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CANADIAN SECURITIES ADMINISTRATORS

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- and -

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Re: Changes to proposed National Instrument 81-106 (Investment Fund Continuous Disclosure), Appendix 81-106A1 and the companion policy to National Instrument 81-106 (Investment Fund Continuous Disclosure) (second publication)

Dear Sir/Madam,

Following the consultation notice published by the Canadian Securities Administrators (CSA) on May 28, 2004, we are pleased to give you our comments respecting the amended version of proposed National Instrument 81-106 (hereafter the "Instrument").

Firstly, we wish to thank the CSA for the flexibility they have added to the first draft of the Instrument, particularly respecting the change in frequency from quarterly to semi-annually for filing the management report of fund performance. We also thank them for having taken a survey of investors, as we had asked them to do, on the type of financial information they wish to obtain and on the additional costs which they may have to assume in that respect. We naturally examined with great interest the report by the firm COMPAS, which conducted the survey.

However, there are several comments and recommendations which market participants made on the first draft of the Instrument which the CSA decided not to use, including that management reports on mutual funds in the same family should be allowed to be combined and that financial statements on funds in the same family should continue to be presented in parallel columns.

Accordingly, we would like to repeat here certain comments and recommendations which we consider very important and make new ones, including with respect to information on voting of units held by proxy.

Please note that each of the numbered headings which follow have the number and title of the section of the Instrument to which it refers.

1. FINANCIAL STATEMENTS

Statement of cashflows vs. statement of change in net assets:

The Instrument states that a statement of cashflows must be filed if required by Canadian generally accepted accounting principles (GAAP); otherwise, a statement of changes in net assets for the year and a comparative statement for the immediately preceding financial year is filed (cf. Paragraph 2.1(1)(c)(d) of the Instrument). We believe that, in the case of investment funds, the statement of change in net assets is more relevant than the statement of cashflows.

Also, it is important to note that one of the criteria to be met so that a statement of cashflows is not required under the GAAP is that almost all the fund investments be highly liquid during the financial year. The application of this criteria would result in money market funds filing a statement in change of net assets whereas all the other funds in the same family would present a statement of cashflows. We submit that this situation will be more a source of confusion for the reader without any benefit for him with respect to the quality or relevance of the information filed.

Filing deadlines:

As we pointed out in our first letter of comments (December 19, 2002), we have no doubt that the requirement of filing annual financial statements within 90 days of the end of the financial year of the investment fund, instead of the current 140 days, and interim financial statements not later than 45 days following the end of the first half of the financial year rather than the current 60 days, would lead to a significant increase in costs associated with the production of such documents.

In our opinion, such an increase in costs would not be compensated by any benefit which an investor may have from receiving such financial statements 40 days earlier, in the case of annual financial statements (taking into account the 10 days granted for sending such statements (cf. Paragraph 5.4(1) of the Instrument)), and 5 days earlier in the case of interim financial statements (also taking into account the 10 days given to send them).

It is important to take into account the sending time in calculating the time used as, even though the financial statements must be posted on the website of the issuer on the day of their filing (cf. Paragraph 5.5 of the Instrument), the survey conducted by COMPAS shows that there are very few hits on the sites of investment funds and that most investors are not even aware of the existence of the SEDAR site (see in particular the conclusions on page 31 of the COMPAS report).

Under the circumstances, we submit that a reduction from 140 to 120 days for filing annual financial statements and management's annual report of fund performance could, strictly speaking, be acceptable. However, for interim financial statements and management's interim report of fund performance, the additional 5 days is so immaterial that the filing delay should be maintained at 60 days.

Approval of financial statements:

There are many cases where an open-ended investment company entrusts its administration to a distinct entity which is the manager of the fund in the same manner as the trustee of a mutual fund more often than not entrusts the administration of the fund to a manager.

