



HOWSON TATTERSALL  
I N V E S T M E N T   C O U N S E L

April 29, 2005

British Columbia Securities Commission  
Alberta Securities Commission  
Manitoba Securities Commission  
Ontario Securities Commission

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 1903, PO Box 55  
Toronto ON M5H 3S8

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Ontario Securities Commission  
SECRETARY'S OFFICE

Re: Concept Paper 23-402

Dear Sirs:

We are writing in response to your request for comments on **Concept Paper 23-402: Best Execution and Soft Dollar Arrangements**. Our observations are based on thirty years experience in the Canadian equity markets with a primary, but not exclusive, focus on listed Canadian small cap stocks. For your reference, Howson Tattersall Investment Counsel currently manages in excess of \$9 billion of assets, of which approximately \$2.1 billion are Canadian equities. Of these equities, a little over \$1.3 billion (62%) would fall into the small cap category. Although the following comments draw on our experience in small cap investing, the Canadian market is quite illiquid below the top tier companies and so our conclusions are probably valid for a large segment of the market.

1. In the terminology of the Concept Paper, we would define best execution as "a process which results in the lowest total transaction cost for the client." Having said that, it is not clear how we would set about monitoring or measuring this process. The following description of a typical trade for an illiquid stock illustrates why.

Most illiquid stocks show only a few hundred shares on the bid and ask. So an institutional investor looking for several thousand shares will first check the block lists which are circulated by most brokerage firms every day. If the stock of interest shows up on a block list, this would be a starting point, though the broker may or may not have an exclusive and some of the alleged positions may in fact be "stale dated". Once contact (through the broker) has been made with the purported block of stock, the seller will typically be looking for a premium to the ask price on account of the scarcity value of the block. The buyer, in contrast, will be looking for a discount to the bid side on account of the illiquidity of the stock. Both parties will ignore the current quote and invoke the price at which the last block traded if it helps

their negotiating position. If a trade finally takes place under these circumstances, it will be after repeated interactions between knowledgeable buyers and sellers.

Based on the situation described in the preceding paragraph, we submit that “best execution” for institutional investors is in fact the price at which they agree to trade. We see no reason for prescriptive rules and certainly no need for extensive documentation on the state of mind of the buyer and seller during this process.

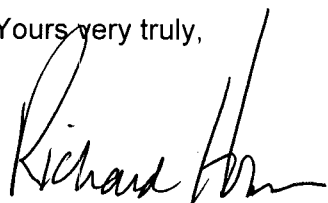
2. Our preference for “total transaction cost” as the definition of best execution also reflects the fact that commissions may be a relatively small part of the transaction cost for an illiquid stock. As a matter of policy, we choose **not** to be the lowest commission payer in our small cap trading so that brokers are encouraged to show us illiquid blocks sooner rather than as a last resort. It is often preferable to pay a fraction of a penny more in commissions to acquire a large block on advantageous terms rather than laboriously to accumulate small pieces of stock over several weeks. This is obviously a matter of judgment and sometimes will be in error, but the documentation required to keep track of these “what if” scenarios would be overwhelming.
3. With regard to commissions, we pay the same rate (expressed in basis points as a percentage of the value of the trade) to all brokers who execute trades for our small cap portfolios, whether they are a full-service firm or a regional boutique. The commission rate has been unilaterally reduced by Howson Tattersall from time to time in the past and to date no broker has refused to deal with us or cut off access to their research material. As a result, we view our commission schedule as paying for execution only and we do not consciously pay for the research material. Since the brokerage community research output is primarily designed to stimulate transactions, it is probable that they would continue to produce it even if all commissions were designated as execution only. As a result, we believe that “unbundling” brokerage services will be an elusive goal.
4. Howson Tattersall utilizes soft dollar commissions in the range of 10-12% of total commissions in a typical year. They are used in accordance with OSC Policy 1.9 to pay for electronic databases, third party research services and, from time to time, for advice on proxy matters and shareholder advocacy. This latter category has been extremely beneficial to our clients on a number of occasions and they consider it money well-spent. We deal with only one soft dollar broker and pay the same commission schedule as all other Canadian brokers, so there is no incremental cost to the client for soft dollar trades.
5. As the Concept Paper points out, soft dollars “allow independent research providers to compete with large full-service brokerage firms .... an extremely important factor in today’s environment where independent research has become a priority.” Howson Tattersall strongly supports this position. We disclose all soft dollar arrangements in

our mutual fund prospectus and a number of our institutional clients request similar disclosure and we are happy to do so. If there are abuses associated with soft dollars, then we suggest that they be identified and corrective action taken. If soft dollars are eliminated then those commissions would not disappear, they would presumably be re-allocated to full-service brokers. It is difficult to see how this would benefit our clients, although it would certainly benefit the full-service brokers.

In conclusion, our practical experience at Howson Tattersall suggests that "best execution" should focus on total transaction cost. For an illiquid stock, this will almost always be a negotiated price between institutional clients and we see little advantage in creating a paper trail of the thought processes that led to this outcome. With regard to soft dollars, we would endorse a more rigorous enforcement of the current OSC Policy 1.9, if there are abuses. In an environment where regulators are trying to encourage more independent research we believe it would be a retrograde step to restrict or abolish the current soft dollar regime.

Please feel free to contact either one of us if you need additional information.

Yours very truly,



Richard D.W. Howson  
Chief Investment Officer



Robert Tattersall  
Executive Vice President

c.c. Anne-Marie Beaudoin