

BY EMAIL: comments@osc.gov.on.ca;
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June 25, 2013

Ontario Securities Commission
Autorité des marchés 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, Department of Justice and Public Safety, Prince Edward
Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto ON, M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs/Mesdames:

RE: Proposed Amendments to National Instrument 81-102 – Annex C Specific Questions Relating to Securities Lending, Repurchases and Reverse Repurchases by Investment Funds

AGF Investments Inc. (“**AGF**”) is pleased to respond to the specific questions of the Canadian Securities Administrators (“**CSA**”) relating to securities lending as outlined in Annex C of the Proposed Amendments to National Instrument 81-102, Companion Policy 81-102CP Mutual Funds and Related Consequential Amendments.

AGF continues to support the CSA's goal of providing concise and enhanced disclosure for investors. AGF is, however, concerned with the proposed separate disclosure of providing gross returns on securities lending activities and costs of securities lending.

By way of background, the AGF group of funds have engaged in a securities lending programme since April 1, 2011. The AGF group of funds do not, however, currently engage in any repurchase or reverse repurchase transactions under such programme.

It is AGF's view that a decision to engage in a securities lending programme is a decision made in the best interest of the applicable funds. In the case of the AGF group of funds, the manager of the funds does not financially benefit directly from the securities lending programme. Any net revenues derived from securities lending activity are for the benefit of the funds. Further, to the extent that there are risks associated with securities lending, AGF submits that the required prospectus risk disclosures already adequately address the potential consequences associated with securities lending. AGF therefore submits that the added disclosures being assessed by the CSA are not necessary, especially in light of the fact that securities lending is simply a means to generate added revenue for the funds. The perceived "costs" associated therewith are not actual costs to the funds, as further explained below.

In the context of the CSA's considerations for securities lending by investment funds, it is important to note that the funds only receive revenue net of the lending agent's share. The funds do not receive gross revenue and then remit a portion back to the agent. The proposed recommendation of disclosing the gross revenue and the share of agent's revenue as cost to the fund does not appear to match the cash flow of the transaction. There is no cost to securities lending as the fund did not "pay" for the agent's share.

The proposed enhanced disclosure requires disclosing the revenue sharing arrangement between the fund and the lending agent. Such arrangement is considered proprietary and commercially sensitive information. Such mandatory disclosure will impact the competitive landscape of the securities lending industry.

Securities lending activity and revenue derived therefrom is primarily driven by market demands, corporate events, types of securities held by the funds, as well as the lending parameters permissible by the funds (as developed and overseen by the manager). These factors vary significantly among fund groups and funds. AGF is of the view that such diverse differences will not provide consistent and comparable information for investors.

The responses below pertain to the questions outlined in Annex C of the proposed amendments. For ease of reference, the responses set forth below have been numbered so as to correspond with the questions outlined in Annex C.

1. As indicated earlier, AGF submits that the revenue shared with the securities lending agent is not a cost of conducting securities lending activities. There are no additional costs associated with engaging in securities lending activities.
2. AGF is of the view that the current disclosure of disclosing the revenue from securities lending net of the lending agent's share is adequate. For funds that utilize lending agents, such funds will never have the opportunity to earn 100% of the lending revenue. Reporting the revenue as a gross amount will only inflate the income with no added benefit to the readers of financial statements. Further, the proposed amendments require disclosure of proprietary information (i.e. the revenue sharing arrangement between the fund and the lending agent) that is highly sensitive.
3. Management expense ratio ("MER") is a calculation that measures the cost of running the operations of a fund. Since AGF is of the view that the fees paid to the lending agent is not a cost of engaging in securities lending activities, AGF respectively disagrees that the fees should be included in the MER calculation. Securities lending activities are different from trading activities. Including the share of the lending agent's revenue as part of the calculation of TER will grossly misrepresent the true trading cost of a fund.
4. AGF is of the view that disclosure relating to securities lending and repurchases be disclosed separately, as they represent different activities.
5. AGF respectively disagrees that the proposed additional disclosure will provide useful information to investors with respect to securities lending revenue/activities.
 - a. Securities lending revenue is primarily driven by market demands and corporate events, which may vary significantly year to year. Such variations provide no useful information to readers of financial statements or management reports of fund performance on a comparative basis.
 - b. The type of securities held by a fund affects the lending activity. Most important of all, the lending parameters permitted by the fund (based on the risk profile of securities lending assessed by the Manager of the fund),

will greatly affect the degree of lending activities. Such variations among fund groups and funds make meaningful comparisons impossible.

As securities lending is not a core part of a fund's mandate, the revenue generated is deemed immaterial to the funds. Accordingly, AGF is of the view that the cost incurred by the fund to prepare such disclosure outweighs the benefits.

6. AGF does not believe there are any other measurements regarding securities lending that would provide useful information to investors, apart from what is already currently required. Due to the immaterial nature of securities lending revenue, AGF believes additional disclosure will not provide additional meaningful information that will impact and influence an investor's investment decision.
7. AGF respectfully submits that such a new disclosure requirement would not be useful given the immaterial nature of securities lending revenue and activity and the commensurate level of potential risk exposure. AGF believes disclosing the credit rating of the securities lending agent may provide additional insight to investors.
8. As in any commercial context indemnities play a key role in the allocation of risk amongst counterparties and typically become the subject of significant negotiation. As a result, the final form that an agreed upon indemnity takes will vary from arrangement to arrangement and may be the subject of numerous detailed and specific carve-outs or conditions, each derived from the unique facts and circumstances present in a particular case. For this reason, AGF respectfully submits that disclosure of such indemnities would be cumbersome and complex and would not serve to enable meaningful comparisons to be made by an investor. It is AGF's view that this would provide minimal value to an investor, particularly in light of the immaterial nature of securities lending activities.
9. Securities lending activities do not generate material revenue hence AGF does not consider the securities lending agency agreement to be a material contract to warrant filing on SEDAR.

We thank you for the opportunity to respond to the above issues with you. We would be pleased to meet or discuss specific details with CSA members to share our experience, with a view to assisting in your understanding of securities lending practices in the investment fund context. We look forward to constructive dialogue to ensure that the proposed amendments lead to rules that are beneficial for investors.

Yours very truly,

A handwritten signature in black ink, appearing to read "Mark Adams", with a long horizontal flourish extending to the right.

Mark Adams
Senior Vice President, General Counsel & Corporate Secretary
AGF Investments Inc.