June 20, 2007

By Electronic Mail

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
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

c/o Mr. John P. Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
Email: jstevenson@osc.gov.on.ca

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

Dear Sirs/Mesdames:

Re: CSA Request for Comment
Proposed National Instrument 31-103 - Registration Requirements

On behalf of the Association of Canadian Compliance Professionals (ACCP), I would like to thank you for the opportunity to comment on proposed National Instrument 31-103 *Registration Requirements*. We appreciate the opportunity to contribute to this reform process and commend the Canadian Securities Administrators (CSA) for their demonstrated interest in encouraging participation from all stakeholders.

As you may know, the ACCP is comprised primarily of compliance professionals serving the Mutual Fund Dealer and Limited Market Dealer segments of the investment funds industry. As such, ACCP members offer an important and unique perspective on the effects of the proposed changes to the compliance role and the distribution network they are responsible to supervise. We are pleased to be able to share this perspective in our comments which follow. Please note that while the comments do represent the overwhelming majority of opinion of ACCP members, there may be certain issues on which a small number of members disagree.

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1. Exempt Market Dealer, Proficiency Requirements and Relationship Disclosure

Exempt Market Dealer Registration

The ACCP supports harmonization of exempt market dealers (EMDs) in all jurisdictions. The benefits of so doing would include a more efficient registration process, increased equity among EMDs and other registrants, and greater protection of client assets.

The Mutual Fund Dealers Association of Canada (MFDA) is the national self-regulatory organization (SRO) for the distribution side of the Canadian mutual fund industry and requires of its members minimum levels of proficiency, standards of supervision, product due diligence, capital, reporting, records and accountability. As MFDA member firms are already operating to these higher standards, it is our view that oversight of exempt market activity should be delegated to the MFDA in cases where its Members wish to or are engaging in such activity. In such cases, Mutual Fund Dealers should be exempted from separate EMD Registration requirements.

If this oversight was so delegated, we would expect the CSA and MFDA to collaborate in determining the appropriate proficiency requirements and practice standards for all participants in the exempt market.

This arrangement would benefit all stakeholders. MFDA member dealers would experience the benefits of a single registration process and the burden of managing compliance with multiple regulators would be alleviated. It would also limit the CSA's direct oversight responsibility to only those dealers who are not members of an SRO. Further, this arrangement would ensure that MFDA members and non-MFDA member EMDs are equally treated, and members of the public equally protected, regardless of the registration status of their dealer.

EMD Proficiency Requirements

In reviewing the proposed proficiency requirements, we support modernization by way of moving from course-based to exam-based requirements wherever possible. We believe, however, that the CSC, CPH, PDO proficiency requirements for the proposed EMD category should be more flexible and reflective of the products the dealer intends to distribute. We suggest that industry courses appropriate to the nature of the products offered, their complexity and level of risk be considered as alternatives to these broader courses. Examples of industry courses include: Labour Sponsored Investment Course (IFIC); Hedge Fund Essentials for Today's Financial Professional; and Principal-Protected Notes (CSI). These courses currently offer comprehensive content and also meet regulatory and professional association continuing education requirements. Additionally, as others courses will undoubtedly be developed in future, we would support a "one-window" mechanism by which they could be submitted, reviewed and approved by the applicable regulators.

Relationship Disclosure

We agree that accredited investors need not receive disclosure with respect to client relationship principles and account opening documentation from their dealer or approved person.

2. UDP and CCO Requirements, Registration of Senior Executives, and Removal of Branch and Branch Manager Registration Categories

The ACCP regards all of these as structural changes to registrant dealers. Depending on their home jurisdiction, mutual fund dealers are currently required to have either a registered CCO or both a CCO and UDP and so the repeat of this requirement here has little practical effect on SRO Members. However, the proposal to register senior executives and thereby extend direct and individual rather than firm jurisdiction over them is a sound proposal. Compliance personnel welcome any changes that will not

result in too costly or burdensome a requirement but will have a top-down effect of imbuing firm culture with an atmosphere of compliance. It is hoped that this change will serve to finally confer upon the CCO role sufficient authority to allow incumbents to perform effectively. Notwithstanding this, the ACCP is of the view that further consideration should be given to exempting existing senior executives from new proficiency standards as this would create an unwieldy burden for some firms in the short term.