The provisions of section 2.5 of the Instrument are to the effect that the financial statements of a mutual fund would continue to be approved either by the board of directors of the trustee or by the board of the manager, whereas the financial statements of an open-ended investment company would only be approved by its board of directors. Why is there a separate system? Why should an open-ended investment company not continue to have the same flexibility as a mutual fund has?

We are of the opinion that nothing justifies the difference in treatment and we would ask you to change paragraph 2.5(1) of the Instrument to allow open-ended investment companies to have their financial statements approved either by their board of directors or by their manager, as they can presently.

4. MANAGEMENT REPORTS OF FUND PERFORMANCE

Portfolio summary:

In its present form, the Instrument requires that the summary present the 25 main seller positions and the 25 main buyer positions (cf. Part 5 of Part B and Part C of Appendix 81-106A1). We submit that this is too large a number of securities for a mere summary. Moreover, in many cases, the number of securities in a fund's portfolio is scarcely more than that, and more often than not it is less. We submit that a summary including the top 15 positions would be more in line with the goal of presenting a summary.

Approval of management report of fund performance:

We repeat here, with the appropriate changes, the same comments and recommendation as those we made above under the heading "**Approval of financial statements**".

5. SENDING OF FINANCIAL STATEMENTS AND MANAGEMENT REPORTS OF FUND PERFORMANCE

Correction of a typo in the French version of the text: the first line of paragraph 5.3(2) should read "ceux-ci" and not "deux-ci".

7. FINANCIAL INFORMATION – GENERAL PROVISIONS

Financial statements:

The provisions of paragraph 7.4(1) of the Instrument are to the effect that a fund may combine its financial statements with those of another fund in the same document if it presents all the information respecting it together and separate from that of the other fund.

As mentioned, the presentation of several financial statements in parallel columns on the same page is the most efficient and economical method of providing in the same document full information on each of the funds in the same family, without impairing understanding by the reader—on the contrary.

We believe that the method of presenting financial statements in parallel columns not only facilitates reading of the financial information on the funds, but also encourages a comparison of one fund with another in the same family, both for a unit holder who may wish to exchange his units and for a new subscriber making his first choice.

At a time when the CSA are trying to reduce the bulk of documents sent to investors, paragraph 7.4(1) of the Instrument would have the opposite effect, not to mention the significant increase in cost related to the production of such financial statements.

Management report of fund performance:

The prohibition against combining the management report of an investment fund's performance with that of another investment fund will force useless repetition of information which is common to several funds in the same family, multiply the number of documents to file and thereby cause much higher costs than needed for the production and management of such reports, without a tangible benefit to investors.

It is difficult to imagine that an investor who receives (after asking for it himself) the management report of the performance of a fund in which he holds units would not show enough interest to find it in a document in which such report would be grouped with that of each of the other funds in the same family, especially since such a document would include a table of contents such as that found in a prospectus prepared in accordance with Form 81-101F1, of which Part B specific to each fund is combined. Why would such an investor not be capable of taking the same step as he does when he consults the prospectus or financial statements of a family of funds to find information about a fund in which he has invested or is planning to invest?

We are of the opinion that the CSA, as they have done for mutual fund prospectuses in adopting National Instrument 81-101, should leave to management corporations the decision of whether it is preferable to have separate management reports or to combine them in a single document which may include a section in which information common to all funds in the same family could be grouped together, thereby avoiding repetition in each specific report.

10. INFORMATION ON VOTING BY PROXY OF SECURITIES HELD

Based on the results of the survey conducted by COMPAS, we believe that this part should be changed to apply only to special meetings of unit holders having voting rights at such meetings, and not to statutory annual meetings, and in particular shareholder general meetings.

General meetings of shareholders are very numerous, as each company is required to hold one every year, and the common shares of companies represent the largest number of securities in portfolios for which an investment fund receives proxy solicitations.

