

May 6, 2004

Via email: jstevenson@osc.gov.on.ca

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

Dear Sirs:

Re: Fair Dealing Model Concept Paper

Phillips, Hager & North Investment Management Ltd. (“PH&NIM”), manages in excess of \$45 Billion on behalf of institutional investors, private clients and the Phillips, Hager & North family of mutual funds. Phillips, Hager & North Investment Funds Ltd. (“PH&NIF”), a wholly-owned subsidiary, acts as principal distributor of the Phillips, Hager & North mutual funds. These funds are “no-load” - no sales commissions, front or back-end loads or redemption fees.

We are supportive of your proposal:

- to better define the roles and responsibilities of investors and representatives;
- to have dealings with investors with complete transparency; and
- to remove or avoid conflicts of interest.

To place our position in context, Phillips, Hager & North does not have any affiliations in which conflicts may arise, and we do not pay third parties to distribute our funds. We only sell our own investment funds to our clients, which we understand is permissible as per the second question/response on page 27 of the proposal.

GENERAL CONCERNS

We are concerned that the Fair Dealing Model is not a CSA initiative, that it will bring another layer of requirements in only one jurisdiction – Ontario. There have been a number of proposals at various jurisdictional levels (Continuous Disclosure 81-406, Rethinking Point of Sale Disclosure 81-403, Fund Governance 81-107, the B.C. Model) which need to be co-ordinated with the Fair Dealing Model in order to implement an efficient solution to investing in Canada. Also, the Model will be a barrier to entry for small firms who do not have the resources to implement the proposal. Finally, smaller investors may receive less attention because of the higher costs of bringing in new clients due to more documentation requirements, education, account monitoring and reporting.

SPECIFIC ISSUES

1. Self-Managed Mutual Fund Accounts

It is entirely appropriate to introduce self-managed account relationships to mutual funds. There are investors who have sufficient knowledge to manage their mutual fund investments without advice. They can go to a discount broker and purchase funds without advice and should have the same opportunity through a properly structured mutual fund dealer.

2. Applicable investor

It is not clear from the Concept Paper who this Model will apply to. It should exclude institutional and accredited investors.

3. Other Investments

The objective of the Fair Dealing Model is to act in the best interests of investors. We note that other investments are not addressed in the Concept Paper – segregated funds of insurance companies, limited partnerships, and real estate, to name a few. If the goal is investor protection, should not regulation be more inclusive of all investment vehicles.

4. Licensing and proficiency requirements

While this is to be covered in another concept paper, we would be concerned if proficiency requirements were relaxed. We feel there should be a higher standard of proficiency if more advice is given or control assumed by the representative. Accordingly, we do not feel representatives who do not meet the current ICPM proficiency requirements be allowed to form Managed-For-You relationships under the Model.

5. Personalized performance and Benchmarks

If mandated, performance should only be presented on an annual basis to discourage short run decision-making within a long-term investment horizon. In addition, performance should be standardized on one formula to enable comparison and eliminate confusion by investors.

Performance should be reported relative to a personal benchmark (the Model refers to Target Return which would be comparable). The appropriate benchmark is one that defines the return required on invested capital to meet the investor's investment objective. For example, sufficient assets to retire or capital required to meet future expenses. We agree with the Concept Paper that attempting to beat the market often has the contrary effect of lowering returns.

Utilizing a market index as a Benchmark is not truly comparable because investors rarely have all their investments in one sector, therefore, a Benchmark needs to be blended from a number of benchmarks which may result in some confusion. Also, one cannot invest in a Benchmark, therefore, there will always be differences between actual and Benchmark returns, adding to the confusion.

6. Risk Disclosure

Some form of risk disclosure would be appropriate but mutual fund investments should be reported differently from individual securities. This will be a complex area to report to clients, therefore, a more detailed review should be carried out by a separate working group.

Also, in explaining risk to investors, loss of capital should not only be considered but also the risk investments will not achieve the return required to reach objectives.

7. Compensation Disclosure

Disclosure (Appendix A, page 4) should include the fact that dealers earn a margin of profit on free cash balances carried in client accounts, also, dealers earn income on margin accounts.

8. Investor relationship drift

When in place the three relationships will likely have different fee structures. Self-Managed ("SM") would be least costly, with Advisory costing more. There will be a tendency for investors to sign up for SM to save money but try to take advantage and ask for advice from time to time. This may put the relationship at risk and it will have to be "managed".

9. Investor's overall portfolio

We currently receive, in some cases, a great deal of resistance from clients to provide us with details of their overall portfolio. The client may come to us because they wish to invest in our Bond Fund and do their equity investing elsewhere. They say that the rest of their investment portfolio is none of our business. In keeping with the Model, it appears the client would have to become a self-managed account if we cannot receive all the information we need.

10. New contracts with existing investors

Contracts will be required with our existing clients and a suitable period of time allowed to get documentation in place.

INDUSTRY WORKING GROUPS

Our firm would be pleased to have someone sit on appropriate working groups to help develop the Model.

If you would like to discuss our response, please contact the writer directly by email to dpanchuk@phn.com.

Yours truly,

PHILLIPS, HAGER & NORTH
Investment Management Ltd.

(Signed) "Don S. Panchuk

Don S. Panchuk, CA
Vice President Administration & Regulatory Matters
and Secretary

DSP:dgs