IGM Financial

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BY E-MAIL

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

In care of:

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th floor, Box 55
Toronto, Ontario, M5H 3S8

Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage
Montréal, Québec, H4Z 1G3

Dear Sirs/Mesdames:

Re: Proposed Amendments to National Instrument 81-106 Investment Fund Continuous Disclosure, Form 81-106F1 and Companion Policy 81-106CP Investment Fund Continuous Disclosure and Related Amendments

IGM Financial Inc.

IGM Financial Inc. (“IGM”) is one of Canada's major financial services companies, and the country's largest manager and distributor of mutual funds and other managed asset products, with over $125 billion in total assets under management. Its activities are carried out principally through Investors Group Inc., Mackenzie Financial Corporation (including MRS Inc.) and Investment Planning Counsel Inc. and their subsidiaries. IGM is a member of the Power Financial Corporation group of companies.

Through its various subsidiaries, IGM is registered in several capacities with all members of the CSA, the Mutual Fund Dealers Association (“MFDA”) and the Investment Dealers Association (“IDA”), including the categories of investment counsellor/portfolio manager, mutual fund dealer, investment dealer and limited market dealer.

We have reviewed the Notice and Request for Comments - Proposed Amendments to National Instrument 81-106 Investment Fund Continuous Disclosure (the “Rule”), Form 81-106F1 Contents of Annual and Quarterly Management Reports of Fund Performance (the “Form”) and Companion Policy 81-106CP Investment Fund Continuous Disclosure (the “Policy”) (collectively referred to as “NI 81-106”) and related amendments to National Instrument 81-102 Mutual Funds and Companion Policy 81-102CP, Form 81-101F2 Contents of Annual Information Form and proposed National Instrument 41-101 General Prospectus Requirements. We are pleased to provide comments on behalf of IGM Financial Inc. and its subsidiaries in response to the request for comments by the Canadian Securities Administrators (“CSA”) with respect to NI 81-106.

Overall, we are supportive of the changes proposed by the CSA primarily in response to the implications of the implementation of Section 3855 Financial Instruments – Recognition and Measurement of the Canadian Institute of Chartered Accountants (“CICA”) Handbook (“Section 3855”). We believe that the changes proposed by the CSA are a step forward in addressing the concerns raised by IGM Financial Inc. and the investment funds industry as a whole and achieve a fair and reasonable result for investors. We have provided our comments below on areas that require further changes and/or clarification.

Section 3.6 (1) 5 – Reconciliation of Net Assets and Net Asset Value

Section 3.6 (1) 5 requires the notes to the financial statements contain a reconciliation of net assets and net assets per security to net asset value and net asset value per security. We agree that a reconciliation between net assets calculated in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and net assets calculated in accordance with pricing policies for determining transaction value (i.e., Part 14) may be relevant to the MRFP. However, net asset value and net asset value per security are not GAAP-defined values. Disclosing net asset value per security in the financial statements is a regulatory requirement that pre-dates NI 81-106 and the introduction of the management report on fund performance ("MRFP"). Further, since per security disclosure no longer agrees to the information elsewhere in the financial statements (i.e., due to the fact that the financial statements require different valuation techniques), this will add more confusion for the reader of the financial statements.

We recommend that the GAAP financial statements not include disclosures of net asset value or net asset value per security (and thus do not include the reconciliation between accounting and transaction values per security). Instead, we recommend that the tables in the MRFP be augmented with the intended reconciliation between accounting and transactional values per security. This would more closely align the investment fund reporting with public companies, which disclose share prices in their management discussion and analysis and not in the financial statements.

However, should the CSA deem the disclosure of net asset value, net asset value per security, and a reconciliation to net assets in the financial statements mandatory, our concern with the proposed requirements is two-fold: (1) the CSA has not made any provision for the exercise of judgment (i.e., through the application of materiality) in requiring this reconciliation and (2) the requirement to perform the reconciliation based both on a per series and per security basis will add a significant volume of information to the financial statements with little or no benefit to users. As such we believe that the reconciliation should be performed, where material, at the "composite" fund level and in no cases on a per series or per security level. This is also consistent with the view that all series of a fund participate pro-rata in the same pool of assets.

Part 14 – Calculation of Net Asset Value

We are in agreement with the removal of references to GAAP in calculating the net asset value. However, we have the following comments with respect to the use of fair value techniques for assets and liabilities.

Section 14.2 (1.1) now specifically indicates that income and expenses "must" be included in the calculation of net asset value. Accounting always involves the use of estimates and materiality in determining any values and therefore, all income and expenses cannot always be included in the calculation of net asset values. We recommend that the Policy clarify that the determination of income and expenses as well as other amounts included in the calculation of net asset value are subject to estimation and materiality guidelines.

Section 14.2 (1.4) requires the manager to maintain a record of every determination of fair value and reasons supporting that determination. We are uncertain as to the relevance of this requirement and the additional information it provides for users of the financial statements or MRFPs. We submit that the manager has a fiduciary duty to exercise a standard of care in the execution of its responsibilities to the fund and investors, which supercedes this recordkeeping requirement. As such, the Rule should not be prescriptive on specific requirements but rather require the manager to establish reasonable protocols for record maintenance, which are included in a written policy. We recommend that the section be reworded as follows: "The manager of an investment fund must *have written policies or procedures for appropriate documentation* of every determination of fair value and the reasons supporting that determination."

