FOSTERING A SAVINGS CULTURE

THE INVESTMENT FUNDS INSTITUTE OF CANADA 2007-2008 ANNUAL REPORT

IFIC

THE INVESTMENT FUNDS INSTITUTE OF CANADA

fostering a savings culture and growth by…

providing quality advice

generating jobs

accessing capital markets

offering savings options

PERSPECTIVES

Robert Frances

from the Chair

IFIC Members have made great strides in meeting the demanding goals we set for ourselves just one year ago. Despite market gyrations and working through a multitude of regulatory reform proposals, IFIC remains vibrant, meaningful and relevant to our Members.

At last year's Annual Conference, I announced three priorities for 2008. The first was to *build on the success that IFIC has had in establishing a pro-active relationship with regulators so mutual fund managers and dealers can maintain a competitive and robust industry*. Major regulatory reforms, including the Registration Reform Project (RRP), the Client Relationship Model (CRM) and Point of Sale (POS), are putting the industry through one of its largest regulatory makeovers in history. While we have yet to see regulators' final responses to our submissions, there is no doubt that we have maintained a collaborative approach through ongoing meetings with our task forces. Discussions with regulators are now a common occurrence; the CEO/ Regulator Summit is an annual event and a new outreach to the political level will enable us to communicate to governments the benefits the industry brings to investors, the economy and the capital markets.

The second priority was to *encourage debate among Members on issues that will enhance overall competitiveness and the longer-term health of the industry*. Throughout the year, in addition to discussions at the Board and committees, IFIC held a record number of informative seminars to stimulate Member comment on major issues of the day. In addition, Dealer Members participated in a special session to identify the important issues for the industry over the next five years.

The third priority was to *continue to focus IFIC on advancing the interests of the mutual fund industry*. In addition to the submissions IFIC has made in response to regulators' proposals over the past year, there are a number of hard-working Member task forces establishing forward-looking positions. They include working with regulators to modernize the investment strategies and rules that govern products that fall under National Instrument 81-102, as well as rationalizing the many disclosure provisions that don't achieve their intended objectives. We also continue to refine the Annual Investor Survey, so that we can continue to gain valuable insights into the attitudes and preferences of mutual fund investors, and factor those into everything we do.

We also now have a fact-supported document outlining the myriad benefits of the mutual fund industry (see p. 16). They include the value the industry has brought to investors and markets by fostering a savings culture, offering Canadians access to the world's capital markets and providing experienced, proficient financial advisors who offer quality advice to investors.

I am sure there are many tests still ahead for our industry. I have enjoyed being your Chair over the past year and look forward to continue working with you to meet the challenges of the future.

Joanne De Laurentiis

from the President & CEO

PERSPECTIVES

Our number one priority over the past year was managing a heavy regulatory agenda that saw review and change to a large number of policies and rules affecting the industry. These initiatives included: a revised version of NI 31-103 *(Registration Requirements)* issued by the Canadian Securities Administrators (CSA); a framework for POS disclosure *(Joint Forum Proposed Framework NI 81-406)* by the Joint Forum of Financial Market Regulators and long-awaited draft policies for a revised *Client Relationship Model* (CRM) from the Mutual Fund Dealers Association (MFDA) and the Investment Dealers Association of Canada (IDA)*. In addition, the industry also had to deal with proposals regarding the convergence of accounting principles and reporting requirements published by the International Accounting Standards Board. These initiatives, as well as others, are provided in the pages of this annual report.

The sheer volume, complexity and overlapping nature of the many regulatory initiatives highlight the need to improve the consultation process – for all stakeholders. IFIC has put forward two recommendations to the regulators as a way of achieving standardized consultation periods and smoother and timelier implementation of regulatory requirements:

1. Adopt a 120-day consultation period as a standard comment period applicable to rules and policy discussion documents to allow for appropriate consideration of the implications of regulation by all interested stakeholders.
2. Establish on a selective basis implementation committees made up of senior regulatory and industry leaders to smooth implementation of new rules. These committees are essential when proposed rules entail major changes to current business practices and systems.

IFIC continues to measure and build investor confidence in the mutual fund product. This year we published an updated mutual fund value proposition and created a fact-supported package of benefits (see p. 16). An omnibus survey of more than 1,000 adults was conducted in May 2008 by POLLARA Inc. and indicated that 47% of Canadians own mutual funds either inside or outside their RRSPs. This is clear evidence that Canadians have strongly embraced the product. The purchase of mutual funds also contributes directly to the health of the economy by investing in Canadian companies, both large and small.

Advancing the industry's agenda is only possible through the dedicated and strong participation of dozens of industry experts drawn from the membership. There are more than 50 committees, task forces and subgroups at IFIC and I would like to thank the hundreds of volunteers who give so generously of their time to provide thoughtful views and comments so that IFIC can effectively advocate for the industry.

I look forward to working with you in the year ahead.

* on June 1, 2008, the IDA became known as the Investment Industry Regulatory Organization of Canada. In this report the organization is still referred to as the IDA as most of the discussions or submissions referred to were conducted with or provided to the organization when it was still the IDA.

QUEBEC INVESTMENT FUNDS COUNCIL

Eric Lapierre

Chair QIFC

The theme over the past year at the Quebec Investment Funds Council (QIFC) revolved around change with the introduction of a new Chair and a new Second Vice-Chair. We have also experienced, over the past few years, a healthy dose of new blood at the QIFC Board and on various committees.

Despite rocky financial markets in the latter part of 2007 and 2008, QIFC remains vibrant and its Members are enthusiastic about the future success of the industry. A successful Compliance Forum in October 2007 and a well-attended 2008 QIFC Annual Conference in April are prime examples of our industry's resolve to maintain a high level of commitment toward clients, advisors and industry employees.

The QIFC leadership role in Quebec is more evident than ever with QIFC's input sought by Members and regulators alike. A constant line of communication is maintained with the Autorité des marchés financiers (AMF) and with the Chambre de la sécurité financière (CSF) to ensure a mutual understanding of issues faced by our industry.

QIFC was heavily involved in discussions that centred around the major regulatory initiatives over the past year. The more notable ones are, without a doubt, RRP, which is expected to be in force in one form or another by this time next year, the POS project led by the Joint Forum and the passport system.

On a more local note and as part of the RRP, the AMF decided last September to directly maintain its regulatory oversight of the Quebec mutual fund industry. This followed unsuccessful discussions as to whether the MFDA or the CSF should gain regulatory authority in Quebec. To improve harmonization across the country, the AMF will adopt MFDA-like rules to regulate our industry by the end of 2011. Since achieving harmonization across financial services has been at the root of much of our work, this is definitely good news.

I am delighted with the number of industry professionals participating in our four standing committees and Board and the expertise and knowledge they all bring to the table. Overall, QIFC is representative of the Quebec industry and remains a strong voice. The solid collaboration between QIFC and IFIC also serves to reinforce industry positions.

QIFC has demonstrated that we are a strong representative of the mutual fund industry in Quebec. In the coming year, we intend to reinforce that position and the added value we bring to our Members by ensuring everyone has the updated information they need to assess the impact of these regulatory proposals to their business models.

