

October 20, 2006

Mr. Tony Wong
Senior Legal Counsel, Capital Markets Regulation
BC Securities Commission
PO Box 10142, Pacific Centre
Vancouver, BC V7Y 1L2

by email: twong@bcsc.bc.ca

Re: Comment on Proposed NI and CP 23-102 "Soft Dollar" Arrangements

Dear Mr. Wong:

I am writing in my capacity as Chief Executive Officer and Chief Investment Officer of the British Columbia Investment Management Corporation (bcIMC). As a managing fiduciary of pension and trust funds for hundreds of thousands of British Columbians, bcIMC has a responsibility to ensure we always act ethically and in the best financial interests of our clients. This requires using client brokerage commissions in an accountable and transparent manner. Additionally, we note that certain BC-registered advisors have such a duty under Section 14 of BC's *Securities Rules*. Specifically, they are required to deal fairly, honestly and in good faith with clients.

In this context, and given that the practice of using client brokerage fees to obtain certain products and services has become extremely complex (e.g., application to proprietary research as well as third-party research arrangements) it may be timely and useful to provide investment advisors with additional standards on "soft dollar" issues – standards that would give practical meaning to the overriding fiduciary principle of ethical and transparent client dealings.

Accordingly, bcIMC is pleased to offer the following comments in support of the BC Securities Commission (BCSC) more actively regulating the use of soft dollars by issuing guidance on allowable products and services, and meaningful disclosure:

- I. As a policy, bcIMC does not enter into any arrangements with brokers or third parties, on an agency or principal basis, where brokerage commissions are used as payment for products and services other than advice, analyses, or reports relating to investments or trading in client portfolios.

We determine which broker to do business with solely on the basis of execution; which broker will execute the trade with the lowest cost and minimal market

impact. Our broker selection process will consider other products or services the broker may provide only when the financial test has been met.

At no time will bcIMC enter into an arrangement to use client brokerage fees to pay for or to subsidize the management of our firm. This policy is regularly re-confirmed with our clients.

- II. bcIMC's policy is consistent with the key components of the Chartered Financial Analyst (CFA) Institute Soft Dollar Standards that are used by investment professionals worldwide who are involved in soft dollar issues. The CFA Soft Dollar Standards define "soft dollars", identify "allowable" research, discuss the importance of best execution and minimizing transaction costs as primary broker selection criteria, and set out advisor-client disclosure expectations.

The CFA Soft Dollar Standards appeal to bcIMC because, in clarifying certain areas of brokerage practices, they emphasize the basic fiduciary principles applicable to advisors and managers of client assets. The Standards focus on substance over form.

- III. No finite set of rules can cover all potential situations regarding allowable "soft" products and services given the rapid change of pace in technology and in the investment industry. In this respect, establishing new securities instruments and policies on client brokerage commissions would not be useful or meaningful in terms of investor protection and Canadian market efficiency.
- IV. Rather than creating new law, bcIMC believes it would be useful and meaningful for the BCSC to issue principles-based interpretation of soft dollar arrangements. The interpretation could be delivered through practical examples, case studies and illustrations of real-life soft dollar situations that meet (or do not meet) the objectives of fair, honest and transparent dealings with clients.

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bcIMC appreciates the opportunity to comment on the proposed NI and CP 23-102 *Use of Client Brokerage as Payment for Order Execution Services or Research*. If you have questions or seek clarification on our views, please feel free to contact me.

Sincerely,



Doug Pearce
Chief Executive Officer/Chief Investment Officer