



PHILLIPS, HAGER & NORTH

March 28, 2007

VIA ELECTRONIC MAIL

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Nova Scotia Securities Commission

c/o Patricia Leeson
Alberta Securities Commission
4th Floor, 300 – 5th Avenue S.W.
Calgary Alberta T2P 3C4

Heidi Franken
Ontario Securities Commission
20 Queen Street West
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Anne Marie Beaudoin
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3

Dear Sirs and Mesdames:

Re: Response to Canadian Securities Administrators' (CSA's) Request for Comments on Proposed National Instrument 41-101 General Prospectus Requirements and Related Amendments

Phillips, Hager & North Investment Management Ltd. ("PH&N") is one of Canada's oldest independent investment management firms with assets under management of over \$60 billion. PH&N manages investments for corporate and multi-employer pension plans, endowments, non-profit entities, government and private accounts.

PH&N supports the CSA's initiative to harmonize prospectus and continuous disclosure requirements across Canada. However, we would like to take this opportunity to address one of the proposed consequential amendments to National Instrument 81-101 *Mutual Fund Distributions* ("NI 81-101") specifically an amendment to Part 2 of NI 81-101 that would add a new section 2.7 as follows:

Any unaudited financial statements included in or incorporated by reference in a simplified prospectus must have been reviewed in accordance with the relevant standards



set out in the Handbook for a review of financial statements by the mutual fund's auditor or a public accountant's review of financial statements.

The stated summary and purpose for this change, as set out in the Notice and Request for Comments is as follows:

Any unaudited financial statements included in or incorporated by reference into the prospectus must be reviewed in accordance with the relevant standards set out in the Handbook. This harmonizes the prospectus requirements with the continuous disclosure requirements.

Currently, National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106") does not require auditor review of interim financial statements. There is, however, a requirement in section 2.12 of NI 81-106 to disclose the fact that interim financial statements have not been reviewed by an auditor coupled with the additional requirement, set out in section 2.5 of NI 81-106, to have the board approve interim financial statements.

In the last four years the timing, form and presentation of information given to unitholders of prospectus qualified mutual funds ("Prospectus Funds") has dramatically changed. The 2003 survey conducted by Compass Inc. for the CSA in connection with NI 81-106 revealed a need for readable reports containing useful information. The introduction of a new continuous disclosure regime aimed at providing more timely and useful information to investors was clearly an effort to address this need. A key feature of this regime was a requirement that Prospectus Funds make available annual and interim management reports of fund performance. The additional costs associated with creating and distributing these reports was considered acceptable based on the benefits of providing more timely and useful information.

Our concern is that requiring an auditor to review interim financial statements does not contribute to this process or otherwise benefit unitholders in a way that justifies the cost. PH&N has long championed low-fee investment funds and makes every effort to maximize performance while containing costs. The costs associated with an auditor's review of the interim financial statements will ultimately be borne by unitholders who, in our experience, rarely request or access interim financial statements.

While we appreciate that a review of interim financial statements is a requirement in other prospectus qualified offerings, we believe that the Prospectus Funds are unique for the following reasons:

- Prospectus Funds are in constant distribution and information included in the prospectus is updated annually;
- Prospectus Funds are subject to restrictions on investments and related party dealings all of which provide protection and additional assurance to investors; and
- the continuous disclosure regime for Prospectus Funds is extensive and provides a steady stream of updated information that has been specifically tailored to the needs of mutual fund investors.

In a context where annual financial statements are audited, interim financial statements are approved by the board, prospectuses are renewed annually and unitholders can receive ongoing information on the performance and outlook of their investments, we believe incurring the additional costs of an auditor's review of interim statements is not in the best interests of unitholders.

Thank you for this opportunity to address our concern regarding proposed amendments to NI 81-101.
We would be pleased to discuss our comments with you.

Yours truly,

PHILLIPS, HAGER & NORTH
Investment Management Ltd.

A handwritten signature in cursive script that reads "Heidi Johnston".

Heidi Johnston
Vice President Trade Administration & Fund Accounting