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VIA ELECTRONIC MAIL

May 5, 2008

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 Territories
Registrar of Securities, Nunavut

Dear CSA Members,

I am writing to provide the CSA with a final comment from Tradex Management Inc. regarding proposed National Instrument 31-103. Tradex is one of the oldest mutual fund management companies in Canada and is also a Member of the MFDA. Therefore we have a very strong interest in governance issues related to the financial services industry in Canada.

Our comment relates specifically to the margin requirements under Schedule 1 of Form 31-103F1 Calculation of Excess Working Capital. I believe that we would all agree that margin requirements should reflect the relative risk of a particular investment. Therefore as the level of risk increases so should the margin requirement. While in most cases the proposed margin requirements follow this principle, there is one very obvious area in which this principle is not applied and we would ask that it be changed.

If a firm holds its capital in 1-year or longer bonds, debentures, etc. guaranteed by the Government of Canada or a Canadian province the proposed margin rate is 5%. The corresponding margin requirement is 10% if a corporation or other similar entity issued the bonds, debentures, etc. Applying a higher margin rate for corporate debt is consistent with the principle that margin requirements should increase as the level of risk increases.

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However, the proposed margin requirement on investments in all mutual funds (with the exception of money market mutual funds) is 50%. Therefore, if a firm holds its capital in one or more mutual funds that invest only in bonds it must apply a margin rate of 50%. This implies that the CSA believes that bond mutual funds (including bond mutual funds that invest a majority of their funds in Government of Canada bonds) have a level of risk (or volatility) that is five times greater than a direct investment in one or more corporate bonds, including bonds that are below investment grade. Furthermore, it implies that mutual funds that invest only in bonds (including investing 100% in Government of Canada bonds) have the same level of risk as common shares of companies that trade at above $2 per share and specialty mutual funds, including funds that invests only, for example, in gold mining companies or emerging markets.

Clearly, bond mutual funds have a much lower level of risk than shares of companies that trade on a recognized stock market. Furthermore, we would argue that the level of risk associated with most bond mutual funds is actually lower than the level of risk associated with directly holding bonds issued by one or more corporations. We believe this to be the case since bonds held in a mutual fund are managed by a licensed portfolio manager within the parameters of the simplified prospectus, they are held by a licensed custodian and the mutual fund itself is audited by a licensed auditor and must publish its financial statements on a regular basis. In addition, the fact that no more that 10% of the portfolio can be held in any one issue of bonds (other than Government of Canada bonds) leads to a diversification of the holdings, which also reduces risk.

Given the above, we respectfully request that the CSA revise the proposed margin requirements such that bonds mutual funds are treated equal to a direct investment in corporate bonds (i.e., that the margin requirements on bond mutual funds be set at 10%).

We wish to thank you for the opportunity to comment on the proposed Instrument and trust that our comments will be of use to you.

Yours truly,

Robert C. White
President
Tradex Management Inc.