



2010

Annual Report

The Investment Funds Institute of Canada

Contents

Role and Mandate	1
Who we represent	
Chair's & President's Messages	2
Message from the Chair - Oliver Murray	
Message from the President - Joanne De Laurentiis	
IFIC Board of Directors 2009-2010	3
CFIQ's Chair's Message	4
Message from the Chair - Stéphane Langlois	
CFIQ Board of Governors 2009-2010	
IFIC - The Voice of The Industry	5
Value of Advice	
GST/HST Issues	
Provincial Sales Tax Harmonization	
Notice 250	
Retirement Savings	
Point of Sale	
Accounting Standards	
Investor Survey	
National Securities Regulator	
National Instrument 31-103 Registration Requirements and Exemptions	
OBSI Governance	
Client Relationship Model	
Do Not Email Legislation	
Fund Categorization	
Understanding Mutual Fund Management Expense Ratios in Canada	
Value of Portfolio Management	
Financial Literacy	
Member Services	16
IFSE - Education Arm of IFIC	
Industry Operations Survey	
Document Retention	
Member Events	
Our Committees - Our Volunteers	19
IFIC Committees - 2009/2010	
CFIQ Committees - 2009/2010	

Role and Mandate

Who we represent

The Investment Funds Institute of Canada (IFIC) is the national association representing the mutual fund industry. Our membership comprises mutual fund managers – those who create the mutual fund product; the firms that distribute mutual funds; and companies that provide services to the mutual fund industry, such as law and accounting firms.

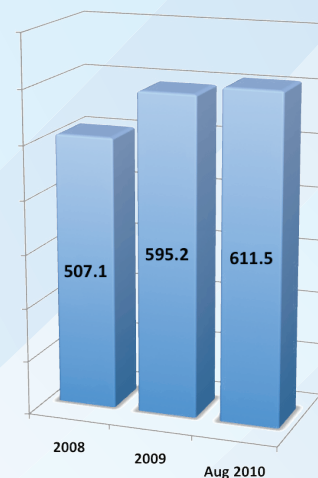
As the national association, our role is to act as the single voice of the industry; to promote the business activities of our members to all of our stakeholders including securities regulators, government, and most importantly, the public; and to support the financial capability of Canadians.

For over 75 years, Canada's mutual fund industry has helped Canadians save for retirement and increase their wealth by providing access to the world's capital markets – access that had once been available exclusively to large institutional investors. The mutual fund industry employs thousands of highly skilled workers in Canada and provides billions of dollars of equity financing to thousands of Canadian businesses, both large and small.

Key Industry Facts

- Canada's mutual fund industry helps individuals save for their future. Mutual funds and mutual fund wraps now account for almost 27% of Canadians' financial wealth.
- At June 2010, 34.4% (4.3 million) Canadian households held mutual funds.
- Recent independent research confirms that to meet their financial goals Canadians have greater confidence in mutual funds (74%) than other financial products such as GICs (72%), bonds (64%) and stocks (55%).
- Balanced funds, specifically fund-of-funds (fund portfolios that prudently combine equity with fixed income to moderate risk while gaining access to growth) are the top choice for Canadian investors. At August 31, 2010, Canadians had invested \$125.1 billion in fund-of-fund products, which equated to 20.3% of total mutual fund assets.
- According to Statistics Canada, more than half of the total value of Canadians' registered plans, which includes RRSPs, RRIFs and RESPs, is invested in mutual funds and income trusts.
- By investing in Canadian companies, both large and small, mutual funds contribute directly to the health of our domestic economy. Currently, more than 895 mutual funds, with just over \$384.3 billion in assets, invest in the Canadian economy.
- The financial advice sector, which includes fund management companies and fund dealers, employs more than a quarter of a million Canadians, who work in all regions of Canada.

Mutual Fund Assets Under Management (\$billions)



All figures at December unless noted otherwise.

“ Mutual fund assets under management by IFIC members were \$611.5 billion at August 31, 2010. Mutual fund assets have increased by an average of 17.5% per year over the last 20 years. ”

Chair's & President's Messages

Message from the Chair - Oliver Murray

Reflecting on the year that has passed, indeed the last two years as Chair, the mutual fund industry has faced several significant challenges. This reinforced the need for the industry to work in concert across a range of issues, many of which are covered in detail in this report. I want to comment on two of those issues in this letter.

The biggest challenge we faced was the global financial crisis. Keeping investors focused on the longer view was not always easy in that environment, but our advisory channel performed well, keeping many individuals from making hasty and costly decisions.

Based on data gathered by Ipsos Reid through its Canadian Financial Monitor, IFIC issued the Value of Advice Report presenting concrete evidence that an individual's lifetime financial success is significantly enhanced with the provision of professional financial advice – something we have observed through the many individual stories of those who have been well served by advisors. It is gratifying to have evidence that quantifies those stories, and demonstrates the durable values delivered by advisors.

On the policy front, we have been managing through the implementation of the harmonized sales tax (HST) in Ontario and British Columbia. The requirement to remit tax based on the unit holder has introduced an administrative burden. The decision to harmonize the sales by those two provinces also exacerbated an already unfair situation dating back to 1991 when the GST was introduced. In that period, mutual funds sustained a far heavier tax burden than other financial products – with the HST, the tax burden has multiplied. IFIC is making a strong case for a revision to the GST policy at the federal level with the goal of achieving parity in the tax treatment of investment funds relative to other financial products and services – since Canadians use funds primarily to save for retirement, the tax burden amounts to a tax on savings.

Over the last two years, we have recognized the need, and stepped up our efforts to take our message about the role mutual funds play in building the financial well-being of Canadians to Ministers and senior policy officials in the federal and provincial governments. As a result we have been able to inform public policy questions, including the question of improving retirement savings policies, and the harmonization of sales taxes. I encourage the Institute to continue these efforts in the years ahead.

It has been an honour to serve as Chair of the IFIC Board for the last two years. I want to express my sincere thanks to my fellow Board members, the many industry volunteers who serve on committees, and the IFIC staff, for their commitment of time and expertise to advance the legitimate causes of the industry as we help Canadians build their financial wealth.

Message from the President - Joanne De Laurentiis

As this report shows, IFIC has advanced a number of important files over the course of the year.

A key one has been communicating the legitimacy of mutual funds as the primary vehicle for long term savings. As the country engages in the debate as to whether the retirement savings of Canadians are adequate, a great deal of uninformed analysis has been put forward as to the superiority of government sponsored plans versus retail solutions. Completely missing from the debate has been the role advisors play in helping Canadians plan and save for retirement. Accordingly, we spent much effort clarifying the cost structures and demonstrating the value of advice.