As regards the removal of registration categories for branches and branch managers, once again the ACCP feels this change will be well met. It is critically important, however, if SROs wish to maintain a two-tier supervisory system among dealers, that greater flexibility must follow in the absence of these registration categories. We therefore strongly urge the CSA to work with the SROs to thoroughly review the impact these changes will have on dealers whose operations were built on the existing registration infrastructure and examine in more detail what will now constitute adequate supervision.

3. Complaint Handling, Conflicts, Referral Arrangements, Statements of Account and Portfolio

In general, the ACCP is of the view that principles-based regulation is not workable in day to day practice. While we understand that the intent of offering a principle rather than a rule is to permit implementation to be adaptable to various business structures, it removes one of the benefits that has flowed from the creation of SROs and their rules: the leveling of the playing field.

As difficult and open to interpretation as SRO rules sometimes appear to be, they have at least created a certain parity among registrant dealers. The risks of moving to a principles based system are that the parity will disappear and registrants will be engaged in endless costly debates with regulators and in the courts trying to justify their interpretation or implementation of a principle.

Most importantly, from a nuts and bolts compliance perspective, it is most difficult to enforce compliance within a firm of a “principle” as opposed to a rule. Sales personnel tend to require clear rules and direction to follow and removal of the particularity of the rules would make the compliance job that much more difficult.

A principles-based approach would also require a level of operational understanding by regulatory staff, for example, during compliance reviews or an enforcement investigation that is not currently there. These already burdensome but sometimes necessary events in the life of a registrant dealer would likely become so arduous as to virtually cripple a firm while they are underway.

Having said this however, the ACCP feels that the following more prescriptive sections of the proposal ought to be added to section 3.3, “Exemptions for SRO Members”:

- Part 5, Division 7, Complaint Handling
- Part 6 Division 1 Conflicts of Interest
- Part 6, Division 2, Referral Arrangements

All of these are currently clearly addressed in SRO rules, policies or notices, though in sometimes slightly different wording. It is difficult to see why SRO Members were not exempted given that the CSA has clearly put its mind to the issue of SRO coverage of some of these matters. If the SRO response is that the proposed rule covers off slightly different facets of the issues, then it is our view that the SRO rules under which we operate ought to be modified to align with the intent of this proposal. It is simply too difficult for a compliance officer to try to reconcile two different sets of requirements for, for example, complaint handling, and to try to work the subtle differences into firm processes.

4. Part 5, Division 5, Account Activity Reporting

We believe the requirement for client name mutual fund dealers to send quarterly client statements is an unnecessary and costly requirement. Current regulations require the provision of an annual statement only. Client name fund dealers are not the custodians or original record keepers for this information but rather the mutual fund companies fulfill this role and they provide statements to clients as well as

confirmations of transaction activity. A move to quarterly statements will result in a quadrupling of costs (average of $1.20 per account) to these dealers. These costs will inevitably be passed on to the clients at some point and we question the actual benefit to clients of such statement frequency. This would seem to warrant a cost/benefit analysis to determine the best approach.

5. Information Sharing

We are of the view that this is a very difficult provision that is fraught with risk for dealers trying to operate a business.

Quite apart from the time demands this additional requirement will create, we are concerned at the civil liability exposure for registrant dealers passing on information relating to reasons for dismissal. Whether in technical terms this requirement does or does not comply with privacy legislation, and whether "regulatory duty" would constitute a valid defense before a judge in a civil suit, the reality is, such an obligation would certainly create bad blood in a very small industry and result in costly threatened or actual litigation for interference with contractual relations.

It is our view that one of the main functions of the CSA is to ensure fit and proper requirements are met for each registrant. If more information is needed on a Uniform Termination Notice than it is available, then the proposed changes to the UTN should solve that problem. If they do not, perhaps yet more information should be sought. But the repository for the information must be the securities regulatory authority and only it should be entitled to share that information with the firm seeking to sponsor a transferring approved person. Due diligence obligations of new firms ought to be met by making appropriate enquiries of the securities regulatory authority (which enjoys limited or no civil exposure) based on information that has been filed with it. It is difficult and legally perilous enough for a firm to dismiss an individual from employment without this additional burden.

We thank you again for allowing us the opportunity to contribute to this process and we are encouraged by continued CSA efforts to harmonize securities regulation.

Yours truly,

S. A. McManus

Stephanie A. McManus LL. B.
ACCP Chair, 2007