



IGM Financial Inc. One Canada Centre, 447 Portage Ave., Winnipeg, Manitoba R3C 3B6  
150 Bloor Street West, Toronto, Ontario M5S 3B5

W. Sian Burgess, B.A., L.L.B.  
*Senior Vice-President, General Counsel,  
Corporate Secretary and Chief Compliance Officer*

***Sent by E-mail and Delivered***  
***consultation-en-cours@lautorite.gc.ca***

May 29, 2007

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

Madam:

**Re: Consultation on the Regulatory Framework Applicable to the Mutual Fund Sector**

This letter is further to the consultation paper on the Regulatory Framework applicable to the mutual fund sector (Consultation Paper) issued on February 20, 2007 by the Autorité des marchés financiers (AMF). The Consultation Paper raises a number of questions regarding the current regulatory framework for mutual fund dealers in Québec and proposes a number of alternative self regulatory organization (SRO) oversight models for consideration. This is our response to those questions and proposals.

#### **Background on IGM Financial Inc.**

IGM Financial Inc. (IGM) is one of Canada's major financial services companies, and the country's largest manager and distributor of mutual funds and other managed asset products, with over \$124 billion in total assets under management. Its activities are carried out principally through Investors Group Inc., Mackenzie Financial Corporation and Investment Planning Counsel Inc. IGM is a member of the Power Financial Corporation group of companies.

Through its different subsidiaries, IGM is registered in various capacities with the AMF and is very active within the Québec financial services industry. The following comments are provided on behalf of IGM and its subsidiaries.

## **Preliminary Comments**

We commend the effort the AMF, as part of the Canadian Securities Administrators (CSA), is making to further an integrated and harmonized approach to the oversight of the mutual fund sector in Canada. In this regard, we support AMF initiatives that would result in an enhanced harmonization of the rules in all jurisdictions.

We note that the proposed rule 31-103 on the registration reform project, the proposed rule 11-102 respecting the Passport System and the joint forum initiative for 81-403 Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds are all initiatives that promote harmonized rules across Canada. We will provide our comments on those initiatives in due course.

We need to be cautious, however, to ensure that the many initiatives do not create a strain within the mutual fund sector that would create an opportunity for regulatory arbitrage among the various sectors.

The *Act respecting the distribution of financial products and services* (ADFPS) that governs the activities in the financial services sector in Québec was very progressive when it was adopted in 1998 and still is to this day. We also believe that the role that the AMF is playing overseeing all of the activities of the financial services industry, from securities to insurance, is a benefit to the industry.

The transfer of oversight of the mutual fund sector in Québec from the ADFPS to the Securities Act (SA) should not create a disturbance to the current regulatory system, which approaches the financial services industry on a coordinated, multi-disciplinary basis. Having said this, we must also be cautious of the direct and indirect costs associated with this proposed transfer, as noted in the Consultation Paper.

## **Preferred SRO Model**

The Consultation Paper proposes three possible alternative SRO oversight models for Québec, as follows:

- one where all mutual fund dealers are required to become members of the Mutual Fund Dealers Association of Canada (MFDA), which would assume supervisory responsibility of those firms and their representatives
- one where the MFDA, as recognized industry SRO, would be responsible for the oversight of mutual fund dealers but which would outsource the supervision of these firms' representatives, other than those who are dually registered in another province, to the Chambre de la sécurité financière (CSF)
- one where the CSF is recognized as SRO for the mutual fund dealer industry, but which applies rules that are the same as those of the MFDA

We see merit in elements of all three of the proposals but in our view the best model would be one that incorporates aspects of each, along the following lines:

- the rules governing the operation of mutual fund dealers in Québec and the conduct of their representatives should be harmonized on a national basis. The most practical way to accomplish this would be to adopt the rules of the MFDA, for a number of reasons:

- these rules, which have been developed and refined over a number of years, are comprehensive in nature
- they are well understood by the mutual fund industry and MFDA members are generally compliant with them, having all been subject to reviews to test compliance
- the MFDA should be recognized as SRO for all mutual fund dealers who operate on a national basis across Canada. This approach has a number of advantages:
  - the MFDA is fully operational across Canada outside of Québec and is already the primary regulator for these firms in those jurisdictions
  - the MFDA has the necessary expertise to regulate these firms in Québec, although additional resources would undoubtedly be required
  - this is essentially the model that is already in place in Québec and elsewhere in Canada with respect to the oversight of the investment dealer industry (through the Investment Dealers Association of Canada as SRO), which has worked well for many years
- mutual fund dealers who operate only in Québec could elect to be regulated by a separate SRO, which could be the CSF, which would also supervise their representatives
  - this would give a Québec based SRO the ability to focus on firms that operate only in that province
  - if MFDA rules are applied by the Québec SRO, national standards would not be compromised and any potential for regulatory arbitrage would be eliminated
  - this kind of model is consistent with the passport approach most CSA jurisdictions, including Québec, are promoting, which couples national rules with local, but coordinated, oversight

### **Responses to Specific Questions**

The following are our specific responses to your questions of the Consultation Paper:

#### *Question 1*

*Are there any disparities in the structures and operations of Québec-based markets, particularly with respect to the distribution methods for mutual fund securities, that could account for a distinction in regulatory requirements when compared with requirements in other jurisdictions?*

No. The mutual fund industry in Canada essentially operates on a national basis. Few, if any, large dealers operate only in Québec and the regulatory considerations in that province are not materially different than those in the rest of Canada. This is reflected by the fact that most of the key regulatory instrument dealing with mutual funds, including National Instruments 81-101, 81-102, 81-105, 81-106 and 81-107 have been adopted across Canada through the aegis of the Canadian Securities Administrators, of which Québec is a key participant.