We also continued our work with regulators to conclude the discussions on the Point of Sale issue, and were gratified to see the draft rule released by the CSA earlier in the year addressing the industry's concern about pre-delivery by setting that requirement aside for future review while proceeding with the requirement to have the industry issue a Fund Fact that will provide fund holders with the most plain language disclosure of any financial product on the market.

The challenging task of having Finance Canada recognize that the GST tax level as it applies to funds is unfair and needs review has begun and we will continue to make this a major initiative in the coming year. With the assistance of KPMG, we put forward compelling evidence that Canada was an outlier in the way it taxed funds.

It has been a pleasure working with IFIC members over the last year. A special thanks to Oliver Murray for his leadership and guidance throughout the past two years – all delivered with his wonderful Irish grace.

I, along with the entire IFIC team, look forward to continuing to work with all of you in the coming year as we continue to tackle issues that are important to the industry.



IFIC Board of Directors 2009-2010



Murray, Oliver
(Chair)
President & CEO
Brandes Investment Partners & Co.



Sims, Charles
(1st Vice Chair)
President & CEO
Mackenzie Financial Corporation



De Laurentiis, Joanne
ex officio (President & CEO)
The Investment Funds
Institute of Canada



Burgess, Sian
SVP, Legal & Compliance Canada
Fidelity Investments Canada ULC



Aguiar, George
President & CEO
GP Wealth Management
Corporation



Adams, John
Executive Vice President & CEO
PFSL Investments Canada Ltd.



Coulter, Douglas
President
RBC Asset management



Davis, Laurie
President & CEO
Hartford Investments Canada



Dyck, Thomas
(Effective Feb. 2010)
President
TD Mutual Funds



Enright, Christopher
Senior Vice President,
Wealth Management Distribution
Industrial Alliance Insurance &
Financial Services Inc.



Firth, J. Roy
Executive Vice President,
Individual Wealth Management
Manulife Financial



Frances, Robert
ex officio (Past Chair)
President & CEO
PEAK Financial Group



Geist, Steve
President
CIBC Asset Management Inc.



Goldring, Judy
COO & Executive Vice President
AGF Investments Inc.



Gore, Brian
President & CEO
FundSERV Inc.



Gowland, Glen
President & CEO
Scotia Asset Management



Guay, Charles
President & CEO
National Bank Securities Inc.



Guimond, Martine
ex officio (CFIQ)
Partner
Gowling Lafleur Henderson LLP



Inhatowycz, Ian
President, CEO & CIO
Acuity Funds Ltd.



Intraligi, Peter
President & COO
Invesco Trimark Ltd.



Kappele, Ross
(Effective Feb. 2010)
Co-President
BMO Investments Inc.



Knight, Linda
(2nd Vice Chair; resigned Feb. 2010)
President & COO
BMO Investments Inc.



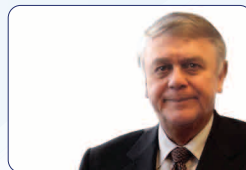
Langlois, Stéphane
ex officio (CFIQ)
President
LBC Financial Services



Moorhouse, Ian
President & CCO
Independent Accountants'
Investment Group



Murdock, Brian
(Resigned Feb. 2010)
Chairman & CEO
TD Asset Management Inc.



Reed, Donald
President & CEO
Franklin Templeton
Investments Corp.



CFIQ Chair's Message

Message from the Chair - Stéphane Langlois

The role of the Quebec Investment Funds Council (CFIQ) is to represent members with a base in Quebec, to offer a discussion platform for members, as well as to engage in consultations with our regulatory authorities and relevant government departments.

This role has brought us to cooperate on the development of the regulatory framework for the mutual fund sector in Quebec. The harmonization of the regulatory framework rule published in the fall of 2010 remains an important concern regarding how the industry will be regulated and our message is one of simplifying the actual regime without affecting the quality of investors' protection.

The Ipsos Reid study released by IFIC this year shows how the dialogue between the advisor and the client is an important foundation for individuals and families to attain their financial objectives. In the fall of 2009, CFIQ members delivered to the Quebec Committee on Social Affairs, the message that a model based on professional expertise adds value as the Committee examined the suitability of improving the Quebec retirement regime.

This year was marked with a stronger alignment between the priorities set by the CFIQ Board and the work of our committees. A clear and detailed action plan was developed and followed throughout the year ensuring that the focus of all industry volunteers was on the key issues. In addition, CFIQ took a proactive leadership approach in our communications including contributing to special publications on the industry, so as to improve the public's understanding of how mutual funds assist in building investors wealth.

Finally, CFIQ added a tag line to its logo to identify itself more clearly as being the authoritative voice of the mutual fund industry in Quebec.

It has been a pleasure and a privilege being Chair of CFIQ. I would like to thank each member of the CFIQ Board, and all of the Committee volunteers, and I look forward to continuing to serve the industry in the year ahead.

CFIQ Board of Governors 2009-2010



Langlois, Stéphane
(Chair)
President
LBC Financial Services



De Laurentiis, Joanne
(1st Vice Chair)
The Investment Funds
Institute of Canada



Guimond, Martine
(2nd Vice Chair)
Partner
Gowling Lafleur Henderson LLP



Béland, Pierre
Regional Sales Director
Investia Financial Services



Châtillon, Pierre-Yves
Partner
Fasken Martineau



David, Ann
Chief Compliance Officer
Royal Mutual Funds Inc.



Dubuc, Marc
Vice President Marketing
Fonds Desjardins



Fortin, Michel
Vice President, Marketing
Retail Markets
Standard Life



Gervasio, Isabelle
Vice President
Quebec Director
Mavrix Funds Management Inc.



Martin, Marcel
Vice President, Financial Services
Investor Group Financial Services



Morin, Normand
General Manager
Force Financière Excel



Paquet, Nancy
Regional Vice President
Advisor distribution
National Bank of Canada



Testatni, Annamaria
Vice President
Business Development
Wellington West



Vaillancourt, François
Director Compliance
Desjardins Financial Security
Investments

IFIC – The Voice of The Industry

IFIC's most important role is to be the industry's advocate, while providing a forum where all members can gather and discuss the relevant issues affecting their business, and working as a team to engage with governments and regulators to ensure the industry's legitimate interests are understood and addressed.

Over the last year, IFIC, its member volunteers, and its staff have been working diligently to advance the industry's position in a number of areas. In the pages that follow, we report on many of the areas that been resolved, and those where work continues. Copies of our research papers and submissions are available on IFIC's website – www.ific.ca.

