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VIA e-mail: consultation-en-cours@cvmq.com

Canadian Securities Administrators

c/o Ms. Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
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Re: Notice of Proposed Amendments to National Instrument 81-102 and Companion Policy 81-102CP Mutual Funds and to National Instrument 81-101 Mutual Fund Prospectus Disclosure and Form 81-101F1 Contents of Simplified Prospectus and Form 81-101F2 Contents of Annual Information Form

i. Background

We are writing to you on behalf of AGF Funds Inc. (“AGF”), a mutual fund company offering approximately 60 retail mutual funds through brokers, dealers and planners.

We appreciate this opportunity to comment on the proposed amendments to National Instrument 81-102 and Companion Policy 81-102CP Mutual Funds and to National Instrument 81-101 Mutual Fund Prospectus Disclosure and Form 81-101F1 Contents of Simplified Prospectus and Form 81-101F2 Contents of Annual Information Form (collectively the “Amendments”).

Generally speaking, we are supportive of the CSA’s proposed amendments and, in particular the move toward permitting actively managed fund of funds structures however, we have certain questions on some of the restrictions being proposed for these structures. Primarily, we are concerned that the proposed Amendments seem to provide a single solution for a variety of fund on fund products that are offered in the market today. In our experience, not all products are the same, and as such, the Amendments should be drafted in order to reflect commercial reality.

We have participated in the preparation of a submission by the Investment Funds Institute of Canada (“IFIC”) and support the statements set out therein. In our submission, we wish to highlight a few of the key issues that are of greatest concern to AGF. They are:

- 1) the restrictive definition of “RSP Clone Fund”;
- 2) the unnecessary interference with the business relationships of sponsors where there is no clear policy objective being achieved; and

- 3) the impact of the sunset provision.

ii. Definition of “RSP Clone Fund”

“*RSP Clone Fund*” is defined in the amendment as follows:

“*RSP Clone Fund*” means a top fund that has adopted fundamental investment objectives to *link its performance to the performance of a specified bottom fund* whose securities constitute foreign property for registered plans by using specified derivatives to ensure that the securities of the top fund will not constitute foreign property under the ITA;”

This definition is limited to only one form of RSP clone funds and that is the kind in which the top fund enters into a derivative linked to the securities of the underlying fund and buys directly up to the maximum foreign content (currently 30%) of the securities of the underlying fund. As a result, this type of RSP clone fund is linked to both the assets and liabilities of the underlying fund. Although AGF offers this kind of RSP clone fund, we also offer RSP clone funds that enter into a derivative linked to the performance of a basket of securities that reflect the portfolio investments of the underlying fund and buys directly up to the maximum foreign content (currently 30%) of the securities of the underlying fund. As a result, this type of RSP clone fund is linked to the assets of the underlying fund and the liabilities of the underlying fund to the extent that it directly buys securities of the underlying fund. As a result, it still closely, but not identically, tracks the performance of the underlying fund.

Although the purpose and structure of the fund is that of an “RSP Clone Fund”, and it is structured to ensure that the top fund does not constitute foreign property under the ITA, this second type of fund would not be captured by the definition of RSP Clone fund as set out in the Amendments.

Accordingly, we believe that the definition of the RSP Clone Fund should be expanded as follows:

“*RSP Clone Fund*” means a top fund that has adopted fundamental investment objectives to link its performance closely to the performance of a specified bottom fund, including through linking to *the performance of a basket of securities reflecting the securities of a specified bottom fund*, whose securities constitute foreign property for registered plans by using specified derivatives to ensure that the securities of the top fund will not constitute foreign property under the ITA.”

iii. Prohibition of payment of trailing commission and sales commissions

We have a variety of relationships with retail distributors of our funds who manufacture top funds, which invest in one or more of our AGF funds. We have joined in a joint submission with one of our relationship distributors regarding concerns about the Amendment we have relative to that existing relationship structure. We will not repeat the comments in the joint submission letter here.

With respect to all of our relationships, we would request the CSA to consider replacing proposed paragraphs 2.5(1)(f), (g) and (h) with provisions that would allow independent parties to negotiate their financial arrangements on commercially reasonable terms, provided that there

is no duplication of management, and sales commissions, and there is clear disclosure surrounding the payments of such amounts.

iv. Impact of Sunset Provision

If the CSA insists on changing the approach for fund on funds in the manner set forth in the Amendment, we believe that at a minimum a grandfathering of all prior orders would be appropriate. We believe that prior fund on fund orders should be grandfathered to ensure that contractual relationships already established in good faith and in reliance on the exemptions granted to them at the time should not unnecessarily be interfered with, since there is no evidence of any undermining of the CSA's policy objectives. We believe that unitholders have invested in top funds on the strength of the features of the funds disclosed in their respective simplified prospectuses and are therefore not prejudiced by the existing commercial bargains of the sponsors of the respective funds.

v. Conclusion

We applaud the CSA's efforts in opening up fund of fund rules to permit active fund management and to eliminate the need for exemptive relief under the prescriptive rules. As stated above, we support IFIC's comments and provide our additional comments to highlight a few of the issues of concern to us.

We thank you for this opportunity to comment on the Amendments. We would welcome and look forward to the opportunity to discuss these matters with you further. Please feel free to contact the writer at (416) 865-4315 or by e-mail at judy.goldring@agf.com should you have any questions or if you require clarification about any of our comments.

Yours very truly,

“Judy G. Goldring”

Judy G. Goldring

General Counsel and

SVP, Business Operations