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July 19, 2004

VIA EMAIL: pchaukos@osc.gov.on.ca

Ontario Securities Commission
Suite 1900, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8

Attention: Pat Chaukos, Senior Accountant/Legal Counsel
Compliance, Capital Markets

Dear Sirs:

Re: Ontario Securities Commission Staff Notice 31-712:
Mutual Fund Dealers Business Arrangements

We are responding to your request for comments regarding Ontario Securities Commission ("OSC") Staff Notice 31-712: Mutual Fund Dealers Business Arrangements (the "Staff Notice").

Our response to the questions set out in the Staff Notice are as follows:

1. *Do you agree with the description of current industry trends? Are you aware of any other similar changes?*

   We agree generally with the description of current industry trends to service client requirements. We are not in a position to comment on whether there are "similar changes" however would point out that each mutual fund dealer has its own business model which necessitates considering arrangements that comply with all regulatory requirements and also serve client needs. In our view, each dealer model should be reviewed on its own merits.

2. *Are there other relevant business arrangements that have developed in response to these industry trends? If so, please describe.*

   We believe that in situations where there are related mutual fund and investment dealers, "personnel", engaged by the investment dealer who hold all necessary registrations and possess the required proficiency, provide securities services that are outside the scope of the registration of the mutual fund salesperson. As long as there is an appropriate referral to the services dealer, it would seem that payment of any compensation to the referring dealer is irrelevant to any question of an act in furtherance of the trade. In this manner, the needs of the client can be accommodated while ensuring regulatory compliance.

3. *How are clients being properly served when only a portion of the portfolio held by the mutual fund dealer can be serviced by the mutual fund dealer?*

   The question presumes that the mutual fund dealer is holding the non-mutual fund securities in an omnibus account. Our observation is that there is nothing inherently wrong with a mutual fund salesperson providing advice on an account that contains mixed securities provided that the

mutual fund salesperson confines trading activity to only those securities which are within the scope of the mutual fund salesperson's registration. We also wish to point out that mutual fund dealers are often in the best position to prepare a comprehensive financial plan for a client.

4. *What actions can be taken to ensure that the mutual fund dealer salesperson is acting within the terms of his/her registration regardless of client pressure?*

We view this as primarily an issue for education of the salesperson as to the limitations on his/her registration. Moreover, there needs to be appropriate supervision and policies in place to prevent the mutual fund salesperson from exceeding the scope of his/her registration. Where trade execution services are provided by an investment dealer, one of the controls could be for the trader with the investment dealer to deal directly with the client and alert the mutual fund dealer if there is a concern that the salesperson exceeded the scope of registration.

5. *What actions, if any, are being taken by mutual fund dealers to ensure that clients are aware of the lack of coverage on assets held by the mutual fund dealers at investment dealers? What actions should be taken in this regard?*

We have no knowledge that this is taking place. However, if the question accurately describes an existing situation, it is our view that the Investment dealer would have an obligation to advise clients that certain of their assets are not covered by the Canadian Investor Protection Fund.

6. *What controls or requirements could be put in place to ensure that mutual fund dealers are only trading and providing advice on mutual fund securities, while allowing clients to consolidate their holdings in one account?*

Again, we see this as an education and supervision responsibility of the mutual fund dealer with full disclosure to the client.

7. *Under our current regulatory framework, what actions, if any, can be taken to address concerns regarding supervision of salespersons in joint service arrangements? How can clear lines of responsibility of each of the dealers be maintained?*

In the case of joint service arrangements, it is incumbent upon both dealers to properly educate and supervise their salespeople to ensure that (1) a salesperson does not exceed the scope of his/her registration; and (2) there is adequate disclosure to the client to ensure that there is no confusion as to the roles and responsibilities of each dealer.

8. *How can we ensure that responsibility and liability of dealers in joint service arrangements to clients is clear?*

We view this primarily as a matter of education of the salespeople and adequate communication to clients. If the question is directed to the issue of legal and/or regulatory liability, appropriate provisions could be put in place to ensure that dealers cannot escape liability by pointing to the other dealer in a joint service arrangement to the detriment of the client and/or the public interest.

9. *What controls, if any, could be put in place to prevent client confusion?*

We feel that adequate disclosure to clients should be able to address any potential confusion.

10. *Can you suggest any alternative solutions that would address the supervisory, accountability and liability issues that arise when salespersons act on behalf of two dealers?*

This question presumes that salespersons act on behalf of two dealers. We do not believe that this is necessarily the case. Each salesperson should only act on behalf of their own dealer and, to the extent that there is overlap, there should be adequate disclosure to the client and joint responsibility between the dealers. Also, when two dealers may be involved, the client receives

the benefit of 2 compliance regimes, one of the mutual fund dealer and its salesperson and one by the investment dealer in effecting a trade.

