serve to disqualify prospective IRC members.

We also submit that the three-year cooling off period is too long and again would serve to disqualify prospective IRC members unnecessarily. In the alternative, we note that MI

52-110, section 1.4(4) – "Meaning of Independence", prescribes a transitional period[6] for the purposes of the initial staffing of the audit committee of a reporting issuer and we suggest that the CSA should consider adopting similar transitional provisions in the proposed Instrument to ameliorate somewhat the difficulties that many fund managers will face in establishing their initial IRCs.

IRC Responsibilities

Section 2.5 of the proposed Instrument sets out the proposed responsibilities of the IRC.

It appears to us that by permitting the IRC to broaden its mandate and monitor all administration and management of the mutual funds, the proposed Instrument risks effectively creating a material relationship between the IRC and the Manager and, as a consequence of this material relationship, the IRC loses its independence. If the IRC evolves to have a mandate similar to the Board of the fund manager, this would seem to imply that they cease to be a member of the IRC under section 2.10 (3).

With respect to the discharge of the IRC's responsibilities, we are of the view that the most meaningful way in which an IRC could fulfil its responsibilities would be to review and approve a fund manager's policies and procedures relating to self-dealing and conflicts of interest in advance and to thereafter receive quarterly reports so as to be able to review the manager's compliance with its policies and procedures on an ongoing basis. The IRC would also have the ability to review, on a case by case basis, transactions that fall outside the scope of the policies. While we believe that Commentary 6 to section 3.1 contemplates our suggestion above, we are of the view that section 3.1 should clearly state that the pre-approval of a policy on conflicts will discharge the duty of a manager to refer to its IRC a conflict that falls within the scope of an IRC-approved policy.

We submit that a review and approval in advance of the manager's policies and procedures coupled with timely (periodic) reporting to the IRC of compliance with such policies achieves a practical, effective and reasonable balance between ensuring rigorous investor protection and the time-sensitive nature of daily trading and other transactions by mutual funds.

[6] **MI 52-110 section 1.4(4) Meaning of Independence** -

(4) For the purposes of subsection (3), the prescribed period is the shorter of

(a) the period commencing on March 30, 2004 and ending immediately prior to the determination required by subsection (3); and
(b) the three year period ending immediately prior to the determination required by subsection (3).

Authority of the IRC to set compensation and engage Advisors

Section 2.7 of the proposed Instrument grants an IRC the authority to set the compensation of its members and engage and compensate independent advisors.

Commentary 2 states that "The manager should not pay any compensation directly or indirectly (by reimbursing the mutual fund) to the independent review committee……". We wish to clarify this commentary as it appears to reflect a misunderstanding as to how expenses are often charged to and recovered from mutual funds. While there are variations in practice from fund manager to fund manager, the process described below is fairly typical:

1. In all fund companies there is a "pool" of costs (overhead and administration) that are "chargeable" to the funds. Most fund managers manage a "family" of funds and these expenses are often not directly related to particular fund(s) but need to be allocated among all funds (or among classes of funds, as the case may be).
2. The overriding requirement is that the allocation methodology be fair and reasonable to all funds. Costs are thus entered into the "pool" and subsequently allocated on some rational basis. These allocated costs are then added to "direct" costs charged to the funds (*i.e.* costs that can clearly be identified as pertaining to a particular fund) to arrive at total expenses chargeable to a fund. These expenses are added to the management fee for that fund (or class of fund) to determine the total MER.
3. In many cases, particularly for smaller funds, the MER calculated in this way will be deemed "excessive" by the fund manager. In those cases, the manager may choose to absorb some expenses rather than passing them on to the fund in order to maintain the MER at a reasonably competitive level.
4. Thus, where an IRC is responsible for "overseeing" a family of funds, it is very possible that the fees and expenses associated with the IRC would indirectly end up being paid by the Manager, since they would go into the pool of costs, part of which is absorbed by the Manager.
5. As noted in 3 above, smaller funds, often have costs absorbed by the Manager so as to ensure that the funds remain competitive. Preventing the manager from directly or indirectly absorbing these costs, puts smaller funds at a disadvantage, merely because of their smaller asset size. The apparently higher MER may become a deterrent to potential investors, thus ultimately disadvantaging existing investors in the fund. This outcome does not promote efficient markets and therefore is in direct conflict with the objectives of securities legislation.

