
JARISLOWSKY FRASER LIMITED
I N V E S T M E N T C O U N S E L

Thursday, 29 May 2008

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

Care of:

Mr. John Stevenson
Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario
M5H 3S8

- and -

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

Subject: Comments on to proposed regulation 31-103 respecting registration requirements

Dear Sir, dear Madam:

Jarislowsky, Fraser Limited (JF) is a registered Investment Counsel and Portfolio Manager managing over \$50 billion in managed and pooled fund assets across Canada and the U.S. The firm has discretionary authority to trade its clients' assets and requires that all clients keep their assets with either a custodian or a broker. Based on our reading of NI 31-103, we believe we would be required to register as an Adviser and in the new category of Investment Fund Manager.

We have reviewed the documentation for NI 31-103. While JF is happy to see a move towards a "central" regulation for registration, we are still disappointed by the presence of certain provincial and territorial exemptions. The proposed regulation has attempted to normalize rules across all groups and progress has been made, but this has still not created a level playing field. In general, the proposed regulation has expanded the administrative burden for all registrants, without, in our opinion, providing a commensurate benefit to investors. The new regulations will also raise costs by increasing capital, insurance and reporting requirements and these will be passed on to investors.

JF is bound by a fiduciary duty to its clients and that in itself provides the strongest form of investor protection. The proposed regulation, in its current form, suggests that this fiduciary duty is either poorly exercised by registrants or insufficient in its scope. We don't agree with this. More rules won't necessarily protect investors from a few bad apples in the industry. We do understand the need for greater protection and that striking a balance is very difficult and have, therefore, attempted to provide alternate options to this dilemma within our comments.

We take particular exception to the following two proposals:

Prohibition on certain managed account transactions (cross trades)

Under the proposed legislation (section 6.2(2)), registered advisors will no longer be able to cross trades between client accounts. We feel strongly that this will be detrimental to Canadian investors. Cross trades minimize market impact and limit overall transaction costs, particularly for less liquid stocks, a commonplace problem in the Canadian market. In addition, the practice, if properly implemented, allows registrants to fulfill both their duties of Best Execution and Fair Dealing for their clients.

Examples include:

1. If a client is reducing its overall exposure to oils and selling \$5 million of Peyto Energy Trust (with \$5.7 million of average daily trading value) while a new client is starting up which would require a \$10 million holding of the same security, is it not in the best interest of both clients to cross the trade with a third party broker-dealer at the mid point between the bid and ask prices?

2. Clients have multiple accounts, and when reorganization is required, securities are crossed from one account to another. Should the client incur extra trading costs and go through a broker when both legal entities are agreeable to the transaction?
3. Clients move from managed or segregated accounts to one of our pooled funds. Should we engage a broker to sell all of their securities, incur commissions and then turn around and repurchase all the same shares within our pooled fund, paying commissions yet again?

In our opinion, cross trades should be permitted so long as the registrant has compliance oversight and policies in place to ensure that the best interest of both parties to the trade are protected.

We also wish to point out that, by prohibiting cross trading, the CSA is not leveling the playing field between Mutual Funds and the clients of registered advisers as NI 81-107 exempts Mutual Funds from this rule provided their Independent Review Committee signs off on the cross trade. This difference is neither fair nor in the best interest of Canadian investors.

Insurance Requirements - Adviser

As described above, JF does not handle, hold or have access to client assets. However, as section 4.22 of the proposal is currently worded, the act of simply redirecting a cheque would require registrants who have no access to client funds to carry insurance and capital as if they did. Under the current proposal, because the size of our clients' assets under management rather than the size of the risk to the underlying client, JF would be required to be covered by an insurance bond in the amount of \$25,000,000 instead of \$100,000. We believe this to be extreme and unjustified as, despite all of our best efforts to avoid these situations, we cannot eliminate the possibility of receiving a payment in error.

We also have comments on the following proposals, all of which highlight the type of additional paperwork which will be required:

Relationship with clients - Providing relationship disclosure information

The requirements in section 5.5(3) broaden registrant responsibilities well beyond the disclosures JF would normally extend to a new client. Why is it necessary to describe the risks of investing in products and strategies which we do not utilize, such as hedging, leverage or margin? These descriptions fall into what we would term general client education. We believe that a better approach to investor education would be for the CSA to standardize this information into a package which registrants would give to each new client at the time an account is opened. Only those registrants who offer products or services using investments which do not appear in the package would need to elaborate on the risks involved.

Complaint handling – Dispute resolution service

We are against the proposed dispute resolution service (section 5.29), especially when the results will not be binding. Furthermore the proposed regulation will force a registrant to address “any” complaint irrespective of the materiality of the issue and does not require a written submission. An internal complaint escalation procedure should be a requirement of all registrants, with only those issues which cannot be resolved being referred and reported. It would be useful to provide new and existing clients with a CSA brochure that would inform Canadian investors, in plain language, of their rights when there is a dispute.

Records – form, accessibility and retention

Section 5.16 would require registrants keep “durable” records for seven years. The definition of records now includes oral communication. We find this unworkable. We agree that more complete recordkeeping is desirable, but believe that the current proposal is impractical at this time and very costly. Retaining records of any material communication, including verbal, should be the requirement.

Pooled Fund reporting Quarterly Financial Statements & NAV adjustments

In our view, increasing the frequency of financial statement preparation and reporting (section 4.30) will not protect investors, instead the audit and accounting expenses which are generally paid by the funds (and therefore the underlying investors) will increase. In addition, the requirement to report all NAV adjustments to regulators on a quarterly basis (section 4.30(3)) does not address the materiality of the adjustment. We would propose that the CSA only require those adjustments exceeding a 50 basis point difference be reported (per IFIC norms) on a semi-annual basis. Not including a level of materiality may cause some registrants to avoid smaller adjustments altogether.

We thank you for your consideration. We would welcome your questions and comments by phone at 514 842 2727 (ext. 116) or by email at eobrien@jfl.ca.

Yours Truly,



Erin O'Brien
Chief Financial Officer and Compliance Officer