The most significant work we have completed this year includes:

- Release of a seminal report on the value of advice.
- Assisting the industry with the administratively challenging task of implementing the harmonized sales tax.
- Beginning to put forward a compelling case to have the GST policy, as it applies to investment funds, reviewed and revised.
- Contributing to the federal and provincial discussions on the important question of how to strengthen Canada's retirement saving system.
- Furthering the refinement of the Point of Sale initiative to provide mutual fund investors with key, plain language facts about the product.
- Leading discussions to have the International Accounting Standards Board (IASB) exempt investment funds from consolidation standards.
- Sponsoring Pollara's fifth annual survey – and issuing the results in the report entitled *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry, 2010*.

Value of Advice

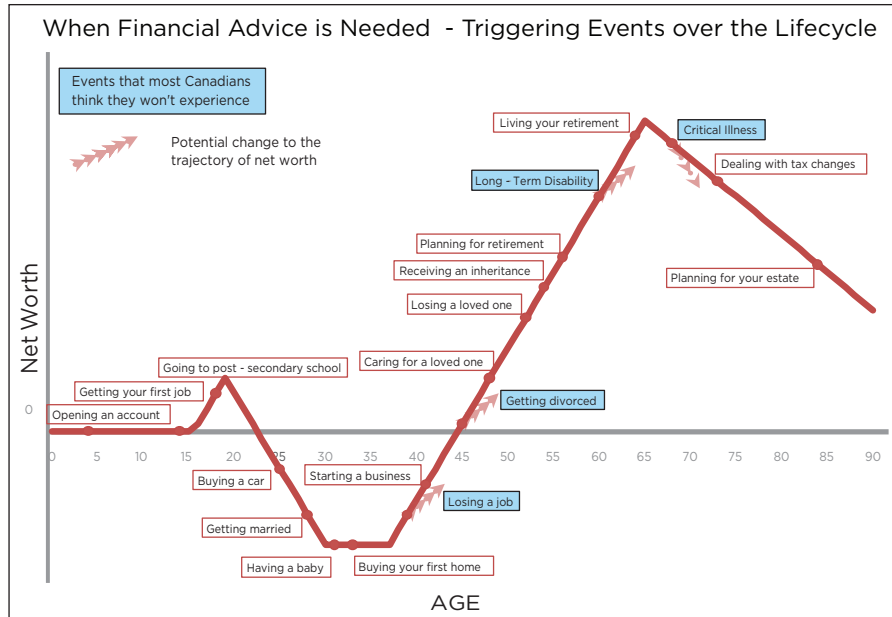
The Ad Hoc Retirement Savings Strategic Committee's mandate "to reinforce the value of advice" arose from positions being taken by stakeholders in the retirement savings debate, which ignored or misrepresented the role professional financial advice plays in contributing to Canadians' retirement savings. Claims have been put forward that public sector plans cost less, and are therefore preferable to private sector-supplied retail alternatives as retirement vehicles. The implication being that individualized service and advice, which are a strong feature of retail solutions and largely absent in the public plans, are of little or no value. This misperception was countered by showing how advice enhances Canadians' retirement savings.

The Strategic Committee's Value of Advice Task Force prepared a research report entitled *The Value of Advice Report* (the Report), published in July of this year. The Report summarizes available published research showing the critical role that advisors play in improving the financial well-being of their clients. It draws from independent,

“ IFIC's most important role is to be the industry's advocate, while providing a forum where all members can gather and discuss the relevant issues affecting their business, and working as a team to engage with governments and regulators to ensure the industry's legitimate interests are understood and addressed. ”



publicly available research - primarily the Canadian Financial Monitor, which is a subscription study by Ipsos Reid, widely used by government agencies and financial institutions to monitor trends in Canadian consumers' financial services behaviour.



Source: The Investment Funds Institute of Canada

The Report provides a clear, unbiased view of the role played by financial advisors in helping Canadians build their wealth and become more financially literate. As a large segment of the advisor network is funded by fees and commissions paid by the mutual fund industry, the aim of the Report is to contribute to a more constructive debate about the value of individual retail products than has been present to date in the public discourse on retirement savings. An IFIC presentation to the Standing Senate Committee on Banking, Trade and Commerce in May, 2010, for example, highlighted some of the key findings of the research including the fact that advisors played a key role in getting households to take up tax deferral programs such as registered retirement savings plans (RRSPs) and tax-free savings accounts. In addition, advised households were more than twice as likely to be invested in RRSPs than non-advised households.

GST/HST Issues

Provincial Sales Tax Harmonization

In 2009, both the Ontario and British Columbia governments announced plans to harmonize their retail sales tax with the federal goods and services tax (GST). As a result, the federal government changed the way it applied the harmonized sales tax (HST) to mutual funds by taxing the fund based on a formula related to the assets held by unit holders in HST provinces.

“Advised households are five times more likely to have RRSPs.”

“Canada is an outlier in the way it taxes funds.”

Harmonization further disadvantaged funds by increasing the level of tax payable by unit holders relative to the HST payable by holders of other investment or savings products and services.

Since its introduction in 1991, GST has taxed mutual funds at five times the level applied to other financial products. In simple terms, essentially everything that goes into providing mutual funds is subject to sales tax, while the majority of costs of supplying other financial products, such as salary expense, is exempt in the case of guaranteed investment certificates, stocks and bonds. IFIC commissioned a research paper by KPMG to show that Canada was an outlier in the way it taxed funds, and presented the case to Finance Canada that it should pursue a more equal tax treatment of funds relative to other financial services and products.

The new requirement to calculate the HST based on a formula related to the assets held by unitholders in HST provinces brought with it a new and very costly administrative burden to funds. As the implementation date for harmonization was July 1, IFIC worked diligently with federal and provincial officials to explain the implications and challenges of taxing services charged daily to mutual funds with the objective of having Finance and Canada Revenue create rules that would not be unduly onerous and costly to implement. While the industry remains concerned by the complex, still-changing and labour-intensive nature of the new HST rules, IFIC has been able to obtain some simplification of the rules. When the final regulations are issued, we expect there to be:

- simpler treatment of new funds and series,
- greater flexibility in the HST rate calculation frequency,
- appropriate reduction in the weighted-average HST rate to reflect non-resident holdings,
- consolidation and transfer of HST amounts to minimize negative cash flow impacts,
- a simpler way to identify institutional investors and reduced information to request from them,
- no need to aggregate accountholder holdings across related fund managers,
- a clear onus on the institutional investor to report, and
- a fairer calculation of the HST liability for the transitional six months.

