



Joanne De Laurentiis

PRESIDENT & CEO

416-309-2300

jdelautentiis@ific.ca

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Canadian Securities Transition Office
P.O. Box 109, Royal Trust Tower
77 King Street West, Suite 3110
Toronto, Ontario M5K 1G8

Attention: Mr. Douglas Hyndman, Chair
Mr. Lawrence Ritchie, Executive Vice President and Senior Policy Advisor

Dear Messrs. Hyndman and Ritchie:

RE: CSTO Meeting with IFIC's Board of Directors, May 11, 2011

On behalf of the Board of The Investment Funds Institute of Canada, my sincere thanks to you both, and Morag, for taking the time to meet with the Board on May 11 to present an update on your activities in building the Canadian Securities Regulatory Authority (CSRA).

Board members appreciated the opportunity to be given an update on the transition plan and implementation work, to hear about the current level of provincial support, and to hear your views on the constitutional challenges.

We were very interested to hear that the collaborative rule harmonization work of the team of participating provinces is continuing and that there will be an opportunity for informal consultations over the next several months. We would very much like to work with you during this informal review, and are eager to be among the first group to provide you with informal feedback.

The Board also appreciated being able to review with you the recommendations IFIC has made to strengthen the focus of the CSRA, particularly as it concerns oversight of the investment funds industry. I have attached a summary of the items we have put before you and to the Minister of Finance in our letter to him of August 24, 2010 and look forward to a positive response on many of them.

Thank you again for your willingness to keep the IFIC Board informed. As we had discussed, we will look to set up another briefing soon after the Supreme Court decision is rendered later in the year.

In the meantime, should you have any questions on the items in the attached matrix or wish to discuss them further, don't hesitate to call.

Yours very truly,

JDL:rh/attachment

Cc: Mr. Bryan Davies, Vice-Chair

Ms. Morag McGougan, Stakeholder Outreach Advisor

IFIC Board

SUMMARY OF IFIC RECOMMENDATIONS RESPECTING THE PROPOSED CANADIAN SECURITIES REGULATORY AUTHORITY (CSRA)

MAY 19, 2011

RECOMMENDATION	RATIONALE
<p>Build specialised investment funds expertise within the national CSRA by:</p> <p>a) assigning primary responsibility for investment funds to one of the proposed Deputy Chief Regulators</p> <p>b) enhancing the expert staff unit with industry fund experience to provide greater depth and understanding of the fund product</p>	<p>Investment funds are the primary product through which Canadians access the capital markets and Canada has one of the highest participation rates in the world – 12 million Canadians buy funds. Compared to the U.S., 43% of Canadian households own funds versus 34% of American households. The popularity and broad holding of the product raises expectations that there is strong expert knowledge and focus at the regulatory level.</p> <p>CSA currently has an <i>Investment Funds Committee</i> with members from each provincial authority to consider investment funds issues. Enhancing this approach through a dedicated Deputy Chief Regulator within the CSRA will allow the regulator to stay current on market developments and maintain an informed and open dialogue with the investment funds industry and investment advocates.</p> <p>A dedicated unit will allow the CSRA to better consider and assess the regulatory response required on any issue not just across the mutual fund product but all competing products thus providing a higher level of protection to the investing public</p>
<p>A formal investment industry advisory role, either as part of the Investor Advisory Panel already contemplated in the structure, or by the creation of a separate investment fund advisory panel</p>	<p>Section 51 of the Proposed Act creates an Investor Advisory Panel as a permanent component of the structure, with a permanent role on the Regulatory Policy Forum. This Advisory Panel is to comprise “persons with knowledge of and experience with issues relevant to investors in securities”.</p> <p>IFIC proposes that investment fund representatives, <i>in their role as institutional investors</i> be included on this committee. Including both retail and institutional investor representatives will give the CSRA a more complete perspective of how to manage investor related issues.</p> <p>Further, to provide impartial advice, the Investor Advisory Panel discussion should be informed by credible, fact-based research.</p>