In addition, we note that the ability of IRC members to set compensation for themselves and pay the cost of advisors directly from the funds puts the IRC in a conflict of interest situation with the funds. We submit that the fund manager should set the compensation of the IRC members, not the IRC itself. At the very least, the fund manager should be vested with a veto power with respect to proposed IRC compensation that is unreasonable. In the alternative, the CSA should consider requiring that the amount set by the IRC for its compensation and the amount that the IRC pays for external advisors be subject to mandatory disclosure in a fund's continuous disclosure documents.

Liability of IRC Members

Section 2.8 of the proposed Instrument states the CSA's views on the liability for IRC members and requests specific comments on the effect of potentially unlimited liability on the willingness of qualified individuals to serve as IRC members.

Individuals qualified to act as IRC members will have an understanding of the implications of liability issues generally and will be particularly sensitive to the potential impact of these issues if asked to be among the first to assume a role that is completely new to the industry and for which neither industry practice nor regulatory or court decisions exist as precedents for standards of conduct. In our view, undefined liability, and the resultant uncertainty with respect to the cost and actual availability of D&O insurance, will be a strong deterrent to individuals that would be qualified to sit on an IRC.

In the Commentary to section 2.8, the CSA states its view that insurance coverage for IRC members would not cover any liability resulting from IRC members not fulfilling their responsibilities and standard of care. By excluding a breach of standard of care, an insurance policy would effectively not cover negligence. Most current D&O insurance policies exclude coverage for a breach of fiduciary duty but include coverage for negligence. Coverage for negligence is precisely the reason that most organizations obtain D&O insurance.

It is unclear to us if the CSA's expectation is that mutual funds would not be able to purchase such insurance coverage in the market or if it is the CSA's view that mutual funds should be prohibited from purchasing insurance that would cover breaches of IRC members' standard of care, (*i.e.* the CSA may wish to preserve increased liability for IRC members). We submit that a mutual fund should be able to purchase coverage for negligence. Cost considerations with respect to D&O insurance can be addressed by limiting the liability of IRC members to $1 million or another reasonable amount, once the CSA has the regulatory authority to do so.

In any event, we ask that the CSA's position on insurance coverage for IRC members be clarified.

Conflicts of Interest

Section 3.1 of the proposed Instrument identifies conflicts of interest as matters to be referred to the IRC.

We submit that the definition of conflict of interest as set out in section 3.1(2) is too broad. By definition, a manager will generally have interests that are "different from" the best interests of the mutual fund. The words "different from" should be deleted from section 3.1(2) so that only a situation in which a manager has an interest that "conflicts with" the best interests of the mutual fund is included.

Determining What Constitutes a Conflict of Interest

Many fund complexes exist where the fund manager is either related to or itself acts as the portfolio manager, back office service provider and trustee. In these complexes, it is possible that every service provided by the fund manager to the fund, as mandated by current regulatory requirements, would fall under the scope of the IRC's review.

As a consequence, almost any issue (whether it will result in actual conflict or not) has the potential for conflict. We do not believe that the CSA intend to require fund managers to refer all matters in which there is a potential possibility of conflict (irrespective of how remote the possibility) to the IRC on an ongoing basis. The IRC is being instituted for the purpose of exercising independent judgement and discretion in its review of mutual fund manager conflicts of interest. We believe that the determination of what conflicts will be referred to it is precisely the area in which the IRC must be given leeway to exercise its discretion. Accordingly, it should be left open to the IRC to set its own definition of conflict based upon the complex's specific structure and existing business relationships.