While IFIC will continue working with its members to streamline processes and ease the burden related to implementation, the next phase will be to see that a financial services review of the HST takes place.

IFIC is working with other financial industry associations to assess the full spectrum of issues related to the current system, review practices of other countries that use a value-added tax and recommend areas that the industry can explore with the federal government to improve the GST's and HST's fairness, economic neutrality, and compliance simplicity.

“ IFIC will continue working with its members to streamline processes and ease the burden related to implementation, the next phase will be to see that a financial services review of the HST takes place. ”

Notice 250

Mid-HST-implementation, the Canada Revenue Agency released a notice that extended the GST (and HST) to sales and trailing commissions and other fees, based on legislation that would have applied the new taxation retroactively to December 14, 2009. This unexpected announcement would have made trailers and commissions taxable - a clear policy change from the historical treatment. IFIC was instrumental in escalating the issue, working with other industry associations to oppose the change. These efforts culminated in the Minister of Finance's announcement in March, 2010 that there was no intention to expand sales taxation of financial services. Notice 250 was subsequently amended and re-released.

Retirement savings

Canada's retirement income system has been the subject of intense national debate over the last year and a half. Governments at the federal, provincial and territorial levels have been engaged in research and public consultations to determine whether, and how, the retirement systems should be improved to provide for better and more fulsome coverage for Canadians. IFIC has participated in these discussions and helped to illuminate the role the fund industry plays in helping Canadians save for their retirement.

One of the contributions that IFIC has made has been to demonstrate the importance of savings outside of the traditional three pillars of Canada's retirement system; that is, outside of the Old Age Security and Guaranteed Income Supplement (*Pillar 1*); the Canada and Quebec Pension Plans (*Pillar 2*); and registered pension plans and registered retirement savings plans (*Pillar 3*). These additional financial assets can be regarded as '*Pillar 4*' and are held in a variety of forms in individual savings and investment accounts. They are widely relied upon by Canadians as sources of retirement income. Governments have acknowledged that when considering all 4 pillars of Canada's retirement system, Canada ranks among the most balanced and strongest in the world.

Also, IFIC has worked hard to raise the level of understanding of the value of advice. Advice is an important component of private sector solutions for improving retirement savings. Not considering the value that advice plays in building individual wealth promoted the mistaken impression that public sector plans cost less and therefore are universally preferable to private retail solutions for retirement. IFIC's release of the *Value of Advice Report* and representations made to parliamentarians and government officials at all levels of government sought to bring a more balanced view to the debate.

Federal, provincial and territorial Ministers responsible for pensions subsequently agreed in June of this year to take off the table the option of a government-sponsored new supplementary pension plan. Ministers agreed instead to work on changes to tax rules and pension standards to make available arrangements for

“ IFIC was instrumental in escalating the issue, working with other industry associations to oppose the change. These efforts culminated in the Minister of Finance's announcement in March, 2010 that there was no intention to expand sales taxation of financial services. ”

“ When considering all 4 pillars of Canada's retirement system, Canada ranks among the most balanced and strongest in the world. ”



multiple employer plans for employees and the self-employed and to consider a modest, phased-in and fully-funded enhancement to defined benefits under the Canada Pension Plan. IFIC continues to meet with governments to offer constructive ideas for implementing these policies.

Point of Sale

In June, 2010, the Canadian Securities Administrators (CSA) released a status report on the *Implementation of Point of Sale Disclosure for Mutual Funds* that outlined the process that the CSA will take to implement the new disclosure system for mutual funds. Similar rules for segregated funds have been approved by the Canadian Council of Insurance Regulators.

We expect to see a final rule on the filing and posting of *Fund Facts* in late 2010. In 2011, following a transition period, *Fund Facts* will be posted on fund company websites, and available to investors on request. The *Fund Facts* document is a two-page fund summary document intended to provide a client with key information about a mutual fund investment at a time when the information is most useful for the investment decision.

IFIC supports the provision of simpler, more meaningful disclosure of key information about a fund in a summary document. We always have taken the position that disclosure should be standardized into a short, easy-to-understand format. In this regard, the proposed CSA rule is a significant step forward.

We also support disclosing this information prior to the sale of a fund in a manner that is consistent with the way that investors wish to receive information, and that does not disrupt the investors' ability to complete their transaction. We noted our concerns to the CSA that onerous, strictly mandated delivery requirements that only apply to mutual funds and segregated funds and not to other investment products would be harmful to investors. It was gratifying to have the CSA take the decision to delay the implementation of required pre-sale delivery until similar requirements can be developed and applied more generally to other competing retail investment products.

Accounting Standards

Under current International Financial Reporting Standards (IFRS), investment funds having a controlling interest in other investment funds are required to consolidate. During 2009, IFIC made numerous submissions to the International Accounting Standards Board (IASB) arguing that fair value accounting was a more appropriate method of accounting than consolidation for investment funds. In February, 2010, based on the input received from IFIC, as well as others, the IASB decided to exempt investment companies from consolidating controlling interests held in other entities and, instead, measure those interests at fair value.

“ IFIC supports the provision of simpler, more meaningful disclosure of key information about a fund in a summary document. We also support disclosing this information prior to the sale of a fund in a manner that is consistent with the way that investors wish to receive information. ”

“ During 2009, IFIC made numerous submissions to the International Accounting Standards Board (IASB) arguing that fair value accounting was a more appropriate method of accounting than consolidation for investment funds. ”

The IASB and the United States Financial Accounting Standards Board (FASB) are still considering what additional information investment companies should disclose and are expected to issue exposure drafts in 2010.

In order to facilitate the IASB decision, at its May 5, 2010 meeting, the Canadian Accounting Standards Board (AcSB) decided to propose that entities currently applying Accounting Guideline AcG-18, *Investment Companies*, can continue to apply existing Canadian standards in Part V of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting until fiscal years beginning on or after January 1, 2012. Earlier application would be permitted.

An investment company unaffected by the consolidation of controlled investees can adopt IFRS in Part I of the CICA Handbook – Accounting for 2011 as originally planned. On June 30, 2010, the AcSB published for comment an exposure draft proposing that investment companies can defer the adoption of IFRS by one year.

IFIC has engaged in discussions with the Canadian Securities Administrators (CSA) regarding the impact of the above changes on National Instrument 81-106 *Investment Fund Continuous Disclosure*, and an announcement from the CSA is expected soon.

Investor Survey

Since 2006, IFIC has engaged Pollara Strategic Insights to conduct the *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry* survey (the Survey). The Survey was initiated to provide better data around the attitudes and opinions of Canadian mutual fund holders; to identify their needs, expectations, behaviours, and opinions; and to track these over time. The research provides helpful insights into a number of issues including:

- confidence in mutual funds meeting financial goals;
- methods of purchasing mutual funds and the advisor's role in decision making; and
- staying informed about mutual fund investments.

