

September 24, 2010

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

care of:

Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Attention : Me Anne-Marie Beaudoin, Corporate Secretary
E-mail: consultation-en-cours@lautorite.qc.ca

Ontario Securities Commission
20 Queen Street West, Suite 1903, Box 55
Toronto, Ontario M5H 3S8
Attention: John Stevenson
E-mail: jstevenson@osc.gov.on.ca

Dear Sirs/Mesdames,

**Re: Notice of Proposed Amendments to NI 81-102 Mutual Funds and
NI 81-106 Investment Fund Continuous Disclosure**

This letter comments on the 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”).

I am Vice-President, Chief Legal Counsel and Chief Compliance Officer of IA Clarington Investments Inc., which is among Canada’s top 20 mutual fund managers, with over \$8 billion in assets. This letter does not necessarily represent the views of my employer.

I generally support the initiative. Incorporating routine regulatory relief into the rules should reduce costs for investment funds, improve transparency of the regulatory environment and improve compliance. I would, however, offer the following comments:

Money Market Fund Amendments

Moving the regulatory requirements applicable to money market funds from the definitions to the body of the rule is very helpful.

Liquidity Requirements

The concept of “readily convertible to cash” in the liquidity provisions may prove difficult to implement and test in practice. I expect that we would determine the amount of a position in a security that is readily convertible to cash by looking at historical trading volumes of the security and assuming that we would be able to liquidate some proportion of the market volume of the security on any given day or week. Given that trading volumes for Canadian fixed income securities can be quite difficult to obtain, if available at all, it might prove very difficult to implement this test.

Funds may, in order to avoid the risk and uncertainty around whether a security will remain “readily convertible to cash”, simply increase their cash positions, which would typically reduce the yield to investors. It might be more helpful for the CSA to specify criteria for acceptable securities (such as Canadian government and government-guaranteed fixed income securities with a term to maturity of 30 days or less), in order to avoid the conceptual uncertainty and risks around the definition.

In extreme market conditions, any securities position might change from “readily convertible to cash” to not readily convertible to cash. If a fund were affected by this provision, it could be forced to sell securities in an illiquid market (which could well be at a substantial discount, which would in turn impact the NAV per security of the fund) in order to meet the liquidity requirements of the new rule. Perversely, if previously-liquid securities (which the fund had used to meet the “readily convertible to cash” test) ceased to be liquid, the fund could be forced to sell its more liquid positions and hold on to the illiquid positions even in advance of investor redemptions, solely to raise cash to meet the liquidity requirements.

Floating Rate Notes

The change to maturity date from the next interest reset date for floating-rate notes for the purpose of calculating the weighted average term to maturity of a fund’s portfolio could force funds that currently hold floating rate notes to sell those notes. In order to avoid forcing funds to sell the same security at the same time, it would be helpful if the CSA could add a transition period to allow money market funds to sell their positions in an orderly manner.

Term to Maturity Generally

Particularly given the proposed new liquidity requirements, I am quite supportive of moving from a 90-day to 120-day weighted average term to maturity. Our portfolio managers, which manage money market segregated funds as well as mutual funds, have moved their non 81-102 portfolios out to a longer term to maturity in order to improve yields, and it would be helpful to have similar flexibility for money market funds.

Transactions between Money Market Funds and their Managers



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We learned with the ABCP crisis that securities can change from compliant for a money market fund to non-compliant over a very short time. We twice applied for and obtained regulatory relief to purchase securities from our money market fund as a result of the ABCP crisis and its aftermath. This taught us that in the absence of a liquid market for certain types of securities, the investment fund manager can be a purchaser of last resort.

While the CSA have been very cooperative in working to quickly grant regulatory relief to permit managers to purchase ABCP securities, we wonder whether the CSA could consider expanding the role of the IRC to permit the manager to purchase a security from a money market fund for cash consideration at a price equal to cost plus accrued interest (or, if greater, the market value of the security), if the trade has been approved by the IRC. This could greatly improve the ability of the investment fund manager to respond quickly to a similar future crisis, and by requiring cash consideration the purchase could quickly provide the fund with liquidity.

Please do not hesitate to contact me if you have any questions or concerns regarding this letter.

Sincerely,

“Matthew Campbell”

Matthew Campbell
Vice-President, Chief Legal Counsel and Chief Compliance Officer