STRATEGIC PLAN

2008 to 2010

The planks of IFIC's Strategic Plan form the basis for everything we do to ensure the voice of Canada's mutual fund managers and dealers is brought clearly and effectively before our key stakeholders. Below is a summary of the plan's key strategies. The pages that follow show you how IFIC is achieving these strategies.

Vision

To be a progressive and highly valued industry association supporting and enhancing Members' ability to deliver leading retail investment vehicles for Canadians.

Mission

IFIC is the voice of the investment funds industry. We provide services that proactively influence and advance issues within the regulatory framework, Members' efficiencies, knowledge and proficiency. We provide a consistently high level of service to enable dealer and manager Members to work together in a cooperative forum to continually enhance the integrity and growth of the industry and strengthen investor confidence.

Member Strategies

REPRESENTATION & ADVOCACY

- Maintain a proactive advocacy stance with regulators and self-regulatory authorities.
- Position IFIC as an active participant in regulatory restructuring.
- IFIC Policy positions must be the authoritative source of research and analysis, educate recipients, as well as demonstrate mutuality of interests between the industry and investors.
- Advocate for the creation and adoption of best practices, and where possible, harmonized approaches for all retail pooled investment products in areas that impact the consumer experience.
- Strengthen relationships with other industry organizations.

PUBLIC AWARENESS

- Strengthen investor confidence in investment funds as an ideal way to build and protect wealth.
- Promote public awareness of the importance of the industry, investing and the role of pooled investments.
- Effectively convey industry positions to IFIC stakeholders.

MEMBER SERVICES

- Engage Members in a manner that supports the strategic priorities of the industry and create a community of interest among Members.
- Provide timely, accurate and authoritative industry information i.e. statistics, regulatory briefings and guidance on key issues as appropriate.
- Retain and attract IFIC Membership.

EDUCATION

- Provide strong and effective guidance and support to the IFSE Institute to ensure its continued financial success.
- Assist IFSE in ensuring dealers have continuing access to a competitive educational service and products (i.e. mutual fund licensing course, exempt product course, compliance course, etc.).
- Assist IFSE in building advisor skills, knowledge and behaviours to facilitate improved service to clients.

REGULATORY INITIATIVES

Regulatory reform has been a top-line entry on IFIC's program for a few years, but it was in 2007-2008 that many of the issues that had been under discussion moved forward to draft rules and policies issued for comment.

These came from a number of regulators, sometimes on inter-related topics. IFIC held many fruitful discussions with regulators and appreciated the opportunity to hold open consultations with them. We look forward to improving the consultation process in the year ahead.

IFIC Board Members and task forces came together to work through these initiatives and make meaningful, well-thought-out submissions. Some of the most significant dealt with POS, Registration Requirements, CRM, the passport-single regulator issue, complaint handling, anti-money laundering changes and soft dollars.

Our full submissions are available on the Member web site at www.ific.ca. The following pages provide a summary of the challenges faced by the industry and the approach reached by IFIC.

Point of Sale

Proposed Framework 81-406, *(Point of sale disclosure for mutual funds and segregated funds)* initially released by the Joint Forum in June 2007, describes the elements of a new disclosure system, including a new, two-page fund summary document called Fund Facts, its delivery options, investor rights and the regulatory requirements for preparing, filing and delivering the document.

The industry supports enhancing transparency to clients of the features and fees associated with investment products, and sees advantages for the consumer in moving to a proposed plain language document such as Fund Facts. As IFIC outlined in its initial comment letter in October 2007, the major challenge with the proposal released by the Joint Forum arose from the inflexibility of the requirement to deliver the Fund Facts at or before the point of sale for all transaction types and all clients without exception, and the disruption and inefficiencies this would mean for certain transactions. IFIC stated that the disruptions to the current efficient process for conducting these trades would lead to client dissatisfaction and the growth of less optimal investment solutions over time.

To clearly illustrate the considerable disruptions consumers would experience in getting and staying invested in mutual funds if the proposal went ahead as planned, IFIC supplemented its submission with a practical walkthrough on the investor-advisor relationship – a step the Joint Forum Working Group said helped shape their recommendations.

The Joint Forum had three major principles in mind in putting together its POS disclosure initiative: (1) providing investors with key information (2) providing simple, accessible and comparable data to investors and (3) ensuring the information (Fund Facts) be in the hands of investors at or before the point of sale of either a mutual or segregated fund. In mid-June 2008, the Joint Forum Working Group, having received 87 comment letters from industry and investors, said these principles were unassailable. Still, they have indicated they will be making some revisions to the earlier proposal.

The Working Group said it would recommend to the entire Joint Forum in the fall of 2008 that there be two types of transactions – either an investor-initiated sale in which the investor has done the bulk of the research, or an advisor-initiated sale on an investor's first purchase of a mutual fund the investor doesn't already own. Under the proposed revisions, there would be no requirement for investors to receive a Fund Facts through a sale they initiate – whether it be through a discount brokerage or a full-service advisor. Investors still have the option to receive the Fund Facts on all their funds on an annual basis. There would be no requirement, as was originally proposed, for a Fund Facts document to be given to investors on subsequent trades of the same fund, although they could receive these as well on an annual basis. It was also proposed that investors be able to waive the Fund Facts document when purchasing money market mutual funds, and if a waiver is given, the Fund Facts would go out at confirmation.

In addition, the Working Group was expected to recommend that there be a two-day cooling off period with the timeframe beginning on receipt of the trade confirmation rather than at time of purchase which was originally proposed. While the Joint Forum had originally stated there should be a perpetual right of rescission if no Fund Facts were delivered, the revised proposal is not expected to include this provision.

The Working Group stated that while there would be a level of prescription in the new framework, there would also be flexibility to meet different business models. The rules, to be implemented separately by the mutual fund and life insurance regulators, include periods for public comment prior to going into force.

IFIC Members continue to express concerns with regard to the process and content of the Joint Forum's proposal and with the potential for product arbitrage and the competitive impacts within the industry that the proposal implies.

National Instrument 31-103 *(Registration Requirements)*

Another major component of regulatory reform is the CSA's proposed NI 31-103 *(Registration Requirements)*, which is intended to streamline registration requirements applied by the 13 different jurisdictions and to change the basis of registration to a business trigger from the current trade trigger. IFIC's *Ad Hoc* Board Committee on the RRP and its task forces continued to follow these initiatives and to engage in effective dialogue with both regulators and Members. Regular, timely updates were provided to the Membership through the Committee's Key Messages Document and by hosting Member information update seminars.

In its second version of NI 31-103, the CSA made significant enhancements to the proposals, likely due to the open consultations held with industry participants, including IFIC. Nevertheless there remained several substantial, and a number of technical, concerns for IFIC Members.

The main one was the proposal to set up a registration system for exempt market dealers (EMD) to ensure more securities dealers are registered. The proposed regulation would not require EMDs to be members of an SRO, subject to its oversight regulations and investor protections. The EMD category would replace the Limited Marker Dealer (LMD) category that currently exists in Ontario and Newfoundland and Labrador. However, the LMD is used primarily for underwriting and selling prospectus-exempt products, not widely used as a distribution channel for mutual funds.

As well, the creation of the EMD would legitimize these firms as distributors of mutual funds in the eyes of both mutual fund companies and investors, resulting in an erosion of the SRO framework and the investor protections it provides.

