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Asset Management

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October 19, 2006

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario, MH5 3S8

Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3

Re: Notice of Proposed National Instrument 23-102 Use of Client Brokerage Commissions as Payment for Order Execution Services or Research (the "Proposed Instrument")

Dear Mr. Stevenson and Madame Beaudoin:

On behalf of Capital International Asset Management (Canada), Inc. ("CIAM") and its affiliate Capital Guardian Trust Company ("CGTC"), we appreciate the opportunity to comment on proposed National Instrument 23-102 published by the Canadian Securities Administrators (the "CSA"). CIAM is a registered adviser in Ontario and serves as the portfolio adviser to the Capital International Funds, a series of mutual funds offered to Canadian investors. CGTC is an affiliate of CIAM that serves as investment sub-advisor to certain of the Capital International Funds and is also a registered international adviser in various Canadian provinces, serving Canadian institutional clients.

We generally support the Proposed Instrument, although we have significant concerns with portions of it, as described below. The CSA's efforts to clarify the types of permissible execution and research services will provide helpful specificity and should cause advisers to take a more consistent approach. We also support the narrowing of permissible services to exclude goods and services akin to operational and overhead expenses of advisers, such as tangible items and mass-marketed publications. We believe these changes will benefit investors.

We appreciate the efforts of the CSA to take into account the recent U.S. Securities and Exchange Commission interpretive release and the U.K. Financial Services Authority rules regarding commission practices and unbundling when crafting the Proposed Instrument. Because CIAM, CGTC and our institutional affiliates are subject to the Canadian, U.S. and U.K. rules for various parts of their businesses, as a global organization we must effectively comply with each set of rules when receiving execution and research services from dealers. Regulatory consistency will help assure that the cost of compliance is not overly burdensome and that we are not competitively disadvantaged in any of these jurisdictions. We also commend the CSA for developing a uniform standard across all Canadian provinces and territories.

We have significant concerns with the disclosure and record keeping provisions of the Proposed Instrument. The detailed disclosure requirements of Part 4 of the Proposed Instrument will impose significant new compliance costs and may overwhelm, and in some cases confuse, investors.

Part 4.1 of the Proposed Instrument requires advisers to make certain disclosures if they enter arrangements with dealers to use client commissions "as payment for" services other than order execution, such as research services. When advisers agree with dealers to pay a portion of brokerage commissions to a third party research provider, there is clearly a payment for research included in the brokerage commission. However, it is unclear how to apply the "payment for" requirement to trades with dealers that provide proprietary research to advisers on a bundled basis.

At a minimum other factors beyond the mere fact that a broker provides research should be present in order for commissions to be deemed to include a payment for research. For example, an agreement between an adviser and a dealer to pay higher commission rates than the dealer otherwise charges in order to receive research services, or a commitment to execute a specified trading volume with a dealer in exchange for research could each be deemed to involve a "payment for" research. In our view, the payment of brokerage commissions to dealers that also provide research services should not constitute a "payment for" research absent an identifiable explicit agreement or commitment between an adviser and the dealer with respect to research. We urge the CSA to clarify that bundled brokerage transactions that do not involve a binding commitment to pay for research are excluded from Part 4.1's disclosure requirements.

We support narrative disclosure to investors of advisers' policies and procedures regarding brokerage commissions, regardless of whether advisers engage in transactions that are subject to Part 4.1 of the Proposed Instrument. Such disclosure could include a description of the adviser's policy of seeking best execution for clients and investors, the factors advisers consider when selecting dealers and trading venues, the general types of research services dealers provide to the adviser, and whether research services are taken into account when selecting dealers. This disclosure would help achieve the CSA's goal

of increased transparency regarding brokerage commissions paid on clients' behalf, but would not be unnecessarily detailed or burdensome on advisers to produce.

We believe that the disclosure contemplated by Part 4.1 of the Proposed Instrument is overly complex and voluminous and are concerned that it would not provide meaningful benefits to investors. For example, Part 4.1(1)(a) would require a list of every dealer from whom an adviser received order execution services or research, as well as a specific description of the types of execution and research services provided by each. This list would contain the name of every dealer with whom an adviser trades, as well as a largely duplicative description of the types of order execution and research provided by each dealer. For clients with global investment mandates and investors in global funds , this disclosure could extend to over one hundred dealers and would require tracking and lengthy reporting by advisers for each. This would impose a significant burden on advisers without providing a meaningful benefit to investors.

In some cases, the disclosure requirements could confuse or mislead investors. Parts 4.1(1)(c) and (d) would require a quantitative comparison of commission rates paid for "execution only" trades, bundled trades and trades that involve a payment to third parties. The distinction between "execution only" commission rates and "bundled" commission rates will imply to investors that any additional amounts paid for bundled execution are payments for research or other non-execution services. This is potentially misleading to investors, because full-service bundled execution is often the best trading method for an adviser to achieve best execution for their clients, and is not merely a method to pay for research.

Finally, the requirement in Part 4.1(2) that advisers maintain records (and provide the records to clients upon request) of every good or service received from dealers would pose a serious compliance problem for advisers and would not provide useful information to investors. Advisers communicate daily with dealers orally, through email and voicemail, in person, and through written correspondence. These communications can include advice regarding investments in particular companies or industries, macroeconomic or political developments that could affect the value of securities, market intelligence and other topics that are within the Proposed Instrument's definition of "research." Under the Proposed Instrument, advisers would be required to keep details of all such contacts with dealers, including name, date and a description of the service received. This level of granularity would be extremely burdensome if not impossible for advisers to compile and we do not believe it would provide an incremental benefit to investors. Further, we note that the FSA and the SEC have not required this level of disclosure and recordkeeping.

In summary, while we support enhanced disclosure to investors regarding advisers' brokerage policies, in our view the disclosure and recordkeeping requirements of the Proposed Instrument may overwhelm or confuse investors. We believe that

narrative disclosure would help achieve the CSA's goals of transparency and accountability, without imposing undue burden or expense on advisers. We urge the CSA to revise the Proposed Instrument to provide simpler, more meaningful information for investors.

Again, we appreciate the opportunity to comment on the Proposed Release and welcome any questions or comments you may have. Please contact me at 416-815-2128 or Chris Burt at 310-996-6202 to discuss our comments.

Sincerely,

Mark Tiffin
President