Business Conflicts

The inclusion of business conflicts in the proposed Instrument as matters to be referred to the IRC is inappropriate. It may be more appropriate for the CSA to require a fund manager to adopt policies on certain matters included as business conflicts in Commentary 4 to section 3.1, which would then have to be reviewed and approved by the IRC.

These matters should not include business decisions but situations where true conflicts of interest could arise. Examples would include: allocating securities amongst mutual funds in a family and other clients, seeking best execution, and entering into soft dollar arrangements.

With respect to the examples of business conflicts set out in Commentary 4 to section 3.1, we are of the view that, in certain cases, the definition of business conflict may actually lead to more confusion surrounding which matters must go to the IRC.

An example is bullet 8 under Commentary 4 to section 3.1, which states that "marketing the mutual fund for sale through distributors, whether related to the manager or not, if the manager provides incentives to the distributors to sell the mutual fund" is a potential conflict that should go to the IRC. National Instrument 81-105 *Mutual Fund Sales Practices* ("NI 81-105") prescribes the circumstances in which fund managers may make payments to a distributor or its sales representatives. We are uncertain as to whether the CSA intends that the IRC should oversee all NI 81-105 payments, but submit that, should this be the case, there should also be a concurrent repeal of the corresponding parts of NI 81-105.

If the CSA elects not to remove (or at least limit) business conflicts from the proposed Instrument in accordance with our suggestions above, we encourage the CSA to eliminate redundancy between the review responsibilities of the IRC and the requirements of existing rules that will not be subject to regulatory relaxation.

Relationship Between IRC and Boards that Currently Exist in Different Fund Complexes

Many mutual funds have some form of governance structure in place, be it a board of directors for a corporate mutual fund or a board of governors, board of trustees or advisory board for other types of funds. However such governance structures and their responsibilities vary depending on the organization which manages the fund or the structure of the fund itself.

In our view, the proposed Instrument does not sufficiently delineate the required scope of reporting by or decision-making authority of an IRC in relation to an existing governing body of a fund complex.

We ask the CSA to confirm these matters and re-emphasize the importance of ensuring that the review engaged in by the IRC is meaningful and not a duplication of an existing function. We urge the CSA to allow and confirm that having an IRC as a sub-committee of an existing governance body is an acceptable alternative. Having an IRC that is able to make decisions and report to the governance body of which it is a subset would enhance the IRC's efficiency and allow the fund complex to deal with many related party conflicts quickly and effectively.

Outsourcing of Investment Management Function

We are also of the view that it is necessary to draw a distinction in prescribing matters that are to be referred to the IRC between fund managers who perform investment management functions directly and those that outsource such functions to (unrelated) third party advisors.

A fund manager that outsources the entire investment management function is not involved in the day-to-day management of the fund's portfolio and, as a result, does not participate in the decision making process during which many potential conflicts of interest (*i.e.* with respect to best execution, proxy voting, soft dollars, *etc.*) might arise. As a consequence, conflicts of interest that occur during the day-to-day discharge of the investment management function for which the third party advisor was retained, are conflicts to be addressed by the advisor and are not business conflicts of the manager. Accordingly, there would appear to be no meaningful role for the IRC in the review of business or related party conflicts as these specific conflicts do not arise in circumstances where a fund manager has outsourced all of the investment management function.

The fund manager would remain responsible for ensuring, prior to the signing of any sub-advisory agreement and in addition to the disclosure required by existing securities laws

relating to conflicts of interest, statements of policies and standards of fairness[7], that each prospective third party advisor had business and related party conflict policies and procedures in place that would ensure the equitable treatment of all clients. To ensure ongoing compliance with these policies the fund manager could, in conjunction with a number of other measures,[8] require all third party advisors to provide periodic compliance reports and certificates of compliance.

Changes to the Mutual Fund

Section 3.2 of the proposed Instrument identifies certain changes to a mutual fund as matters to be referred to the IRC. By and large, we are supportive of the proposed relaxation of the current requirement to hold securityholder meetings in respect of certain proposed changes.

Inter-fund Trades

Section 3.3 of the proposed Instrument establishes the requirement for IRC review of inter-fund trades.