IFIC recommended to regulators that EMDs that choose to deal in NI 81-102 mutual fund products must be members of the MFDA (in the case of Quebec, the company must comply with the regulations on mutual fund dealer requirements in that province), or if they carry on business in an IDA-related business they should be registered with the IDA. The handful of EMDs that currently distribute conventional mutual funds could be grandfathered from this SRO membership proposal so there would be no effect on their business models. This approach provides the Canadian public with a consistent form of regulatory oversight they have come to count on in the mutual fund industry.

Ontario Legislative Amendments

A consultation draft of an Ontario Ministry of Finance proposed amendment to the Ontario Securities Act sought to remove a substantial number of provisions from NI 31-103 and entrench them into the Act. IFIC saw this as a significant impediment to the ability of the Ontario Securities Commission (OSC) to be as responsive and effective as other securities regulators in Canada, creating a regulatory regime in Ontario that would differ from the regulatory structure elsewhere in the country and detract from the harmonization effort underlying the CSA's initiatives. Twenty-one provisions of the proposed National Instrument would not apply in Ontario – those provisions would appear in the Ontario legislation with different language than that in the proposal.

Subject to the passage of legislative amendments in all jurisdictions, the final rule is expected to be published in late 2008, followed by implementation in March or April 2009. Legislative amendments went ahead in many provinces and were expected to be fully in place by mid-2008.

IFIC also continued to promote the concept of a modular, product-specific approach to proficiency for EMD representatives, challenging the proposal's approach that the Canadian Securities Exam is the only proficiency assessment tool for this category. The CSA had indicated that alternative education would be recognized but did not provide any explicit language as to alternatives. IFIC asked that NI 31-103 be amended to outline acceptable alternative exams or at least the accreditation process generally. Implementation work has started on the proficiency aspects of the rule and IFIC has been invited to participate in that process.

There also remained concerns about the potential effect of the business trigger on the principal-agent distribution model with directed commissions to incorporated salespersons. IFIC's submission requested an express exemption of such business structures from the proposed rule.

Other topics that IFIC noted as needing to be resolved before the rule goes into effect, included inappropriate proficiency requirements for Chief Compliance Officers, and the lack of harmonization on a number of regulatory fronts, including complaint handling, relationship disclosure requirements and the lack of co-ordination of legislative amendments across provinces necessary to implement NI 31-103 requirements.

Client Relationship Model

The implementation of the Client Relationship Model (CRM) principles through amendments to the rules of the IDA and the MFDA came closer to becoming a reality in 2007-2008.

The core principles of the CRM deal with clarity and transparency of the account relationship entered into among the client, the advisor and the dealer, including the disclosure of client costs, advisor conflicts and account performance and risk. The IDA's proposed CRM rule was published for comment in February 2008. The MFDA's rule amendments were released in June and, similar to the IDA's, contained requirements for clarifying the relationship between the client and the advisor, clarifications regarding triggers for reviewing suitability and new requirements for providing clients with a minimum level of information about the performance of their investments.

While IFIC's comment letter on the MFDA's proposal on CRM had not been completed when this annual report went to print, IFIC's comments to both SROs supported the principles of the CRM model and contained two key recommendations.

First: IFIC urged both the IDA and the MFDA to adopt flexible rules for performance reporting to foster effective solutions tailored to the client, rather than prescribed solutions that may or may not be informative and may confuse or misinform the client.

Second: IFIC asked that regulatory policies in this area be harmonized to ensure that the client experience is common and consistent across all products and providers. It also called on regulators to align their policies and rules with those of other regulators, including the CSA, to avoid duplication and overlap. This will require closer collaboration among the various regulators and the industry in the development of CRM and in related rules such as the POS disclosure initiative of the Joint Forum and the CSA's proposed NI 31-103.

IFIC also recommended adjustments to the proposed requirements for suitability reviews and relationship disclosure that will further benefit the client.

Passport-Single Regulator

Multi-Lateral Instrument 11-102, which gave effect to the "Passport Model," came into force on March 17, 2008 in all jurisdictions except Ontario, establishing processes for filing and review of prospectuses and exemptive relief applications in all jurisdictions, including Ontario, replacing the current mutual reliance review systems (MRRS). Ontario did not adopt the passport system, preferring the creation of a single national regulator.

Even though Ontario did not participate in the passport model, the other provinces created an accommodation for Ontario. The passport model essentially establishes a "one-way" passport for Ontario-based registrants whose dealings with the OSC will result in automatic effect in the other (passport) jurisdictions. Passport jurisdiction participants, on the other hand, must deal with their home regulator in addition to the OSC if they wish to benefit from the same relief in Ontario.

IFIC was generally pleased with the passport model as it promised greater efficiencies for registrants operating in multiple jurisdictions. However, there were concerns about the impact of Ontario's refusal to participate. IFIC submissions did not comment on the relative merits of the passport system over the single securities regulator proposed by Ontario. Rather, they assessed whether the proposal would meet its stated claim of further simplifying the securities regulatory system for all involved.

The CSA acknowledged that passport jurisdiction filers are at a disadvantage through this system and committed to reviewing the direct access provided to Ontario participants two years after the full implementation of the passport model – if Ontario has not by then committed to adopting the passport rule.

After ML 11-102 came into effect, IFIC Members reported problems under the passport system and raised concerns. A passport proposal for registration was expected to be released for comment during the summer.

EXPERT PANEL

On February 21, 2008, the federal Minister of Finance announced the creation of an expert panel to provide advice and recommendations to the federal and provincial governments on the best way to improve securities regulation in Canada. The panel is chaired by Tom Hockin, IFIC's former president and CEO. The panel's consultation document probes into areas more far-reaching than simply the pros and cons of a single regulator versus a passport regulatory structure.

IFIC's comments were limited to the regulatory environment for conventional mutual funds, a narrower focus than the panel's broad securities industry scope. With respect to the question of which structural model would be best for Canada, (based on previous discussions at the Board of Directors) IFIC Members preferred 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 provide a consistent consumer experience, an outcome that may be achieved through a variety of structural models.

The submission proposed the following improvements to the current CSA consultation processes, regardless of the regulatory model, to facilitate the achievement of this objective:

1. Identification of a set of principles fundamental to the mutual fund product that would underpin a regulatory framework. A principles-based approach would facilitate the modernization of mutual fund regulation and provide flexibility to use sophisticated tools and processes and ultimately enhance value for investors.
2. Reforming the rule review process to increase the level of transparency and collaboration between the regulatory authorities and the industry, including mandated periodic reviews of the rules governing the industry.

Complaint Handling

Over the past year, IFIC monitored a range of initiatives by self-regulatory organizations and securities commissions related to complaint-handling requirements. The MFDA and the IDA each proposed amendments to their rules aimed at enhancing the timeliness of responses from companies and advising when firms should provide information to clients on the dispute resolution process.

In its submissions to the IDA and MFDA, IFIC noted the industry is subject to oversight from numerous regulatory bodies and agencies across Canada, including the IDA, the MFDA, the securities commissions and the Ombudsman for Banking Services and Investments (OBSI). Each has its own complaint-handling policies and procedures, and they differ in many respects.

