

Sprucegrove Investment Management Ltd.

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May 30, 2001

Mr. John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, ON M4H 3S8

Please retain this letter in confidence

To Whom It May Concern:

This is in response to a request for comments concerning Schedule 1 (Fees) to the Regulation to the Securities Act (Ontario). We are pleased to provide the following comments.

Sprucegrove is registered in Ontario under the adviser category. We provide investment management advice, predominantly in the specialized area of global equity management, primarily to pension funds and institutional investors in Canada and the U.S. We currently have 20 employees, located in Toronto. We presently have about \$9 billion under management for almost 80 clients, with revenues in excess of \$25 million.

We are supportive of the three objectives outlined in the proposal, namely to reduce overall fees, simplify the fee schedule and to link fees to services received. Of course, it is to be expected that each party involved, as part of their assessment of a proposed change, will determine how the changes affect them. We see that the proposal will negatively affect us in a number of ways.

Under the proposal, Sprucegrove's related fees paid to the OSC would increase from approximately \$15k to \$50k. Our previous fees resulted from our annual registration renewal and fees related to pooled fund purchases by Ontario based clients. The new fees would be based on our gross revenues. Using gross revenues presupposes that there is a correlation between revenues and the services provided to a registrant. We feel that using revenues as a base penalizes firms like ours that are small in terms of product lines, number of clients and number of employees, relative to the revenues we generate. It seems to us that \$50k greatly exceeds the cost of services provided to Sprucegrove by the OSC.

From our point of view, other indicators of firm size, such as number of employees or number of clients would have a higher correlation with the cost of services provided to a firm.

It also seems unfair that we should be assessed a fee based on revenues attributable to Ontario, which are generated from clients located outside of Ontario. Our Ontario tax return specifies that 100% of our revenues are attributable to Ontario since we have only one permanent establishment which is located in Ontario. Therefore, on a tax basis, we pay tax in Ontario based on our worldwide revenues, including revenue from our U.S. based clients. We have trouble understanding however, how fees from our U.S. clients, which are subject to SEC regulation, are relevant in determining our participation in Ontario capital markets. We could be subject to double levels of fees should the SEC or other provinces where we are also registered decide to assess us based on revenues related to clients located in their jurisdiction. We suggest that a more appropriate revenue base would be revenues generated from Ontario residents.

The new fee proposal appears to include Form 14 Fees which apply to our clients' pooled fund purchases. In the past, these fees were either charged directly to the related pooled fund or billed to (recovered from) the purchaser, as stipulated in the pooled funds' offering memorandum. An "all in" fee charged to Sprucegrove would have the effect of transferring a cost, formerly assumed by either the client or the fund, to Sprucegrove directly. If you exclude these recoverable costs, Sprucegrove's direct expense under the new proposal would increase from just our annual registration fee (approximately \$6k) to \$50k.

With respect to pooled fund fees, it is not clear to us from the proposal whether your intention was to discontinue the fees since they were no longer appropriate or to lump them in an "all in" fee. If in fact it was the former, we are pleased, since in practice, the pooled fund fee was a disincentive to clients selecting a pooled fund versus a separate account. We find that pooled funds are a far more efficient vehicle for managing client accounts than having a separate account for each client.

In summary:

- we are concerned that while most participants will benefit from lower fees, our fees are significantly increasing
- our fee appears to be in excess of the services we receive
- we are concerned that a gross revenue assessment base is not necessarily fair and may not be the best indicator of services required from the OSC
- if a gross revenue base is retained, we feel a more appropriate base is revenues from clients located in Ontario rather than revenues from a permanent establishment located in Ontario.
- your changes have the effect of arbitrarily shifting Form 14 costs from others to Sprucegrove directly

We appreciate the opportunity to comment on the proposal.

Sincerely,

John H. Watson
President