



June 27, 2012

By Electronic Mail: ETF@iosco.org

Mohamed Ben Salem
General Secretariat
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

RE: Principles for the Regulation of Exchange Traded Funds

Dear Sir:

Re: Public Comment on Principles for the Regulation of Exchange-Traded Funds

We are writing this letter on behalf of the Canadian Exchange-Traded Fund Association (“**CETFA**”). Based in Toronto, Canada, the CETFA is the only exchange-traded fund (“**ETF**”) association in Canada, and the first of its kind in the world. The CETFA members represent 70% of the companies offering ETFs and 95% of the ETF assets under management in Canada.

One of CETFA’s primary goals is to deal with policy or regulatory issues that impact Canadian listed ETFs, our member firms and our end investors. We wish to provide the Technical Committee of the International Organization of Securities Commissions with our comments on the Principles for the Regulation of Exchange Traded Funds – Consultation Report (the “**Report**”) released in March 2012.

General Comments on the Report

The CETFA is of the opinion that the principles discussed in the Report adequately address the regulatory and financial stability issues raised by ETFs.

We believe that investors should understand the products they invest in. As a result, the CETFA supports regulatory initiatives focused on fostering greater transparency in order to improve investor protection and help ensure that investors understand the risks and attributes of the investment products they are purchasing. In turn, we believe this will strengthen the effectiveness and efficiency of the capital markets in which ETFs operate.

We note that Canadian securities legislation currently includes requirements that are generally consistent with many of the principles identified in the Report that aim to achieve greater transparency and improve the structuring of ETFs. For example, Principle 13, which is aimed at addressing conflicts of interest, is largely addressed in Canada through the requirement of establishing an independent review committee ("IRC") for ETFs.

The sole regulatory mandate of the IRC is to consider conflict of interest matters, as defined by the instrument, and provide its recommendation or approval prior to the manager of the ETF proceeding with the proposed action that raised a conflict. In addition, we believe that Principles 9, 11 and 12 are largely addressed through the rules of the self-regulatory organization which governs dealers distributing ETFs in Canada and the "know your client" and "suitability" obligations set out in National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

Notwithstanding the foregoing, given the increased number and breadth of ETFs in Canada, the CETFA supports voluntary improved disclosure by its members to investors.

Specific Comments on the Report

Principle 5

Regulators should consider imposing requirements regarding the transparency of an ETF's portfolio or other appropriate measures in order to provide adequate information to investors concerning: i) the index (or the asset basket or the reference portfolio) tracked and its composition; and ii) the operation of performance tracking in an understandable form.

Currently, in Canada, ETFs must at a minimum disclose the top 25 positions held by the ETF, expressed as a percentage of net assets on a quarterly basis. Canadian ETF providers usually exceed the minimum requirement and report holdings more frequently, typically monthly. An ETF must also disclose its performance semi-annually and compare performance with its reference index on an annual basis.

Canadian regulations dictate the form and calculation method to be used for performance information to enable an investor to meaningfully compare one ETF's information against that of another. Accordingly, we believe current Canadian regulations are consistent with the policy objectives of Principle 5.

The CETFA supports the disclosure of an index's composition by index providers and supports the disclosure by an ETF of comparative performance data that demonstrates how effectively an ETF tracks the performance of its reference index. Recognizing that the purpose of the Report is to achieve a common approach to the regulation of ETFs internationally, we believe that regulations in Canada have achieved a fair and balanced approach with regard to ETF portfolio disclosure and disclosure regarding performance tracking.

Principle 6

Regulators should consider imposing requirements regarding the transparency of an ETF's portfolio or other appropriate measures in order to facilitate arbitrage activity in ETF shares.

While full disclosure of portfolio holdings is the simplest means of achieving portfolio transparency, there may be limitations that prevent full disclosure of portfolio holdings from being made available for certain ETFs and, full disclosure may not be necessary in every case. The CETFA supports full disclosure of portfolio holdings when practicable; however, we believe that the arbitrage mechanism will function efficiently under any arrangement that permits market participants to accurately assess an ETF's underlying value throughout the trading day.

ETFs generally publish daily the identity and weightings of securities in their purchase or redemption baskets, which generally represents a pro rata slice or an optimized sample of the ETF's portfolio. In our view, this daily disclosure of a sample of portfolio holdings promotes sufficient portfolio transparency to facilitate arbitrage activity.

Principle 15

ETF exchanges should consider adopting rules to mitigate the occurrence of liquidity shocks and transmission across correlated markets (e.g. automatic trading interruption mechanisms)

In our view, exchanges that list ETFs, as well as those that do not, should as a matter of best practice have rules in place to manage and mitigate, when warranted, events that may cause prices to be reported that are not reflective of the market as between a willing buyer and a willing seller.



We thank you for allowing us the opportunity to comment on the Report. Please feel free to contact the following CETFA members if you would like further elaboration of our comments.

Yours truly,

CANADIAN EXCHANGE-TRADED FUND ASSOCIATION



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