

July 26, 2004

Via E-Mail

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers du Québec
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o

John Stevenson, Secretary
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-and-

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Dear Mr. Stevenson:

Re: Proposed National Instrument 81-106 – Investment Fund Continuous Disclosure

We are responding to the request for comments on proposed National Instrument 81-106 – Investment Fund Continuous Disclosure (“NI 81-106”) on behalf of RBC Asset Management Inc. (“RBC AM”). RBC AM is the manager and primary investment advisor of the RBC Funds and the RBC Private Pools (collectively the “RBC Funds”).

The previous version of proposed NI 81-106 was published for comment on September 20, 2002. At that time, we participated in the comment letter submitted by the Investment Funds Institute of Canada (“IFIC”) and are pleased to see that the Canadian Securities Administrators (“CSA”) have made enhancements to NI 81-106 in response to industry feedback. We have also participated in the comment letter being prepared by IFIC in relation to this draft of NI 81-106 and are generally supportive of the submissions contained therein. However, we do have some concerns that are particular to RBC AM and this letter is being submitted to highlight those issues.

General

We are supportive of regulatory initiatives to provide investors with consistent, comparable and timely continuous disclosure. Proposed NI 81-106 is a positive step in addressing continuous disclosure issues for the investment funds industry in Canada. We applaud your efforts since September 2002 to take the time to fully understand the comments received in respect of the previous version of proposed NI 81-106. We urge you to continue to undertake the same diligent steps to ensure that the final version of NI 81-106 will consider all comments received, truly benefit the mutual fund investors, be cost effective and enhance the reputation of the investment funds industry in Canada.

Effective Date

NI 81-106 will apply to disclosure documents for financial years of mutual funds that end on or after December 31, 2004. While we are pleased to see that the CSA has provided transition periods for the first year that NI 81-106 will be effective, we do not feel that there is sufficient time to implement this policy by December 31, 2004. We recommend that the effective date be changed to read:

disclosure documents for financial years of mutual funds that end after
December 31, 2004.

Filing Deadlines

While we remain supportive of providing timely continuous disclosure to mutual fund investors, the timelines for the delivery of financial information are already challenging.

The time and resources required to produce, translate, print disclosure documents and obtain Board approval is a significant undertaking. With the additional requirement for

Management Reports of Fund Performance (“MRFP”), the 45-day deadline for both the interim financial statements and the MRFP will be very difficult to meet.

For fund-of-fund structures, the 45-day deadlines will be virtually impossible to meet. As a top fund manager, RBC AM must obtain financial information from bottom funds in order to meet its disclosure obligations. As the bottom funds will likely require the entire 45 days to meet their obligations to prepare, review and approve their financial statements, it will be extremely difficult for the top fund to meet the applicable deadline.

We recommend that the CSA adopt a 60-day deadline for the filing of interim financial statements and MRFP and that the proposed 90-day deadline for annual filings be maintained.

Management Reports of Fund Performance

We are generally supportive of the MRFP. A common investor complaint regarding mutual fund prospectuses is that financial and performance information contained therein is quickly rendered out-of-date because it is based on a fund’s most recent year-end. We are therefore supportive of the requirement for a disclosure document such as the MRFP as it will provide unitholders with more timely financial and performance data as well as insight into how the portfolio manager is managing the fund.

As there is minimal (if any) benefit to the creation of duplicative disclosure documents, we are pleased that the CSA has advised that they will be proposing amendments to National Instrument 81-101 to eliminate the financial highlights, top 10 holdings and performance data sections from the mutual fund prospectus form requirements. This will help ensure that the information contained in the MRFP will not duplicate that contained in a fund’s prospectus. However, as it is appropriate for the MRFP to be limited to fund performance and management’s analysis of that performance, we suggest that the MRFP should not duplicate the fund investment objectives and strategy information. This information is properly contained in a fund’s prospectus. This information is provided to all unitholders upon their initial purchase of units and is also available on-line or upon request.

We feel that the requirement for a separate report for each fund should be changed such that mutual fund companies have the option of combining information for similar funds to reduce costs and eliminate duplication.

We suggest that the requirement in proposed section 18.5 to deliver the first annual MRFP to every unitholder is unduly expensive and may not be viewed favourably by unitholders who have requested (i.e. approximately 95% of our unitholders) not to receive annual reports. As an alternative, we suggest that a communication be sent to each unitholder, in conjunction with any other required mailing (to save costs), briefly describing the contents and availability of the MRFP and the quarterly portfolio disclosure and the right to request delivery of the MRFP with the financial statements.

