Sussex Centre, Suite 902
90 Burnhamthorpe Road West
Mississauga, Ontario, L5B 3C3
905-306-8600
www.edwardjones.com

Edward Jones®

Via E-mail: jstevenson@osc.gov.on.ca

April 29, 2004

Mr. John Stevenson
Secretary
Ontario Securities Commission
19th Floor, Box 55
20 Queen Street West
Toronto, ON M5H 3S8

Dear Sirs:

Re: Fair Dealing Model Concept Paper

In general, we support the principles expressed in the Fair Dealing Model ("FDM") Concept Paper. However, we have a number of concerns, as outlined below. Our firm's business is directed to meeting the needs of individual investors, with a particular focus on conservative, long term investors, and we have approached our analysis of the FDM with the overriding consideration of whether or not the model would benefit our customers.

General Comments on the FDM Concept

We find the overall thrust of the FDM to be extremely prescriptive. It is crucial that the broad principles the FDM encourages not be undermined by the model's rigidity in a time of financial services convergence and constant change. We would recommend that the FDM permit flexibility and individual customization of relationships between advisors and clients. The securities industry thrives on innovation and competitiveness, which may be hampered by the slow and difficult process of regulatory change. Investors are the beneficiaries of this innovation and competition, and may end up worse off if these are stifled.

While the premise that securities regulation is rooted in outdated assumptions centred on transactions rather than advice may be true, it does not necessarily follow that more prescriptive rules with respect to advisory related activities will produce better results for investors.

Comments on Specific Proposals of the FDM Concept Paper

The Fair Dealing Document

While existing account opening documentation may leave room for improvement, and there are some useful ideas presented in the Concept Paper (the "Paper"), we would not recommend the imposition of a standard format "Fair Dealing Document" for all firms. The business models of various dealers are sufficiently different that the attempt to address all dealer/client relationships in a standard document is unlikely to yield satisfactory results. IDA Members have found this to be true with respect to the currently prescribed minimum new account opening form (IDA Form 2) and this is now under review by a sub-committee of the IDA's Compliance and Legal Section. We would support the establishment of minimum standards for customer information to be obtained and

maintained, however, would recommend that the terms of such be kept relatively broad and flexible in order to accommodate different business models and supervisory systems. The proposed format of the FDD as contained in Appendix "A" introduces a number of elements that would be very difficult to incorporate into supervisory systems.

We are also concerned with the emphasis upon paper documentation and signatures reflected in the Paper. We view the securities industry as one that deals primary in information, rather than paper. As we develop enhanced information and supervisory systems, it is our goal to minimize the creation, storage and updating of physical documents. The expectation to obtain signatures and initials on numerous documents defeats the efficiencies, certainty and accessibility of electronic data storage, in place of paper. We have begun making extensive use of negative confirmation letters sent directly from our head office to customers, and find this superior in many respects to reliance upon signatures or initials.

To the extent that we experience complaints or misunderstandings with customers, it has not been our experience that such issues have arisen due to deficiencies in existing account documentation, nor is it apparent that more extensive new account documentation would serve to reduce or eliminate such issues.

Transparency

We support the goal of greater transparency, but would suggest that the pursuit of this goal should not create such an onerous level of pre-transaction disclosure so as to discourage investors from making any decision at all. One of the greatest risks to investors is to defer investment decisions indefinitely and thereby fail to diversify their holdings beyond simple interest bearing accounts into more balanced investment portfolios.

We see some merit in the creation of standardized pre-transaction, product specific disclosure documents. However, if such disclosure documents were mandated, we would suggest that securities laws would need to create a form of safe harbour from claims that the disclosure contained therein fell short of prospectus level disclosure or failed to identify all risks attached to the particular investment.

