IGM Financial

August 24, 2005

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

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19th Floor, Box 55
Toronto, Ontario. M5H 3S8
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-and-
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Dear Sirs/Mesdames:

Re: Request for Comments – Proposed National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107")

Thank you for the opportunity to comment on NI 81-107. We provide these comments on behalf of IGM Financial Inc. which is comprised of three mutual fund managers: IG Investment Management (a wholly-owned subsidiary of Investors Group Inc.), Mackenzie Financial Corporation and

Counsel Group of Funds Inc. (a wholly-owned subsidiary of Investment Planning Counsel). Each of these companies is the mutual fund manager and/or trustee of mutual funds which together comprise approximately $85 billion in assets.

This letter covers all Parts of NI 81-107. However, we would like to highlight certain of our comments and/or concerns.

1. Guidance on Meaning and Scope of Conflicts of Interest

We would appreciate more guidance around the meaning of "conflicts of interest" as set out in section 1.3 of NI 81-107. The test proposed by the Investment Funds Institute of Canada in its comment letter for when to refer conflicts of interest to the Independent Review Committee ("IRC") is most helpful and is included in our letter. In addition, we would urge the Canadian Securities Administrators ("CSA") to adopt a materiality test for conflicts of interest to be taken to the IRC for consideration. We have suggested a mechanism for reporting on non-material conflicts of interest to the IRC.

2. Manager Representation on IRC

Secondly, we continue to be very concerned about the notion that representatives of the manager may not be members of the IRC and may not participate in decisions of the IRC pursuant to section 3.5 of NI 81-107. We do not believe that having a minority of IRC members represent the manager infringes upon the ability of the IRC to act independently. Nor do we find any other governance models internationally that require 100% independence. Our view is that the manager representatives will add substantial value and knowledge to the process. We ask that the CSA again consider this rather onerous proposal in light of the manager's key role and its ongoing fiduciary duties.

3. Self-Perpetuation of IRC

We also urge the CSA to reconsider the provision that requires the IRC to be self-perpetuating as described in section 3.6. There is a view at the CSA that self-perpetuation will ensure independence. In fact, self-perpetuation on fund boards in the US has brought about less independence since board members appoint other board members who are like-minded and tend to support similar views and have similar backgrounds. This is also often true in corporate

Canada notwithstanding board assessments and director assessments.

4. Accountability of IRC

In light of the independence model proposed by the CSA, we would ask that the manager have the ability to report to the CSA in the event that the IRC is not functioning effectively in its opinion. Managers who have the ultimate responsibility for the funds must have some recourse against an ineffective IRC or an IRC which takes a course of action which is not reasonable or fair for investors or the funds which they oversee.

Following are the more detailed comments by section in NI 81-107.

Part I – Definitions and Applications

Section 1.2 - Investment Funds Subject to Instrument

We support the broadening of NI 81-107 to encompass all investment funds including labour sponsored funds and closed end funds listed and posted for trading on stock exchanges. We believe that conflicts of interest arise in all types of investment funds. We also support the notion that there should be a level playing field among investment funds and they should be subject to the same oversight regimes.

Section 1.3 - Meaning of "Conflict of Interest Matter"

While there has been a great deal of discussion with the securities commission and within the investment fund industry on the meaning of a conflict of interest matter and a good understanding is evolving, it would be helpful to have guidance on this in the Companion Policy. Years from now as managers are scrutinized, the discussions around this topic will have faded from people's minds. For example, it is now the industry's understanding that the CSA will not consider the original setting of management fees to be a conflict of interest which is reviewable by the proposed IRCs. This should be explicitly stated in the Companion Policy.

Further, examples of conflicts of interest in the Companion Policy would also be helpful, not only to managers but also to members of IRCs and for future purposes. While the "principles-based" approach is desirable, guidance in this area will be crucial in the years ahead, even to regulatory bodies who may be required to audit managers and IRCs. Standards will

obviously continue to evolve in this area over time and it would be helpful for the CSA to continue to communicate its thinking on this issue as it does evolve.

Lastly, NI 81-107 does not currently reflect a materiality test. It requires absolutely every conflict of interest to be taken to the IRC for consideration. We would suggest that non-material conflicts be resolved by the manager with regular reporting to the IRC as to issues that were raised and how the manager addressed them.

Section 1.4 - Meaning of "Entity Related to the Manager"

This section includes a third party portfolio advisor as an agent of the manager. The implications for this are that an IRC must review conflicts of interest for third party portfolio advisors. Within the IGM Group of Companies, there are more than 30 third party portfolio advisors many of which are international. We do not think that it would be possible for the IRC to carry out this task meaningfully. In addition, the manager remains ultimately liable for oversight for these third party portfolio advisors.

