

December 19, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Government of Yukon
Registrar of Securities, Legal Registries Division, Department of Justice,
Government of Nunavut

c/o John Stevenson
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

- and -

Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Quebec H4Z 1G3

Re: Proposed National Instrument 81-106 – Investment Fund Continuous Disclosure

BMO Investments Inc. (“BMOII”), as the manager of the BMO Mutual Funds, is pleased to provide submissions to the Canadian Securities Administrators (“CSA”) on proposed National Instrument 81-106, *Investment Fund Continuous Disclosure* (“NI 81-106”).

BMOII welcomes many of the concepts raised in NI 81-106, such as reducing delivery obligations that will result in cost savings that will accrue to mutual funds. We also support the submissions of The Investment Funds Institute of Canada (“IFIC”) to the CSA on NI 81-106 on behalf of the fund industry and appreciate IFIC’s efforts in preparing an industry response. In addition to the industry comments submitted by IFIC, we are providing additional submissions that are of particular interest to BMOII. These submissions respond to the specific questions raised by the CSA in the September 20, 2002 Request for Comments.

Management Reports of Fund Performance

CSA Question 1: *The CSA invite comments as to whether the quarterly management reports of fund performance will achieve the goals that they are intended to achieve. Should there be more or less frequent disclosure of fund performance information and why? Should there be quarterly reporting for all investment funds? Does the proposed type of information allow an investor or an adviser to make informed investment decisions?*

Direct costs associated with quarterly management reporting of fund performance

The net benefit to investors should be the primary consideration in assessing the overall utility of instituting a quarterly reporting requirement. The costs and non-monetary implications of the proposal must be weighed against the actual or perceived benefits that might be obtained from its implementation.

Cost consequences in our industry are a significant consideration as mounting regulatory cost burdens are invariably borne by the investor in the form of increased expenses charged to the funds themselves. This is due to the fact that preparation and distribution will involve significant additional time and resources on the part of the portfolio managers, accountants, lawyers and distribution partners. This is in addition to costs relating to aggregating fund proxy-voting information, and from implementing the proposed changes in financial reporting.

These new costs are significant and we believe will, in aggregate, exceed any savings that will accrue from allowing investors to opt in for the receipt of a fund’s financial statements/management reports. All investors will be subject to these additional costs,

although only a small subset are likely to request and review the additional information required by these reports.

Assessing the appropriate level of prescribed disclosure

We have come to the understanding in dealing with our clients that more disclosure is not necessarily better. In our view it is more important to improve the quality of information that is currently required to be disclosed rather than prescribe an increase in the quantity and frequency of what might, at best, be only marginally useful data. BMO Mutual Funds presently provides clients with important information respecting their investments, information that we have come to understand is useful to our clients and that is provided on a more frequent basis than is proposed under NI 81-106. As a result, we do not believe there is a need to regulate the information we provide to clients on a more timely basis than is already prescribed.

In particular, we have strong reservations about providing forward-looking information as required under section 1.6 of Part B of Form 81-106F1. For many funds, meaningful forward-looking commentary is next to impossible and will likely therefore be of limited value to investors. It presumes a foresight of events outside the control of the fund manager that cannot easily be predicted, such as what markets will do in the next quarter. While many economists and analysts review and prepare information on where markets may go and why, such information is not easily explained to the average investor in plain english, and may change significantly on a day to day basis based on rapid and unforeseen changes in economic, social, political and other factors. Significant events could occur between printing and delivery that could render such forward-looking commentary inaccurate or misleading to investors. Such factors, coupled with prescribed forward-looking information, could expose fund managers to the potential for increased litigation. At a minimum, the drafting and inclusion of a meaningful but not misleading quarterly statement of forward-looking commentary will require careful review and analysis from a legal perspective and will give rise to additional costs relating to its preparation.

