CAPITAL
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BY EMAIL: commentonlegislation@ccmr-ocrmc.ca

Cooperative Capital Markets Regulatory System
c/o The Government of Canada
The Government of British Columbia
The Government of New Brunswick
The Government of Ontario
The Government of Prince Edward Island
The Government of Saskatchewan

Dear Sirs and Mesdames:

Re: Consultation on the Provincial Capital Markets Act ("PCMA") and the Federal Capital Markets Stability Act ("CMSA")

Capital International Asset Management (Canada), Inc. ("CIAM") is pleased to have the opportunity to present its comments on the consultation drafts of the PCMA and CMSA.

As background, CIAM is part of The Capital Group Companies, Inc. ("Capital Group"), a global investment management firm which originated in 1931. CIAM serves as the manager and trustee to the Capital Group mutual funds, which are subadvised by Capital Research and Management Company and Capital Guardian Trust Company, which are both wholly-owned subsidiaries of Capital Group. The Capital Group companies manage equities through three investment divisions that make investment and proxy voting decisions independently. Fixed-income investment professionals provide fixed-income research and investment management across the Capital organization; however, for securities with equity characteristics, they act solely on behalf of one of the three equity investment groups. Capital Group funds are distributed primarily through third-party distributors in Canada.

CIAM is currently registered as an investment fund manager and portfolio manager in Ontario as well as an exempt market dealer in the provinces of Ontario, Quebec, Alberta, British Columbia and Nova Scotia. CIAM's affiliate, Capital Guardian Trust Company, is relying on the adviser exemption of National Instrument 31-103. Additionally, pursuant to the requirements of Multilateral Instrument 32-102, some of CIAM's affiliates in the U.S. and Switzerland are relying on exemptions from registration for non-resident investment fund managers in certain Canadian provinces.

General Comments

We welcome the opportunity to comment on the consultation. As part of a global investment management organization, we have a significant interest in policies that promote a well-functioning financial system; one that can withstand the periodic shocks that are an inevitable part of our complex, global market place.

The systemic risk standards and regulation proposed in the CMSA are similar to or duplicate certain corresponding measures in the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act. The U.S. asset management industry and industry stakeholders have made several submissions expressing serious concerns with the proposed methodology for identifying non-bank, non-insurer financial institutions, including investment funds, as global systemically important financial institutions.

Our comments below are primarily focused on the CMSA with respect to the proposed regulation of systemically important market structure entities. We generally support the comments reflected by the Investment Funds Institute of Canada regarding the CMSA and PCMA and would like to highlight a number of important considerations as noted below.

Systemic Risk

Pursuant to the consultation, the intent of the CMSA is to manage systemic risk to promote and protect the stability and integrity of capital markets. We fully support an appropriate activities-based framework to address any systemic risks that exist across industries or markets; however, we do not believe that individual investment funds (including U.S. registered investment companies and funds qualified under UCITS), investment fund managers or asset managers should be singled out for a higher level of regulatory oversight and scrutiny merely because of their size, status and other qualitative factors listed in section 27(2) of the CMSA. The potential application of the CMSA to non-Canadian entities based on the broad definition of "systemic risk related to capital markets" in section 3 requires clarity regarding the intended scope of the proposed federal legislation.

While we are pleased there are various factors considered in determining whether or not an entity could pose a systemic risk to capital markets, we do not believe that investment funds or their managers should be captured in the definition of capital markets intermediary for the purposes of determining whether or not these entities could pose a systemic risk to the financial markets. Instead, we believe that any potential or perceived risks in the asset management industry are best addressed through regulation tailored to the specific activities or practices giving rise to such concerns.

Investment fund managers act primarily as agents to the investment funds they manage, managing assets on behalf of investors as opposed to investing on their own behalf. Acting in an agency capacity, we employ active management to invest assets on behalf of a variety of investors in accordance with applicable requirements and funds' disclosure documents. We do not guarantee any type of returns for our investors, who understand that their accounts may increase or decrease in value. Investors enjoy the gains and bear the risk of loss as a fund increases or decreases in value due to the increase or decrease in the value of the underlying investments of the fund. The nature of this agency relationship allows an investor to redeem and/or easily transfer assets to another manager or another fund at the investor's discretion in the event losses are experienced or if the investor is dissatisfied with the fund. In contrast, banks and insurance companies that have a principal relationship with their clients have a different risk profile as they may look to their balance sheets to satisfy client losses. In times of actual distress, a bank may not have sufficient funds to support clients' deposits and guaranteed returns. Where an entity is acting in a principal capacity, the implementation of capital requirements and other prudential standards can be effective in order to ensure that such entity has adequate funds to protect its obligations to clients.