This year the key findings are:

- For the first time since starting the survey, mutual funds now rival primary residences as the investments in which investors have the greatest confidence.
- Investors continue to rely on their advisors; with the advisory channel retaining a large majority of customers when investors make subsequent purchases.
- Investors are confident in their knowledge of fees and prefer to pay them as part of their mutual fund rather than as a separate annual payment.
- The main purpose of mutual fund investments is to fund retirement and the majority of investors are confident in their retirement finances.

“ Mutual funds now rival primary residences as the investments in which investors have the greatest confidence. ”

“ The main purpose of mutual fund investments is to fund retirement and the majority of investors are confident in their retirement finances. ”



For the current wave of research, 1,002 telephone interviews were conducted with mutual fund holders eighteen years of age or older who make all, or some of the decisions regarding mutual fund purchases in their household. All interviews were conducted between June 11, 2010 and June 24, 2010.

National Securities Regulator

On May 25, 2010 the Canadian Securities Transition Office (CSTO), which was established in June 2009, delivered to the federal Minister of Finance a draft Canadian Securities Act which proposes to create the structure for the Canadian Securities Regulatory Authority (CSRA). In addition, in June 2010, the CSTO released its blueprint for the structure of the CSRA. The CSTO's work dealt only with the creation of the structure and not the constitutional authority of the federal government to proceed.

IFIC has traditionally taken a neutral position on a preference of national regulator over the current model. IFIC's prior submissions have been limited to the regulatory environment for conventional mutual funds, rather than the entire securities industry. Noting that the national regulator and passport debate is a political one, the submissions have consistently stated that IFIC's members prefer to focus on the outcome of the regulatory system, regardless of the structure it takes. The industry's goal is a regulatory framework that allows funds to enhance value for investors and that allows for a consistent consumer experience, and that this outcome may be achieved through a variety of structural models.

In August, 2010, IFIC submitted a letter to Minister Flaherty, with copies to all provincial ministers responsible for the regulation of securities. The submission remained neutral on the relative merits of a national securities structure while emphasizing the unique attributes and significant economic presence of the mutual funds sector. The letter offers a number of suggestions for improvement. Specifically, we suggested improvement of the policy review and consultation process, the need for ongoing industry advisory input, appropriate separation of regulatory and adjudicative functions, the need for cost-benefit analyses, and appropriate and proportionate allocation of fees.

The letter was intended to encourage policymakers to consult with IFIC on the structure and function of any national regulatory structure should it proceed, or in any enhancements to the current provincial structure should it remain, and most certainly in the event there evolves a national structure with opted-out provinces, to ensure that IFIC members' ability to distribute products nationally is not impaired.

“The industry's goal is a regulatory framework that allows funds to enhance value for investors and that allows for a consistent consumer experience, and that this outcome may be achieved through a variety of structural models.”

National Instrument 31-103 Registration Requirements and Exemptions

National Instrument 31-103 Registration Requirements and Exemptions (NI 31-103) came into effect on September 28, 2009 and introduced a streamlined and harmonized registration regime. One area of focus for IFIC members is the emphasis on compliance systems and risk management. For the most part, the Instrument articulates existing regulatory concepts but emphasizes the importance of a firm-wide culture of compliance. IFIC issued an information bulletin to assist members in meeting their compliance obligations under NI 31-103. The bulletin identifies a number of resources to assist members to implement frameworks to manage the risks associated with their business in accordance with prudent business practices. The bulletin also addresses the difference between monitoring and supervision and the need for a clearly documented and articulated supervisory structure and compliance framework.

OBSI Governance

IFIC maintains an open and active communication channel with industry stakeholders, who have a strong interest in the policies and operations of the Ombudsman for Banking Services and Investments (OBSI). Over the past year, IFIC representatives, along with other financial industry associations, initiated consultations to improve the OBSI's transparency, efficiency and consultative processes. The ongoing and comprehensive discussions provided opportunities for the presentation of a formal OBSI protocol for communication with industry stakeholders.

In the context of these meetings, three cross-industry working groups have been set up in the following areas: funding fee formula – to address revisions to OBSI's funding fee formula; efficiency – to target the efficiency of the OBSI's internal operations; and calibration – to review specific issues relating to suitability, loss calculations and outside business activities. IFIC members are represented on all three groups.

In addition, further meetings have been held with the OBSI Board of Directors to provide input into decisions affecting industry stakeholders and to hear in a timely manner about such Board decisions as annual strategic plans and budgets, and material changes to investigative processes.

In the coming year, IFIC will continue to collaborate with other financial services associations and together will work with the OBSI to provide feedback to changes being considered, and to proactively engage the OBSI Board in increasing operational efficiencies.

“ IFIC representatives, along with other financial industry associations, initiated consultations to improve the OBSI's transparency, efficiency and consultative processes. ”

Client Relationship Model

After many years in development, the regulatory framework relating to the Client Relationship Model (CRM) is nearing implementation. The investment funds industry has been supportive of regulatory measures designed to clearly define the nature of the client/advisor relationship and the responsibilities that each party will assume when an account is opened.

The Mutual Fund Dealers Association of Canada's (MFDA) proposed amendments to the CRM and Suitability Guidelines have recently been given approvals by the recognizing regulators of the self-regulatory organizations (SROs). These amendments must be ratified by MFDA members in December, 2010, at their annual general meeting, before they become effective. Amendments to the Investment Industry Regulatory Organization of Canada model are still being reviewed by the regulator with the expectation that a revised set of rules will be released later in the fall.

IFIC delivered a number of submission letters to both regulators stressing the need for a harmonized framework developed in a coordinated and consistent approach for the benefit of investors. IFIC will be monitoring these and related initiatives by the SROs.

Do Not Email Legislation

The Canadian Government introduced legislation in 2010, which was aimed at curtailing the amount of spam and fraudulent electronic communication consumers receive. Bill C-28, replacing last year's Bill C-27, was introduced before the House of Commons in a manner which would effectively ban email communication to clients and prospects without obtaining some form of consent to contact them.

While members were supportive of a number of recommendations that are outlined in the Bill, a number of changes are required. IFIC made a submission to the House of Commons Committee on Industry Science and Technology, and the Senate Committee on Transport and Communications. IFIC appeared before the House of Commons to seek to limit the scope of the legislation to those who target individuals and entities through emails where there is no reasonable identifiable relationship between the recipient and the sender.

