

May 4, 2001

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

BY EMAIL

Dear Mr. Stevenson:

Subject: Proposed Changes to Exempt Distribution - Rule 45-501

Highstreet Asset Management Inc. is pleased to respond to the Ontario Securities Commission's latest request for comment on the proposed changes to Rule 45-501, Exempt Distributions and the proposal to rescind Rule 45-504. Our comments are specific to the new "Accredited Investor Exemption".

Highstreet Asset Management Inc. is registered with the Ontario Securities Commission as an Investment Counselor/Portfolio Manager and a Limited Market Dealer offering Pooled Funds and discretionary investment management.

We congratulate the OSC for addressing the need for change with respect to the regulation of non-prospectused funds in the industry. As well, we are pleased to note that the Commission plans to further investigate the impact of the proposed rule on the pooled fund industry. This signifies to us that the Commission accepts that the use of in-house pooled funds and portfolio management services need to be considered independently in developing a regulatory scheme that addresses the needs of clients who use these services. At the same time, we note that the Commission plans to proceed with the proposed changes while the investigation specific to pooled funds is underway.

Our comments for your consideration are as follows:

1) Deferral of Rescissions

We hope that the OSC will consider deferring rescission of existing rules 45-501 and 45-504 as they relate to pooled funds until the completion of the investigation currently underway by OSC staff to specifically look at how the issue affects pooled fund clients.

2) Grandfathering

We hope that the OSC will consider grandfathering existing pooled fund clients.

The reasons for our requests are as follows:

1. The proposed rule 45-501 indicates that existing pooled fund clients who do not meet the Accredited Investor requirements will not be able to make further deposits. This has significant implications for *clients*.
 - a. Clients will be restricted in their ability to make asset mix changes, which are essential to effective risk management.

By way of example, had this rule been in effect throughout 2000, a non-accredited investor could not rebalance their portfolio (between equity pooled funds and fixed income pooled funds) following the rise of the Canadian equity markets. By summer's end, the client would have had a higher than desired level of equity, a higher than desired level of risk, and by year's end, a much more dramatic loss than if they had been able to rebalance.
 - b. There is no provision in the proposed rule that allows for the reinvestment of income distributions for those clients who are not Accredited Investors.
 - c. The absence of a grandfathering rule creates an inflexible situation for existing pooled fund clients.
 - d. To avoid the application of the Accredited Investor guidelines, clients will be prompted to opt for segregated accounts, which are more expensive and often impose more risk than a pooled fund.
 - e. Family accounts are often controlled by one family member who is most knowledgeable or comfortable with investment decisions. This would include family trusts, the accounts of minors, elderly parents, or other dependent persons. The new Accredited Investor definition creates challenges in managing these accounts.
2. The proposed treatment of existing pooled fund clients will significantly impact *Investment Managers*.
 - a. Managers will accommodate non-accredited investor accounts through segregated accounts which are more administratively intensive.
 - b. The proposed rule may force many managers to spend a significant amount of time and money on the conversion of pooled funds to mutual funds, in order to accommodate non-accredited investors.
 - c. The process of performing the Accredited Investor test for all existing clients will require a significant time and resource commitment. As well, internal procedures will need to be developed to monitor whether clients continue to be Accredited Investors over time.
3. We believe that the OSC should complete the pooled fund investigation that was referenced in the draft of April 7, 2001 before applying the proposed rule 45-501 to pooled funds. This would be in the best interest of investors and managers who should not be asked to consider and understand the implications of the Accredited Investor rule if in fact the application may subsequently change. It is our view that the Commission must assess the risks presented to pooled fund clients before the new rule can be applied.

4. Private clients who invest in pooled funds rely on their relatively low cost and the additional service provided by the Investment Counsellors who offer them. Mutual funds do not offer the same level of service and low cost, while segregated accounts for the mid-sized investor often contain too much risk. It is our view that risk is better managed in a pool and therefore, a pooled fund approach is still a very important vehicle to offer to high net worth individuals who may not meet the steep requirements set for an Accredited Investor.

We request that the Commission consider deferring the rescission of the existing Rule 45-501 and 45-504 as they apply to Pooled Funds pending the release of the study currently underway to assess the impact to pooled fund clients. We hope that the need for a separate set of rules specific to Pooled Funds will be the result of this study.

At a minimum, we request that existing pooled fund clients be fully grandfathered, such that the Accredited Investor rule *not* be applied to clients invested in pooled funds on or before the effective date of the new rule, pending the completion of the OSC staff pooled funds study.

We appreciate the opportunity to comment on the proposed rule. Thank you for your valuable time.

Sincerely,

Rob Badun
Principal

Jeff Brown
Principal

Doug Crocker
Principal

Lina Bowden
Vice President

Cc. Mr. David Brown, Chair OSC
Mr. Erez Blumberger, Legal Counsel Corporate Finance Branch OSC