Section 1.5 - Meaning of "Independent"

We are pleased that the CSA has recognized that existing members of a manager board who transition to the IRC when it is set up can be considered to be independent depending on the facts and circumstances of their particular situations. It is important to recognize that members of the industry set up independent boards in anticipation of a fund governance rule. The independent members of the Board of Mackenzie Financial Corporation have spent considerable time on fund matters learning and understanding their relevance while maintaining their independence. We expect their contribution to the IRC to be significant immediately upon the creation of the IRC.

Further, Investors Group Trust Company ("IGTC") acts as the trustee of the Investors Group mutual funds which are formed as trusts. Notwithstanding the fact that IGTC is a subsidiary of Investors Group Inc., a number of members of the board of directors of IGTC are independent as required by the Loan and Trust Companies Act. They have been members of the board for some time. These members are independent pursuant to corporate governance standards and should continue to be considered independent in the context of NI 81-107.

Part 2 - Functions of the Manager

Section 2.2 - Manager to Have Written Policies and Procedures

We would suggest that NI 81-107 distinguish between policies and procedures. In our view, the IRC should review policies and have a mechanism to ensure that the manager puts in place adequate procedures. However, the IRC should not be burdened with the review of specific procedures being followed by the manager.

It is the practice of the securities industries in both Canada and the United States to adopt policies. Those policies are taken to boards of directors. However, it is very unusual to take individual procedures for every policy to the board. In addition, the volume of procedures pursuant to individual policies would likely prove prohibitive to review.

Part 3 - Independent Review Committee

Section 3.5 - Composition

We continue to believe that a fully effective IRC should include representatives of the manager. We are unaware of any other corporate or fund governance bodies in the world that are required to be 100% independent. We point to the ongoing debate in the United States over the Securities and Exchange Commission's attempts to require an independent chairman of fund boards and the clear recognition by the SEC that fund boards can include manager representatives.

We continue to believe that manager representatives will bring context to the discussions as well as in depth experience with the day to day functioning of investment funds. We do not understand the proposition that a board with a majority of members who are independent and an independent chair can only think and function independently in the absence of members of management. We do not think this has been demonstrated in any forum of which we are aware nor has this been advocated except in this context by the CSA.

We also continue to be greatly concerned about the self-perpetuating nature of the IRC. As stated in previous comment letters, we believe strongly that this has led to entrenched boards in the United States. In addition, US boards have tended to have like-minded individuals with similar backgrounds and this has not promoted diversity either in participation or thinking.

Section 3.7 - Standard of Care

We believe that there should be a limit on the liability of IRC members to take into account the limited scope of their role. We support the ongoing proposals by many to have a cap on liability.

The mandate of the IRC is to make recommendations, it is not to oversee the day-to-day functioning of the funds or a corporation. As class action suits and other litigation grow in Canada, we do not believe that members of the IRC who are not corporate directors should be subject to the same liability as corporate directors when they do not have the same scope or the same duties.

Section 3.9 - Authority

This section grants the IRC the authority to hire independent counsel or such other advisors as it determines are necessary to carry out its duties.

As you are aware, fund boards of directors in the United States have permanent external counsel assigned to them. The external counsel often drives the agendas for fund board meetings and dominates the meetings. They are relied on heavily and extensively as a way to reduce the liability of the members of the fund boards. The results are often heavy handed external counsel, unnecessary procedures and overburdened managers who are required to produce more and more to boards with a view to limiting their liability. We do not believe that US boards function as effectively as they could as a result. In addition, we believe the costs to funds may be unwarranted.

Already, we have been approached by law firms who are not regular participants in the industry to act as external counsel to our IRCs. They clearly hold the belief that they will be permanent fixtures for the IRCs and will attend all IRC meetings.

We believe that NI 81-107 should make it clear that IRCs are not required to have permanent external counsel or have counsel at all meetings. It would be helpful to state that appropriate use of external counsel or other advisors is on specific items where the IRC determines it needs independent advice from time to time as may be warranted. Without this type of clear direction from the CSA, we believe that IRCs will tend to adopt the US model simply to protect themselves.

Section 3.9(1)(d) allows the IRC to set its own reasonable compensation and expenses in its sole discretion. The Commentary states that the manager may make recommendations around the amount and type of compensation. We believe that the section itself should incorporate this concept and also state that the IRC must take into account the manager's recommendations in the area of compensation. We are aware of the compensation of fund boards of directors in the United States for large fund complexes and believe that it is excessive in the Canadian context. There are no checks and balances in this area in the US.