Some changes in the legislation were adopted in response to the industry's comments, such as extending the definition of an "existing business relationship" to 24 months from the original 18 months, and new wording to allow for deemed consent in the instance where an email address is conspicuously published. IFIC continues to seek an exemption for individual messages based on referrals and for industries with regulatory responsibility to maintain client contact.

“ The investment funds industry has been supportive of regulatory measures designed to clearly define the nature of the client/advisor relationship and the responsibilities that each party will assume when an account is opened. ”

Fund Categorization

IFIC continues to work closely with the Canadian Investment Fund Standards Committee (CIFSC). This year, IFIC recommended a number of revisions to the fund categories that were subsequently adopted by the CIFSC including the re-categorization of funds using synthetic strategies, the re-categorization of infrastructure funds, the creation of sub-categories in the miscellaneous space and a change to the international equity fund definition. A key to the successes realized this year was the ability to draw on subject matter experts within member firms who demonstrated to the CIFSC how IFIC and its membership can be an important resource for its work. IFIC will be assisting the CIFSC as it looks to expand its activities to include the categorization of fund series over the next year.

Understanding Mutual Fund Management Expense Ratios in Canada

Mutual fund pricing, as expressed by the fund Management Expense Ratio (MER), is more standardized, more transparent, and more widely disclosed than the pricing for any other financial product in Canada. Canadian mutual fund MERs are competitive when compared to the total cost of other financial products sold in Canada and to the cost of mutual funds sold in other countries.

IFIC has been working with a number of member committees to develop a comprehensive report on MERs that is expected to be released in 2010. IFIC will utilize this research in discussions with government, media and other stakeholders to ensure that the competitiveness, efficiency, and the value added by the fund industry is well understood.

Value of Portfolio Management

IFIC has been reviewing the existing literature in the active versus passive management debate and has developed a presentation which describes the importance of both active and passive strategies for the support and development of healthy capital markets and for investors. The presentation also highlights the most common errors made by analysts in the debate.

The goal is to help investors, governments and other stakeholders understand that the decision as to which investment management strategy to choose will be time and state dependent with respect to a particular market, and will also depend on individual circumstances including, most importantly, the investor's tolerance for risk.

For investors in particular, the relevant question is how to choose the investment that will maximize the risk adjusted returns of an investor's portfolio subject to his or her other unique circumstances. Both passive and active funds can be utilized to meet the investment objective.

“ IFIC recommended a number of revisions to the fund categories that were subsequently adopted by the CIFSC. ”

“ The decision as to which investment management strategy to choose will be time and state dependent with respect to a particular market, and will also depend on individual circumstances including, most importantly, the investor's tolerance for risk. ”

Financial Literacy

The importance of increasing the financial and economic literacy of Canadians has become particularly evident in the past several years as the impact of the financial crisis was felt by individuals.

Many initiatives to look at ways to improve literacy have been launched. Several provinces are enhancing the school curricula with financial and economic literacy modules; the Honourable James Flaherty, Minister of Finance of Canada, launched a Task Force on Financial Literacy, which held consultations across the country and is expected to issue a report later in the year. IFIC made a submission and presentation to this Task Force recommending several courses of action.

IFIC always has been a member of the Council for Investor Education and we continue to sit on the Council, allowing for the sharing of ideas and programs among many financial services organizations.

For the second year, IFIC is planning to host a Financial Literacy Forum, which will bring together experts from around the world to discuss the issue and potential solutions.

IFIC continues to sponsor the Investor Education Award at the Canadian Investment Awards. Established in 2006; this award is open to any investment fund manager, dealer or integrated firm that has produced an exceptional educational initiative aimed at investors.

To explore more effective ways in which IFIC can support improving the knowledge, skills and confidence of Canadians to make responsible investment decisions, the Board established a Task Force to identify possible initiatives IFIC can pursue that support investor education and financial literacy.

“ The importance of increasing the financial and economic literacy of Canadians has become particularly evident in the past several years... ”



Member Services

IFSE - Education Arm of IFIC

IFIC continues to provide education to its members and other industry participants through IFSE, its wholly owned education subsidiary, at very favourable prices. IFSE provides many courses for dealers and advisors mandated by regulations such as the mutual funds course, and the life insurance course. This year it pioneered a course for individuals selling exempt market products. It also introduced a new Compliance Course. Below is a full listing of courses provided by IFSE:

Mutual Funds

- Canadian Investment Funds Course (CIFC) (English or French)
- Mutual Fund Dealer Compliance (MFDC)
- 90-Day Training for Mutual Funds Salespersons
- Branch Managers' Examination Course (BM) (English or French)
- Canadian Investment Funds Operations Course (CIFOC)
- Officers', Partners' & Directors' (OPD)
- Labour Sponsored Investment Funds (LSIF)

Life License Qualification Program (LLQP)

- Life License Qualification Program (LLQP)
- Accident & Sickness Course

Exempt Market Program

- Exempt Market Products (EMP)
- Officer's, Partner's & Director's (OPD)

Continuing Education

- Ethics for Insurance Professionals
- Leveraging for Investments
- Segregated Funds

For more details visit the IFSE web site - www.ifse.ca

Industry Operations Survey

Over the past year, IFIC has been working to develop a new industry survey that will incorporate the components that will allow fund companies to have a solid benchmark in real terms with peer firms in our marketplace. This information will provide participating firms with support for setting direction on building new processes and service improvements, assessments for new services, resources and developments.



This new survey program will incorporate three key areas all focused on operations: a large advisor satisfaction survey; a dealer operations satisfaction survey; and a high level cost component. The advisor component of the survey will be circulated to all key advisors to assess operations and services provided by or on behalf of the sponsoring firm. The dealer component will be targeting all dealer operations management to assess operations and services provided by or on behalf of the sponsoring firms. The third survey, the cost component, will be directed at fund companies to benchmark key operational costs against peer firms.

The information collected from these surveys will provide valuable insight into how a firm's service offering positions it within the industry. The main objectives of the project are to provide participating fund companies with a means for benchmarking advisor and dealer satisfaction and internal costs, an understanding of a fund company's key strength and opportunities for improvement, and the bottom line impact of improvements.

Following an extensive selection process, TARP Worldwide, Inc. was selected to conduct the surveys on behalf of the industry. Participation in the survey will be available to both IFIC and non-IFIC members. A substantial discount will be available to IFIC members.

Document Retention

Another initiative has been the development of key principles for document management and information to assist firms with implementing their own document retention and destruction procedures.

In the operation of any organization, records must be created, organized, secured, maintained, and used in a way that effectively supports the activity of that organization. Organizations are responsible to create, handle, maintain, and destroy these records in compliance with applicable laws, regulations, and industry standards.

