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CANADIAN BANKERS ASSOCIATION

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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
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Re: Proposed Amendments to National Instrument 81-102 *Mutual Funds* and National Instrument 81-106 *Investment Fund Continuous Disclosure*

Dear Sirs and Mesdames:

The Canadian Bankers Association ("**CBA**") works on behalf of 51 domestic chartered banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 263,400 employees to advocate for efficient and effective public policies governing banks and to promote an understanding of the banking industry and its importance to Canadians and the Canadian economy.

The CBA appreciates the opportunity to provide the Canadian Securities Administrators ("**CSA**") with our comments on the CSA's proposed amendments to National Instrument 81-102 *Mutual Funds* ("**NI 81-102**") and National Instrument 81-106 *Investment Fund Continuous Disclosure* ("**NI 81-106**") that were published for comment on June 25, 2010 (the "**Proposed Amendments**").

In addition to general comments set out below, our members have provided comments on some concerns they have with respect to the Proposed Amendments, as well as their views on certain of the specific requests for comments outlined by the CSA.

General Comments

Our members welcome the attempt to codify exemptive relief that has been granted to mutual funds from the requirements of NI 81-102. That being said, our members are concerned that certain of the proposed codifications do not reflect the standard relief that has been granted in the past. Also, our members are particularly concerned about the proposed amendments relating to maturity requirements for money market funds.

Members' Concerns

Exchange-Traded Mutual Funds ("**ETFs**")

Purchases and Sales of ETF Securities
As noted by the CSA, ETFs in continuous distribution are generally bought and sold by retail investors in a manner that is substantially different than purchases and redemptions of conventional mutual funds. Retail investors typically buy and sell ETFs in the secondary market through the exchange. Primary distribution of these funds is generally limited to designated brokers, who then make the securities of the funds available in the secondary market.

In recognition of the different purchase and redemption process utilized by ETFs in continuous distribution, the CSA has proposed amendments to subsections 9.4(2) and 10.4(3) of NI 81-102 permitting ETFs to receive a combination of cash and securities as payment for the purchase of its securities, and permitting ETFs to pay redemption proceeds in a combination of cash and portfolio assets. Given that ETFs are bought and sold in the secondary market through the exchange, and in order to reflect the standard relief that has been granted in the past, our members believe that relief should be extended to sections 9.1 and 10.2 of NI 81-102 permitting purchases and sales of securities of ETFs to be transmitted to the exchange on which the securities are listed, instead of to the order receipt offices of the funds.

Prior Written Consent of Securityholder for Redemptions In-Kind
Redemptions of ETFs in continuous distribution are typically made by designated brokers, who typically purchase fund securities in the secondary market and redeem these securities in large quantities set by the manager of the fund known as a manager-prescribed number of units. Given the nature of the purchase and redemption process utilized by ETFs in continuous distributions, our members believe that the prior written consent of the securityholder for the payment of redemption proceeds with portfolio assets should only be required for redemptions other than exchanges of a manager-prescribed number of units. Accordingly, the proposed subsection 10.4(3)(b) of NI 81-102 should have the phrase "for redemptions other than exchanges of a manager-prescribed number of units" inserted immediately following the phrase "with the prior written consent of the securityholder". ETFs should be allowed to deliver securities in a cost-effective manner and avoid the transaction costs associated with selling portfolio assets in circumstances where certain securityholders do not provide written consent.

Compliance Reports
In order to reflect the standard relief that has been granted in the past from the requirements of subsection 12.1(3) of NI 81-102, ETFs should similarly be exempted in proposed subsection 12.1(4) from the requirement to file compliance reports that are otherwise required.

Money Market Funds

Combined 90-day and 120-day Dollar-Weighted Average Term to Maturity
Our members are concerned about the proposed amendments to the average term to maturity for money market funds. Our members disagree with the proposed combined 90-day and 120-day dollar-weighted average term to maturity limits. Specifically, our members disagree with a notion of using a 120-day dollar-weighted average term to maturity limit that is calculated based on the actual term to maturity for all securities rather than the reset dates for floating rate notes. Such changes are unnecessary and may have unintended negative consequences for money market funds.