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<p>Build in a statutory requirement for the CSRA to produce and publish a Cost-Benefit Analysis in connection with all regulatory proposals, consistent with the requirements of the SEC</p>	<p>Providing for a cost benefit analysis that withstands analytical scrutiny will impose a good discipline on both the regulatory authority and the industry.</p> <p>The U.S. Securities and Exchange Commission, for example, is mandated to analyze the cost and benefit of its proposals, primarily to assess their impact on smaller businesses. Each new proposal includes a thorough discussion of the impact of the new rule, and market participants are able to comment on that impact during the consultation process. We recommend a robust cost-benefit analysis procedure be included in the Act.</p>
<p>Refresh the existing rules, instruments and policies as soon as possible after launching the CSRA so the capital markets can begin to benefit from the efficiencies and harmonization a national structure will bring</p>	<p>We recommend that an early activity of the CSRA be a full review of the existing rules, instruments and policies to eliminate duplication, update or eliminate stale requirements, and eliminate conflicting provincial requirements. It would allow the CSRA to begin with a clean slate; establish the processes that will govern the regular review process at the appropriate time intervals thereafter; and more importantly, give the industry a more efficient and cost effective set of rules under which to operate.</p>
<p>The five year review of the legislation should be conducted with a broader economic perspective - thus allowing for a broad examination of the issues to be addressed to update the legislation, regulations and any related rules</p> <p>A legislatively-entrenched, robust and transparent requirement for a public</p>	<p>The Proposed Act contemplates a five year review of the legislation. This is an excellent process, and should mirror the approach taken in the periodic review of federal financial services legislation. That process allows for examination of the issues from a broad financial services market perspective and seeks to update not only the legislation, but also the regulations and related rules.</p> <p>The CSA typically applies a 90-day or longer consultation period on proposed rules. The Proposed Act does not describe the rule-making process that would apply, other than to suggest that rules would be enacted as Regulations. However, providing the market with sufficient time</p>

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consultation process that provides at least 90 days to comment on legislative proposals/regulations	to consider any proposal is critical to maximize the benefits of consultations – one way to ensure this is to entrench a set comment period which should be no less than 90 days.
<p>A fair fee allocation model for the investment fund industry and other market participants;</p> <p>In addition, none of the creation and transition fees for the CSRA are to be charged to industry</p>	<p>In a recent consultation on proposed fee revisions, in response to IFIC’s concerns about the disproportionate share of the total fees charged by the Ontario Securities Commission to the investment funds industry, the OSC provided the following response: <i>“We agree with the assessment that the mutual fund industry is currently paying a disproportionate share of fees. The proposed fee increases will move us toward a more appropriate balance...we are committed to resolving this issue as soon as practicable.”</i></p> <p>As the self-funding of the CSRA is a cornerstone of the CSTO’s accountability structure, achieving the appropriate allocations among participants within the funding model, as well as enshrining transparency and greater accountability into the model, is a fundamental operational principle that should be acted upon – this will build confidence and support for the CSRA across the market participants.</p>
A workable interface with non-opting in jurisdictions to ensure that the capital markets in Canada continue to operate seamlessly on a national basis after implementation of the CSRA. Opting in provinces should not have the right to opt-out subsequently	<p>Uninterrupted stability of Canada’s securities markets must be the paramount consideration.</p> <p>With respect to those jurisdictions that opt-out, a form of interface must be developed and agreed upon, by which all regulators work together to provide a seamless and harmonized regulatory experience for industry participants. For the securities industry broadly, and for mutual funds in particular-- being pooled products typically distributed across all provinces-- implementing the CSRA without an interface would result in a major step backwards from the current high degree of harmonization (the 81-series of national instruments as an example), consistency and cooperation among provincial and territorial regulators. The regulatory framework that is ultimately put in place in such a case must remain at least as effective and efficient as it currently is for the mutual funds industry.</p>

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	Addressing the need for an interface early in the process will build support and confidence in the CSRA across the market participants and is likely to mitigate the highly political sensitivities of the non-participating jurisdictions.
Certainty on the future of the SROs	It appears that two regulatory structures will exist , at least for a period of time – these are the CSRA and the non-participating provincial securities commissions - it is important that clarity be brought to bear as to where oversight of the SROs will reside and how they are to operate across this split jurisdictional framework .