The Joint Forum published objectives for ombudservices, which OBSI attempted to address through revisions to its Terms of Reference. The CSA's *Registration Requirements* (NI 31-103), also contain complaint-handling provisions that will apply to the mutual fund industry.

IFIC reviewed all proposals and noted that some of them would add further inconsistency and confusion for investors.

IFIC noted that a siloed approach to rulemaking in the various agencies involved with complaint handling can lead to different responses and may require the development of multiple systems within firms, depending on their business models and the jurisdictions they operate in.

IFIC urged alignment among the various organizations involved in the policy setting and oversight of complaint handling to achieve a harmonized and consistent approach for the benefit of market participants and investors.

Anti-Money Laundering

Amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* came into force on June 23, 2008 with major implications for dealers and fund managers, including:

- New compliance regime requirements
- New reporting requirements for attempted suspicious transactions
- New requirements for foreign subsidiaries or branches to meet Canadian identification, record-keeping and compliance standards if the host country is not a member of the Financial Action Task Force, and
- New identification and record-keeping requirements for politically exposed foreign persons and for an entity's beneficial ownership.

Although fund managers and dealers both fall into the "securities dealer" category under the Act, they face different obligations depending on whether or not they deal directly with clients. To help Members navigate the changes, IFIC provided them with a guidance note outlining the implications for fund managers and dealers. The guidance note was developed in consultation with IFIC's AML/ATF Task Force. The note is not intended to be an implementation checklist because each reporting entity's obligations will depend in part on an assessment of the risks related to money laundering and terrorist financing.

In the coming year, IFIC will continue to facilitate discussions between the industry and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to ensure smooth implementation of the new requirements.

The guidance note can be found on the IFIC web site at www.ific.ca under Hot Topics.

Soft Dollars

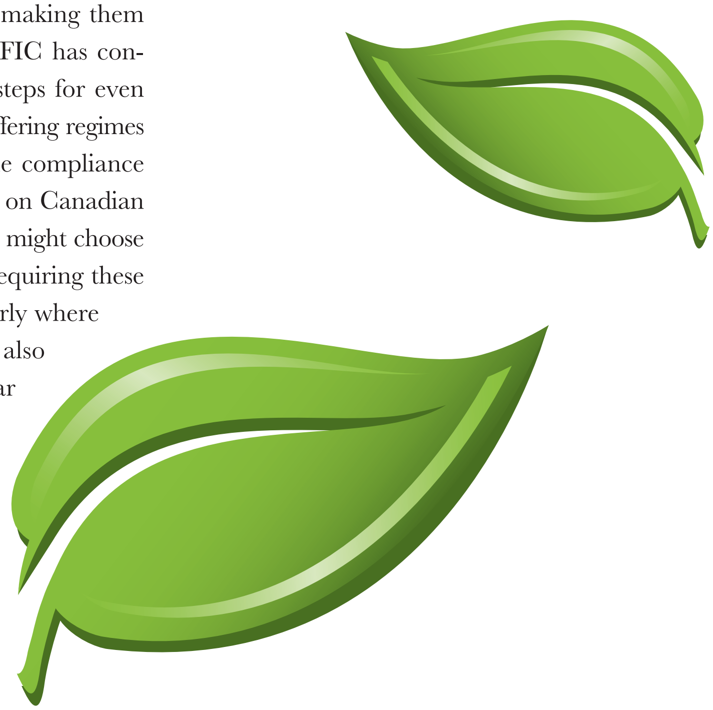
In April 2008, IFIC's Portfolio Trading Practices Working Group was instrumental in providing the industry's views on a revised proposal by the CSA, NI 23-102 *(Use of Client Brokerage Commissions as Payment for Order Execution Services or Research Services)*, more commonly referred to as soft dollars.

In most jurisdictions around the world, soft dollars has no legal definition. However, it is generally considered to be the practice of dealers using commissions on brokerage transactions for managed accounts to pay for goods or services given to the manager of the account. Because the benefit does not necessarily flow directly or entirely to the account that generated the commissions, there is a perceived conflict of interest.

In a number of countries, the benefits that can be obtained with soft dollars are specifically limited by law. In Canada, the CSA is setting out the specific parameters for the use of client brokerage commissions, as well as disclosure requirements.

In its latest proposal, the CSA provided some harmonization on the proposed Canadian soft dollar rules, making them more consistent with rules in the U.S. But IFIC has continued to urge Canadian regulators to take steps for even greater consistency with the U.S. approach. Differing regimes among international jurisdictions increase the compliance burden on Canadian managers and therefore on Canadian investors. Additionally, some U.S. sub-advisors might choose not to do business with Canadian managers requiring these new uniquely Canadian obligations, particularly where Canada is a small market for them. IFIC also sought harmonization with existing soft dollar disclosure requirements already in place.

The CSA has said it will consider further amendments to harmonize the requirements in NI 23-102 with those ultimately put in place in the U.S. We have urged the CSA to work with the industry to find the appropriate level of disclosure.



Fund Governance

Since coming into force in November 2006, National Instrument 81-107 *(Independent Review Committee for Investment Funds)* required fund managers to appoint an Independent Review Committee (IRC) to oversee all matters involving actual and perceived conflicts between the interests of the person or company that directs the business, operations and affairs of a fund and those of the fund itself.

The NI 81-107 Working Group developed guidance relating to various aspects of NI 81-107 implementation, including an IRC Charter Framework and implementation and post-implementation checklists to assist Members with issues that may arise in the future.

The latest in the NI 81-107 guidance series provides both fund manager Members and their IRCs with information and resources to assist with IRC assessments required by the rule. According to commentary in NI 81-107, the annual effectiveness self-assessments by the IRC "should improve performance by strengthening each member's understanding of his or her role and fostering better communication and greater cohesiveness among members."

While the effectiveness assessment requirements are obligations of the IRC rather than the fund manager, in many cases IRC members will look to the fund manager for guidance and assistance in carrying out these reviews and implementing any changes. IRC effectiveness is important to the efficient operation of the investment fund, and is therefore a priority of the fund manager as well.

Taxation

The framework for IFIC's tax policy initiatives over the past several years has been "helping Canadians save for their own retirement," and in 2007-2008, we counted a number of successes based on this theme.

In the spring of 2008, after a number of years of lobbying by various industry groups, the federal government announced the creation of the Tax Free Saving Account (TFSA) – one of the most significant new savings vehicles in Canada in many years. This new savings idea will provide Canadians with more flexibility in planning their optimal savings strategies. With a TFSA, an individual can invest $5,000 of after-tax income per year and the investment income earned will be free from tax. In addition, over the long-term, this additional savings vehicle should help foster growth in savings among Canadians.

Another major win in the last year was the passage of Bill C-10, which provides bankruptcy protection for RRSPs and RRIFs, putting them on an equal footing with other major retirement vehicles such as pensions. IFIC had been lobbying for this for several years.

Each year in June, IFIC's Taxation Working Group holds its annual Tax Symposium to explore ideas for possible inclusion in IFIC pre-budget submissions. In last year's submission, IFIC signalled its support for the TFSA concept and recommended elimination of the tax on capital gains on the basis that it would promote a more efficient allocation of capital and promote economic growth, producing sufficient tax revenues to offset – at least in part – the cost of the program.

