BMO Mutual Funds

BMO Investments Inc.
77 King Street West
Suite 4200
Toronto, ON M5K 1J5

September 23, 2011

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
Superintendent 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

(collectively, the "CSA")

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

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

Re: Proposed Amendments to National Instrument 31-103: Cost Disclosure and Performance Reporting

BMO Investments Inc. ("BMOII"), a member of the Mutual Fund Dealers Association of Canada ("MFDA") and fund manager of the BMO Mutual Funds and BMO Guardian Funds, welcomes the opportunity to provide this submission in response to your request

for comment on the proposed amendments to National Instrument 31-103 relating to cost disclosure and performance reporting (the "Proposals").

BMOII strongly supports the principles of enhanced and more transparent performance reporting and cost disclosure to retail mutual fund investors embodied within the Proposals. In fact, BMOII has for many years been voluntarily providing annualized account-level performance reporting to its clients as a value-added service. We commend the CSA for also recognizing the importance of providing investors with clear and meaningful account-specific performance information.

We note however, that for the for the last several years, MFDA members have been working closely with their self-regulatory organization ("SRO") to develop performance reporting and cost reporting requirements at the SRO level, which culminated in MFDA Rules 5.3.5 and 2.4.4 (the "MFDA Rules"). We believe the scope and breadth of these new rules align with the needs and expectations of that distribution channel and the investors it serves. In addition, mutual fund dealers and managers have consulted closely with the CSA on the development of the Point of Sale initiative that has thus far culminated in Fund Facts production and continues to evolve in order to introduce Fund Facts delivery to retail investors. The purpose of this letter is to strongly urge the CSA to revisit the Proposals and defer to conclusions drawn and decisions reached as a part of those initiatives.

In addition to our specific and significant concerns detailed below, BMOII agrees with substantially all of the comments made by the Investment Funds Institute of Canada and the Canadian Bankers Association in relation to the Proposals, as they relate to members of the MFDA and the impact of the Proposals on mutual fund managers. Specifically, we support the comments of a technical nature made in relation to:

- implementation issues associated with requiring the disclosure of trailing commissions on a dollar and per account basis, the significant costs of which would ultimately be borne by investors;

- the new emphasis on aggregating charges and disclosing fees, which may cause investors to double count charges or believe their mutual funds are being overcharged relative to other products; and

- challenges in capturing the "original cost" of a security as well as "charges" that are not within the dealer's control but rather are levied by the fund manager.

1. Proposals overlap and are inconsistent with MFDA Rules

We have significant and legitimate concerns with the apparent lack of regard the Proposals give to the extensive, robust and lengthy consultative processes undertaken by the MFDA and its membership with respect to the performance reporting aspects of the Client Relationship Model ("CRM"). MFDA members in particular have spent significant time, effort and resources working with their SRO to develop a performance reporting rule that we believe reflects a balanced and thorough consideration of the very same issues and concerns the CSA address in the Proposal. In our respectful view, it is quite disappointing that the CSA would allow the MFDA's public consultative and rule approval processes to run their course without objection if the CSA did not believe that the MFDA Rules went far enough or suited investor needs. MFDA members have and

continue to dedicate substantial technology dollars, as well as operational and compliance resources toward implementation of the MFDA's Rules by their stated transition period. In addition, MFDA members have and continue to dedicate resources toward preparing gap analyses and staff training initiatives to support implementation of the MFDA Rules. To now propose that the MFDA Rules will be rendered obsolete and superseded before they are even implemented and given a chance to be tested for their meaningfulness, usefulness and level of investor satisfaction ultimately draws into question the integrity of the consultative process and SRO-rule making process. We are also concerned that the CSA has ignored the conclusions reached by the MFDA following lengthy public consultation.

2. MFDA is best positioned to regulate subject matter of Proposals

We believe that the MFDA is best positioned to regulate its members in the areas of cost disclosure and performance reporting. The MFDA Rules include requirements that align with the distribution channel and investor segment of the firms they regulate. We believe that the Proposals should be revised to fully take into account the fact that different distribution channels deal with different products and serve different segments of clients with diverse needs and expectations. In that light, we believe that MFDA members should be exempted from the Proposals. In the alternative, if the CSA believes it necessary to have overarching rules on cost disclosure and performance reporting applicable to all registered dealers and advisers, we ask the CSA to work with the MFDA to harmonize the Proposals with the MFDA Rules to the extent possible, and as appropriate, in order to reduce inefficiencies, duplication of costs and resources, and client confusion.

