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May 7, 2001

Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario
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Attention: Mr. John Stevenson, Secretary

Dear Sirs:

**Re: Second Notice of Proposed Amendments to OSC Rule 45-501
– Exempt Distributions (the “Proposed Rule”)**

On behalf of RBC Investments (“RBCI”), the wealth management division of the Royal Bank of Canada, I am pleased to submit comments on the second draft of the amendments to the Proposed Rule. The registered Investment Counselling Business Units under the RBCI umbrella are RBC Global Investment Management Inc. (“RBC GIM”), RBC Private Counsel Inc. (“RBCPC”) and RT Capital Management Inc. (“RT Capital”). All three registrants utilize non-prospectused mutual funds to serve their clients and having relied on the current exempt distribution regime in setting up their businesses, they are particularly concerned about the changes that will be effected by the Proposed Rule. At present, the assets under management in non-prospectus qualified mutual funds within RBCI total approximately \$10 billion. As you can appreciate, the provisions in the Proposed Rule will have a major impact on RBCI’s Business Units and large client base.

We wish to thank staff of the Ontario Securities Commission (the “OSC”) for considering our comment letters filed in response to the first draft of the Proposed Amended Rule. The letters include a letter from Royal Bank of Canada and RT Investment Management Holdings Inc., both dated December 15, 2000. We appreciate that a number of our comments were accepted and changes were made to the Proposed Rule.

Notwithstanding the changes made to the second draft of the Proposed Rule, we continue to have serious concerns about the removal of the \$150,000 exemption and the “sunsetting” of existing pooled fund rulings and their replacement with the \$200,000 income test (the “Income Test”) and the \$1,000,000 financial asset test (the “Asset Test”) in the definition of “accredited investor” under the Proposed Rule. In particular, while we were pleased to note that the OSC has established a separate initiative to examine the regulatory issues, if any, raised by pooled funds, we find it very troubling that the OSC would remove the \$150,000 exemption, as it applies to the distribution of pooled funds, and existing pooled fund rulings before that initiative is complete. We believe that the removal of the \$150,000 exemption and the pooled fund rulings has such a significant impact on the pooled funds industry and on clients who invest in pooled funds, that to allow the Proposed Rule to come into force without first consulting with industry participants or providing a carve out for pooled funds would represent a significant departure from the spirit of consultation that underlies the rule-making authority granted in section 143 of the *Securities Act* (Ontario).

In general, we continue to believe that the \$150,000 exemption should not be removed at all. In the Notice accompanying the second draft of the Proposed Rule, staff indicates that neither the Income Test nor the Asset Test can fully assess an investor’s sophistication. We would agree with this statement, however we do not believe that either of these tests is a better proxy for sophistication than the \$150,000 exemption. Arguably, regardless of the size of a person’s income or assets, anyone who invests \$150,000 at one time is likely to have either considered his or her investment more carefully or to have had the benefit of professional advice than is a person who is considering investing a substantially lesser amount of money. In addition, to the extent that Companion Policy 45-501CP permits a vendor of securities to rely on a statutory declaration or certificate as evidence that a purchaser meets either the Income Test or the Asset Test, we submit that there is more potential for abuse than under the more tangible \$150,000 exemption. While we believe that the Income Test and the Asset Test are acceptable additions to the exempt distributions regime, we submit that they should supplement, but not replace, the \$150,000 exemption. Accordingly, we believe that the Proposed Rule should provide that an investor who invests \$150,000 as principal should be considered as a category of “accredited investor.”

As you are aware, the pooled fund industry currently accounts for a very large portion of the exempt securities market in Ontario. Aside from excluding new investors from the pooled fund market, we believe that the complete removal of the \$150,000 exemption and the pooled fund rulings would significantly disadvantage those existing clients of RBC GIM, RBCPC and RT Capital who do not meet the Income Test or the Asset Test. At a minimum, those clients would need to consider alternative investment vehicles for their future investments and may also conclude that their only practical course of action is to completely divest themselves of all current pooled fund holdings and reinvest in other vehicles. With respect to the selection of an alternative vehicle, either for future purchases only, or for reinvestment and future purchases, we submit that the most likely alternative would be a prospectus qualified mutual fund. We

would point out that most mutual funds have MERs that are higher than the MERs of similar pooled funds. With respect to divesting current holdings, we would point out that clients could incur relatively significant taxable capital gains that they would otherwise have deferred to a later point in time. We do not believe that it is the OSC's intention that clients suffer either of these unforeseen financial penalties.

While we understand that the OSC is committed, as a general matter, to eliminating the \$150,000 exemption, we strongly urge that both the \$150,000 exemption and the existing pooled fund rulings be maintained in respect of the distribution of pooled funds pending the outcome of the pooled funds initiative. Failing that, in order not to disadvantage existing pooled fund investors in the manners described above, we believe that the OSC should either grandfather the use of the \$150,000 exemption and applicable pooled fund rulings in respect of existing pooled fund clients or provide a minimum two year transition period that will give registrants and their clients sufficient time to make the necessary tax and investment decisions.

Thank you for giving us the opportunity to provide further comment on the Proposed Amended Rule. As requested, a diskette with the submission in WordPerfect 8.0 is enclosed. We would be happy to discuss our suggestions further with you if you need any clarification or further information.

Yours truly,

K. Michael Edwards
Executive Committee Member
RBC Investments