Given that specific requirements relating to inter-fund trades are already included in the proposed Instrument (paragraphs 3.3. (1) (a) – (d)), we are of the view that the involvement of the IRC in this area is redundant.

Compliance with the restrictions, processes and controls outlined in the proposed Instrument should suffice. In addition, trading by portfolio managers often involves making timely decisions to take advantage of a perceived market opportunity and it may be impractical to have the IRC involved in advance of a proposed trade being executed.

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[7] See, for example: Ontario Regulation 1015 - General Regulation made under the *Securities Act* - Part XIII Conflicts of Interest Section 223 (Statement of Policies). See also Ontario Securities Commission Rule 35-502 - Non-Resident Advisers Part 3 (International Advisers), Section 3.4.

[8] Additional measures could include:

- The performance of due diligence prior to the selection of a sub-advisor
- Due diligence includes assessing the adequacy of the sub-advisor's internal policies in the areas of personal trading, fair allocation of investment opportunities among clients, cross trading and soft dollar arrangements
- At least annually, requesting a signed acknowledgement from senior management of the sub-advisor confirming adherence to their policies and procedures
- Periodic comparison of the securities held in client accounts against the clients' stated investment objectives to ensure client portfolios are suitable
- Periodic price testing and variance analysis for a sample of client portfolios to ensure the proper valuations of portfolios

In respect of inter-fund trades, and in lieu of having an IRC approve each transaction before it occurs, the CSA could consider expanding the guidelines/requirements for best price/execution to cover inter-fund/cross trades and include a disclosure requirement in the Statement of Policies and AIF procedures concerning inter-fund/cross trades. In this way, continuous disclosure could be made available to investors at no extra cost.

Section 3.3(1)(c)(i)(1.) requires the purchase or sale of exchange-traded securities to be printed through a member of an exchange or a user of the quotation and trade reporting system in accordance with the rules of the exchange or quotation and trade reporting system. This requirement appears to be a departure from what is otherwise an almost direct adoption of the U.S. regime. The U.S. rules do not have this requirement, and we are not aware that its absence has given rise to substantive concerns. In addition, adopting a requirement to "print" trades will likely entail unnecessary costs. Mutual fund managers must aggregate their holdings for virtually every other purpose (*e.g.* take-over bids, insider reports, *etc*.) and we query why they must effectively dis-aggregate their holdings for inter-fund reporting purposes. We urge the CSA to omit this requirement as, in our view, there is no justifiable regulatory rationale for printing inter-fund trades, given the absence of any real change of ownership from a market perspective.

3. Conclusion:

The CSA's fund governance initiative will have a significant impact upon the operations of the industry. We urge the CSA to bear in mind that an efficient and streamlined regulatory framework enables investors to obtain the most value for the expenses that they must bear and that the costs of regulatory redundancy and inefficiency are, directly or indirectly, visited upon Canadian mutual fund investors and also compromise the overall competitiveness of our industry.

Our Members understand the role that the CSA have contemplated for the IRC and support the goal of enhanced investor protection through the use of independent oversight. We believe that the goals of the IRC can be met through governing bodies that are in place (to the extent that they already exist as part of the reporting structure of a fund complex) and that the IRC can be implemented in a way that allows it to make a meaningful contribution to investor protection without a duplication of function or costs.

We do not believe that the mandatory imposition of an independent review body is necessarily the best or most practical way to achieve enhanced investor protection. We encourage the CSA to ensure that the form of the IRC does not stand as an impediment to its function.

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Thank you again for the opportunity to provide you with the comments of our Members on this important initiative. Please contact John W. Murray - Vice-President, Regulation & Corporate Affairs at (416) 363-2150 x 225 / jmurray@ific.ca or Aamir Mirza - Legal Counsel at (416) 363-2150 x 295 / amirza@ific.ca should you have any questions or wish to discuss these submissions.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

"ORIGINAL SIGNED BY JOHN W. MURRAY"

By: John W. Murray
Vice-President, Regulation & Corporate Affairs