



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

BY EMAIL: rday@osc.gov.on.ca

February 15, 2010

Robert Day
Manager, Business Planning
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Dear Mr. Day:

Re: OSC Notice 11-753 (Revised) - Request for Comments Regarding Statement of Priorities for Fiscal Year Ending March 31, 2011

We are writing to provide the comments of The Investment Funds Institute of Canada (“IFIC”) with respect to the proposed Statement of Priorities for the fiscal year ending March 31, 2011 that was published by the Ontario Securities Commission (OSC) on December 11, 2009.

IFIC is the national association of the Canadian investment funds industry. Our membership is comprised of mutual fund management companies, retail distributors and affiliates from the legal, accounting and other professions from across Canada.

We are pleased to note that as in past years, we share a number of common objectives. We would like to take this opportunity to highlight areas of priority for our industry, and we encourage their progress in the coming year.

Point of Sale

In the context of the priority to promote clear and informative disclosure that allows investors to make informed investment decisions, the OSC is currently working with the CSA on a proposal to implement point of sale disclosure for the mutual funds industry. IFIC is supportive of the content and production provisions of this proposal and pledges to continue to work with the OSC and the CSA in getting the proposed documents into use in the industry as soon as possible.

We note, however, that the proposal, in its current form, includes a higher and more exacting standard for pre-sale delivery of disclosure documents for mutual funds than is required for other retail investment products such as stocks, bonds, exchange traded funds and other pooled investment vehicles. This is of concern because of the complexities associated with pre-sale document delivery and the compliance systems that would need to be built and audit trails that would need to be maintained which are not in place presently. Imposing these requirements selectively on mutual funds but not on other products sets up conditions of product and distribution arbitrage that will negatively affect mutual funds and the investing public.

To address this, the OSC has previously stated that the same or similar requirements will be imposed over time for the sale of all retail investment products. We have more recently learned, however, that the CSA will not be looking at expanding the requirements broadly to all retail investment products but only to those products with embedded fees. We recommend that this approach be seriously reconsidered, and that requirements for pre-sale document delivery be put on hold until the implications of these requirements for product and channel arbitrage across the full set of competing investment products are fully researched, understood and resolved.

In terms of research, we note that Canadian regulators relied exclusively on qualitative focus group testing of the Point of Sale document as their only research justification for introducing complex and onerous new delivery requirements that will fundamentally change the way mutual funds are purchased by investors. These research methods have been discredited in the recent *Consultation Report on Principles on Point of Sale Disclosure* released by IOSCO in November 2009. The IOSCO Report notes that “the methodological limitations of such [qualitative] research can make it difficult to generalize findings, or to make assumptions on the likely impact of particular documents on consumer behavior.” The impact of these new delivery requirements has not to date been a consideration of regulators, despite there being ample third party research available in Canada which suggests that investors would prefer a regime with choice over one with mandatory pre-sale delivery. As noted above, it is strongly recommended that the CSA implement new regulations only after they have been fully assessed as to their impact on investors and the marketplace and supported by methodologically sound quantitative research.

International Financial Reporting Standards (IFRS)

The draft Statement of Priorities discusses the need to review and analyze market developments to develop or modernize regulatory responses related to the implementation of IFRS in 2011. IFIC has written to express its serious reservations with one aspect of the proposed amendments to National Instrument 81-106 - those that deal with consolidation.

Currently in Canada, investment funds are generally exempt from the requirement to consolidate through Accounting Guideline 18. This will be eliminated upon adoption of IFRS in 2011. As the submission seeks to illustrate, this change will result in significant investor confusion as well as substantial operational concerns for managers of various types of funds. IFIC is requesting that the regulators exercise their powers and mandate that investment funds be required to file only non-consolidated statements with regulators.

National Instrument 81-102 (NI 81-102), Mutual Funds and Disclosure Reform

The modernization of this framework rule to reflect today's market realities, while also providing flexibility for the future, is a priority for our industry. IFIC has been active in promoting engagement between industry leaders and regulators to assess how fund investment rules (NI 81-102, Part 2) could be updated to provide flexibility to asset managers to modernize their products, while also ensuring that investor protection is maintained. We have submitted comments for consideration by the OSC on proposals that could be implemented in the OSC's current limited review of NI 81-102.

Related to this modernization issue, we also have initiated a project on disclosure reform, with the objective of providing recommendations to rationalize fund disclosure requirements, and have met with the CSA Investment Funds Committee to share IFIC's preliminary research and recommendations. IFIC supports the principle that disclosure should meaningfully inform the audience, whether that comprises retail investors, fund analysts, distributors or regulators. Proposed reform measures would refocus the provision of information so that a primary consideration is how beneficiaries currently and in the future might expect to use and access that information.

Incorporated Salespersons

We recommend that in the coming year the OSC address the issue of salesperson incorporation, and work with other regulators, including the MFDA and IIROC, to resolve this outstanding matter. We believe that salespersons of securities registrants should have the same ability to incorporate as other professionals, such as persons working in the insurance industry. Successful implementation of this initiative would augment salespersons' abilities to organize their business, without detracting from investor protection.

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We trust that the issues we raised will be considered by the OSC in its deliberations of the proposed Statement of Priorities for the upcoming fiscal year. The mutual fund industry has a robust regulatory framework, and we encourage regulators to proactively explore with the industry initiatives that will allow for modernization and innovation of the mutual fund product.

Thank you for providing us with an opportunity to comment. If you have any questions regarding this submission, please contact me directly by phone at 416-309-2300 or by email at jdelarentiis@ific.ca or Jon Cockerline, Director, Policy – Dealer Issues by phone at 416-309-2327 or by email at jcockerline@ific.ca.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Joanne De Laurentiis
President & Chief Executive Officer