In addition, Working Group Members have been dealing directly with federal tax officials on various topics, including an alternate minimum tax on unit trusts, the double taxation of mutual fund corporations and the rollout of the TFSA program.

Accounting Standards

Full adoption of International Financial Accounting Standards (IFRS) takes place in Canada in 2011, and the mutual fund industry is hard at work assessing its impact through IFIC's Accounting Advisory Working Group. The Working Group has found a number of cases in which the new accounting guidelines are not appropriate for investment funds and would instead provide misleading and confusing information for users of fund financial statements. Accordingly, IFIC has been working with Canada's securities regulators to amend parts of NI 81-106 *(Continuous Disclosure)* to ensure financial statement reporting and disclosure in Canada remains meaningful.

Also during the past year, the Canadian Institute of Chartered Accountants (CICA) Sections 3862 and 3863 came into effect which address presentation and disclosure of financial instruments. In response, the Working Group produced guidance for IFIC Members explaining how these new standards apply to investment funds.

In addition, the Working Group, in concert with other mutual fund organizations throughout the world, made submissions to the International Accounting Standards Board suggesting changes to IFRS that would provide investors with more meaningful financial information of their investment funds. The two primary areas of concern were the IFRS requirement to use bid prices to value actively traded investments and the requirement under IFRS to split investor equity. The Working Group told the IASB that neither of these requirements would be useful for users of mutual fund financial statements. The IASB has said it will take these ideas under consideration.

Representatives from IFIC have been participating on a CICA committee to update the Research Report on *Financial Reporting by Investment Funds* to reflect Canada's move toward IFRS, including new CICA Handbook Sections 3855, 3862 and 3863. This document is widely used by the industry to assist in implementing GAAP in Canada.

INDUSTRY FACTS AND FIGURES

Fund Categorization

The Canadian Investment Funds Standards Committee (CIFSC) was formed in January 1998 to standardize the classifications of Canadian mutual funds and provide investors with a consistent set of mutual fund categories. CIFSC is comprised of fund data publishing and analysis firms, consultants and other industry participants who meet on a regular basis to administer and update the categories. IFIC established the Fund Categorization Working Group to provide substantive and timely input to CIFSC on a variety of matters.

The Working Group, whose members represent the majority of mutual fund assets in Canada, held extensive and productive discussions with CIFSC over the past year regarding the annual category update process.

The Working Group believed that the current categorization system was effective and given the robust category changes over the past several years, requested that there not be material changes in 2008 so as to preserve the continuity and integrity of the system for investors. The results from the CIFSC 2008 category review reflect the Working Group's overall view with relatively minor changes being implemented to existing categories.

An example of a minor change stemmed from the growth in China and the attendant emergence of a number of investment funds investing in this region. The Working Group's recommendation to introduce a "Greater China Equity" category was then implemented by CIFSC.

In the coming year, the Working Group looks forward to building on the excellent working relationship that it has had with CIFSC over the past year to ensure that their common goal, serving the interests of investors, advisors and related stakeholders, is met.

Mutual Fund Industry Data 2007-2008

The effects of the credit and related housing crisis in the United States have reverberated through financial markets around the world, including Canada, over the past 12 months. Investors and institutions alike had to reevaluate their portfolios and consider the benefits of diversification in an attempt to reduce the potential for loss.

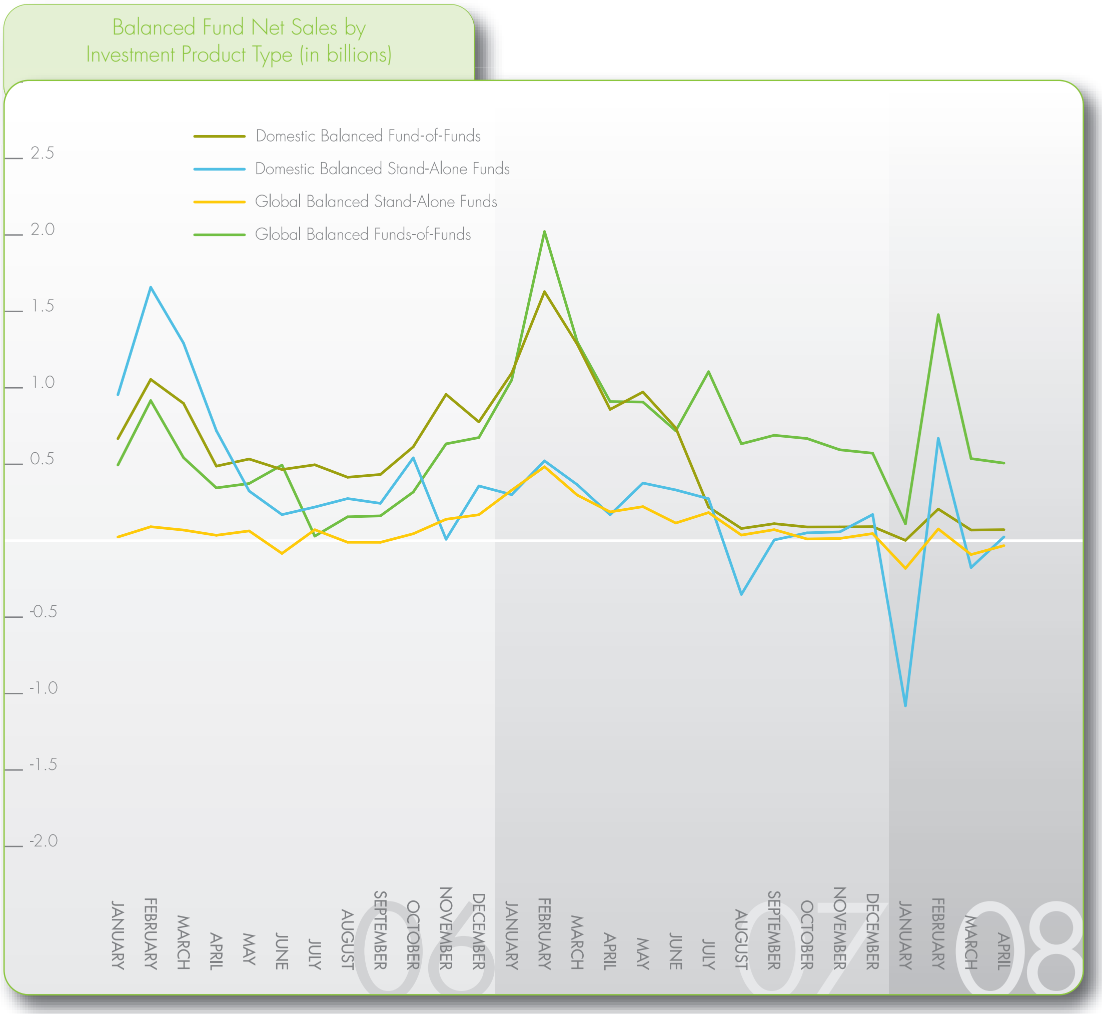
For mutual fund investors, this had led to a dramatic shift away from long-term funds towards short-term investments generally. For example, in January 2008, the fund industry had a record $4.8 billion in money market fund sales and a record $4.3 billion in long-term fund net redemptions.