We believe the characteristics of investment funds do not present a systemic risk to the global or Canadian economy. Investment funds are high substitutable; the fund industry is highly competitive with numerous substitutes for most investment fund strategies. The fact that funds are highly substitutable is an important consideration in the analysis of whether or not they are "too big to fail" or could have a systemic impact on the financial system. Even during the extreme stress of the recession in 2008, while many investment funds' net asset values declined significantly, there was no evidence of structural deficiencies or systemic repercussions for such investment funds.

Another significant characteristic of investment funds is that they typically have little to no leverage. Investment funds are subject to regulatory limits regarding leverage and the investment fund manager cannot pledge the fund's assets to serve its own interests. These are mitigating factors in limiting the fund's risk level with respect to the financial markets. In contrast, companies that are highly leveraged can pose a greater potential risk to the financial system as losses can mount exponentially if a highly leveraged company holds the debt of another highly leveraged company.

We do not believe that the Canadian asset management industry poses a significant systemic threat to the global or Canadian economy. The industry is highly regulated today and already subject to significant regulatory oversight, which continues to increase with additional proposed regulation in the coming years. The systemically important designation should be considered for those entities or products that pose significant risks to the financial system and which cannot be addressed through regulation.

Canadian investment funds are subject to stringent activities-based regulation including, but not limited to, requirements related to liquidity, valuation, leverage, custody, concentration and control limits, credit standards for counterparties and conflicts of interest. Activities-based regulation serves to identify activities and practices that pose demonstrable risks and implement appropriate regulation through a public consultation and comment period that is intended to mitigate the specific risks identified by the activity or practice. Investment funds and their manager are also subject to significant disclosure requirements, which will be augmented with the transition to CRM2, point of sale and other fund modernization initiatives. These rules and regulations serve to provide (i) strong systemic risk-limiting provisions; and (ii) significant protection for investors.

The goal of systemic risk regulation should be to balance the need to eliminate abuses and excessive risk that can negatively impact the financial system, while at the same time, encouraging acceptable levels of risk-taking necessary for innovation and economic growth. Systemic risk designations should therefore be reserved for rare and compelling cases where it is determined, following a thorough analysis, that a specific financial institution poses significant risk to the financial system that cannot be otherwise addressed through enhancements to existing regulation.

We firmly believe that the existing comprehensive regulatory framework that governs investment funds and fund managers adequately protects the interests of investors eliminating the need to consider these entities as systemically important.

Systemic Risk Designation

To the extent capital markets intermediaries are designated as systemically important, we believe it is imperative that the CMSA include provisions regarding the right to challenge such a designation. While paragraph 27(3) of the CMSA does permit such entities "to make representations" in this regard, it does not appear to protect the entity's ability to contest such a designation. Accordingly, we recommend that the CMSA specify the process by which a capital markets intermediary may exercise this right (i.e. through an evidentiary hearing or writing submission, etc.) including timing and other relevant considerations.

We believe incorporating these provisions would help to inspire confidence and preserve the integrity of the systemic designation process.

PCMA

Under the current framework, the PCMA takes a platform approach to capital markets regulation. It sets out the fundamental provisions of capital markets law in the statute and leaves detailed requirements to be addressed in regulations, which are not yet publicly available. Without the opportunity to review these regulations, we cannot consider and assess the full impact of the PCMA. While we believe the PCMA is intended to eliminate differences in requirements among participating jurisdictions and to harmonize and modemize existing provincial securities legislation, it is unknown how the PCMA will interface with the non-participating jurisdictions and how it will interact with other provincial legislation such as privacy and freedom of information laws.

Conclusion

We urge you to consider the above comments as well as the IFIC letter prior to finalizing the draft legislation. We strongly believe that investment funds and their managers should be expressly excluded from the provisions of Section 27 of the CMSA. In addition, we believe stakeholders need an opportunity to review the companion regulations in order to assess all aspects and impact of the legislation. We thank you for the opportunity to respond to the initial consultation and believe these draft legislative changes require extensive consultation including stakeholder outreach prior to implementation.

Yours truly,

CAPITAL INTERNATIONAL ASSET MANAGEMENT
(CANADA), INC.

(signed) "Mark Tiffin"
Mark Tiffin
President