May 31, 2001

VIA FACSIMILE (41) 61 280 9100

Basel Committee Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Dear Members of the Basel Committee:

Re: The New Basel Capital Accord

We are writing to respond to the request for comments on the second consultation on the Basel Committee on Banking Supervision proposed Capital Adequacy Framework. The Investment Funds Institute of Canada ("IFIC") is the national association of the mutual funds industry in Canada, whose Members are comprised of mutual fund managers, distributors and service providers. IFIC Manager Members currently represent almost 100% of the mutual funds assets under management in Canada, managing approximately $416 billion in assets in over 52 million unitholder accounts.

The proposals will impose capital requirements in respect of perceived risks that may be associated with the asset management operations of banks. We are not convinced that there should be concerns about operational risks associated with the asset management operations of banks, for the reasons described below.

From our perspective, under the Canadian system of mutual fund regulation, a bank with a related mutual fund manager would have no liability to the investors in mutual funds offered by the mutual fund manager. Any potential liability to investors in the mutual funds offered through the mutual fund manager would be directly related to the value of the funds’ assets. Canadian regulation requires mutual fund assets to be segregated from the fund manager and held for the benefit of the mutual funds by a qualified custodian that meets certain financial requirements. The custodian must ensure that its records clearly show that the assets are beneficially owned by the mutual funds. It must also observe a specific standard of care and assume certain liability in connection with its custodial activities.
Canadian regulation also imposes specific disclosure requirements that reinforce, at the investor level, the separation of bank operations from asset management operations. Investors must receive written disclosure confirming that the two are separate entities, and that mutual funds purchased by the investor are not deposits or investments guaranteed by the bank, that the funds are not insured by deposit insurance, and that their values may fluctuate.

We have also had an opportunity to review the submissions of the Investment Company Institute ("ICI") in the United States and the European Asset Management Association, and would also concur with the concerns expressed and points raised in their respective submissions. We would echo the cautions expressed by the ICI in its submission and strongly urge the Committee to engage in a careful study of potential operations risks and possible risk mitigation measures before imposing capital requirements for investment management activities. As in the U.S. system, certain features of the Canadian mutual fund regulatory system (such as segregation of fund assets with a custodian, annual audits of mutual funds) may also mitigate against operational risk.

Our Members appreciate having the opportunity to comment. I would be happy to discuss these comments further with you. Please feel free to contact me at (416) 363-2150 extension 241.

Sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

[Signature]

The Hon. Thomas A. Hockin,
President and Chief Executive Officer