

BY ELECTRONIC MAIL: comments@osc.gov.ca, consultation-en-cours@lautorite.qc.ca

April 10, 2013

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island

Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland
and Labrador
Superintendent of Securities, Northwest
Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8

Me Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22 étage
C.P. 246, tour de la Bourse
Montreal, Québec H4Z 1G3

Dear Sirs and Mesdames:

RE: Canadian Securities Administrators (“CSA”) Discussion Paper 81-407 - *Mutual Fund Fees* (the “Discussion Paper”)

We welcome the opportunity to provide this submission on behalf of BMO Financial Group's Private Client Group in response to your request for comments on the Discussion Paper. BMO's Private Client Group provides wealth management services in Canada and the United States, serving a full range of client segments, with a broad offering of wealth management products and solutions. We are in a unique position to consider the issues raised in the Discussion Paper from the position of a mutual fund manufacturer and advisor¹. Similarly, we are able to consider the issues of the Discussion Paper across a wide variety of distribution channels, including branch direct, branch advice, online/discount broker, financial advisor, full-service brokers and private investment counsel.

We are members of both the Investment Funds Institute of Canada (“IFIC”) and Investment Industry Association of Canada (“IIAC”) and support the comments made by each group on behalf of their members with respect to the Discussion Paper. In particular, we echo their concerns as they relate to order-execution only brokers. As the IFIC letter points out, the proposal in the Discussion Paper for a standard class for DIY investors with no or reduced trailing commission would be a costly and uneconomic solution for most companies, as mutual fund sales in the order-execution only channel remains quite limited. Furthermore, as both IFIC and the IIAC point out, trailing commissions pay for more than simply investment advice. Order-

¹ For ease of reference, the terms ‘mutual fund manufacturer’ and ‘advisor’ in this paper have the same meaning as ascribed to them in the Discussion Paper and are not indicative of categories of registration with the Canadian securities regulators.

execution only brokers use trailing commissions to pay for a wide array of dealer services, including among other things, the provision and upkeep of online tools, product information, economic and market research, tax documentation, and technology infrastructure.

While we support the general investor protection objectives espoused by the CSA in the Discussion Paper, we question whether the consultation is premature, given the current state of implementation of other overlapping initiatives. In general, we would be supportive of future initiatives that are found to be necessary to enhance investors' understanding of the costs of investing and the financial advice they are receiving, provided that those initiatives do not discourage investors from continuing to save and invest, particularly for their retirement. To that end, we have the following comments.

The Discussion Paper places a significant emphasis on the approaches to mutual fund fee structures that have been adopted or considered in other major jurisdictions. While we appreciate that it is important to monitor global regulatory initiatives, we would point out that many of those initiatives are not yet fully implemented or were designed to address issues that are not present in Canada. For example, the United Kingdom's Retail Distribution Review rules only took effect January 1, 2013 and the Australian Future of Financial Advice reforms do not become compulsory until July 1, 2013. Furthermore, the Discussion Paper does not take into account pre-existing market conditions or the regulatory environment that may have given rise to the approach to mutual fund fee structures in any of the major jurisdictions discussed. We would, therefore, urge the CSA to carefully study the circumstances giving rise to other jurisdictions' mutual fund fee initiatives, and, perhaps even more importantly, the effects of the new regulatory regimes, before moving to import them to Canada.

We are very supportive of initiatives that would enhance Canadian investors' understanding of the financial structure of their investments. The Discussion Paper rightly recognizes the CSA's recent focus on enhancing the transparency of fund fees for investors through such initiatives as the Point of Sale disclosure project ("POS") and the Client Relationship Model project ("CRM"). The recently implemented Fund Facts requirement under POS and the Relationship Disclosure Document and conflicts management requirements, as well as the much anticipated performance reporting requirement under CRM, are all aimed at improving the transparency of mutual fund fees and embedded commissions to address investor protection concerns. Both the POS and CRM initiatives have been in development for over 10 years. Stage 1 of POS only recently came into effect in January of 2011 and Stage 3 is still in development. Similarly, CRM is still in various stages of implementation. Before implementation of these initiatives is even complete and while their impact is still largely untested, it would be premature to embark on a further, far-reaching regulatory review of essentially the same area.

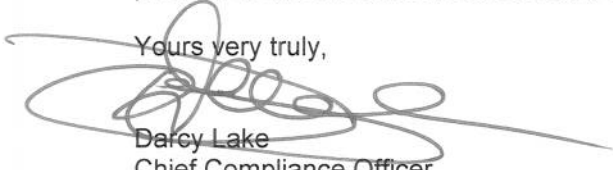
The CSA has devoted significant attention and resources to both POS and CRM in order to create, what appears to be at these very initial stages, a robust and comprehensive framework, which provides investors with clarity regarding mutual fund costs and embedded fees. Both of these regulatory regimes, which are likely to appreciably improve investors' understanding and awareness of mutual fund fee costs, should be given the opportunity to be fully implemented and evaluated before determining if there are any gaps that need to be addressed.

We believe that Canada is a leader in searching for ways to deliver clear, understandable information to mutual fund investors. We would, therefore, urge the CSA to continue to focus on the disclosure regime as the most effective way to ensure that Canadians understand what they are paying for through their mutual fund investments.

Thank you for the opportunity to comment on this very important issue. With both CRM and POS still in development in Canada and with regulatory changes in other jurisdictions still in the implementation stages, any assessment of the effectiveness of the different regulatory frameworks surrounding mutual fund fee structures in promoting investor protection seems premature. However, as the effects of the various regulatory regimes begin to crystallize, we look

forward to our continued participation in any further public consultation on this topic. We would be pleased to discuss these issues further or provide additional input, as required.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Darcy Lake', with a long horizontal line extending to the right.

Darcy Lake
Chief Compliance Officer
BMO Private Client Group