We note the CSA's comment that while the proposed combined 90-day and 120-day dollar-weighted average term to maturity limits may reduce the ability of money market funds to utilize floating rate notes with a long term to maturity, they would place a limit on the exposure of money market funds to the risks associated with longer terms to maturity. We agree that securities with shorter maturity generally carry less risk. However, please consider the following.

Fund managers will likely seek investments in the same securities to a greater extent if the proposed amendment to a 120-day term to maturity limit is enacted. With more fund managers investing in the same securities, there is an increased likelihood that the market will be more susceptible to volatile market swings and will likely result in unnecessary reductions in returns to investors. Also, there will be greater concentration in certain corporate paper and the supply of securities will be limited with more fund managers purchasing from the same pool. Accordingly, a default in one security could impact a larger number of fund companies. Managing risk to such a tight degree will make these products far less attractive to investors.

Also, if a new 120-day dollar-weighted average term to maturity limit is introduced, the ability of money market funds to invest in floating rate notes will likely be further limited, as it is common for them to have resets of less than 90 days. This could not only increase trading costs, but also trigger a "basis risk" that is associated with floating rate notes in a secondary market environment, as funds may be required to liquidate floating rate notes prior to maturity to comply with the new requirement.

For the reasons stated above, our members are strongly opposed to the introduction of a 120-day dollar-weighted term to maturity limit. Our members' views on the acceptable alternative approaches vary. Should the CSA decide to proceed with amendments to achieve the goal of improved investor protection in this regard, our members urge the regulators to conduct further industry consultation before any changes are made.

If the amendments are implemented as proposed by the CSA, our members strongly recommend the grandfathering of the current holdings.

Reduction of 90-day Dollar-Weighted Average Term to Maturity
Our members support maintaining the current 90-day limit on the dollar-weighted average term to maturity instead of reducing it to a shorter time frame, such as the 60-day limit recently introduced by the United States Securities and Exchange Commission. Our members prefer that the market be allowed to operate as it has, without imposing an artificial shorter-term to maturity limit, particularly when there is no obvious reason to impose a shorter limit. If a 60-day limit is implemented, our members recommend a one-year transition period to allow managers time to revise their portfolios to minimize market disruptions.

Ancillary Items

Use of Performance Ratings and Rankings
The CSA proposes to amend section 15.3 of NI 81-102 to clarify how mutual funds may use performance ratings or rankings in sales communications. With the exception of the proposed subsections 15.3(4)(e)(i) (the name of the category within which the mutual fund is rated or ranked, including the name of the organization that maintains the category), 15.3(4)(e)(iii) (the name of the mutual fund rating entity that provided the rating or ranking) and 15.3(4)(e)(v) (a statement that the rating or ranking is subject to change every month), disclosure in sales communications relating to how mutual funds may use performance ratings or rankings should be made on the website of the mutual fund rating entity rather than included in sales communications.

Index Participation Unit
The CSA proposes to expand a mutual fund's ability to invest in index participation units issued by a mutual fund by amending the definition of "index participation unit" in NI 81-102 to include index participation units traded on a stock exchange in the United Kingdom in addition to those traded on a stock exchange in Canada and the United States.

Our members believe that the definition of "index participation unit" in NI 81-102 should be further expanded to include index participation units traded on a stock exchange in Japan.

Permitted Supranational Agency
Our members believe that the proposed new definition of a "permitted supranational agency" in NI 81-102 should include the European Investment Bank.

Daily Publication of Net Asset Value
With respect to proposed subsection 14.2(8) of NI 81-106, our members request that an exemption be made from the requirement to publish net asset value for: (i) investment funds generally available only to investors who have discretionary managed accounts and (ii) a class or series of a fund where such series is available only to investors who have discretionary managed accounts. Such investors do not choose the funds in their portfolio and are unlikely to consult a website or call in daily or weekly to learn the net asset value.

We appreciate the opportunity to express our views regarding the Proposed Amendments. We would be pleased to answer any questions that you may have about our comments.

Sincerely,