Financial Disclosure – Binding of Disclosure Documents

Proposed NI 81-106 prohibits a mutual fund from binding its financial statements with the financial statements of another mutual fund in a single document unless all

information relating to a mutual fund is presented together and not intermingled with information relating to another mutual fund. We believe that the costs of complying with the requirement will be extensive as it will require either a much larger document (as the proposed layout is not efficient) or separate smaller documents. The proposal also prohibits a mutual fund from binding its MRFP with a similar document for another mutual fund. These binding restrictions do not provide any benefits to unitholders. This restriction impacts the operational efficiency of the fund companies in their ability to provide cost effective communication to their unitholders.

We submit that this level of procedural detail is inappropriate. NI 81-106 should prescribe the required content and minimum delivery standards. Each fund manager must have the flexibility to determine how to meet those requirements so that they can do so in an efficient and cost-effective manner.

Delivery of Financial Statements and Management Reports of Fund Performance

The Instrument now proposes that an investment fund will send financial statements to investors in accordance with instructions received or deemed to have been received from investors. These instructions may come from standing instructions obtained the first time an investment fund accepts a purchase order from an investor after NI 81-106 comes into force or from a solicitation of current investors for standing instructions.

To reduce costs and complexity, we suggest that investors should be permitted to elect on the basis of all funds managed by the same fund manager, rather than providing the option to receive different documents for different funds held in the same fund complex. The election should be sent to investors concurrently with another scheduled mailing in order to reduce costs to the funds.

The requirement for an individualized reminder notice will create significant cost and complexity. Notifying clients each year that they can change their election is reasonable. However, requiring funds to indicate the investors current election in a reminder notice would be onerous and very expensive and in our opinion add no value to the process.

Proxy Voting

As the investment advisor of RBC Funds, RBC AM has an obligation to act in the best interests of the unitholders of these funds which includes exercising the voting rights attached to securities held. Proposed NI 81-106 would not change RBC AM's current proxy voting policies and procedures, with the exception of publishing the proxy voting record.

RBC AM supports the requirements to have and to publish proxy voting policies, procedures and historical proxy voting records. We are also in favour of the requirement to deliver these policies and procedures to unitholders upon request

The section of proposed NI 81-106 with which RBC AM has significant concerns, is the requirement to publish proxy voting records on a fund-by-fund basis. RBC AM currently maintains its proxy voting records on an issuer-by-issuer basis because like most advisors, it generally exercises all of its funds' proxies for one issuer in the same manner. The requirement under proposed section 10.3, to create and maintain a proxy voting

record on a fund-by-fund basis, would be very expensive to produce. A proxy voting record for the advisor is easier to produce, maintain and will provide unitholders with substantially the same information at a much lower cost.

We would support separate disclosure on a fund-by-fund basis in those rare circumstances in which the best interests of one fund's unitholders would require an advisor to vote the fund's proxies differently.

Notes to Financial Statements

Our review of the proposed NI 81-106 indicates that there are certain disclosure requirements that are not feasible. For example, we have confirmed with our investment team that any spread (i.e. the cost of investing in fixed income) including related party spread is not available and cannot be calculated due to the principal nature of fixed income products. In addition, while we support the initiative to provide more disclosure around soft dollars, allocating soft dollars at a fund-by-fund level is arbitrary and cannot be audited. Therefore, we recommend that soft dollars be disclosed as a percentage of total broker transactions for the fund manager.

The submission by IFIC has captured most of our concerns in this area.

Part 15 – Calculation of Management Expense Ratio

Under proposed section 15.1(3)(b), the MER must be “grossed-up” with respect to fees paid by unitholders outside a fund. As these fees are typically customized to a particular unitholder and are paid at the account level (i.e., for the entire investment portfolio), the allocation of the fees to the various funds would be arbitrary. In fact, the MER for the fund may be distorted by the inclusion of these fees. It is important to understand the difference between manager fees and dealer fees. This is clearly not consistent with the goal of clear and comparable disclosure. We recommend that fees charged outside of a fund to be excluded from any MER calculation.

We strongly urge the CSA to consider the comments made in this letter and by other industry participants in finalizing the proposed NI 81-106. We would like to thank the CSA for the opportunity to provide these comments on the proposed NI 81-106. Please feel free to contact Reena Lalji at 416-955-7826 or Frank Lippa at 416-974-0609 if you have questions or would like to discuss further any of the matters raised in this letter.

Yours truly,

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