Industry Net Sales by Broad Asset Class (in billions)

IFIC has recognized the importance of our monthly statistical commentary in helping to put important events such as these into context and has continued to enhance the value of the commentary to Members over the past year by redesigning and expanding some of the material.

The two new views of the industry – the Primary Investment Management View and the Funds Administration/ Distribution Role View – introduced to the reporting data last year, have continued to show their value.

It is through these new views that we have seen the marked difference between the sales dynamics of fund-of-fund and stand-alone products, especially in the Balanced fund area. This level of analysis would not be possible were it not for the two new views. The Canadian fund industry is unique in the world in its ability to capture stand-alone and fund-of-fund product data with all shared fund holdings removed.



As with the introduction of fund-of-fund products several years ago, we continue to see our Members expand their scope of product offerings beyond traditional mutual funds, leveraging their asset management expertise to create novel ways of meeting the needs of investors.

Going forward, IFIC will be looking for opportunities to expand our reporting to new product types and to provide more research, analysis and value to our Members.

KEY INDUSTRY FACTS*

Canada's mutual fund industry provides significant economic benefits to individual investors, small to large corporations and the country in general:

It does so by:

- providing Canadians with access to the world's capital markets – access that had once been available exclusively to large institutional investors
- fostering a savings culture by providing retirement savings options for Canadians who do not have employer pension plans
- encouraging Canadians to take responsibility for their own long-term financial welfare, reducing the burden on both federal and provincial governments
- encouraging the growth of small, medium and large corporations through capital market financing provided by a wide range of individual investors
- generating tens of thousands of jobs in an innovative and vibrant industry, and
- providing experienced advisors who offer quality advice to investors, taking into account product suitability and knowledge of their clients.

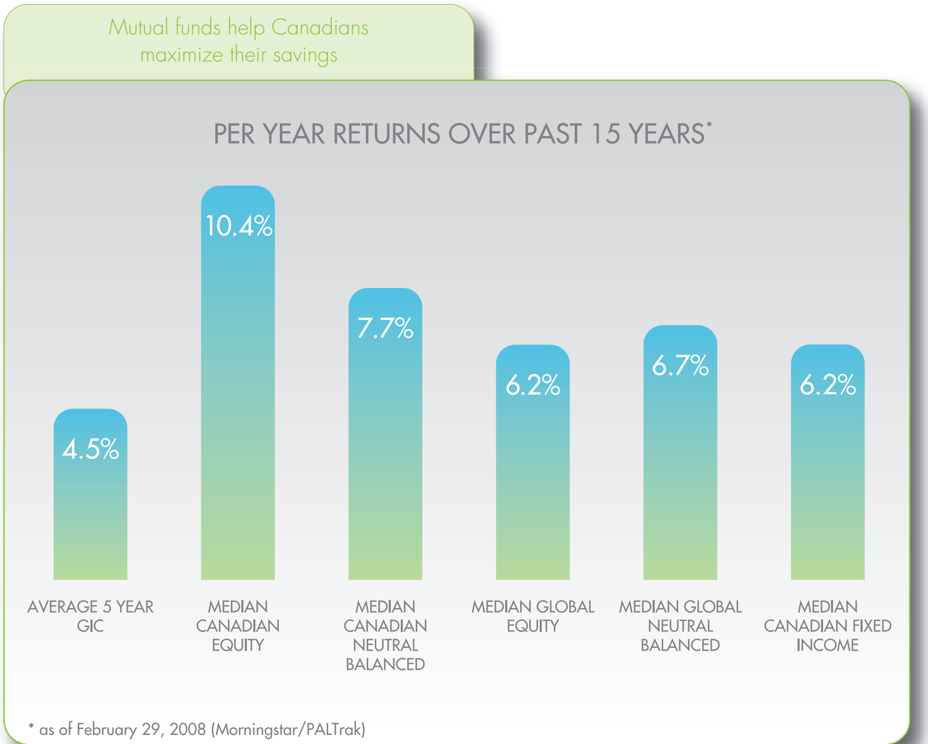
MUTUAL FUNDS – FOSTERING A SAVINGS CULTURE IN CANADA

Long-term financial security of its citizens is one of the key attributes of a stable, healthy country. Many individuals, however, cannot achieve financial security on their own. Getting there is a joint effort of those individuals, their employers, their governments and the financial institutions that provide them with accessible and effective vehicles for saving.

- More than 47% of Canadian adults currently indicate they own mutual funds either inside or outside an RRSP.
- For over 75 years, the Canadian mutual fund industry has been instrumental in helping individuals save for their futures and increase their wealth by participating on their behalf in the world's capital markets. As of the beginning of 2007, mutual funds made up $752 billion, or 30% of Canadians' financial wealth.
- A major savings vehicle for most Canadians is the RRSP. About 58% of all families had RRSPs in 2005, a proportion that increased to 69.4% for families where the highest wage earner was 55 to 64 years old. The median RRSP plan value was $30,000 in 2005. More than half of the total value of Canadians' registered plans is invested in mutual funds and income trusts.
- The positive experience underlying the confidence of Canadians in mutual funds and the ability to put aside a set amount of funds every month has helped fuel the growth in long-term mutual fund savings. From the start of 1997 to the end of 2006, long-term mutual funds garnered considerable growth with flows of almost $240 billion, capturing about 35 cents of every dollar that went into financial wealth during that period.
- Having access to fund savings options is critical as a smaller proportion of the Canadian workforce is now saving for their future through a traditional employer-sponsored registered pension plan (RPP). Between 1985 and 2005, the percentage of paid workers covered by an RPP fell from 44.2% to 38.5%.

* For details on sources and updated information, go to www.ific.ca

- The mutual fund industry encourages consistent investment by offering pre-authorized chequing (PAC) options in both their registered and non-registered savings accounts. Nearly 20% of registered accounts have a PAC plan set up to keep investors' savings plans on track. At November 30, 2007, the average monthly PAC contribution for both registered and non-registered accounts was $187.



- In November 2007, IFIC asked 15 Members what the average mutual fund registered and non-registered account balances were at their firms. They reported an average mutual fund RRSP account had a balance of $26,540. Nearly 12% of non-registered mutual fund accounts had a PAC set up and the average non-registered account balance was close to $49,227.

- Achieving long-term financial security through investing requires discipline and sound portfolio construction. The fund industry has shown Canadians how to make their savings work harder for them with investing solutions that enable them to fully diversify and both protect and grow those savings. Balanced funds, specifically fund-of-funds – portfolios that prudently combine equity with fixed income to moderate risk and conserve wealth – are the top choice for long-term Canadian investors. In 2007, Canadians purchased $23 billion worth of balanced funds and held $250 billion in this asset class by year's end.

- A key measure of investor satisfaction is confidence. A recent survey shows Canadian investors have more confidence in mutual funds (75%) and their primary residence (75%) in meeting their household's financial goals than they do in term deposits (64%), stocks (55%) and bonds (55%).

MUTUAL FUNDS – ACCESSING CAPITAL MARKETS

Through mutual funds, thousands of Canadians are able to invest in capital markets to help create a stronger, more prosperous Canada. Mutual funds support Canadian companies with the resources they need to expand and grow, bolstering the economy by enriching individual investors and supporting Canadian businesses.