*Question 2*

*A transition period must be determined the transition of mutual fund firms and representatives under SA. What would be an appropriate transition period under the circumstances?*

In our view a lengthy transition period is unnecessary for most firms given that the majority would be familiar and in compliance with these requirements already, which are essentially those in place elsewhere in Canada. In this light, a period of one year would likely be sufficient.

*Question 3*

*Would mutual fund firms be able to comply with this new [minimum capital] requirement? If not, explain why and indicate an appropriate transition period under the circumstances.*

Yes, most firms will have no difficulty complying with the proposed new capital requirements, which are fundamentally the same as those in place in other Canadian jurisdictions. A one year transition period should be adequate.

*Question 4*

*Do you agree with this proposal [for minimum insurance requirements]? If you disagree, please explain.*

Yes. The proposed insurance rules are the same as those established under the rules of the MFDA, with which most of the industry is already complying.

*Question 5*

*Do you agree with such a proposal [that section 149 of the SA be repealed, which essentially does not allow mutual fund and scholarship plan salespersons to be concurrently employed by a related financial institution, which is a unique requirement to Québec]? If you disagree, please explain.*

We have no comment on this proposal.

*Question 6*

*If the second paragraph, section 149 of SA were to be repealed, how would this impact your distribution activities and structures?*

This would not affect our distribution activities and structures.

The paper sets out three separate possible models for an SRO oversight system in Québec, as follows:

***AMF Recognition of Industry SRO***

The Consultation Paper proposes three possible models for an Industry SRO in Québec, namely:

**Option 1: Recognition of MFDA in Québec**

*Question 7*

*Do you agree with this proposal? If you disagree (excluding the matter of MFDA membership fees and annual fees), please explain.*

As indicated earlier in our letter, we believe that a modified version of this proposal, with the MFDA acting as SRO for mutual fund dealers who carry on business on a national basis and a Québec based SRO supervising firms that operate only in that province is the most effective and cost efficient way to achieve the policy goals underlining this initiative, for the reasons noted above. We strongly agree that the rules that are applied, regardless as to which SRO is actually overseeing a firm, should be harmonized across the country in the form of those adopted by the MFDA.

*Question 8*

*Other than those discussed in paragraphs 1 to 4 above, should the recognition decision contain terms and conditions?*

Except to reflect our view that mutual fund dealers who operate only in Québec should have the option of being regulated by the CSF, the four items specified in the proposal, are adequate and, in our view, no additional terms and conditions would be necessary for the recognition decision.

*Question 9*

*What would be an appropriate transition period under the circumstances?*

As indicated previously with respect to other elements of this proposal, a one year transition period should be adequate.

**Option 2: Recognition of MFDA in Québec with CSF Outsourcing**

*Question 10*

*Do you agree with this proposal? If you disagree (excluding the matter of MFDA membership fees and annual fees), please explain.*

No. We believe that that the hybrid model of SRO regulation that we proposed earlier in our letter, with the MFDA regulating national firms and the CSF acting as SRO for Québec only firms, is the most appropriate model in that province.

*Question 11*

*Other than those discussed in paragraphs 1 to 5 above, should the recognition decision contain terms and conditions?*

In light of our view that this model of regulation is not the one that should be adopted, we do not comment on whether the proposed conditions are adequate.

*Question 12*

*What would be an appropriate transition period under the circumstances?*

In light of our view that this model of regulation is not the one that should be adopted, we do not comment on what the proposed transition period should be.

**Option 3: Recognition of the CSF as Industry SRO in Québec**

*Question 13*

*What are the benefits and inconveniences of recognizing the CSF as an industry SRO for the mutual fund sector, taking into account the fact that membership fees and annual fees would be the same as those prescribed by the MFDA?*

As we have noted above, while we believe that the MFDA should be recognized as industry SRO for mutual fund dealers who operate on a national basis across Canada, there is merit in allowing firms that operate only in Québec to elect to become members of the CSF instead, for the reasons we have set out earlier. Again, regardless of which entity acts as SRO for a particular firm in Québec, the rules that apply should be the MFDA's, which will harmonize requirements across the country.

There are a number of practical issues that would have to be addressed if this model were to be adopted, including the following:

- the MFDA and the AMF currently sponsor separate contingency funds with different mandates to protect the public. The MFDA Investor Protection Corporation reimburses clients where there is a shortfall as a result of a mutual fund dealer's insolvency while the AMF fund covers clients in the case of fraudulent activities or embezzlement. This raises a number of potential problems, including duplication of costs, inefficiencies in administration and confusion on the part of clients as to what protection is in place. The final form of the oversight model in Québec should deal with these concerns
- MFDA rules do not currently facilitate relationships between its members and non MFDA firms, such as a Québec dealer that was regulated by the CSF as SRO. If the MFDA were to be given SRO status in Québec for national mutual fund dealers, its rules should be amended to allow its members to act as carrying dealers for firms that only operate in that province, recognizing the fact that the CSF has concurrent jurisdiction as SRO for Québec only dealers

In our view both of these issues can be resolved applying the goals of integration and harmonization that underlie this initiative.

*Question 14*

*What would be an appropriate transition period under the circumstances?*

As indicated previously in our letter, a one year transition period should be adequate.

We appreciate the opportunity to comment on the Consultation Paper. If you have any questions on our position, please do not hesitate to contact me.

Yours truly,

**IGM FINANCIAL INC.**



W. Sian Burgess  
Senior Vice-President, General Counsel  
Chief Compliance Officer and Chief Privacy Officer

/wsb

c.c. Murray Taylor, Co-President & Chief Executive Officer, IGM Financial Inc.  
Charlie Sims, Co-President & Chief Executive Officer, IGM Financial Inc.