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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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs / Madames:

**RE: Proposed Amendments to NI 81-102 Mutual Funds and NI 81-106 Investment Fund
Continuous Disclosure, and Related Consequential Amendments**

Thank you for the opportunity to provide comments to the Canadian Securities Administrators ("CSA") Notice of Proposed Amendments to National Instrument 81-102 *Mutual Funds* ("NI 81-102") and to National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106") and Related Consequential Amendments.

Fidelity Investments Canada ULC is the 6th largest fund management company in Canada and part of the Fidelity Investments organization in Boston, one of the world's largest financial services provider. In Canada, Fidelity manages a total of \$54 billion in mutual funds and institutional assets. It offers 141 mutual funds or pooled funds to Canadian investors.

We note that the CSA has broken the review of NI 81-102 into two parts – Phase 1 to address specific relief orders and Phase 2 to understand the issues among competing products with differing regulatory regimes. However, Phase 2 does not seem to contemplate other types of NI 81-102 issues that should be considered and addressed. For example, does NI 81-102 need to be reviewed in its entirety to determine what does not work, what changes need to be made and what areas should be modernized? We strongly urge that this goal be explicit for Phase 2. We have identified at least two areas that the CSA should consider in Phase 2 below.

Proposed Section 2.18 - Money Market Fund

Fidelity manages money market mutual funds with a focus on stability, liquidity and investor return, in that order. We believe that any changes to regulations should promote stability and enhance liquidity while also limiting the potential negative impact on investor returns. The following comments are provided in this context.

Under proposed NI 81-102 Part 2.18(d)(i) a money market fund must have “not less than 5% of its assets invested in cash or readily convertible into cash within one day, and 15% of its assets invested in cash or readily convertible into cash within one week.” The CSA should provide further guidance on the meaning of the phrase “readily convertible into cash” to better define the conditions under which money market funds should identify securities that meet these daily and weekly liquidity requirements. Given that such guidance will be critical to determining the impact of these provisions, an additional comment period may be required.

You have asked for feedback on whether the 90 day dollar-weighted average term to maturity (“DWAM”) limit should be reduced to a shorter time frame. In our view, this limit should be maintained at 90 days. Interest rate risk was not a contributing factor to the challenges faced by money market funds in 2008. A portfolio with a DWAM of three months is exposed to very limited interest rate risk – for example, a portfolio with a DWAM of 90 days could withstand an instantaneous 200 basis point shift in short-term interest rates and still not “break the buck”. However, a reduction in the 90 day limit will cause money market funds to demand shorter maturity paper from issuers. This will cause issuers to supply securities to the market that are subject to short-term rollover risk, which is one of the systemic risks that many market participants think exacerbated the problems in the debt markets in 2008. In sum, Fidelity believes that the existing 90 day limit sufficiently protects investors from interest rate risk and shortening the limit will unnecessarily increase rollover risk for issuers and reduce returns for investors.

While these proposed amendments and any reduction in the DWAM limit may generally result in greater liquidity in and stability of money market funds, they will inevitably have a negative impact on yield and may serve to reduce the availability of securities eligible for investment in money market funds, particularly those of a shorter maturity. To the extent money market fund products in Canada contribute to debt market liquidity and vice-versa, we recommend the CSA consider the proposed amendments from the issuer perspective as well, to ensure they do not inadvertently exacerbate liquidity and pricing issues during events similar to those experienced in 2008.

Fund-on-Fund Structures

There continues to be a strong need to permit fund-on-fund structures that are not currently permitted. Fund-on-fund structures are used widely as part of portfolio solutions for retail investors, and the restrictions on fund-on-fund structures should be reviewed in light of the real value these structures have provided and continue to provide to investors. Three tiered fund-on-fund solutions continue to be prohibited; however, we note that this limitation was never adequately explained by the CSA when the new fund-on-fund rule was adopted. We believe that with adequate protection from duplicative fees that these structures can and should be utilized to the benefit of investors. These are particularly helpful for capital corporation structures which provide tax efficient investing and need more flexibility around fund-on-fund-on-fund structures.

Lapping

NI 82-102 prohibits the practice of lapping whereby cash of a mutual fund client held for a trade which has not yet settled is used to settle a trade for another mutual fund client. Fidelity strives to remain fully invested to minimize the impact of "cash drag". Fidelity matches investor orders to portfolio orders which can result in intraday lapping. In discussions with the Ontario Securities Commission, it was suggested that waiting for portfolio orders until four days after trade date was a preferable solution. Fidelity demonstrated the harm to investors in taking this approach and also demonstrated that the policy reasons for the lapping prohibition in NI 81-102 actually related to dealers, not fund managers when NI 81-102 was drafted. We strongly urge the CSA as a whole to consider this issue and we would be pleased to provide the whole CSA with our analysis around why the lapping prohibition is harmful to investors. We also note that there is no similar prohibition in U.S. regulations or in other countries that we have been able to determine.

We thank you for the opportunity to comment on the proposed amendments. As always, we are more than willing to meet with you to discuss any of our comments.

Yours truly,



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c.c. Rob Strickland, President