- Capital markets can be out of reach for small investors and the fund industry has given those individuals an entry point for the kind of wealth accumulation previously available only to large investors and institutions. Of the $2.5 trillion in shares held by Canadians at the end of the fourth quarter of 2007, $697.3 billion were held through mutual funds. Of this $697.3 billion total, Canadians are estimated to have held $48.8 billion in Canadian fixed income funds, $182.5 billion in Domestic equity funds, $23 billion in U.S. equity funds and $106.4 billion in Global & International equity funds.

- Mutual funds contribute directly to the health of the economy by investing in Canadian companies, both large and small. There were just under 850 mutual funds focused on the Canadian economy as of February 2008 with more than $430 billion in assets under management.

- Mutual funds are strategic in the financing of smaller companies. There were 97 Canadian small-cap funds available as of the end of February 2008, with more than $17 billion in assets under management.
- Mutual funds provide access to specialized markets. For example, as of February 2008, there were four funds with a specific mandate to invest in large-scale infrastructure projects.
- Mutual funds also provide access to higher risk markets such as Emerging Markets equity ($3.6 billion), High Yield Fixed Income ($4.8 billion), Natural Resources Equity ($8.8 billion) and Precious Metals equity ($3.9 billion) in a way that allows for more diversification and lower risk than would be available to most investors if they invested in these markets directly.
- Companies such as Magna International, Major Drilling Group International Corporation, Leon's Furniture, CAE, Shaw Communications, Cameco, CCL and Canada Bread were helped at some point through investments by Canadian small cap funds. Over the 10 years ending 2006, these successful Canadian companies were able to raise an average of $496 million each from equity markets. The mutual fund industry has also invested in such well-known large cap Canadian companies as Molson's, Bank of Montreal, Loblaws, Royal Bank and Labatts, as far back as 1962.

MUTUAL FUNDS – THE GROWTH OF AN INDUSTRY

There are currently more than 90,000 representatives in Canada registered to sell mutual funds, including advisors and administration positions. Direct and indirect employment in the fund industry affects the lives of 225,000 Canadians.

MUTUAL FUNDS – INVESTING WITH ADVICE

Experienced advisors provide quality advice to investors, taking into account product suitability and the knowledge of both their client and the product to build a consistent and satisfying relationship for both.

Mutual Fund Asset Growth
1997-2007

- The vast majority of Canadian mutual fund investors continue to rely on advisors (81%) rather than buying without advice – that is, online or from an individual who just took their mutual fund order (15%). In the U.S., about half of those who hold mutual funds outside a work retirement plan use advisors to buy funds.
- Not only do the majority of mutual fund investors purchase their funds through an advisor, these investors also rely heavily on their advisor when making decisions about mutual funds. Six in 10 mutual fund investors who purchase through an advisor report that their advisor is involved in their decisions about mutual funds. Over half make the decision jointly with their advisor.

MEMBER SERVICES

The strength of a member-driven organization lies in providing those members with the tools and knowledge to continue building their businesses.

An overarching theme at IFIC this past year was to provide stakeholders with the kinds of information, insight and understanding that they need to make informed decisions about issues that affect their day-to-day businesses and planning.

With regulatory issues taking front and centre, IFIC hosted a record number of informative seminars in 2007-2008, including on RRP, POS, CRM, complaint handling, anti-money laundering and a special workshop on Registered Disability Savings Plans. Members were updated on regulatory initiatives with task force and committee Members providing viewpoints from both managers and dealers. Major submissions on regulatory matters were released to Members about a week prior to regulator deadlines to provide Members with a basis on which to make their own submissions if they chose to do so.

In 2007, IFIC held two major seminars with Dealer Members discussing issues of the future and highlighting areas of consensus. These were followed up in 2008 with a Dealer Day, identifying key areas of focus.

Two of the most popular industry events remained IFIC's Annual Conference and the Compliance Forum, the latter run in conjunction with the Association of Canadian Compliance Professionals. Senior executives from our Member committees highlighted an expanded Annual Conference in 2007, which also offered a host of networking opportunities. A regulator panel with Bill Rice, Chair of the Alberta Securities Commission, Doug Hyndman, Chair of the British Columbia Securities Commission and David Wilson, Chair of the Ontario Securities Commission, as well as a speech by Quebec Finance Minister Monique Jérôme-Forget highlighted the conference. Many topical issues, including the POS initiative, the introduction of IFRS and hot investor tax issues, attracted delegates.

Providing stakeholders with…

information & insight understanding

A few changes were introduced at the Annual Conference of the Quebec Investment Funds Council held April 9, 2008, in Montreal, which boasted a 20% increase in both participation and sponsorship. For the first time, participants had the chance to attend a number of concurrent sessions during the day. Yvon Charest, President & CEO of Industrial Alliance Insurance and Financial Services Inc., shared with delegates key ingredients of the ongoing success of his firm. Sponsors signalled their high ratings of the conference by quickly confirming their attendance for next year.

We continued to refine and articulate the benefits of membership with IFIC. Only Members may now participate on committees and task forces and in the Annual Compensation Survey. In addition, Members receive a substantial discount in attending our seminars and other IFIC-run conferences.

Our Job Board has become automated, making it easier for Members to post important career announcements. IFIC averages more than 600 job postings every year.

Our web site, redesigned aesthetically last year, is now easier to navigate, allowing Members to find a submission, committee minutes or news release faster and with greater efficiency.

IFIC's ever-popular golf tournament was moved to a new venue this past year. Rattlesnake Point Country Club drew a sell-out crowd of players eager to test their skills on the 18-hole SideWinder and CopperHead courses. In addition, a nine-hole course was available for those either new to the game or who preferred a slower pace.

PUBLIC AWARENESS

Communicating the benefits of the mutual fund industry, providing informative data on daily issues and offering insight into investor behaviour and attitudes formed much of the solid work in public awareness over the past year.

One of the goals of the Public Relations Working Group was to factually present the benefits the mutual fund industry has brought to investors and to the Canadian economy in general. The result was the formation of a task force, including key help from the Statistics Department, which helped create IFIC's Key Industry Facts. These facts, bolstered by data from IFIC Statistics, Investor Economics, Statistics Canada and the U.S. Investment Company Institute (ICI), demonstrate that mutual funds foster a savings culture in Canada by helping investors maximize their savings, strengthen capital markets, and provide expert financial advice through the mutual fund distribution network. (see p.16)

