

July 23, 2004

Ontario Securities Commission  
c/o Secretary to the Commission  
20 Queen Street West  
Suite 1903, Box 55  
Toronto, Ontario  
M5H 3S8

***Re: Issues Paper of the Ontario Securities Commission on Mutual Fund Dealers Business Arrangements***

BMO Investments Inc. (“BMOII”), as a mutual fund dealer, is pleased to provide comments to the Ontario Securities Commission’s (“OSC”) June 2004 Issues Paper on *Mutual Fund Dealers Business Arrangements* (the “Issues Paper”).

In general, BMOII cannot comment on many of the requests for comments in the Issues Paper as the questions do not generally relate to the business of BMOII. Question 16, however, appears to question the future of the mutual fund dealer category of registration, which is the fundamental business of BMOII.

***OSC Question 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?***

***BMOII Response***

In our view, mutual fund dealers and mutual fund sales representatives are critical in Ontario in providing low cost access to debt and equity markets for investors.

It is important to recognize that while mutual funds account for only about 9% of investible assets in Canada, mutual funds nevertheless play an important and often substantial role in the investment portfolios for many Canadians. For many, mutual funds are the only equity exposure in their investment portfolios, and provide diversification

potential for both equity and fixed income investments. Mutual funds also allow for cost-effective international portfolio diversification.

Now, more than ever, Canadians must rely to a much greater extent on their own savings and investing to provide for their retirement. An example of this is seen in many employers who have moved to eliminate defined benefit pension plans for their employees. These investors, who often have only modest amounts to invest, have turned to mutual funds to improve their investment returns while diversifying their portfolio to an extent that would not be possible if they were investing in individual securities. Investments directly in equities can be risky and expensive, and Investment Dealers Association of Canada (“IDA”) member-firm wrap programs generally have high minimum investments, relative to account minimums and average account balances at many mutual fund dealers. Mutual funds, for some, provide the only diversification option.

Should the mutual fund representative category of registration be merged into a full service investment dealer licence, and the mutual fund dealer category of registration cease to exist, it is very likely that the costs of operating millions of accounts for average Canadians would skyrocket, due to the significantly higher costs involved in managing full-service dealer accounts. For many firms, higher account minimums would be required to ensure these higher costs are recouped, resulting in fewer Canadians with access to investments other than simple fixed income products, such as savings accounts, GICs or government savings bonds.

It is also important not to overlook the impact on equity markets in Canada as a result of such a scenario. If the average Canadian could no longer afford mutual funds, fewer Canadians would have equity exposure in their portfolios, and the result would be significantly less direct equity investing in Canada. This could injure both firms trying to raise equity capital, and the future financial health of individuals who can no longer participate in investments that, as a whole, have historically outperformed fixed income investments over the long term.

We do not believe that the proposed overhaul of the mutual fund dealer registration category is warranted. If the OSC has evidence of regulatory breaches that are actually negatively impacting investors, then it would be more appropriate to deal with such breaches through more rigorous enforcement of the existing rules and not by proposing industry-wide changes to legitimate and useful business practices.

The OSC's concerns can, in our view, be more than adequately addressed within our existing regulatory framework with the development of better reporting and monitoring and more rigorous enforcement of existing regulations with the application of penalties to those who are found in violation of the trading limitations of their licenses.

***Additional General Comments***

In certain cases, there may be omnibus and joint service arrangements that may be acceptable and very beneficial to the investing public – for example, employee share purchase plans managed by mutual fund dealers.

Where mutual fund dealers operate employee share purchase plans, the management of the plan and the administration costs may be much lower than if such plans were offered through IDA member-firms. We understand that the lack of investor protection plan coverage may be a concern to the OSC in cases where these plans are offered through a mutual fund dealer, but we do encourage that the OSC and CIPF work with industry groups to negotiate or create a practical and acceptable solution for the investing public. Further industry discussions, and cost-benefit analyses (complete with pricing out of alternatives for employee shareholders) should be undertaken before jointly managed and/or omnibus account held employee share purchase plans are strictly prohibited from being offered by mutual fund dealers.

***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,

A handwritten signature in cursive script, appearing to read "E. Legzdins".

Edgar Legzdins  
President and Chief Executive Officer  
BMO Investments Inc.