The key principles document provides IFIC member firms (distributors and manufacturers) with a resource for the creation and augmentation of their document management policies and procedures that meet all legal and regulatory requirements.

The *Document Management Record Retention and Destruction* resource is planned for release in the fall of 2010. A regular review of the document will be undertaken by IFIC and amendments made as required to keep it current with applicable laws and regulations.

Assisting the Industry Prepare for Emergencies

IFIC continued to work with members to improve their resiliency in emergency situations.

In the first weeks of summer 2010, there were three events in quick succession – an earthquake, G20 Summit in downtown Toronto, and a blackout – that required some level of emergency response. Many IFIC members used the G20 Summit as an opportunity to test their business continuity plans. IFIC shared information to help members prepare for the G20, including coordinating an event where members could ask questions of the RCMP and Toronto Police Service. IFIC also circulated member lessons learned from the G20, earthquake, and blackout.

Member Events

In addition to our traditional events and to ensure all of our members have access to the information needed, webinars were introduced for those members unable to attend our lunch or breakfast forums.

The Annual Conference has also been reintroduced this year as a one-day event with the Minister of Finance, Canada, the Honourable James Flaherty as the key-note speaker.

IFIC Committees - 2009/2010

Steering Committees

Dealer Committee

Aguiar, George

(Chair)

GP Wealth Management Corporation

Adams, John

PFSL Investments Canada Ltd.

Dyck, Tom

TD Mutual Funds

Enright, Chris

Industrial Alliance Insurance
& Financial Services Inc.

Frances, Robert

PEAK Financial Group

Moorhouse, Ian

Independent Accountants
Investment Group

Walker, Michael

RBC Asset Management

Operations Committee

Davis, Laurie

(Chair)

Hartford Investments Canada Corp.

Gore, Brian

FundSERV Inc.

Ihnatowycz, Ian

Acuity Funds Ltd.

Knight, Linda

(Resigned Feb 2010)

BMO Investments Inc.

Kappele, Ross

BMO Investments Inc.

Policy Committee

Burgess, Sian

(Chair)

Fidelity Investments

Adams, John

PFSL Investments Canada Ltd.

Davis, Laurie

Hartford Investments
Canada Corp.

Enright, Chris

Industrial Alliance Insurance
& Financial Services Inc.

Guay, Charles

National Bank Securities Inc.

Langlois, Stéphane

(ex officio)

LBC Financial Services

Murray, Oliver

Brandes Investment
Partners & Co.

Sims, Charles

Mackenzie Financial

Public Liaison Committee

Gowland, Glen

(Chair)

Scotia Asset Management

Coulter, Doug

RBC Asset Management

Firth, Roy

Manulife Financial

Intraligi, Peter

Invesco Trimark Ltd.

Kearns, John

Northwest & Ethical
Investments Inc.

Reed, Don

Franklin Templeton
Investments Corp.

Working Groups

Accounting Advisory Working Group

Loewen, James

(Chair)

KPMG LLP

Buchanan, Dahlia

Franklin Templeton Investments Corp.

Chin, Gary

Ernst & Young LLP

Heldman, Theo

Invesco Trimark Ltd.

Man, Edna

AGF Investments Inc.

Marof, Erin

Manulife AIC Funds

Pitts, Chris

PricewaterhouseCoopers LLP

Ramos, Mervyn

Deloitte & Touche LLP

Reid, B J

Investors Group Inc.

Santos, Victor

TD Asset Management Inc.

Schauer, Robert

BMO Investments Inc.

Thompson, Andrew

Fidelity Investments Canada ULC

Williamson, Drew

CIBC Securities Inc.

Fund Categorization Working Group

Thompson, Jason

(Chair)

Mackenzie Financial Corporation

Condakchian, Steve
Desjardins Trust

Cunningham, Bonnie
Scotia Securities Inc.

Cutler, Hilly
Invesco Trimark Ltd.

David, Greg
AGF Investments Inc.

Duraj, Martin
RBC Asset Management

Faraco, Joseph
Brandes Investment
Partners & Co.

Gardiner, Sarah
Borden Ladner Gervais LLP

Headland, Kevin
Manulife Investments

Lo, Jonathan
(Resigned Nov '09)
Franklin Templeton
Investments Corp.

Shepherd, Steven
BMO Investments Inc.

Simas, Ivana
TD Asset Management Inc.

Wilson, John
Fidelity Investments Canada ULC

Wright, James
(Effective Dec '09)
Franklin Templeton
Investments Corp.

Legal and Compliance Working Group

Anderson, Clive
(Co-chair)
Manulife Investments

Lake, Darcy
(Co-chair)
BMO Investments Inc.

Black, John
Osler Hoskin & Harcourt LLP

Bolton, Wayne
Invesco Trimark Ltd.

Cheop, David
Investors Group

Chu, Edna
Scotia Asset Management L.P.

Frankel, Ashleigh
AGF Investments Inc.

Holder, Michael
Felcom Data Services Inc.

McGrade, Lynn
Borden Ladner Gervais LLP

Monk, Susan
PEAK Financial Group

Piette, Renée
National Bank Securities

Saloojee, Munier
Fasken Martineau

Sands, Carol
RBC Asset Management

Thadani, Pam
Capital International Asset
Management.

NI 81-107 Fund Governance Working Group

Church, Nancy
(Chair)
RBC Asset Management

Adelson, Eric
Invesco Trimark Ltd.

Bowen, Peter
(Resigned Oct 2009)
Fidelity Investments Canada ULC

Burbach, David
Mackenzie Financial Corporation

Chamberlain, Catherine
BMO Investments Inc.

Châtillon, Pierre-Yves
Fasken Martineau

Chinkiwsky, Bill
Scotia Capital

Cowdery, Rebecca
Borden Ladner Gervais LLP

Cox, Tony
NBF Turnkey Solutions Inc.

DaSilva, Joe
Hartford Investments Canada Corp.

Ellis, Stephen
International Financial Data Services Limited

Lockerbie, Valerie
CIBC Legal

Operations Working Group

Best, Patti
(Chair)
Mackenzie Financial Corporation

Coulter, Aidan
Winfund Software Corp.

Crowther, Kelly
Franklin Templeton
Investments Corp.

Ferrier, Paul
Scotia Capital

Gundy, Harry
FundSERV Inc.

Ion, Jonathan
Dynamic Funds Ltd.

Martin, Larry
Fidelity Investments Canada ULC

Mastromattei, Jack
FundEX Investments Inc.

