

NATIONAL POLICY No. 11
MUTUAL FUNDS - CHANGES OF MANAGEMENT - CHANGE IN INVESTMENT
POLICIES

The administrators (Commissions) noted with concern recent problems encountered by funds being sold outside of continental North America flowing from changes in management and investment policies. Recently its attention was drawn to the fact that the controlling shareholder of a management company responsible for providing management and investment advice to a group of Canadian funds whose securities are widely distributed across Canada was attempting to sell its share in the management company. The controlling shareholder has not sought advice or guidance from any of the securities administrators in those provinces in which the funds being administered by the management company are being sold so far as we can determine.

It is fundamental that before any fund securities are qualified for sale in a province, whether the issuer is a corporation or a trust, the administrator must be satisfied as to the honesty, the reputation and the competence of the management group, including the controlling shareholders. The investment policies must be acceptable and permit the liquidity required for redemption purposes. It must also indicate the nature of the risks they propose taking. There are certain other matters including custodial arrangements for assets which must also be satisfactory to the administrator.

The administrators (Commissions) view it equally fundamental that any proposed changes should be made only after their prior approval by the appropriate regulatory authorities.

The administrators (Commissions) have concluded that the public interest requires that any material changes in management, or the control of the management company and any changes anticipated as a result of material changes in management or the control of the management company, or the investment policies of the funds which have been sold in the province or the custodial arrangements of their assets should be made only after prior approval has been obtained from the administrator (Commission). If prior approval is not sought and obtained the administrator (Commission) may deem it appropriate to take action in the interests of investors including suspension of trading in the fund securities and such other steps as may appear necessary to preserve the assets of the fund while enquiries are being made upon which a judgment may be based.

To facilitate applications for approval they may be made to the administrator (Commission) of the province in which the fund is managed (principal, jurisdiction). Prior to granting approval, the administrator (Commission), on behalf of the applicant, will contact the administrators in the provinces where that fund is distributed for their comments. The principal jurisdiction may then be authorized by them to grant approval on behalf of the provinces concerned.