



Fidelity Investments Canada ULC

483 Bay Street
North Tower, Suite 300
Toronto, Ontario
M5G 2N7

Peter S. Bowen
Tel: (416) 307-5230
Fax: (416) 307-5535
Email: peter.bowen@fmr.com

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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Securities Office, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Nunavut
Registrar of Securities, Yukon Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8
e-mail: jstevenson@osc.gov.on.ca

- and -

Madame Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, Square Victoria
C.P. 246, 22^e étage
Montréal, Québec H4Z 1G3
Email: consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

**Re: Proposed National Instrument 23-102, Use of Client Brokerage as Payment
for Order Execution Services or Research**

We are writing in response to the request for comments on proposed National Instrument 23-102, Use of Client Brokerage as Payment for Order Execution Services or Research (the "Proposal"). We submitted comments on the previous version of the Proposal, on October 26, 2006.

Fidelity Investments Canada ULC is one of Canada's largest mutual fund companies and part of the Fidelity Investments organization of Boston, one of the world's largest providers of financial services. In Canada, Fidelity manages more than \$45 billion in mutual fund and corporate pension plan assets. It offers Canadian investors a full range of domestic and foreign-content mutual funds. Fidelity funds are available through a number of advice-based distribution channels including financial planners, investment dealers, banks, and insurance companies. Fidelity also administers defined contribution and defined benefit assets on behalf of corporate clients across Canada.

Fidelity commends the Canadian Securities Administrators for seeking improved transparency for the use of client brokerage. We are pleased that the CSA has modified the Proposal as a result of previous comments by various commentators including Fidelity, and believe the utility of the Proposal has been significantly improved as a result. We offer comments on the following issues to further enhance the Proposal.

Part 4 of the Proposal - Disclosure Obligations

We are pleased that the CSA has eliminated the requirements that would have treated third party research differently than proprietary research. We note that under the Proposal, advisers will now be required to disclose a "reasonable estimate" of the value of research received. Investment funds subject to National Instrument 81-106 have for several years been required to disclose "to the extent the amount is ascertainable ... the soft dollar portion" of commissions. The vast majority of fund companies have taken the view that proprietary research cannot be valued. We recommend guidance as to how the CSA expects advisers to arrive at a "reasonable estimate" for the value of proprietary research, given that the amounts are not considered "ascertainable". We note that such estimates will necessarily be subjective, making comparisons between advisers challenging. If instead the CSA modifies the Proposal to use an "ascertainable" standard, we recommend completely deleting the disclosure of the value of any portion of research. To do otherwise is to create an unlevel playing field between third party and proprietary research.

Further, we recommend NI 81-106 be amended to be consistent with the Proposal, and care be taken to ensure third party research not be discriminated against.

Rules governing the use and disclosure of soft dollars should not provide for different or better treatment for proprietary research compared to third party research. We do not believe it advances sound public policy to require disclosure of only third party research costs, because such a rule would discriminate against independent research, and would

also provide unhealthy incentives for advisers to send trades to dealers for reasons other than seeking quality execution of fund trades.

We strongly urge the CSA to refrain from any rulemaking that treats third party research differently from proprietary research. If disclosure of amounts is necessary, it is critical that an evaluation of research bundled with execution be included in any soft dollar cost estimate. The bundling of research and execution is the least transparent aspect of transaction costs, and the CSA should not do anything to favour it over other legitimate uses of commissions. At Fidelity, we have historically estimated that research bundled with execution represents a larger share of commissions than third-party research, and we expect this would be true at other firms as well. Thus, in addition to giving rise to competitive unfairness for third party research providers, quantifying third party research without quantifying bundled research would significantly understate total soft dollar use and be highly misleading to investors.

Part 4 of the Companion Policy – Obligations of Advisers and Registered Dealers

4.1(3) notes that "... the adviser should have adequate policies and procedures in place to ensure that all clients whose brokerage commissions were used as payment for these goods and services, have received fair and reasonable benefit from such usage." Given that research services typically benefit clients generally and it is difficult if not impossible to track the benefit to specific clients, we are concerned that the requirement to ensure "fair and reasonable benefit" is an unrealistic standard. Accordingly, we recommend that this sentence be deleted.

Conclusion

We appreciate the opportunity to comment on the Proposal. If you wish to discuss any of the above, please contact the undersigned.

Yours very truly,

[signed] "Peter S. Bowen"

Peter S. Bowen
Vice President & Fund Treasurer
Fidelity Investments Canada ULC