

October 6, 2011

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**RE: RESPONSE TO REQUEST FOR COMMENTS – PROPOSED AMENDMENTS TO
MFDA RULE 2.2.1 (“KNOW-YOUR-CLIENT”) AND POLICY NO. 2 *MINIMUM
STANDARDS FOR ACCOUNT SUPERVISION***

The following is submitted on behalf of BMO Investments Inc. (“BMOII”), a mutual fund dealer and member of the MFDA, which welcomes the opportunity to comment on the proposed amendments to MFDA Rule 2.2.1 and Policy No. 2. We understand that the intent of the proposed amendments is to clarify that the suitability obligations in Rule 2.2.1 apply equally to leverage strategies and to codify minimum standards for Members and Approved Persons in assessing the suitability of client leveraging.

BMOII fully supports efforts to ensure that MFDA Members and Approved Persons have a clear understanding with respect to their suitability obligations for all trades, whether borrowed funds are used or not; however, we wish to identify and provide context in relation to specific concerns we have about certain of the proposed amendments. More generally, we believe that Policy 2 and all of the MFDA’s Policies should be principles-based in order to allow Members the latitude to develop and implement policies and procedures that most closely align with their business models, core client base and risks.

BMOII supports the comments made with respect to the proposed amendments by the Investment Funds Institute of Canada (“IFIC”) on behalf of its members.

MFDA Policy No. 2 Leverage Suitability

In Policy No. 2, Leverage Suitability, section 2, the proposed amendments state that the objective of a supervisory review of leverage is to assess the suitability of a leveraging strategy. BMOII supports a deepened approach to monitoring leveraged transactions, however believes it is the role of the Approved Person to assess the suitability of the strategy and the role of the supervisor to review and confirm the suitability assessment conducted by the Approved Person in certain cases. Members should be permitted to adopt a risk-based approach when drafting and applying policies and procedures with respect to the circumstances in which a review of the assessment would be required to take place.

The proposed amendments state that “where the leverage strategy is approved, the analysis and rationale must be documented”. Members must be afforded flexibility to determine when a rationale is required to be documented, with reference to the criteria provided in Policy No. 2, Leverage Suitability, section 1. In other words, Members should be permitted to determine which red flags would warrant further inquiry into the rationale of the strategy, and then should be required to document their rationale for approval only if the Member approves the strategy despite the presence of red flags selected by the Member.

In general, we find that several aspects of the proposed amendments appear overly prescriptive and not in keeping with principles-based regulation. The MFDA has issued the Leverage Supervision Guide as guidance to Members in supervising leverage, and we believe that items of a prescriptive nature proposed in Policy 2 are better situated in the Leverage Supervision Guide as suggested practices. For instance, while a Member may find that, taking a risk-based approach that aligns with the risk tolerance of their firm, maintaining details in support of income, net worth calculations, existing debt payment and investment loan payment is appropriate in some cases, we do not believe it is appropriate that this be a blanket requirement in all cases.

Under Daily Reviews, we ask the MFDA to confirm whether the intention of the proposed amendments is to exclude all registered plans (including RRIFs and RDSPs) and not just RRSPs and RESPs which are expressly proposed, and whether TFSAs are intended to be included in daily review requirements.

MFDA Rule 2.2.1 (f)(iii) and MFDA Policy No. 2, Registered Salespersons

BMOII supports the comments of IFIC that a full suitability review of a leveraged account should not be required when an Approved Person assumes responsibility for an account previously assigned to another Approved Person at the same Member. BMOII accounts are not assigned to a specific Approved Person, and our clients can be served by any Approved Person at the Member who is appropriately registered. For Members whose distribution facilities are embedded within a vast branch network of a large financial institution, it is possible that a client will deal with many Approved Persons in the course of their relationship with the Member. We ask the MFDA to confirm that the proposed amendments are not intended to mean that any Approved Person who handles the account would be required to re-assess the suitability of a leverage strategy.

We trust that the concerns we raised above will be given due consideration and we look forward to continue working with the MFDA on further integrating leverage suitability principles into the MFDA’s overall suitability framework. BMOII thanks the MFDA for the opportunity to provide its thoughts on the proposed Rule and Policy changes. Should you have any questions about this submission please feel free to contact the undersigned.

Yours truly,



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cc. *Darcy M. Lake, Chief Compliance Officer, BMO Investments Inc.*