

13.1.2 Summary of Public Comments Respecting Proposed Amendments to MFDA Rule 3.2 and MFDA Financial Questionnaire and Report and Response of the MFDA

**SUMMARY OF PUBLIC COMMENTS
RESPECTING
PROPOSED AMENDMENTS TO MFDA RULE 3.2 AND MFDA FINANCIAL QUESTIONNAIRE AND REPORT AND
RESPONSE OF THE MFDA**

On July 28, 2006, the British Columbia Securities Commission and the Ontario Securities Commission published for public comment proposed amendments to MFDA Rule 3.2 and the General Notes and Definitions of the MFDA Financial Questionnaire and Report (Form 1) ("MFDA FQR").

The public comment period expired on August 28, 2006.

Two submissions were received during the public comment period:

1. Manulife Financial ("Manulife")
2. Federation of Mutual Fund Dealers ("Federation")

Copies of comment submissions may be viewed at the offices of the MFDA, 121 King Street West, Suite 1000, Toronto, Ontario by contacting Paige Ward, Director of Policy and Regulatory Affairs (416) 943-5838.

The following is a summary of the comments received, together with the MFDA's responses.

General Comments

The Federation expressed support for the proposed amendments and was of the view that they addressed the concerns with respect to the current capital formula.

Impact on Long-term Financing

Manulife expressed concern that Members will not be able to fund long-term assets with related party debt. For example, if a Member purchased real estate funded by a related party mortgage, the real estate would not count as an allowable asset and the mortgage would be deducted from capital. Manulife noted that similarly, other assets funded by non-recourse related party debt would also be adversely affected by the proposed Rule. Manulife suggested that since such transactions themselves are not objectionable, an exemption should be permitted for related party funding arrangements meeting criteria that eliminate the concerns regarding related party loans. Manulife did not understand the rationale for restricting legitimate long-term loans that fund long-term assets simply on the basis of whether the lender is a related party.

MFDA Response

The issue is not whether a particular transaction is objectionable or not. The issue is the extent of influence related parties have over MFDA Members and their ability to effect the Member's capital, which may ultimately give them the ability to put their interests ahead of investors' interests.

Timing

Manulife was of the view that a one-year transition period would be insufficient for Members to restructure existing long-term liabilities without incurring adverse financing and associated costs. Manulife requested that arrangements in existence on the date of the publication of the Rules be grandfathered or, alternatively, that the phase-in for deeming long-term debt as current liabilities be scaled up over time, from 10% to 100% inclusion as a current liability. Manulife suggested that a scale increasing over a three-year period would be reasonable.

MFDA Response

Restructuring is not necessary if the related party signs a subordination agreement. The MFDA is not proposing a one-year transition period. Based upon the financial information filed with the MFDA, this is not an issue affecting the majority of our Members, which would necessitate broad relief provisions. If a particular Member has a legitimate concern or issue with complying with the requirements, they are encouraged to approach the MFDA to discuss their particular circumstances.

Definitions

Manulife suggested that the reference to “related party debt” in section 11 of the FQR General Notes and Definitions reference the definition in the CICA Handbook.

MFDA Response

Note 1 in the General Notes and Definitions to the FQR states “these statements are to be prepared in accordance with generally accepted accounting principles, except as modified by the requirements of the MFDA or MFDA IPC.” Accordingly, the CICA Handbook definition does apply.

Rule 3.2.5

Manulife requested clarification regarding whether the notice requirement in Rule 3.2.5 applies to long-term debt which has been deemed to be a current liability as a result of section 11 of the FQR General Notes and Definitions.

MFDA Response

Rule 3.2.5 would apply as the Rule relates to all creditors and not just third party creditors.