Proxy voting

Section 1.2(h) of Part B of Form 81-106F1 requires disclosure in the Annual Management Report of Fund Performance of “how the portfolio advisers or the manager of the investment fund voted on matters relating to issuers of portfolio assets of the investment fund, other than routine business of those issuers” (the “Proxy Disclosure Language”). While we recognize the importance of ethical and responsible proxy voting, we do not believe that a portfolio manager’s record of voting on specific proxies is widely desired by Canadian mutual fund investors or is meaningful in assisting them to make buy, hold or sell decisions with respect to their mutual fund investments.

In addition, it is important to note that there will be significant costs and logistical challenges associated with tracking and compiling proxy voting information, especially where a fund is managed by a number of different external managers. These costs could also be compounded by over-reporting due to the vagueness of the disclosure requirement contained in the Proxy Disclosure Language.

People invest in mutual funds in order to delegate the complex process of investment management; proxy voting is only one subset of that process. While we believe it is important that fund managers have and abide by a proxy-voting policy, we think that mandating disclosure of specific proxy votes runs counter to why people invest in mutual funds.

Financial statements

CSA Question 2: *The CSA invite comment on whether the financial statement requirements set out in the proposed Rule meet the needs of the users of the financial statements? Does the amount of detail provided in the proposed National Instrument assist with the preparation, consistency and comparability of the financial statements? Is the proposed National Instrument too detailed? Is more detail or specific direction necessary? The majority of investment funds currently prepare and file six- month interim financial statements. Should all investment funds be required to prepare and file quarterly financial statements in addition to the proposed quarterly management reports of fund performance?*

BMOII agrees with the comments of IFIC respecting the proposed shortening of timelines and increased frequency for filing of financial statements. We strongly recommend that the existing deadline for filing semi-annual financial statements be preserved. It will be extremely difficult to meet the proposed 45 day deadline for preparing interim financial statements, particularly with the new requirements.

Preparing financial statements is time intensive and involves the coordination of efforts of various internal departments and external service providers, including auditors, translators and printers, in addition to the time required for the submission and presentation of financial statements to our independent board of trustees for review and approval. Organizing this process to occur within these shortened timelines would be extremely difficult.

We agree with IFIC's comments regarding the proposed additional line items and investment portfolio disclosure. While we recognize the importance of making available useful financial information to investors, we do not believe that the proposed additional information will provide investors with information that is material to making informed investment decisions. As the prescriptive information required to be provided by NI 81-106 will not necessarily provide useful information to customers, we recommend that information only be prescribed in accordance with Generally Accepted Accounting Principles. In addition, we would re-iterate IFIC's comments that there is significant unnecessary duplication between the proposed disclosure in the financial statements and the management reports of fund performance.

We also note that financial statements are not generally used by investors in making informed investment decisions. Accordingly, there is no compelling reason to shorten the time periods for the preparation of these documents, especially in light of the difficulties and challenges this would create, as noted above. We therefore urge the CSA to avoid shortening filing deadlines simply for the sake of disseminating information more quickly.

Disclosure of risk and volatility

CSA Question 3: *The CSA invite comments on whether alternative methods of disclosing risk and volatility should be used. For example, should there be disclosure of the fund's best and worst quarter returns or disclosure of the correlation of the fund to a benchmark index? Is there additional disclosure that would provide useful information to the investors and advisers?*

Risk and volatility are both important considerations for investors, not on an investment by investment basis, but across their entire portfolio. To establish overall risk and volatility across a diversified portfolio, investors must know and understand the risk and volatility of each of their individual investments, on a standard or comparable basis. While we think it is important that investors have access to the information required to establish risk and volatility across their portfolios, we note that there is presently no established industry convention or consensus about what risk and volatility are, or how to measure them. In this regard, it is our view that an industry committee should be established to consider and establish a standardized approach to measuring risk and volatility for mutual funds. If risk and volatility are then to be disclosed by funds, investor education should be encouraged so that investors do not focus on risk with respect to individual products, but on the overall risk of their portfolio.

Further information

BMOII believes that a public discussion of the improvements required to the securities regulatory system is essential in order to keep our capital markets healthy and competitive. We appreciate the opportunity to comment and hope that our comments are well received.

Yours truly,



Edgar Legzdins
President and Chief Executive Officer
BMO Investments Inc.