Section 3.9(1)(e) states that the IRC can communicate with securities regulatory authorities with respect to any matter. We are concerned with the broad wording of this section. We recognize the need of the IRC to communicate with the regulators, but this should be done in exceptional circumstances where the IRC believes that the manager is in violation of securities regulations.

Part 4 - Functions of Independent Review Committee

Section 4.1 - Review Matters Referred by the Manager

Subsection 4.1(3) requires the IRC to make decisions in the absence of the manager or any entity related to the manager. We believe that this is impractical given the nature of normal IRC/board meetings. Manager representatives are often there to provide information and context. They should not be required to come and go for each agenda item. For example, under the current wording, even when the IRC decides to adopt or approve minutes, members of the manager would be required to leave the meeting.

In addition, we do not understand the notion that manager members absenting themselves will lead to greater independence on the part of the IRC. We are unaware of any other corporate or fund governance regime that require this.

It should be left to the IRC's discretion as to whether to require management representatives to leave the meeting for any particular decision.

In addition, the IRC is not likely to take its own minutes and a representative of the manager is likely to be required to be present to take minutes and record decisions and discussions. An adequate record of discussions and decisions is required in NI 81-107.

We have reviewed the comment letter to be provided by the Investment Funds Institute of Canada relating to when the manager should refer conflict of interest matters to the IRC. We believe that the test proposed for when to refer conflicts of interest is an excellent suggestion. The IFIC letter suggests that the following test be adopted:

"If a reasonable person would consider that a manager or an entity related to the manager has a material interest in a matter related to its management of a mutual fund that is different from, or conflicts with, the best interests of the mutual fund, the manager must:

(i) determine what action in respect of the matter it proposes to take, having regard to its duties in section [standard of care]; (ii) refer the matter, along with its proposed course of action determined above, to the mutual fund's independent review committee for its recommendations; and (iii) consider the recommendations of the independent review committee before taking any action in such matter, having regards to its duties in section X [standard of care]."

We agree with IFIC that this test is simpler and also contains three essential elements missing from NI 81-107:

(a) the concept of materiality; that is, only material interests or conflicts should be referred;

(b) the practical necessity that the fund manager should first decide what it considers to be the best course of action to take in respect of the potential conflict matter; and

(c) the manager's proposed and actual course of action must be determined in accordance with its standard of care.

Section 4.2 - Regular Assessments

The IRC will be required to review annually its own effectiveness as a committee as well as the effectiveness and contribution of each of its members.

We have found in the past that in order to be effective, individual directors tend not to give meaningful or critical feedback of other directors unless they are assured that their comments will be confidential. We would suggest that only summaries of the assessments be available to the

manager and to the CSA and that the chairperson have the obligation to summarize the assessments taking into account all comments.

Section 4.4 - Reporting to Securityholders

The IRC will report to securityholders annually on its activities, among other things. As part of the reporting the IRC will report on any instance where the manager did not follow its recommendations. The IRC report will include the manager's reasons for not following the recommendation. In this area, we believe that the manager should be able to draft its own response as to why it did not follow the IRC recommendations in order to provide a fair and balanced perspective.

Other Comments

Ability of the Manager to Report to the CSA In Respect of the IRC

The CSA has built into NI 81-107 the notion that the IRC can communicate with the regulators. Similarly, there should be provision for the manager to communicate with the regulators in respect of the IRC. This could occur in situations where the manager believes that the IRC may not be functioning effectively. NI 81-107 should make it clear that the IRC is subject to CSA oversight and that the manager has the ability to communicate with the CSA relating to the IRC.

In our view, there needs to be a mechanism for the manager to have recourse in the event that the IRC is not functioning effectively or is making decisions and/or recommendations that are not fair and reasonable and/or are contrary to the best interests of either the funds or the investors in the funds. In a corporate model, shareholders can refuse to re-elect boards of directors and management can raise concerns with shareholders or go to court in some jurisdictions to object to board actions. There must be accountability for IRCs and recourse where they are failing to act appropriately.

Harmonization of NI 81-107 Across All Jurisdictions

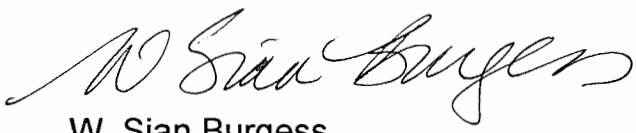
From an industry perspective, it is crucial that NI 81-107 be adopted uniformly across all CSA jurisdictions. To the extent that there are jurisdictions that have differing philosophies with respect to fund governance, we would urge them to go with the views of the majority of the regulators on this issue.

Conclusion

We thank you again for the opportunity to provide comments on NI 81-107. Please feel free to contact me if you wish to discuss any of these comments.

Yours very truly,

IGM Financial Inc.



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