With respect to the issue of third party compensation, the proposal (listed as one alternative) to prohibit all forms of third party compensation could have the unintended effect of encouraging representatives to recommend commission generating transactions rather than maintaining good quality holdings that generate no further compensation. The Paper notes in a number of places that under the FDM representatives would have an ongoing responsibility to monitor the performance of investors' portfolios. In order to do so, representatives need to be compensated on an ongoing basis. We would suggest that investors be given the choice whether to pay their advisors for such advice directly or, in the case of packaged products, to have a third party make such payments, with appropriate disclosure.

Ongoing Responsibilities – Content of Account Statements

The proposals to require greatly enhanced content in account statements (i.e. performance information, aggregate costs of compensation and risk levels) needs to be examined carefully. While it might be possible to extract some of this information and display it in a meaningful way for some relatively static and simple accounts, we are not optimistic that it would be workable for all accounts. The potential costs of such enhancements are very substantial, and could be insurmountable for some firms, ultimately resulting in less competition and less choice for investors. Further, monthly (or even daily) performance reports, as contemplated by the Paper, may have the adverse effect of focussing investors on very short term performance rather than maintaining a long term investment outlook.

If investors desire such disclosures, those firms that are able to supply them will gain a competitive advantage and be sought out by investors who need or want them. We would recommend that this be left to market forces to determine, rather than mandate that all dealers provide similar account statements. Where dealers choose to offer these disclosures, regulatory standards may be appropriate to avoid misleading presentations of performance, cost or risk levels.

Harmonization

A primary concern is the lack of harmonization between the FDM and existing regulatory systems and current regulatory proposals, including the BC Model's Draft Legislation and Guides, published by the British Columbia Securities Commission and the *Uniform Securities Legislation*, proposed by the Canadian Securities Administrators, including the OSC. For a firm such as ours, operating across Canada, differing and potentially conflicting regulatory requirements present a major problem and added expense.

We are concerned that such an ambitious, far reaching initiative has been launched without the endorsement of the CSA. In Canada, the need for harmonization is a central theme in regulatory reform and must apply particularly to any proposed regulations in the financial services industry. We ask that any further considerations of the FDM focus first on how the FDM would harmonize with existing regulatory structures and other proposals for regulatory reform.

Co-ordination with Self-Regulatory Organizations

We want to underscore the importance of co-ordination with SROs, like the IDA, in the implementation of the FDM. As the Paper correctly states, any rules developed from the Paper's proposals would have to consider the existing IDA rules that regulate the client-advisor relationship. As the SROs are responsible for regulating the advisory and sales activities of registrants dealing with the public, it is important that these organizations play an integral role in the development of the FDM.

We are actively involved in a number of the Implementation Working Groups. These groups will be helpful in identifying those IDA rules that are consistent with the FDM and those rules that may need to be adapted, extended or otherwise improved if the FDM was to be implemented. This will ensure that the likelihood of duplicative and potentially inconsistent rules relating to Fair Dealing is minimized.

Costs

One of our major concerns is that to fully implement the FDM would be extremely costly, costs that would be passed on to our customers. We note that the Concept Paper (page 79) contemplates that the OSC will conduct a cost-benefit analysis of the proposals in the FDM. We strongly urge that a careful and dispassionate cost-benefit analysis be conducted prior to any commitment to implement the FDM to determine if, in fact, the perceived benefits to investors are justified by the costs which will be incurred.

The FDM Implementation Working Groups should focus on providing the OSC with input to assist in measuring the costs should the FDM be implemented, as compared to the benefits to their customers, particularly with respect to the risk disclosure and performance measures set out in the Paper.

The Paper states that the urgency of the Model is due primarily to the importance that investing has taken on for Canadians in recent years. The FDM's cost-benefit analysis will help to clarify whether accessibility for a wide range of investors to retail advisors can continue under the FDM.

We look forward to continuing to offer our comments on the FDM and we look forward to the refinements developed by the Implementation Groups. We are also anticipating the release of the second concept paper on licensing of firms and individuals.

Please do not hesitate to contact me to discuss any of the above further.

Sincerely,

Gary Reamey
Principal