11. *What changes, if any, would you support so as to allow the mutual fund salesperson to service the investment dealer account?*

We require elaboration as to the definition of "service" to properly respond. However, we do not feel that the mutual fund salesperson should service the investment dealer account unless there is dual registration of the mutual fund salesperson with the investment dealer and the mutual fund salesperson acts within the scope of his/her registrations.

12. *Referral arrangements require that clients have separate accounts at each dealer, instead of one consolidated account. The need for separate accounts may raise issues of convenience from the client's perspective; beyond this, are there any issues or consequences of referral arrangements that we should be aware of?*

If a client maintains separate registered accounts at two different dealers there could be an issue regarding compliance by the client with the foreign content rules.

13. *If the MFDA/IDA introducer/carrier model contemplates two dealers servicing one client account, how can clear lines of responsibility (including supervision, accountability and liability) of each of the dealers be maintained? Alternatively, if this introducer/carrier model contemplates two dealers servicing two client accounts, how does this meet clients' needs? Furthermore, what actions can be taken to ensure that the mutual fund dealer salesperson is acting within the terms of his/her registration?*

The dealers would have to establish clear lines of responsibility and supervision for each dealer. This issue is at the heart of the rules already in place in the investment dealer and mutual fund dealer worlds and there is no reason why similar provisions could not be put in place to deal with this. In this regard, it would be necessary to ensure that the mutual fund dealer only deals with types of products permitted by its registration.

14. *Are you aware of any arrangements that would allow a mutual fund dealer to service its clients' need for one consolidated account, yet do not raise these regulatory concerns?*

We are not aware of any such arrangement however we feel that any regulatory concerns can be properly addressed.

15. *What are alternative solutions to the issues raised by the OSC with respect to joint service and omnibus account arrangements? Do these solutions require changes to the regulatory structure or requirements?*

We feel that the regulatory structure permits arrangements whereby a mutual fund dealer and an investment dealer can service one client in compliance with all regulatory requirements and allowing both dealers to meet the clients' needs. It would be appropriate for the regulators to consider setting guidelines for such arrangements to ensure that mutual fund dealers enter into compliant structures depending upon their business model.

16. *Does a restricted dealer registration category continue to be appropriate in the current business environment where clients want to have one consolidated account and be serviced by one sales representative?*

Mutual fund dealers have a very important role to play in ensuring that client needs are met and we are of the view that this is best achieved by retaining the restrictive dealer registration category. If the regulators are considering eliminating this category of registration, they are essentially putting the mutual fund dealer industry out of business. This is unnecessary in our view and would be very detrimental to the interests of the industry and the investing public. There

are a number of clients who are only interested in mutual fund investments and for whom these are the most appropriate investments. The fact that regulators have concerns about joint service arrangements in the absence of a clear regulatory direction or identified problem should not be taken as a reason to destroy an industry. We note that large investments of money and effort have been put in place over the past five years to establish an SRO structure for the mutual fund dealer industry and this would seemingly be lost.

There is a continuing need for a vibrant mutual fund industry both at the manager and dealer level in Canada and the elimination of the restricted dealer category could cause significant harm.

17. *If mutual fund dealers and investment dealers are required to unwind the joint service and omnibus account arrangements, what will the impact be to your firm's clients, as well as to your firm, and how long do you anticipate this would take?*

There would be a very significant impact on our business. It would force clients to choose amongst dealers and potentially would tear apart long-term satisfactory relationships with advisors. Moreover, we are concerned that this would cause confusion to clients and create unnecessary concern and disruption to their financial relationships. Furthermore the premise seems to be that investment dealers provide a better level of service to clients based on enhanced proficiency requirements. This is not necessarily the case and indeed mutual fund dealers are often able to provide a level of service that is more appropriate to many clients. If a direction was given to unwind any existing arrangements, in our view there should be a minimum two year notice period and preferably longer to effect system changes, obtain any necessary proficiency and the general complexity in transitioning the business to a new dealer.

In addition to our responses to these questions, we also wish to point out that we feel that the one month comment period is inadequate given the significant implications that the adoption of the Staff Notice would have on mutual fund dealers and their clients. Many of these arrangements have been explicitly or implicitly sanctioned by regulators and to simply disallow the continuation of such arrangements is both unreasonable and unfair. The discontinuance of such arrangements should only be considered if either a current or amended regulatory structure cannot be adopted that will address the concerns of the regulators in permitting clients to deal with both a mutual fund dealer and an investment dealer. The suggestion that arrangements would have to be unwound by December 31, 2004 is similarly unfair and unreasonable and would in our view have disastrous consequences for clients in the mutual fund industry.

Any thought of eliminating the restricted registration category would have disastrous effects on the structure of the Canadian capital markets, would lead to a tremendous loss of competition and leave a great portion of the investing public unserviced.

Please do not hesitate to contact me if you would like to discuss any of these matters.

Yours truly,

INVESTORS GROUP INC.

W.T. WRIGHT, Q.C.

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