Sections 1.1 and 3.1 – Use of Net Assets and Net Asset Value

The use of the above terms will be confusing to readers of the financial statements and MRFPs and more distinction between the terms is required and would be useful. We agree that "net asset value" should continue to represent the calculation of net assets for pricing and/or transaction purposes. However, we recommend the use of the term "GAAP net asset value" for the calculation of net assets in accordance with GAAP.

Section 3.2 – Revenue from Repurchase and Reverse Repurchase Transactions

With the increasing use and varied nature of alternative revenue generating strategies from investments (e.g., repurchase transactions, reverse repurchase transactions, securities lending, etc.), having to disclose revenue from individual types of activities could become cumbersome and distract from the usefulness of the financial statements. We recommend that total income be disclosed, with note disclosure or separate line item presentation for material categories of income. Transitional provisions should allow comparative figures for new disclosures for the periods prior to effective date of the amendment to not be disclosed on the statement of operations.

Section 3.2 – Commission and Other Portfolio Transaction Costs

We agree with the inclusion of this specific line item disclosure in the statement of operations, which is consistent with the requirement under GAAP. Transitional provisions should allow that disclosure of comparative figures for commissions and other portfolio transaction costs for the periods prior to the adoption of Section 3855 is not required in the statement of operations. Further, we would like confirmation that the order of line item presentation, as listed under section 3.2 is not mandated.

Section 3.5 (8.1) – Look-through Requirement for Fund-of-Funds

We agree that information on the underlying portfolio of securities could be useful additional information. However, disclosure of the security holdings of the underlying fund (as disclosed in that fund's statement of investments) might not be representative of or reconcile to the top fund's interest in that underlying fund due to the underlying fund's cash position and other net assets/liabilities. Further, the exposure of the top fund to the underlying fund's securities is already disclosed in the MRFP.

We believe that the statement of investments should be crafted in the context of being a supporting schedule to the “Investment” line item on the statement of net assets, including disclosure about the terms and conditions for any derivative contracts. Therefore, we recommend that the statement of investments disclose some additional information about the underlying security positions and/or derivative contracts such as a Top 25 holdings or composition by asset class or sector of the underlying fund, with a cross-reference to where additional information may be found (e.g., MRFP, underlying fund financial statements, etc.). We also seek confirmation that this requirement only applies to situations where a fund has exposure to only one underlying fund as opposed to a variety of underlying funds.

Part 15 – Calculation of Management Expense Ratio

We agree with the proposed clarifying language for the calculation of the management expense ratio (“MER”) to exclude brokerage commissions and other portfolio transaction costs and the greater clarity it provides that these costs are already included in the calculation of the trading expense ratio (“TER”). We recommend that issue costs, which are treated as reduction to equity rather than expenses under GAAP to also be excluded from the MER calculation. Further, to align the MER calculation in Canada with those of other countries, we recommend that interest costs also be excluded from this calculation.

The Form – Item 3 – Financial Highlights

The first table outlining the financial highlights should provide a *reconciliation* between the opening and closing net asset *value* per security in order to provide security-holders with a picture of how the value of a security of the fund changed over the period. All other information within the MRFP (e.g., past performance, compound returns, etc.) is derived from the net asset value and not the accounting net assets. The per security information should be based on the pricing/transactional net asset value and provide a meaningful representation of the impact of revenues, expenses, realized and unrealized gains and losses and distributions/dividends on the security value, the basis for which would be the fund’s financial records. However, this table should not make reference to the net assets for accounting purposes.

The Form – Item 3.1(12) TER for Fund-of-Funds

In concept, we agree with the requirement to calculate TER with reference to the TER of the underlying funds. However, it may be extremely difficult to calculate the combined TER in various instances such as underlying funds with non-coincidental year-ends, non-reporting issuer underlying funds, underlying funds managed by other fund managers and multiple underlying funds. Though these issues exist in the calculation of MERs for fund-of-funds, they are not as material (e.g., TER can fluctuate significantly from period to period, while MERs tend to move within a narrow range). We recommend that the Form be amended to either allow for the presentation of a range of TERs for the underlying funds or recognize that simplifying assumptions may be used in the calculation (e.g., using most recent TER, using average TER, etc.). It may also be appropriate to provide some practical guidance in the Policy to improve consistency of application across the industry.

The Policy – Section 9.5 – Fair Value Techniques

We note that the CSA has included a reference in this section requiring the approval of the board of directors of the manager of fair value techniques used in the valuation process. We note that this requirement does not provide for a reasonable and practical basis on which the manager can provide administration services to the funds since it will be difficult for the manager to convene a board of directors meeting to approve each time a new fair value technique used. We would appreciate further guidance as to specifically the items that would require board approval. We also recommend that the board of directors should approve the valuation policy established by the manager (including the permission to use fair value techniques as appropriate) and delegate all operational procedures to management, but require an annual report to the board on the application of the valuation policy to the funds.

Prospectus Disclosure

The CSA has proposed requiring an investment fund to disclose the differences between the valuation principles and practices established by the manager and those in GAAP. The lack of specificity in this requirement will lead to various levels of disclosure and we recommend that guidance on the level of detail the CSA is expecting be provided to improve consistency of disclosure.

Yours very truly,

Charles R. Sims
Co-President and Chief Executive Officer

c.c. Murray J. Taylor
Co-President and Chief Executive Officer, IGM Financial Inc.

Venkat Kannan
Vice-President, Fund Administration and Chief Financial Officer, Funds
Mackenzie Financial Corporation

B. J. Reid
Vice-President, Funds Financial Services
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