The topics dealt with at such general meetings are very standard (election of directors, adoption of financial statements, appointment of auditors and approval of by-laws adopted by the board of directors during the year). On the other hand, special meetings of shareholders or

holders of other voting securities are much less frequent and normally involve matters having a marked impact on the future of the issuer and the holders of such securities.

In its present form, the Instrument will require companies to report on the votes cast, both at a general meeting and at a special meeting, regardless of the importance of the matters put to a vote. The COMPAS survey reveals that:

- only 21% of respondents asked that investment funds report on all matters put to a vote;
- 48% asked that the report only cover important subjects (moving of head office, acquisition of businesses, mergers, etc); and
- 24% indicated that investment funds should be exempt from indicating how they vote.

This means that 72% of respondents to this survey do not wish to be informed about all matters put to a vote. We therefore submit that Part 10 of the Instrument should only contemplate special meetings of unit holders, as it is usually at such meetings that unit holders are rightly asked to decide on important issues. It goes without saying that this would considerably reduce the work required to maintain the proxy voting file and, as a result, the associated costs.

Instead of fully exempting general meetings from the application of Part 10 of the Instrument, we submit that at least the following amendments should be made to Paragraph 10.3 of the Instrument:

1. Amend paragraph 10.3(d) to read as follows:

“the date and kind of meeting (general or special);”

2. Amend paragraphs 10.3(e)(f)(g) and (h) so that they apply only to special meetings;
3. Amend paragraph 10.3(i) so that it applies to general meetings only when the investment fund exercises its voting rights against a recommendation of management of the issuer and, in such case, that the fund give reasons for its vote.

We also note that the Instrument imposes on the investment fund, and thus on the management company, the requirement to establish policies and procedures for voting by proxy and maintaining a proxy voting file. In practice, more often than not the investment advisors exercise, when and as they consider it appropriate, the voting rights attached to portfolio securities.

We believe that the exercise of voting rights by proxy for securities held is completely in line with the mandate of investment advisors. They are the ones who are or should be best informed to exercise such voting rights in the best interest of the investment fund. We therefore submit that the advisors and associate investment advisors should bear the requirements of Part 10 of the Instrument.

In conclusion, please note that Desjardins Trust, as trustee of the Desjardins Funds, is a member of the Investment Funds Institute of Canada (IFIC). We are aware of IFIC’s letter of comments and recommendations filed with the CSA following publication of the amended version of proposed Instrument 81-106, and we agree with the content of that letter.

Also, we submit that it would be appropriate for the CSA to conduct a new survey of investors in approximately two years to determine whether, by adopting Instrument 81-106, the right step was actually taken, and measure the amount of progress made. Page 7 of the report on the survey done by COMPAS states the following, which we believe is very important:

“Following a pattern that resembles a truism, fund holders who tend to read their reports tend to be satisfied with them, as shown in table 3. Meanwhile those who tend not to read them express dissatisfaction. In practice, those who read carefully all (mean 3.5; 50% top two box) or some (mean 3.6; 57% top two box) of their reports display significantly higher satisfaction levels than those who do not bother with most of their reports (mean 2.9; 27% top two box). Those who skim through most (mean 3.3; 40% top two box) or some (mean 3.3; 38% top two box) of their mutual fund reports fall in between careful readers and non-readers in terms of satisfaction.”

This means not only that there is still room to improve on the part of investment funds, but also that investors need to do some minimum reading, as shown by the fact that those who make that effort seem to appreciate the information sent to them more.

The solution to the problem of better informing investors does not lie only with investment funds. As the industry increases disclosure documents and perfects them (whether on their own initiative or to comply with ever-changing regulations), the solution inevitably lies more and more in the effort investors are prepared to make to read them.

We thank you for giving us once again the opportunity to give you our point of view on proposed Instrument 81-106. We are available to discuss the above at your convenience should it be necessary.

Yours very truly,

(signed)“Louis Chartrain”
Louis Chartrain, Attorney
Assistant Secretary