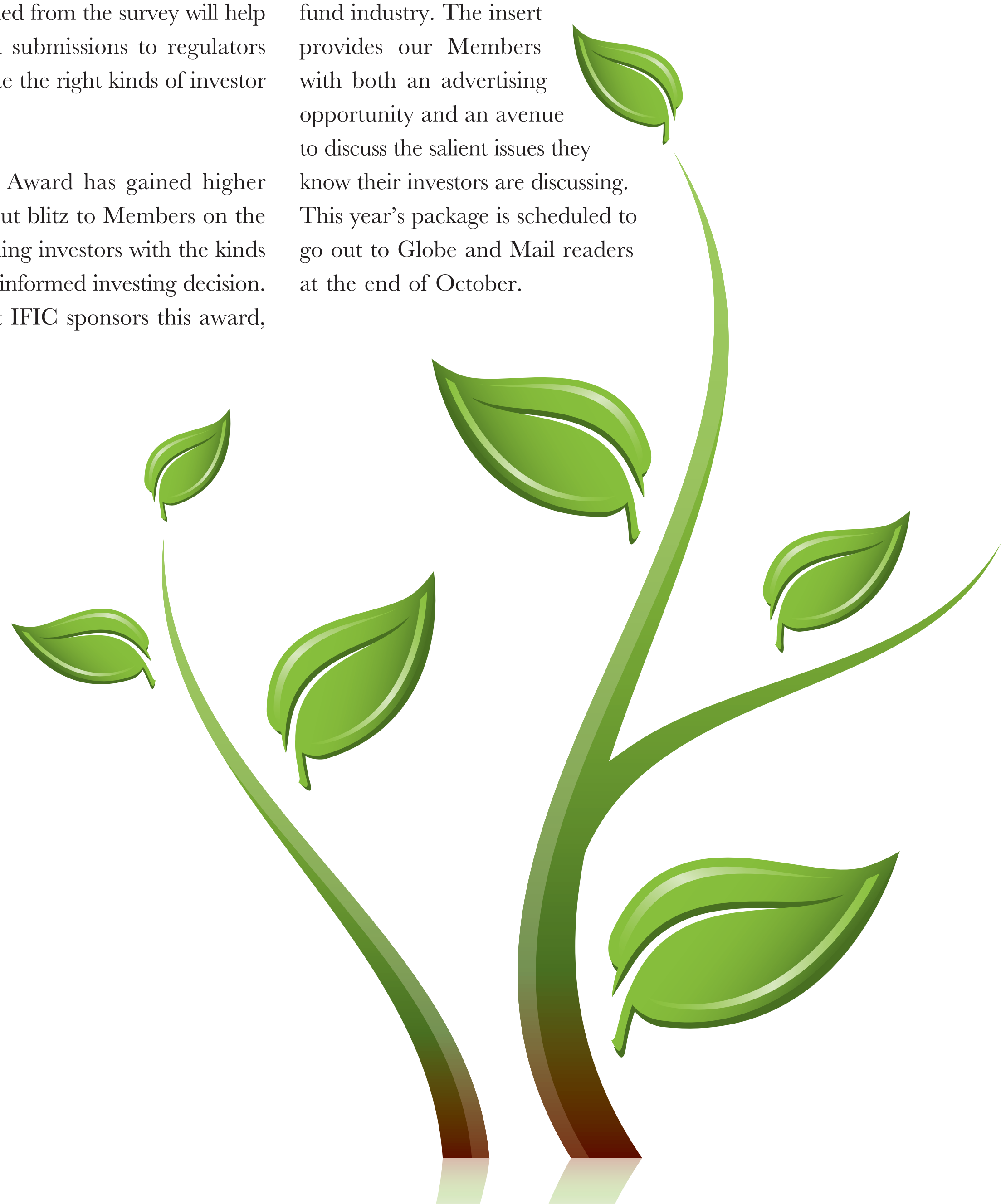
The industry benefits and Key Industry Facts follow the release last year of the Mutual Fund Product Value Proposition and a series of stories that have gone out to the media to emphasize the various attributes of the mutual fund product.

IFIC also posted a number of Information Bulletins to the Member web site, including one outlining the points of the true cost of investing. While many proponents of non-mutual fund products have highlighted the impact of MERs on investments, they have failed to mention the costs of buying and selling those products, the cost of maintaining the investment and the average holding period. This Information Bulletin also contains data on the unique benefits of mutual funds.

Results of IFIC's Annual Investor Survey, on for the third year in 2008, will be presented again at our Annual Conference. The survey provides insight to Members on the value investors place on the mutual fund product, the reliance they have on their advisors and how they handle volatility. The information gleaned from the survey will help shape IFIC's investor-oriented submissions to regulators and enable the industry to create the right kinds of investor education materials.

The IFIC Investor Education Award has gained higher publicity this year with an all-out blitz to Members on the importance and value of providing investors with the kinds of details they need to make an informed investing decision. This will be the third year that IFIC sponsors this award, which enables the winner to display a logo from the Canadian Investment Awards that can be used on marketing materials and the company's web site. The Canadian Investment Awards Gala will take place on December 3, 2008, at the Fairmont Royal York Hotel in Toronto, where the IFIC Investor Education Award will be presented in front of about 650 industry colleagues.

IFIC continues its ongoing relationship with the Globe and Mail through an "insert" on the mutual fund industry. The insert provides our Members with both an advertising opportunity and an avenue to discuss the salient issues they know their investors are discussing. This year's package is scheduled to go out to Globe and Mail readers at the end of October.



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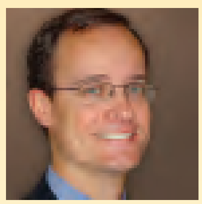

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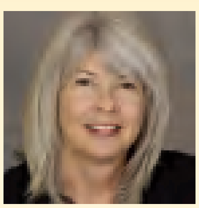

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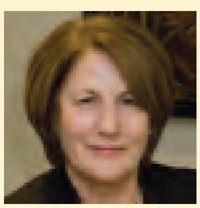

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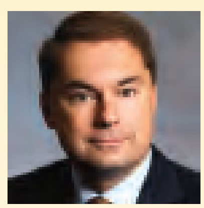

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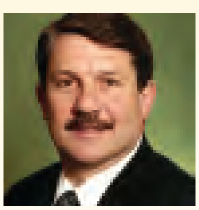

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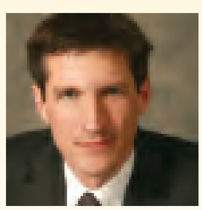

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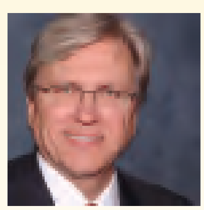

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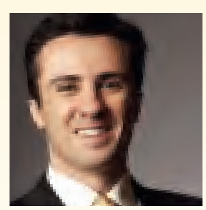

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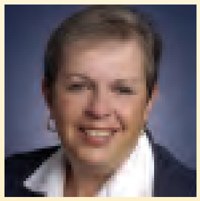

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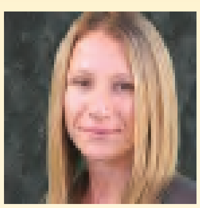

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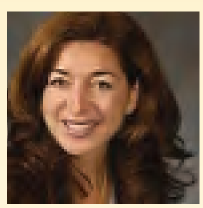

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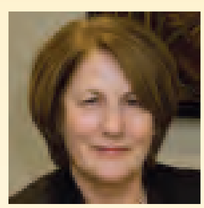

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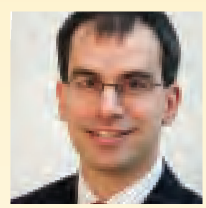

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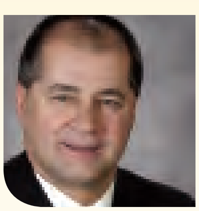

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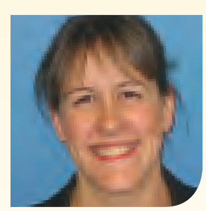

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*CIBC Private Wealth Management as of July 2008

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