



THE INVESTMENT FUNDS INSTITUTE OF CANADA  
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA  
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July 4, 2008

**SENT BY EMAIL: [commscons@expertpanel.ca](mailto:commscons@expertpanel.ca)**

Expert Panel on Securities Regulation in Canada  
Ottawa, ON  
K1A 0G5

Dear Sirs/Mesdames:

**Re: Expert Panel on Securities Regulation – Public Consultation Paper**

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We are writing to provide the comments of the Members of The Investment Funds Institute of Canada (“IFIC”) on the Public Consultation Paper issued by the Expert Panel on April 21, 2008 (the “Consultation Paper”).

**General Comments:**

The Expert Panel’s mandate spans the entire securities industry, including equity securities, fixed income securities and investment funds, whether issued by private placement or prospectus, or through primary or secondary distribution channels. Although the rules in place for each of the different products and distribution channels are relatively similar the Institute’s comments will focus on those rules governing conventional mutual funds, as that is the principal area in which our Members operate.

**Current Regulation of Mutual Funds**

Mutual fund regulation is characterized by a high degree of consistency owing to the existence of a series of product-based national rules unique to the mutual fund industry. The 81-series of National Instruments govern prospectus disclosure, continuous disclosure, sales practices, fund governance and other aspects of the mutual fund product in a harmonized manner.

On the distribution side, there are two self-regulatory organizations (SROs) governing dealers and their representatives: The Investment Industry Regulatory Organization of Canada (IIROC) and The Mutual Fund Dealers Association (MFDA). The former is recognized across Canada and as such its rules have national applicability. The latter is recognized as an SRO by securities commissions in seven jurisdictions but despite the lack of recognition in all jurisdictions, MFDA rules have national reach because all representatives of a dealer registered in a recognizing jurisdiction<sup>1</sup> are required to comply

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<sup>1</sup> Alberta, British Columbia, Nova Scotia, Ontario, Saskatchewan, New Brunswick and Manitoba.

Expert Panel

Re: Expert Panel on Securities Regulation – Public Consultation Paper

July 4, 2008

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with MFDA requirements. While the MFDA is not recognized in Quebec, regulators there are adopting MFDA-compatible rules and have entered into a cooperative agreement with the MFDA for operations in Quebec.

In addition to the 81-series of National Instruments and the national applicability of both sets of SRO rules, the Canadian Securities Administrators (CSA), IIROC and MFDA regularly collaborate on the development of certain rules (for example, the Client Relationship Model) in an effort to further ensure harmonization. In short, the various securities regulators have already managed to achieve a high level of harmonization and any new structural model would have to enhance or, at the very least, maintain the level of harmonization.

We expect that the CSA's commitment to harmonization will continue in the future; any divergence from this goal would be a cause of significant concern to the industry.

#### **Choice of *Status Quo* or National Securities Regulator:**

The mission of the Canadian Securities Administrators (CSA) is to give Canada a national securities regulatory system through a system of harmonized securities regulation. In carrying out its mission, the CSA is guided by a number of principles, including the commitment to uniform securities laws and a core set of regulatory requirements that are substantially the same in all jurisdictions.<sup>2</sup> As outlined above, the rules governing mutual fund prospectus disclosure, continuous disclosure, sales practices and fund governance are already harmonized to a large degree as a result of the CSA's efforts.

With respect to the question of which structural model - passport or single securities regulator - would be best for Canada, our members are of the view that it is more important to focus on the outcome of the regulatory system, whatever structure it takes. The industry's desired outcome is the creation of a regulatory framework that allows funds to enhance value for investors and that allows for a consistent consumer experience. We believe that this outcome may be achieved through a variety of structural models.

As outlined above, the CSA has already achieved a high degree of harmonization and any new regulatory framework must remain at least as effective and efficient as is currently the case for the mutual funds industry.

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<sup>2</sup> 2005-2008 CSA Strategic Objectives

Expert Panel

Re: Expert Panel on Securities Regulation – Public Consultation Paper

July 4, 2008

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### **Industry views on the Passport System**

In an October 30, 2007 submission to the CSA, we expressed support for the passport system and the interface with Ontario to the extent that it represented an improvement over the mutual reliance review systems (MRRS). In particular, we indicated that the passport interface represented a significant improvement in that it would provide an automatic acceptance of filings in non-principal jurisdictions based on the decision of the principal regulator for passport prospectuses and applications for exemptive relief. We expressed concern that market participants from Ontario would receive far greater benefit from the enhancements offered by the passport system and the resulting uneven playing field for market participants in other jurisdictions. Some of our members also noted that there appeared to be nothing in the proposed interface that provided Ontario with any incentive to reconsider its position and adopt the passport. Finally, we urged the CSA to develop a permanent solution supported by all jurisdictions, including Ontario.

We continue to believe that Ontario's full participation in the passport is crucial to the success of the system.

### **Achieving the desired outcomes**

As noted above, the industry's desired outcome is the creation of a regulatory framework that allows funds to enhance value for investors and that allows for a consistent consumer experience. We have proposed a number of improvements to the current CSA consultation processes to facilitate the achievement of this objective:

1. Identification of a set of principles fundamental to the mutual fund product that would underpin a regulatory framework. A principles-based approach would facilitate the modernization of mutual fund regulation and provide flexibility to use sophisticated tools and process and ultimately enhance value for investors. IFIC members are currently considering the fundamental product principles and would welcome discussions with both the Expert Panel and the CSA once they are finalized.
2. Reforming the rule review process to increase the level of transparency and collaboration between the regulatory authorities and the industry, including mandated periodic reviews of the rules governing the industry.

We note that the proposed improvements could also be applied to other structural models. We request that the Panel take the above into consideration in identifying the optimal structural model for Canada.

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Expert Panel

Re: Expert Panel on Securities Regulation – Public Consultation Paper

July 4, 2008

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We thank you for providing our Members with the opportunity to comment on the consultation paper. Please contact the undersigned directly or Ralf Hensel, Director – Policy, Manager Issues, at (416) 309-2314 or [rhensel@ific.ca](mailto:rhensel@ific.ca), should you have any questions or wish to discuss these comments in detail.

Yours truly,

**THE INVESTMENT FUNDS INSTITUTE OF CANADA**



By: Joanne De Laurentiis  
President & Chief Executive Officer

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