McShane, Colleen
AGF Investments Inc.

Moorhouse, Ian
Independent Accountants'
Investment Group

Munn, Blair
International Financial
Data Services Limited

Pohanka, Kyle
Borden Ladner Gervais LLP

Russell, Jim
Invesco Trimark Ltd.

White, Russell
Citi Global Transaction
Services Canada



Public Relations Working Group

Damsell, Keith
(Chair)

Franklin Templeton Investments Corp.

Altimas, Derek
(Resigned Dec 2009)
Symcor Inc.

Axworthy, Barbara
Investors Group Inc.

Becker, Lucy
AGF Investments Inc.

Bilhan, Hande
PFSL Investments Canada Ltd.

Boright, Anthony
VAULT Solutions Inc.

Bray, Janet
(Resigned Jul 2010)
Scotia Asset Management L.P.

Harrop, Katherine
Citi Global Transaction Services Canada

Labelle, Albert
International Financial Data Services Limited

Mawani, Aysha
Invesco Trimark Ltd.

Namian, Orli
(Resigned Dec 2009)
BMO Investments Inc.

Pepper Chris
Fidelity Investments Canada ULC

Smirnakis, Francesca
Borden Ladner Gervais LLP

Registered Products Working Group

Scepanovic, Dara
(Chair)
AGF Investments Inc.

Baillargeon, Josée
Invesco Trimark Ltd.

Balakumar, Thiru
Franklin Templeton Investments Corp.

Bean, Michael
CGI ISMC Inc.

Blane, Don
Manulife Securities International Ltd.

Koiv, Lea
The Standard Life Assurance Company

Johnston, Heather
RPM Technologies

Morton, Anthony
International Financial Data Services Limited

Pantalone, Connie
Citi Global Transaction Services Canada

Ramsay, Esther
Fédération des Caisses Desjardins

Shannon, Marie
Mackenzie Financial Corporation

Taxation Working Group

Pearl-Weinberg, Debbie
(Chair)
CIBC

Chasmar, Hugh
Deloitte & Touche LLP

Dubois, Robert
PEAK Financial Group

Green, Gary
Investors Group Inc.

Jette, D'Arcy
MD Funds Management Limited

Johnston, Nigel
McCarthy Tétrault LLP

Jondahl, Sky
BMO Investments Inc.

Lai, Judy
AGF Investments Inc.

Lee, John
Manulife Investments

Lee, Thomas
RBC Asset Management

Maj, Stan
Ernst & Young LLP

Munro, Michelle
Fidelity Investments Canada ULC

White, Laura
Borden Ladner Gervais LLP

Wilson, Ron
Davies Ward Phillips & Vineberg LLP

Young, Kathleen
Brandes Investment Partners & Co.

Task Forces

- Document Retention Policy Task Force
- Emergency Preparedness Task Force
- Error Corrections and Adjustments Task Force
- Financial Literacy Task Force
- Fund Risk Classification Task Force
- Government Relations Task Force
- GST-HST Strategic Advisory Task Force
- GST-HST Legal Representatives Task Force
- HST Operations Task Force
- IFIC Investor Education Award Task Force
- Investor Survey Task Force
- NI 31-103 Implementation Task Force
- Orphaned Accounts Task Force
- Portfolio Trading Practices Task Force
- Point of Sale Advisory Task Force
- Point of Sale Consultations Task Force
- RESP Task Force
- Retirement Savings Task Force
- Value of Advice Task Force
- Value of Portfolio Management Task Force

CFIQ Committees - 2009/2010

Communications Committee

Gervasio, Isabelle
Chair,
Mavrix Funds Management

Duval, Louis-Simon
National Bank Securities

Leblanc, Marie-Claude
Investissements Excel

Paquet, Nancy
National Bank of Canada

Pelletier, Anne-Marie
Fédération des caisses Desjardins
du Québec

Testatni, Annamaria
Wellington West

Operations & Administration Committee

Châtillon, Pierre-Yves
Chair,
Fasken Martineau LLP

Bodnar, Alex
Manulife Financial

Boutin, Marie-Line
Desjardins Financial Securities
Investments

Bourret, Élise
Standard Life

Bruneau, François
Groupe Cloutier Investissements

Cournoyer, Luc
Mica Capital Inc.

Farley-Enslow, Claire
Standard Life

Grenier, Lynda
Trust Banque Nationale

Groleau, Nathalie
Investissements Excel

Sauriol, Chantal
Investors Group Financial Services

Regulatory Watch Committee

Guimond, Martine
Chair,
Gowling Lafleur Henderson LLP

Blanchard, Johanne
Investors Group Financial Services

Boivin, Isabelle
Fédération des caisses Desjardins
du Québec

Brais, François
Borden Ladner Gervais LLP

Brault, Marie
National Bank of Canada

De Koninck, Sophie
Sun Life Financial

Gagnon, Geneviève
Standard Life

Hébert, Cynthia
Desjardins Financial Securities

Piette, Renée
National Bank of Canada

Primeau, Éric
Fédération des Caisses
Desjardins du Québec

Royer, Marylène
Desjardins Financial Securities

Fund Managers & Distributors Compliance Forum

Vaillancourt, François
Chair,
Desjardins Financial Securities
Investments

Armantier, Christophe
Quadrus Investments

Boivin, Isabelle
Fédération des Caisses
Desjardins du Québec

Cardinal, Élyse
Investissements Excel

Chamberland, Élisabeth
LBC Financial Services

Girard, Nathalie
Groupe Cloutier Investissements

Lachance, Nancy
Investia Financial Services

Morin, Yvan
Mica Capital Inc.

Paquet, Lynne
Quadrus Investments

Nomination Committee

Guimond, Martine
Chair,
Gowling Lafleur Henderson LLP

Gervasio, Isabelle
Mavrix Funds Management

Paquet, Nancy
National Bank of Canada

For further information please contact:



The Investment Funds Institute of Canada
L'Institut des fonds d'investissement du Canada

11 King Street West, 4th Floor
Toronto, Ontario M5H 4C7

General: 416-363-2150
Toll free: 1-866-347-1961
Fax: 416-861-9937
Web: www.ific.ca



Conseil des fonds d'investissement du Québec
Le volet Québécois de l'Institut des fonds d'investissement du Canada

1010 Sherbrooke Ouest bureau 1800
Montréal, Québec H3A 2R7
Phone: 514-985-7025
Fax: 514-985-5113

 To download this report electronically please visit: www.ific.ca



11 King Street West, 4th Floor, Toronto, Ontario, M5H 4C7
Tel: 416-363-2150/Fax: 416-861-9937
www.ific.ca