



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

151 YONGE ST., 5TH FLOOR, TORONTO, ONTARIO, M5C 2W7 TEL 416 363-2158 FAX 416 861-9937

By Mail & E-mail: jstevenson@osc.gov.on.ca

November 10, 2005

Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario M5H 3S8

**Attention: John Stevenson
Secretary**

Dear Sirs/Mesdames:

Re: OSC Rule 13-502 Fees

We are writing on behalf of The Investment Funds Institute of Canada (“IFIC”) and its Members to provide our comments on the proposed revocation and replacement of Ontario Securities Commission (“OSC”) Rule 13-502 *Fees* released by the OSC on August 12, 2005.

IFIC is the national association of the Canadian investment funds industry. IFIC’s membership includes fund managers representing nearly 100% of the \$554.2 billion in mutual fund assets under management in Canada¹, retail distributors of investment funds and affiliates from the legal, accounting and other professions.

Comments

The OSC’s mandate is to “provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity”². The OSC does not operate as a for-profit entity and was not established as a commercial enterprise. The fees charged to market participants by the OSC as the regulatory authority for the province of Ontario should be for the exclusive purpose of funding costs incurred to administer the provincial regulatory framework. However, this clearly has, and continues to be, at odds with the current reality of the vast operating surpluses that have been generated by the regulatory fees charged to our industry.

¹ As at September 30, 2005 – source IFIC Member Statistics.

² OSC 2005 Annual Report, at page 2.

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As the chart below demonstrates, the OSC has been generating enormous operating surpluses for the past eight years.³

Year	Revenue	Revenue from fees	Operating Expenses	Excess of Revenue over Expenses
1998 *	\$26,619,932.00	\$26,570,825	\$10,431,831.00	\$16,188,101.00
1999	\$75,503,507.00	\$74,926,520	\$30,455,420.00	\$45,048,087.00
2000	\$82,380,144.00	\$80,265,000	\$41,299,791.00	\$41,080,353.00
2001	\$83,396,159.00	\$81,182,947	\$46,343,425.00	\$37,052,734.00
2002	\$79,894,302.00	\$78,228,604	\$49,749,039.00	\$30,145,263.00
2003	\$70,472,908.00	\$68,995,363	\$55,874,273.00	\$14,598,635.00
2004	\$76,612,642.00	\$74,854,942	\$54,971,174.00	\$21,641,468.00
2005	\$65,755,304.00	\$63,509,464	\$61,629,237.00	\$4,126,067.00
Totals:	\$560,634,898.00	\$548,533,665	\$350,754,190.00	\$209,880,708.00

* 1998 data is based on a partial year

We acknowledge that the OSC has recently distributed a \$15 million refund to market participants, which represents a portion of the regulatory costs that they have paid during the last two years. In its News Release announcing the refund, the OSC stated that “the rebate reflects stronger than expected revenues under the OSC’s new fee structure”⁴. We believe that since its surpluses have been so vast for the past eight years, the OSC should issue additional refunds to market participants.

It is also our contention that the mutual fund industry pays a disproportionate amount of fees to the OSC resources it consumes. We note that many of our Members have not received refunds of any kind, and that one of our Members has received a refund cheque in the minor sum of \$12.00. In the face of the vast surpluses and disproportionate charges, it is unfair that the fees charged to the mutual funds industry are being increased by a meaningful amount.

The OSC has maintained that since becoming a self-funding crown corporation in the fall of 1997, it has been committed to reducing regulatory costs so that fees collected will more closely match expenditures incurred by the OSC.⁵ However, if the proposed revocation and replacement of current OSC Rule 13-502 comes into effect, many of our Members will be obliged to pay materially higher fees to the OSC than are currently required, which will potentially create even higher surpluses than in prior years.

We do not believe that the OSC’s fee structure ensures the consistency that was intended between the fees charged and the cost of providing services. If OSC fees were aligned with the costs incurred to provide the services that are provided to Ontario’s capital markets, the OSC would not have accumulated the \$209,880,708.00 surplus that has been generated over the past eight years. Note that as stated in its 2005 Annual Report, the OSC’s surplus is \$64,805,359.00.

³ All of the data for the chart was taken from OSC Annual Reports 1998-2005.

⁴ OSC News Release “Ontario Securities Commission announces \$15 million refund of fees to market participants” dated March 9, 2005.

⁵ Letter dated August 27, 2003 from Charlie Macfarlane, Executive Director, OSC, to Thomas A. Hockin, President and Chief Executive Officer, IFIC, re: Regulatory Costs in the Investment Funds Industry.

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While we acknowledge that some of the surplus has materialized as a result of the revenue generated from investment income and miscellaneous income, and while it is reasonable for an organization to maintain a surplus reserve, for the OSC to consistently operate under such vast surpluses confirms that fees should be decreased. We, therefore, believe that OSC fees should be further reduced in all areas and that greater refunds should be dispersed to market participants, and ultimately to investors.

We thank you for this opportunity to comment on the proposed revocation and replacement of OSC Rule 13-502, and look forward to discussing these matters with you further. Please contact the undersigned directly by email at thockin@ific.ca or by telephone at (416) 363-2150 Ext. 241; John W. Murray, Vice President, Regulation & Corporate Affairs, by email at jmurray@ific.ca or by telephone at (416) 363-2150 Ext. 225; or Stacey Shein, Legal Counsel, by email at sshein@ific.ca or by telephone at (416) 363-2150 Ext. 238 should you require further information or wish to discuss our comments.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

“Original Signed by Thomas A. Hockin”

By: Hon. Thomas A. Hockin
President & Chief Executive Officer