We believe that MFDA Rule 5.3.5, which mandates a simple performance measure with flexibility to provide annual gain/loss information or percentage return, aligns well with the expressed needs of investors and their unwillingness to pay anything additional for more detailed performance information. There is no annual cost reporting requirement in the MFDA Rules. We believe that this is a sensible approach as MFDA dealers do not control or levy many of the charges or fees that are required to be reported under the Proposals. Unlike the Proposals, there is no requirement in the MFDA Rules for complex calculations, such as net invested, multiple year annual returns and account performance since inception.

The performance reporting requirements in the MFDA Rules are in line with the principles of the CRM. They provide return information in a format that aligns with investor demand. In fact, the basis for the MFDA Rules is well supported by the CSA's own investor research conducted in 2010. The Brondesbury Group's paper "Report: Performance Reporting and Cost Disclosure" prepared for the CSA in September 2010 shows that a majority of investors (52%) would not like more detailed performance reporting than they receive currently, and of the 48% who would like more information nearly half (45%) would not want to pay anything for it. The Report goes further to note: "When we look at how investors assess the performance of their portfolio, we find that most people simply assess the amount of money they gained or lost since their last account statement". Given this, we believe that MFDA Rule 5.3.5 meets the expressed needs of investors and takes into account their unwillingness to pay more for greater

detail. It is important to preserve the MFDA dealer as a low cost and accessible alternative for all Canadians.

3. Proposals duplicate, and unduly emphasize, the costs of mutual funds

BMOII is committed to ensuring its clients have access to the most current information, including costs, about the products, services and accounts it offers. While we firmly support better disclosure, we do not support duplicative disclosure in multiple documents when unitholders bear the cost. We believe it would be a disservice to investors to force them to bear the cost of repackaging information that is already publicly available without a full assessment of benefits versus costs and without taking into consideration the existence of the already available robust disclosure regime. The additional value of the proposed disclosures set out in the Proposals should be weighed against the additional costs of recording, storing, extracting and reporting the data.

There is significant overlap between the Proposals and the Point of Sale (POS) disclosure regime. Disclosure of mutual fund costs, charges and commissions is already made in the Fund Facts document. Similarly, issues relating to mutual fund disclosure are being addressed through the POS project and the implementation of changes to NI 81-101. The delivery of mutual fund information at POS was the subject of industry comment and has been deferred to a later phase of the POS initiative. It is our view that disclosure of mutual fund information should be mandated through the changes to NI 81-101 and through the POS initiative, not separate from it. We note further that disclosure of deferred sales charges and trailing commissions that may be applicable to a mutual fund is made in the Fund Facts and the Simplified Prospectus documents. It is duplicative and adds no additional value to investors to also require this disclosure in the Proposals. In addition, disclosure of trailing commissions also is made in the Fund Facts document and regulated through NI 81-101.

A coordinated and holistic approach to disclosure can only serve to benefit investors. We strongly believe the Proposals do not acknowledge the regulatory regime that applies to investment funds. The Proposals focus primarily on disclosure of costs associated with mutual fund and fixed income investing. The CSA gives no reason for this focus. The Proposals do not refer to the prospectus and other disclosure documents, including the Fund Facts, which is curious given the focus of the last number of years by the CSA on the necessity (and usefulness) of the Fund Facts document to ensure very clear and simple disclosure to investors. In our view, the requirements in the Proposals for firms to disclose many of the same topics as are contained in the Fund Facts and other prospectus and continuous disclosure documents, may result in information overload, lack of uniformity, inaccuracies and continued confusion as to the costs of investment funds. This is particularly true since these costs are not charges levied by the dealer, but are charged by the managers of the funds for services provided to those funds by the managers and other service providers. We believe clients can easily be directed to the continuous disclosure documents about a public security for more information about the costs and performance of the issuer. This information is widely available for an investment fund investment, a fact that is not acknowledged under the Proposals.

Conclusion

BMOII strongly supports the principles embodied within the Proposals. However, we urge the CSA to reflect on the rule making process to date and request that the issues of cost disclosure and performance reporting for MFDA Members be left under MFDA jurisdiction. We believe that the MFDA is in a unique position to determine the appropriate level of cost and performance reporting and to monitor the implantation of the new regulatory changes for its members. In the alternative, if the CSA believes it necessary to have overarching rules on cost disclosure and performance reporting applicable to all registered dealers and advisers, we ask the CSA to work with the MFDA to harmonize the Proposals with the MFDA Rules to the extent it is possible. Furthermore, we ask that CSA consider the regulatory regime already applicable to mutual funds in order to avoid duplicative cost disclosure and performance reporting.

Yours truly,

Darcy M. Lake
Chief Compliance Officer
BMO Private Client Group