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

c/o

The Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1900, Box 55
Toronto, Ontario M5H 3S8
E-mail: comments@osc.gov.on.ca

-and-

Me Anne-Marie Beaudoin, Corporate Secretary
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RE: CSA Notice and Request for Comment, MI 62-104, NI 62-203, and NI 62-103

The Independent Accountants' Investment Counsel Inc., ("IAIC") welcomes the opportunity to add to the ongoing discussion of the CSA Notice and Request For Comment, ("Request for Comment") referenced above.

IAIC is a discretionary portfolio management company headquartered in Listowel, Ontario with numerous representatives across the province. Established in 1999, the firm currently has over $900 million in assets under administration. As portfolio managers, IAIC manages investment portfolios for families, individuals, private companies, estates and trusts.

General Comments

IAIC applauds attempts by regulators to recognize the realities of the current market when providing oversight. An expansive policy view though should be taken when considering any change.

Although the Request for Comment encompasses numerous items, we would like to comment specifically around the topic of preferred shares, and whether they should infact be included within these provisions. We feel the changes within the Request for Comment are unduly burdensome in effect for preferred shares, an important asset class in the current interest-rate environment, it is urged that the threshold for the early warning system remains at 10%.

Reach of Current Scheme and Proposed Change

The early warning system currently triggers after the acquisition of 10 per cent or more of the beneficial ownership, control and/or direction over, the voting or equity securities of any class of an issuer or convertible into a class. It is proposed to decrease the triggering event to 5 per cent. Given the evolution of share class structures for issuers, the use of "equity securities" as a trigger can operate indiscriminately for preferred shares. However, this definition appears vague and somewhat unclear in terms of what is actually included - in our firm's experience, even to the extreme of securities lawyers' and compliance consultants not knowing exactly how to distinguish between what is included under the term ''equity securities''.

We do realize the proposed change is primarily to foster greater dissemination of control and influence held by investors, particularly activist shareholders. Yet despite having no direct or indirect control through voting rights, an issuer's preferred class of shares may fall under the definition depending upon its terms. Generally these shares have a higher number of classes and a lesser amount of outstanding shares. It is particular severe for preferred shares of "split share" corporations.

At our firm, preferred shares of split corporations are to buy and hold [as passive investors] for income alternatives in such a low-rate environment. Put simply, given the maturity and redemption characteristics of these positions, one can discount the cashflow streams similar to bonds [although we do realize one is not a perfect substitute for the other in terms of risk rankings]. We have no intention of holding the investments in any sort of passive nor aggressive strategy.

Using the notion of classes for determining economic interest in an issuer is outdated. A better approach would be a threshold based on a pooled or equivalent basis. Considering something similar is being proposed for "equity equivalent derivatives", this approach would not be as provocative as possibly first thought.

If the greater concern is not about economic interest and more about market liquidity, more robust controls that better balance the relevant policy considerations can be devised.

Information to the Market

Another basis for the proposed changes are to enhance market transparency. It is thought that a lower threshold would provide market participants with greater information about significant shareholders. Specifically mentioned is the disclosure of the identity and presence of an institutional shareholder.

Yet NI62-103 provides for an Alternative Monthly Reporting System, ("AMR") which does not require public news releases for passive eligible institutional investors. Eligible institutional investors include financial institutions, regulated pension funds, non-reporting mutual funds, and investment managers. For these participants, this argument is not valid.

<u>Conclusion</u>

Whether through more directed policy changes or greater use of exemptions for passive investors, proposed changes to the early warning system must recognize all facets of the market, both currently and moving forward.

In short, our submission would focus specifically on two items for consideration:

1. It is strongly recommended that the threshold for the early warning system not be decreased and that a review be undertaken for preferred shares.
2. The exclusion of preferred shares under the imprecise and unclear definition of equity securities. At a minimum, recognition of this issue and guidance would be appreciated.

If you have any questions regarding these comments, please do not hesitate to contact us at 519-291-2817.

Yours very truly,

INDEPENDENT ACCOUNTANTS' INVESTMENT COUNSEL

Joel Baker

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Chief Investment Officer